Office of Inspector General
Corporation for
NATIONAL & COMMUNITY SERVICE

June 25, 2015

TO: William Basl
Director, AmeriCorps*State and National

Dana Bourne
Chief Grants Officer

FROM: Stuart Axenfeld
Assistant Inspector General for Audit

SUBJECT: OIG Audit Report 15-06, *Cooperative Agreements Awarded to AFYA Incorporated (AFYA) and Education Northwest (EdNW).*

Attached is the final report for the above-noted engagement. This audit was conducted by Cotton & Company LLP in accordance with audit standards established by the American Institute of Certified Public Accountants and *Government Auditing Standards*, issued by the Comptroller General of the United States.

Under the Corporation's audit resolution policy, a final management decision on the findings and recommendations in this report is due by December 28, 2015. Notice of final action is due by June 27, 2016.

If you have questions pertaining to this report, please contact me at S.Axenfeld@cncsoig.gov , (202) 606-9360, or Rick Samson, Audit Manager, at R.Samson@cncsoig.gov, (202) 606-9380.

Attachment

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Office of Inspector General
Corporation for National and Community Service

AUDIT OF
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE
COOPERATIVE AGREEMENTS AWARDED TO
AFYA INCORPORATED AND EDUCATION NORTHWEST

OIG Report 15-06

Prepared by:

COTTON & COMPANY LLP
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Alexandria, Virginia 22314

This report was issued to Corporation management on June 25,, 2015. Under the laws and regulations governing audit follow-up, the Corporation is to make final management decisions on the report's findings and recommendations no later than December 28, 2015 and complete its corrective actions by June 27, 2016. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.

OFFICE OF INSPECTOR GENERAL
PERFORMANCE AUDIT OF CORPORATION FOR NATIONAL AND COMMUNITY SERVICE
COOPERATIVE AGREEMENTS AWARDED TO
AFYA INCORPORATED AND EDUCATION NORTHWEST

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I. Executive Summary

Cotton & Company LLP conducted a performance audit of cooperative agreements awarded to AFYA Incorporated (AFYA) and Education Northwest, formerly known as Northwest Regional Education Laboratory. We:

1. Assessed the effectiveness of the Corporation for National and Community Service (Corporation)'s monitoring and oversight of the quality of the training provided by Education Northwest.

2. Assessed the effectiveness of the Corporation's fiscal monitoring and oversight of the cooperative agreements with both entities.

3. Determined whether Corporation-funded Federal assistance provided to AFYA and Education Northwest was expended in accordance with cooperative agreement terms and conditions, laws, and regulations.

The Corporation entered into cooperative agreements with AFYA and Education Northwest to assist the Corporation in conducting training for participants in the Volunteers In Service to America (VISTA) program. Together the three entities support 35-40 Pre-Service Orientations (PSOs) per year for VISTA members, plus additional training sessions for their team leaders and supervisors. Education Northwest supplies the content and facilitators for these sessions. AFYA furnishes logistical support, arranges and pays for meeting space and presenters' travel costs, and pays attendees' local travel and lodging. Both organizations provide additional services to the Corporation; AFYA performs additional logistical services for the Corporation and its other AmeriCorps programs, while Education Northwest provides content for the Corporation's online learning center. Both are longstanding partners of the VISTA program. For this audit, we reviewed costs charged by AFYA and Education Northwest for the period April 2009 through March 2013. Each of the contractors had two cooperative agreements during this period, as shown below:

Awardee	Agreement No.	Agreement Period	Audit Period	Claimed Costs
Education Northwest	08TAHOR001	10/01/08 – 09/30/14	04/01/10 – 03/31/13	$12,043,393
	09RWHOR001	04/06/09 – 09/30/10	04/06/09 – 09/30/10	2,030,000
AFYA Inc.	09RWHMD001	04/10/09 – 10/30/09	04/10/09 – 10/30/09	3,104,899
	09TAHMD001	10/01/09 – 09/30/13	10/01/09 – 03/31/13	16,364,352

During the audit, we found that AFYA claimed certain unallowable fringe benefit, overhead, and general and administrative (G&A) costs, while Education Northwest claimed unallowable costs that did not comply with applicable laws and regulations and the terms of its cooperative agreements. Specifically:

- AFYA claimed unallowable fringe benefits, overhead, and G&A costs because it charged rates that exceeded the maximum allowed rates specified in the approved award budgets. AFYA did not obtain the Corporation's approval of the rate increases (Exhibit C).

- Education Northwest paid invoices from its subcontractor, BSC, which included unallowable salary, fringe benefit, and travel costs. Certain salary and fringe benefit costs were unallowable because BSC did not maintain adequate timekeeping documentation. A portion of the claimed fringe benefit costs were also unallowable because BSC used budgeted rates that exceeded the rates specified in its Negotiated Indirect Cost Rate Agreements (NICRAs). Certain travel costs were unallowable because certain BSC employees did not comply with BSC's travel policy (Exhibit D).

Additionally, we noted that the Corporation did not address or assess the financial risks and vulnerabilities associated with AFYA's or Education Northwest's award and claimed costs.

Further, while the Corporation had procedures in place to assure the quality of Education Northwest's VISTA training activities and services, its financial oversight of both Education Northwest and AFYA was lacking. The Corporation failed to detect that Education Northwest paid BSC for excessive fringe benefit costs for its employees, or that AFYA used unapproved rates to calculate its fringe benefit, overhead, and G&A costs.

The Corporation annually conducts risk assessments of potential program and financial vulnerabilities of its grantees, including cooperative agreement partners. These risk assessments are based on generic risk criteria and presume that the grantee is operating a grant-funded program. The risk criteria were not developed for grantees that provide services and do not address the risks of for-profit entities, such as AFYA. As a result, the Corporation's risk assessments for AFYA and Education Northwest are unreliable.

II. Background

Beginning in 2001 and 2006, the Corporation entered into cooperative agreements with Education Northwest and AFYA, respectively, for Training and Technical Assistance (TTA) services to support national community service programs. A principal focus of these cooperative agreements was the orientation and training of new VISTA members, as well as advanced training for VISTA team leaders and supervisors. Education Northwest provided the training content and facilitators, while AFYA provided logistical support, including securing meeting space, arranging participants' travel and lodging, and paying the related expenses. AFYA provided similar services for other Corporation programs. The Corporation's Office of Leadership and Development Training (OLDT) was originally charged with supervision of these agreements, assisted by subject matter experts within the Corporation for specific tasks. OLDT was disbanded in July 2013, and most of its staff were terminated in a reduction in force. Responsibility for monitoring the cooperative agreements was transferred from OLDT to the Corporation's program and grants offices.

Founded in 1965, the AmeriCorps VISTA program works to alleviate and eliminate poverty in the United States and its territories; its members undertake a year of service, during which they are assigned to sponsoring organizations—nonprofits, state and local government agencies, and Tribal communities—and work to enhance the sponsors' anti-poverty capabilities. Before beginning service, members undergo a Pre-Service Orientation (PSO), a four-day program of training and leadership development intended to familiarize participants with the mission, history, roles, and responsibilities of national service. Thirty-five to forty PSOs are held each year, throughout the continental United States and Puerto Rico. VISTA members serving as team leaders undergo additional training, with three such programs held annually. Separate training is provided 10-15 times per year for staff of sponsoring organizations who are responsible for supervising VISTA members. AmeriCorps VISTA headquarters also maintains an online learning center, commonly referred to as VISTA Campus, for continued professional development.

A for-profit company, AFYA, provides logistical support for these VISTA trainings, including coordinating meeting space; reserving hotel rooms; and arranging air and ground transportation for the staff, members, supervisors, and leaders who attend these programs. Participant airfare and other types of long-distance travel are paid directly by the Corporation; local travel and lodging is paid for by AFYA through the cooperative agreement. AFYA renders these services to an estimated 5,000 individuals per year. Among other services, AFYA fingerprints members, supervisors, and leaders during the registration process, to comply with VISTA legal requirements. During the audit period, AFYA received a total of $19,204,518 for its VISTA work, $3,104,899 under Agreement No. 09RWHMD001 and $16,099,619 under Agreement No. 09TAHMD001. Of these amounts, participant travel costs were $1,104,673 under Agreement No. 09RWHMD001 and $3,338,240 under Agreement No. 09TAHMD001. AFYA also assists the Corporation with AmeriCorps events and the National Conference on Volunteerism. During the audit period, AFYA received $264,733 under Agreement No. 09TAHMD001 for its non-VISTA work.

Education Northwest, formerly known as the Northwest Regional Educational Laboratory, is a private nonprofit corporation focusing on education. It provides research and development assistance to educational organizations, government entities, community agencies, business, and labor, with its efforts concentrated in the Northwest (Oregon, Washington, Idaho, Montana, and Alaska). Together with Bank Street College of Education (BSC)[1], Education Northwest develops curricula for the PSOs and training courses and provides facilitators, as well as content for the Corporation's online learning center. During the audit period, the Corporation reimbursed Education Northwest for $2,030,000 of costs under Agreement No. 09RWHOR001 and $9,889,442 of costs under Agreement No. 08TAHOR001 for its VISTA work. The Corporation also reimbursed Education Northwest for $2,153,951 of costs for work performed on non-VISTA projects under Agreement No. 08TAHOR001.

The Director of VISTA's Office of Outreach, Training, and Member Support (OOTMS) served as the subject matter expert and project leader for AFYA and Education Northwest's VISTA tasks. OOTMS is responsible for recruitment, orientation, and ongoing professional development of VISTA members and sponsors, as well as for the supervision of members and leaders. The office also leads the review and update of policies that pertain to the benefits of members and leaders.

III. AUDIT RESULTS

Based on the audit procedures performed, we determined that:

[1] Located in New York City, BSC offers training for teachers and provides professional development services in programs focused on at-risk students.

- Certain expenditures claimed by AFYA and Education Northwest did not comply with cooperative agreement terms and conditions, laws, and regulations (Exhibits C and D).

    - We questioned $276,775 of AFYA's fringe benefit, overhead, and G&A costs under Agreement No. 09TAHMD001 because the rates used by AFYA to calculate these costs exceeded the maximum allowed rates specified in the approved award budgets. AFYA neither sought nor obtained authorization from the Corporation to deviate from its budget.

    - We questioned $53,846 of the costs claimed by Education Northwest under Agreement Nos. 08TAHOR001 and 09RWHOR001 because Education Northwest paid BSC for salary, fringe benefit, and travel costs that were not allowable in accordance with applicable Federal cost principles and cooperative agreement terms and conditions. Certain salary and fringe benefit costs were unallowable because BSC did not maintain adequate timekeeping documentation for particular employees. Fringe benefit costs were also unallowable to the extent that BSC calculated them based on rates that exceeded the rates specified in BSC's June 4, 2007, and August 26, 2010, NICRAs. BSC also charged excessive costs for business-class travel and travel on Amtrak's high-speed Acela Express train, which are prohibited by BSC's internal policies. BSC's travel policy allows personnel to travel in business class or on the Acela Express train only with supervisor approval, which the travelers did not obtain.

- Education Northwest did not comply with certain cooperative agreement terms and conditions, laws, and regulations (Exhibit E).

    - Education Northwest did not obtain all of the supporting documentation necessary to ensure that all of the costs claimed by its subrecipient, BSC, were allowable. This represents a recurrence of a deficiency identified in a prior OIG audit of Education Northwest, which found that BSC had received payment for invoices not supported by timesheets and expense receipts. *See Audit of Corporation for National and Community Service Cooperative Agreements Awarded to Northwest Regional Educational Laboratory,* Audit Report No. 06-08. In response, Education Northwest had agreed to work with the Corporation to ensure that invoices from BSC included all necessary documentation. In the current audit, however, we discovered that Education Northwest did not have the required documentation.

    - Education Northwest did not have adequate procedures for obtaining BSC's Office of Management and Budget (OMB) Circular A-133 audit reports timely, nor did it ensure that BSC complied with the A-133 audit requirements. The audit report for the fiscal year ending June 30, 2012, was completed on March 28, 2013. More than six months elapsed before BSC provided that audit report to Education Northwest. Education Northwest officials stated that Education Northwest had received BSC's FY 2010 and FY 2011 audit reports, but were unable to locate the reports. When Education Northwest reviewed the A-133 audit reports, it failed to note that BSC had omitted VISTA-related expenditures from its audit schedules.

- As a pass-through entity, Education Northwest did not inform BSC of all the requirements imposed on it by Federal laws, regulations, and provisions of cooperative agreements, as well as supplementary requirements, as required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Its subrecipient agreement with BSC omits key requirements such as compliance with Federal cost principles, record retention obligations, and non-discrimination requirements found in 2 CFR Part 220 (formerly OMB Cost Circular A-21), *Cost Principles for Educational Institutions*; 2 CFR Part 215 (formerly OMB Cost Circular A-110), *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals and Other Nonprofit Organizations*; and the cooperative agreement terms and conditions

- The Corporation monitored and assessed the quality of Education Northwest's training activities and services (Exhibit A). These procedures included assigning Corporation VISTA and non-VISTA officials[2] to serve as subject matter experts and project leads on specific training tasks and to approve training content and materials before they are implemented; providing prompt feedback on the quality of training activities by conducting meetings and telephone calls with Education Northwest officials; and performing site visits. In addition, VISTA officials assessed the quality of the training activities through the use of participant surveys and a study conducted by a third-party contractor, JBS International. The participant surveys, which were given to VISTA members and their supervisors at the Summer 2013 PSOs and given to members at the Winter 2014 PSOs, showed that both participant members and supervisors found the PSOs to be effective. The JBS International report concluded that the VISTA Training Model (specifically the PSOs) was "effective in providing members with competencies needed for VISTA service." JBS offered recommendations for improving aspects of the PSOs and the VISTA Campus website, to better support member and overall project success. It also suggested changes to make the PSOs more cost-effective in terms of competencies gained and member satisfaction.

- The Corporation performed little financial monitoring of the Education Northwest and AFYA cooperative agreements (Exhibit B). It did not perform comparisons of actual costs billed to budgeted costs for Education Northwest and AFYA, nor did it test the billed costs for allowability in accordance with Federal cost principles. Its fiscal monitoring consisted essentially of:

  - Grants Officer reviews of Federal Financial Reports (FFRs)

  - Examinations of the rates at which AFYA and Education Northwest spent awarded funds

  - Tests comparing drawdowns to FFR expenditures

[2] The VISTA officials included the OOTMS Director and VISTA Training Specialists. The non-VISTA officials included the OLDT Director for Program Support, the OLDT Associate Director, and OLDT Training Specialists. The non-VISTA officials also included program officers and training specialists from the National Civilian Conservation Corps, Social Innovation Fund (SIF), and Learn & Serve America programs, as well as advisors for the Corporation's Native American and White House initiatives, and Office of Grants Management officials who oversaw the background check tutorial and the compliance tool tasks.

As a result, the Corporation had no way of ascertaining whether the funds were spent in accordance with applicable requirements. It made no meaningful attempt to do so.

- The Corporation's risk assessments were geared towards grantees that operated programs and had members, rather than toward grantees that provided services through cooperative agreements with the Corporation. Five of the eighteen assessment criteria were not applicable to the Education Northwest and AFYA cooperative agreements. As a result, the Corporation did not customize and weigh the risk analysis specifically for cooperative agreements, which would have allowed a more accurate calibration of the programmatic and financial risks, with monitoring activities tailored to the nature of risk, yielding a more efficient deployment of monitoring resources.

This performance audit, performed under Contract No. CNSIG11A0012, was designed to meet the objectives identified in the Objectives, Scope, and Methodology section of this report (Exhibit F).

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The contents of this report were discussed in an exit conference with the Education Northwest and the Corporation on June 18, 2014 and with AFYA and the Corporation on July 17, 2014. The written responses of the Corporation, Education Northwest, and AFYA are summarized the in the appropriate sections of the final report, and their comments are included verbatim in the appendices to the report.

IV. Other Matters to be Reported

Many of the unallowable costs that we found during the audit period also occurred before and after the audit period. These costs are not included in the foregoing Audit Results. Here, we report excessive costs claimed before and after the audit period and recommend that the Corporation include them when disallowing unallowable costs. Specifically:

- For the period April 1 through September 30, 2013, AFYA claimed excessive costs totaling $30,854 under Agreement No. 09TAHMD001 for unallowable fringe benefit, overhead, and G&A costs (Exhibit C). AFYA originally used the provisional rates from the June 2011 NICRA to calculate these costs before its FY 2013 actual rates were determined. Once the actual fiscal year rates were available, AFYA recalculated its costs for FY 2013 and claimed the difference; however, the actual FY 2013 rates were higher than the maximum allowable rates.

- For the periods October 2008 through February 2009 and March through September 2013, Education Northwest claimed $18,179 in unallowable costs representing BSC's excessive fringe benefit charges and personnel costs unsupported by required documentation (Exhibit D). The majority of this amount, $13,353, stems from the impermissible use of a fringe benefit rate higher than specified in the NICRA.

Assessment of the Quality of Training Provided By Education Northwest

Education Northwest provides several different types of training activities for the Corporation. These include VISTA member and supervisor PSOs, curriculum development, and e-learning tutorials. The Corporation's OLDT was originally responsible for monitoring Education Northwest's cooperative agreements and training activities, as well as for assessing and evaluating the overall quality of the training activities. OLDT used several methods to monitor and assess the quality of the training activities, including assigning a Corporation official with subject matter expertise to serve as a project lead on specific training tasks, holding meetings and telephone calls with Education Northwest officials, and performing site visits.

Corporation Project Leads

Each of Education Northwest's training tasks had two project leads, one from the Corporation and one from Education Northwest. The Corporation project lead and subject matter expert was either the employee who requested the training activity or an employee who worked for the program that requested the activity. The Corporation employee worked with Education Northwest's project lead to assist Education Northwest in completing its tasks and to ensure that the tasks met quality expectations. The Corporation employee then reported the results to OLDT.

Corporation VISTA Monitoring

The Corporation's task lead on the VISTA training tasks was the Director of OOTMS, who was assisted by VISTA training specialists. These individuals performed monitoring procedures, including frequent email and telephone communications, observations at events, reviews of participant surveys, and an evaluation conducted by a third-party contractor. Both Education Northwest and Corporation officials indicated that they had a close working relationship and that there was frequent telephone, email, and face-to-face communication regarding the training tasks. These frequent communications allowed the Corporation to provide immediate feedback on training activities and Education Northwest to make immediate changes based on this feedback.

Another method of assessing the quality of the training provided by Education Northwest was the use of participant feedback surveys. The surveys were developed by the Corporation's VISTA team, at the direction of the Director of the OOTMS, and were given to the member and supervisor participants. The member surveys consisted of 19 questions, and the supervisor surveys consisted of 23 questions. The member surveys asked the members and participants to provide feedback on the performance of the presenter/facilitator, whether the PSO was a valuable introduction to VISTA, and whether it helped members understand key learning objectives about the VISTA program. The supervisor surveys asked the supervisors to provide feedback on the performance of the presenter/facilitator, whether the PSO prepared the supervisor to supervise the VISTA member, and whether it helped the supervisors understand key learning objectives about the VISTA program.

Education Northwest orally shared the evaluation results with the Corporation after each training event and provided quarterly reports summarizing the results of all the surveys from the training events conducted in that quarter. Education Northwest provided us with copies of the survey results for the Summer 2013 VISTA member and supervisor PSOs, and the Corporation provided us with the survey results for the Winter 2014 VISTA member PSOs. These results showed that both participant members and participant supervisors found the PSOs to be effective.

- Of the 2,313 survey respondents for the Summer 2013 member PSOs, 96 percent found the PSO to be a valuable introduction to VISTA. The overall scores on the 19 questions related to presenter/facilitator performance and learning objectives ranged from 85 to 99 percent.

- Of the 112 survey respondents for the Summer 2013 supervisor PSOs, 99 percent found the PSO to be a valuable introduction to VISTA. The overall scores on the 23 questions related to presenter/facilitator performance and learning objectives ranged from 91 to 100 percent.

- Of the 429 survey respondents for the Winter 2014 member PSOs, 95 percent found the PSO to be a valuable introduction to VISTA. The overall scores on the 19 questions related to presenter/facilitator performance and learning objectives ranged from 89 to 99 percent.

JBS International Study

The Corporation also monitored the quality of VISTA training provided to members by commissioning a study conducted by third-party contractor. The Corporation hired JBS International (JBS) to conduct an assessment regarding aspects of VISTA member competencies, the ways in which members experience VISTA training, and the effectiveness and efficiency of different training models. The study assessed the entire VISTA model, including the services provided by Education Northwest and AFYA.

JBS provided its results to the Corporation in a May 9, 2013, report. The study concluded that the VISTA Training Model (specifically the PSOs) was "effective in providing members with competencies needed for VISTA service." JBS also identified specific parts of the VISTA model, including the PSOs and the VISTA Campus website, that could be improved to better support member and overall project success, as well as changes that Education Northwest could implement to make the overall VISTA Training Model (specifically the PSOs) more cost-effective in terms of competencies gained and member satisfaction. JBS also noted that the supervision provided by VISTA supervisors played a key role in developing member competencies and fostering success. As a result, it recommended that "supervision and coaching be included, supported, and developed as a formal part of the VISTA Training Model." The results of this study were shared with Education Northwest so that it could improve the VISTA training. Specifically, in Education Northwest's FY 2013 program funding application (Application No. 13TA146652), Education Northwest officials stated that Education Northwest would "implement a revised Pre-Service orientation in FY 13 that incorporate preliminary findings from the evaluation of VISTA training conducted by JBS, International."

OLDT Monitoring

The Director of OOTMS coordinated the VISTA unit's monitoring efforts with OLDT. The Director stated that evaluations were provided to Education Northwest at least twice per year during meetings with Education Northwest officials. The Director stated that the "evaluations were always very good to excellent, which was congruent to our assessment." In addition to reviewing the feedback it received from Corporation project leads, OLDT also assessed Education Northwest's performance and training quality by conducting site visits. In May 2012, an OLDT staff member conducted a site visit to Education Northwest. In the May 8, 2012, site visit report, the OLDT staff member noted that the tasks covered during the visit included the Veterans and Military Families, Social Innovation Fund, H-Fund, and VISTA tasks. The staff member noted that all work was on track and that any problems completing the work were due to Corporation staff changes and shifts in priorities. Finally, the OLDT staff member stated that they had not identified any compliance issues and that the work funded through the agreement "meets or exceeds quality expectations."

Overall Quality of Education Northwest's Work

According to Corporation and Education Northwest officials, the Corporation and Education Northwest had a close working relationship on the tasks. As a result, there was frequent communication between the two organizations, as well as continuous monitoring by the Corporation, which helped ensure that Education Northwest provided quality training. Specifically, the Director of OOTMS Support stated:

> *…the nature of our work is that we very closely coordinated efforts in each and every training event, curriculum development, and online tutorial, course or other type of instrument. As such our feed back has been immediate, and integrated in the development and implementation process. No product or deliverable was produced or delivered without our involvement and quality control.*

Education Northwest's Director of the Center for School, Family, and Community, who oversees Education Northwest's training tasks for the Corporation, confirmed the close working relationship and stated that Corporation officials observe, provide input, and perform final sign-offs for each of their products and services, and that Education Northwest never launches a product or service without first obtaining Corporation approval.

Conclusions About the Assessment

One of the objectives of the audit was to determine whether the Corporation had procedures in place to assess the effectiveness of the Corporation's monitoring and the quality of training services provided by Education Northwest. Based on discussions with Corporation and Education Northwest officials, as well as our review of Corporation files and the JBS report, it appears the Corporation had adequate procedures in place to monitor and asses the quality of Education Northwest's training activities and services.

Corporation Response: The Corporation stated that it appreciates the review of the quality of training provided by Education Northwest.

Assessment of the Adequacy of the Corporation's Monitoring

Fiscal Monitoring of AFYA

AFYA is a for-profit corporation that treats its cooperative agreements as contracts. It therefore submitted invoices and compact discs with cost details to the Corporation. The invoices were the basis for AFYA's drawdowns reported on its Federal Cash Transaction Reports (FCTRs), as well as for the expenditures reported on its FFRs. The recipients of the cost details varied throughout the cooperative agreement periods. From March 2008 through April 2011, AFYA sent the cost details to two officials within the OLDT. From May 2011 through June 2013, AFYA sent the cost details to an OLDT official, who also served as AFYA's Program Officer and a VISTA Training Specialist. Beginning in July 2013, AFYA sent the cost details to the new Program Officer, who is also the Director of OOTMS and the VISTA Training Specialist. These individuals performed reviews of select expenditures, such as spot-checking hotel per diem rates; however, they did not perform tests for allowability of non-travel costs in accordance with Federal cost principles, such as checking indirect cost rates, because they are not qualified to review the expenditures.

The Corporation's Grants Officer is qualified to review expenditures and could have tested the allowability of costs and checked the indirect cost rates; however, she was unable to do so because she did not receive copies of the cost details and was not aware that AFYA was providing such documentation to the Corporation. The OLDT and VISTA officials did not provide the Grants Officer with a copy of the cost details, nor did they advise AFYA that it should provide this information to the Grants Officer. As a result, the only time that the Grants Officer tested costs for allowability was during site visits to the grantee. These site visits are infrequent; for grantees that are determined to be low risk, site visits are only required if it has been more than five years (60 months) since the last site visit. According to the Corporation's eGrants system, the Corporation conducted its last onsite site visit on February 11, 2009, before the start dates of the 09RWHMD001 and 09TAHMD001 cooperative agreements.

Fiscal Monitoring of Education Northwest

Education Northwest is a not-for-profit organization and therefore treated the cooperative agreements as grants. It reported expenditures and drawdowns to the Corporation on FFRs and FCTRs; however, it did not provide the Corporation with cost details because it was not required to do so. The Corporation only tests costs for allowability during Grants Officer site visits to the grantee. As noted above, however, site visits to grantees are infrequent. In addition, when the Corporation conducts a site visit, it is usually a limited, one-day visit. As a result, the Grants Officer performs a limited number of tests and does not test all cost categories.

The Corporation Grants Officer for Education Northwest conducted a limited site review on November 8, 2012. The purpose of the site visit was to review the program under Agreement No. 08TAHO001 and to "(1) gain understanding of the current financial management operations, (2) assess the current financial management system, and (3) make improvements in the financial management systems." During the visit, the Grants Officer reviewed various policies, procedures, and agreement-related documents. These documents included organizational, financial, administrative, travel, personnel, and procurement policies and procedures. The

Grants Officer also reviewed FFRs, drawdown reports, audits, staff timesheets, sample contracts and invoices, and the general ledger. The Grants Officer found that the supporting documents matched drawdowns and the FFR and did not identify any issues in a sample of staff timesheets and travel documents. The Grants Officer also concluded that, based on his limited review, Education Northwest had in place a financial management system and the internal controls required to comply with the financial aspects of the agreement and with OMB cost circulars. However, one day is an insufficient amount of time to complete all of the procedures described above and make a thorough assessment of Education Northwest's financial management systems.

Further, it appears that the Corporation did not perform procedures required to complete a full assessment of Education Northwest's financial management system, including procedures to test compliance with indirect cost rate agreements and reviews of subrecipient cost details. Although the site visit confirmation letter included a request for a copy of the latest NICRA, it is unclear if the Grants Officer performed any procedures to compare the NICRA rates for G&A costs to the actual rates used by Education Northwest. The site visit report did not include a comparison of the rates in the list of procedures that the Grants Officer had performed. During an interview with the Grants Officer, the Grants Officer could not recall if he had performed such a procedure and stated that he reviews areas such as procurement, drawdowns, travel, and contracts. Despite BSC being identified as a risk area in the Corporation's FY 2013 risk assessment, the site visit report did not discuss whether the Grants Officer performed any procedures to ensure that Education Northwest monitored BSC.

In addition, the Grants Officer did not recall performing any procedures to test the allowability of billed costs by Education Northwest's subrecipients and could not recall if reimbursements to the subrecipients were included in the supporting documentation that he reviewed during site visits. The Grants Officer indicated that, due to time constraints, he would not have time to review this type of documentation and that it was the responsibility of Education Northwest to ensure the allowability of the costs claimed by BSC.

Risk Assessments Performed

The Corporation conducts an annual risk assessment of potential programmatic and financial risk vulnerabilities affecting its entire universe of grant and cooperative agreement awards. The results of the risk assessments are used by the Corporation to prioritize its annual monitoring activities for all of its grants and cooperative agreements, as well as to allocate its resources for appropriate levels of monitoring, oversight, and technical assistance.

The risk assessments were developed using a standard assessment tool with a set of 18 criteria indicators. The Corporation's Program and Grants Officers completed the assessments by assigning "Yes, No, and N/A" determinations, and if appropriate, comments for each risk indicator. Once the Program and Grants Officers complete their criteria determinations, the risk assessment is submitted in eGrants and the final priority level is automatically determined for each award. AFYA's cooperative agreements were determined to be medium priority in FY 2010 and low priority in FYs 2011, 2012, and 2013. Education Northwest's cooperative agreements were determined to be low priority in FYs 2010, 2011, and 2012 and high priority in FY 2013, because it had been more than five years (60 months) since Education Northwest's last site visit.

The low-priority risk assessments determined for Education Northwest and AFYA were likely understated because the Corporation did not adequately address or assess the risks associated with the cooperative agreements. The risk assessment process was geared toward grantees that operated programs and had members, rather than toward grantees that provided services. As a result, 5 of the 18 assessment criteria indicators were not applicable to the Education Northwest and AFYA cooperative agreements. While the risk assessment included criteria to assess how quickly grantees spent awarded funds, how quickly they submitted FFRs, and whether drawdowns matched FFR expenditures, they lacked criteria to assess the risks related to billed costs, a grantee's noncompliance with applicable Federal cost principles and cooperative agreement terms and conditions, prior OIG and non-OIG audit findings, and deficiencies identified in prior Corporation desk reviews and onsite monitoring visits to the grantee. Finally, the risk assessment lacked criteria to assess risks applicable to for-profit corporations.

To achieve its mission and safeguard the integrity of Federal programs, operations, and assets, an agency must understand its financial and programmatic risks and align its business processes to mitigate them. Customizing and weighting the risk analysis specifically for cooperative agreements would provide a more accurate calibration of the programmatic and financial risks and more efficient deployment of monitoring resources. Additionally, developing monitoring plans using separate assessments of programmatic and financial risks would allow monitoring activities to be customized according to the nature of risks identified in the monitoring plan assessment.

Because the Corporation did not address or assess the financial risks and vulnerabilities associated with AFYA and Education Northwest's claimed costs, it did not adjust its internal controls or implement fiscal monitoring procedures for the cooperative agreements. Had it done so, the Corporation could have mitigated the amount of unallowable fringe benefit, overhead, and G&A costs claimed by AFYA on Agreement No. 09TAHMD001 (see Exhibit C, Schedule C-2, and the Other Matters to the Report section). It could also have mitigated the amount of unallowable claimed costs for Education Northwest and BSC on Agreement Nos. 08TAHOR001 and 09RWHMD001 (see Exhibit D, Schedules D-1 and D-2, and the Other Matters to the Report section).

OMB Circular A-123, *Management's Responsibility for Internal Control*, 4. *Actions Required*, states that an agency head must take systematic and proactive measures to: (1) identify and assess the most significant risks that could prevent a particular program from meeting its objectives; (2) incorporate into its key processes measures designed to limit those risks; (3) communicate those requirements to affected staff and other stakeholders; (4) monitor and evaluate the effectiveness of those control activities; and (5) correct deficiencies. Management must maintain an efficient balance between the magnitude of the risk and the burdens associated with mitigating it.

Government Accountability Office (GAO), *Standards for Internal Control in the Federal Government* (November 1999), *Risk Assessment*, states that management should comprehensively identify risks, including those posed by significant interactions between the agency and other parties, as well as internal factors at both the agency and activity level.

Conclusions About the Adequacy of the Corporation's Monitoring

One of the objectives of the audit was to assess the effectiveness of the Corporation's monitoring and oversight of the cooperative agreements. We found that the Corporation performed few fiscal monitoring procedures over the Education Northwest and AFYA cooperative agreements. Specifically:

- The Corporation did not perform comparisons of actual costs billed to budgeted costs for Education Northwest and AFYA, nor did it test the billed costs for allowability in accordance with Federal cost principles. Instead, the Corporation's fiscal monitoring essentially consisted of:

    - Grants Officer reviews of FFRs

    - Examinations of the rates at which grantees spent awarded funds

    - Tests comparing drawdowns to FFR expenditures

- AFYA provided cost details for its drawdowns to the Corporation; however, the Corporation's Grants Officer did not receive these cost details, and the Corporation was therefore unable to determine the allowability of the costs.

- Education Northwest was not required to and did not provide cost details to the Corporation. As a result, the Corporation only reviewed cost details when conducting a site visit. The Corporation only conducted one site visit of Education Northwest during the agreement periods.

- The Corporation's Grants Officer for Education Northwest did not document the procedures he performed related to subrecipient monitoring during his site visit to Education Northwest. The Grant Officer's site visit report for Education Northwest did not discuss subrecipient monitoring, and he could not recall if he tested costs that Education Northwest claimed for BSC.

- The Corporation's risk assessments were geared towards grantees that operated programs and had members, rather than toward grantees that provided services through cooperative agreements with the Corporation. As a result, 5 of the 18 assessment criteria were not applicable to the Education Northwest and AFYA cooperative agreements. Further, the Corporation did not customize and weigh the risk analysis specifically for cooperative agreements, which would have allowed a more accurate calibration of the programmatic and financial risks, monitoring activities that could be customized according to the nature of risk, and a more efficient deployment of monitoring resources.

Recommendation: We recommend that the Corporation:

1. Identify risk areas for the training and technical assistance cooperative agreements and develop indicators by which to assess the associated risks. Indicators could include special terms and conditions of the cooperative agreement, whether the grantee has a NICRA, any fraud risk indicators, deficiencies identified in prior OIG and non-OIG audits of the grantee, prior Corporation desk reviews of the grantee, and prior Corporation site visits of the grantee.

2. Establish customized monitoring priorities, plans, and procedures based on the nature of programmatic and financial risk assessments developed in accordance with the specific requirements of training and technical assistance cooperative agreements.

3. Ensure effective communication between Program Officers and Grants Officers.

4. Obtain cost details for drawdowns from Education Northwest and AFYA and, at a minimum, evaluate the allowability of the claimed costs.

5. Calculate and recover the appropriate amount of disallowed costs during and after the audit periods for Education Northwest Agreement Nos. 08TAHOR001 and 09RWHOR001 based on our questioned costs.

6. Calculate and recover the appropriate amount of disallowed costs during and after the audit period for AFYA Agreement No. 09TAHMD001 based on our questioned costs.

7. Monitor fringe benefit, overhead, and G&A costs on AFYA's current agreement, Agreement No. 13VTMD001, and ensure that these costs are billed using the provisional rates in AFYA's most current rate agreement, as well as that the rates do not exceed the rates in AFYA's approved budgets.

Corporation Response:

- **Recommendations 1 through 3:** The Corporation stated that it agrees the criteria for assessing risk in its cooperative agreements for services requires a review. Corporation staff in the Office of Accountability and Oversight are currently reviewing all risk assessment and monitoring processes in an effort to enhance its oversight of them. It appreciated the recommendation related to customizing the risk assessment process and will consider this recommendation as part of its review of the risk factors associated with the cooperative agreements for services.

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- **Recommendations 4 through 6:** The Corporation stated that BSC is a vendor to Education Northwest and will determine the allowability of questioned costs related to BSC under the procurement standards for contracts at 45 CFR Part 2543. The Corporation agreed that AFYA claimed fringe benefit and general and administrative costs at rates higher than the maximum allowable rate specified in the approved budget and referenced in the cooperative agreement terms and conditions. It will determine the final amounts to be repaid to the Corporation during the audit resolution process.

Auditors' Comments: We continue to make the recommendations stated above. Our responses to the comments made by the Corporation are as follows:

- The corrective actions stated by the Corporation are responsive to the recommendations; we recommend that the OIG follow up with Corporation management to ensure that appropriate corrective actions have been taken to address the recommendations.

- The Corporation did not provide an explanation why it now considers BSC to be a vendor. The detailed reasons why we believe Education Northwest considered BSC to be a subrecipient are discussed in Exhibit E.

- The Corporation did not communicate its position on Recommendation 7.

EXHIBIT C

Corporation for National and Community Service Cooperative Agreements
Consolidated Schedule of Awarded, Claimed, and Questioned Costs
AFYA Inc.

Agreement No.	Awarded Costs In Audit Period	Claimed Costs In Audit Period	Questioned Costs In Audit Period	Questioned Costs Outside Audit Period	Schedule
09RWHMD001	$3,197,320	$3,104,899	$0	$0	C-1
09TAHMD001	$17,390,825	$16,364,352	$276,775	$30,854	C-2

AFYA Inc.
Cooperative Agreement No. 09RWHMD001
Schedule of Awarded and Claimed Costs
April 10 through October 30, 2009

Description	Awarded Costs In Audit Period	Claimed Costs In Audit Period
Personnel	$464,433	$211,751
Fringe Benefits	146,900	65,431
Subtotal	$611,333	$277,182
Overhead	$279,012	$114,864
Travel	$51,000	$50,817
Supplies	31,500	6,099
Contractual & Consultant Services	0	15,200
Other Support	1,850,269	2,293,787
Subtotal	$1,932,769	$2,365,903
General & Administrative	$376,886	$346,950
Closeout Adjustment	($2,680)	$0
Total	$3,197,320	$3,104,899

SCHEDULE C-2

AFYA Inc.
Cooperative Agreement No. 09TAHMD001
Schedule of Awarded, Claimed, and Questioned Costs
October 1, 2009, through March 31, 2013

Description	Awarded Costs In Audit Period	Claimed Costs in Audit Period	Questioned Costs In Audit Period	Questioned Costs Outside Audit Period	Notes
Onsite Personnel		$2,443,869			
Offsite Personnel		19,637			
Subtotal	$3,315,511	$2,463,506	$0	$0	
Onsite Fringe Benefits		$802,100	$10,668	$7,900	
Offsite Fringe Benefits		6,491	90	82	
Subtotal	$1,076,074	$808,591	$10,758	$7,982	1
Onsite Overhead		$1,567,683	$65,628	$21,185	2
Offsite Overhead		1,760	0	0	
Subtotal	$2,312,847	$1,569,443	$65,628	$21,185	
Travel	$3,744,827	$3,779,739	$0	$0	
Equipment	175,000	0	0	0	
Supplies	36,096	35,158	0	0	
Contractual & Consultant Services	152,951	138,875	0	0	
Other Support	4,365,813	5,074,268	0	0	
Subtotal	$8,474,687	$9,028,040	$0	$0	
General & Administrative Costs	$2,211,706	$2,494,771	$200,389	$1,687	3
Total	$17,390,825	$16,364,352	$276,775	$30,854	

Note 1: AFYA claimed fringe benefit costs using rates that were higher than the maximum allowed rates specified in the approved award budgets.

- AFYA initially claimed 2010 fringe benefit costs using the provisional rates from its December 10, 2008, NICRA. When AFYA received the NICRA dated June 27, 2011, it recalculated FY 2010 fringe benefit costs using the final FY 2010 NICRA fringe benefit rate and claimed the difference; however, the final FY 2010 NICRA fringe benefit rate was higher than the maximum allowable rate.

- AFYA initially claimed fringe benefit costs for FYs 2011 and 2012 using the provisional rates from the June 2011 NICRA. Once actual fiscal year rates were available, AFYA recalculated the FY 2011 and 2012 fringe benefit costs using the actual FY 2011 and 2012 rates and claimed the difference. The actual FY 2011 and 2012 fringe benefit rates were higher than the maximum allowable rates, however.

- AFYA initially claimed FY 2013 fringe benefit costs using the provisional rates from the June 2011 NICRA. These rates were the same as the maximum allowable rates in the approved budgets. Once actual fiscal year rates were available, AFYA recalculated fringe benefit costs using the FY 2013 rate and claimed the difference; however, the actual FY 2013 rate was higher than the maximum allowable rate.

The 2008 and 2011 Cooperative Agreement Terms and Conditions, Section XIV. *General Provisions*, C. *Indirect Cost Rates*, state:

> *Reimbursement for indirect costs, general and administrative costs, overhead, or any similar cost rate type agreement, will be at the rate(s) and on the base(s) specified in the approved award budget. These amounts are subject to finalization by the cognizant federal agency or the Corporation. Any provisional rate(s) is subject to downward adjustment only under this award. Accordingly, final approved rate(s) charged to this award may not exceed the maximum provisional rate(s). If the cognizant federal agency or the Corporation does not approve a final rate, then the maximum provisional rate will be considered the final rate.*

AFYA believed that it could claim costs using the higher actual fiscal year end rates because it considered the award budgets to be estimates. It also believed that the paragraph discussing indirect cost rates in the cooperative agreement terms and conditions permitted this adjustment. Specifically, AFYA understood the statement that final approved rates may not exceed the "maximum provisional rate(s)" to mean that the final rates may not exceed the "ceiling" rates in the NICRA.

We recalculated fringe benefit costs using the maximum allowable rates from the award budgets. As shown in the following table, allowable fringe benefit costs were $10,758 less than claimed fringe benefit costs. We questioned this amount. We also identified $7,982 of unallowable FY 2013 fringe benefit costs that AFYA claimed after the end of our audit period.

Period	Claimed Direct Labor	Claimed Fringe Benefit Rate	Maximum Allowed Fringe Benefit Rate	Claimed Fringe Benefit Costs	Allowable Fringe Benefit Costs	Questioned Fringe Benefit Costs
During Audit Period						
10/01/09-09/30/10	$463,595	32.23%	31.63%	$149,417	$146,635	$2,782
10/01/10-12/31/10	159,246	32.23%	32.23%	51,325	51,325	0
01/01/11-12/31/11	789,711	32.82%	32.59%	259,183	257,367	1,816
01/01/12-12/31/12	855,557	33.31%	32.59%	284,986	278,826	6,160
01/01/13-03/31/13	195,397	32.59%	32.59%	63,680	63,680	0
Total	$2,463,506			$808,591	$797,833	$10,758
Outside Audit Period						
04/01/13-09/30/13	$243,206	35.87%	32.59%	$87,243[3]	$79,261	$7,982

Note 2: Except for the period of January through March 2013, AFYA claimed onsite overhead costs using rates that were higher than the maximum allowed rates specified in the approved award budgets.

- AFYA initially claimed 2010 onsite overhead costs using the provisional rates from the December 2008 NICRA. When it received the NICRA dated June 27, 2011, AFYA recalculated FY 2010 onsite overhead costs using the final FY 2010 NICRA overhead rate and claimed the difference; however, the final FY 2010 NICRA onsite overhead rate was higher than the maximum allowable rate.

- AFYA initially claimed onsite overhead costs for FYs 2011 and 2012 using the provisional rates from the June 2011 NICRA. Once actual fiscal year rates were available, AFYA recalculated the FY 2011 and 2012 onsite overhead costs using the actual FY 2011 and 2012 rates and claimed the difference; however, the actual FY 2011 and 2012 rates were higher than the maximum allowable rates.

- AFYA claimed FY 2013 onsite overhead costs using the provisional rates from the June 2011 NICRA. These rates were the same as the maximum allowable rates in the approved budgets.

The reasons for AFYA's belief that it could claim costs using the higher rates and the reasons for questioning the onsite overhead costs, shown in the following table, are discussed in Note 1. We questioned $65,628 of onsite overhead costs. We also identified $21,185 of unallowable FY 2013 onsite overhead costs that AFYA claimed after the end of the audit period.

[3] Due to rounding, the calculated amount of $87,238 ($243,206 x 35.87%) is $5 lower than the actual amount claimed.

Period	Claimed Onsite Direct Labor & Fringe Benefit Costs	Claimed Onsite Overhead Rate	Maximum Allowed Overhead Rate	Adjusted Onsite Direct Labor & Fringe Benefit Costs	Claimed Onsite Overhead Costs	Allowable Onsite Overhead Costs	Questioned Onsite Overhead Costs
During Audit Period							
10/01/09-09/30/10	$613,012	47.35%	45.64%	$610,230	$290,261	$278,509	$11,752
10/01/10-12/31/10	210,571	47.35%	46.61%	210,571	99,705	98,147	1,558
01/01/11-12/31/11	1,039,633	47.42%	46.61%	1,037,833	492,994	483,734	9,260
01/01/12-12/31/12	1,126,650	50.18%	46.61%	1,120,564	565,353	522,295	43,058
01/01/13-03/31/13	256,104	46.61%	46.61%	256,104	119,370	119,370	0
Total	$3,245,970			$3,235,302	$1,567,683	$1,502,055	$65,628
Outside Audit Period							
04/01/13-09/30/13	$327,319	51.96%	46.61%	$319,419	$170,066[4]	$148,881	$21,185

Note 3: Except for the period of January through March 2013, AFYA claimed G&A costs using rates that were higher than the maximum allowed rates specified in the approved award budgets.

- AFYA initially claimed 2010 G&A costs using the provisional rates from the December 2008 NICRA. When it received the NICRA dated June 27, 2011, AFYA recalculated FY 2010 G&A costs using the final FY 2010 NICRA overhead rate and claimed the difference; however, the final FY 2010 NICRA G&A rate was higher than the maximum allowable rate.

- AFYA initially claimed FY 2011 and 2012 G&A costs using the provisional rates from the June 2011 NICRA. Once actual fiscal year rates were available, AFYA recalculated the FY 2011 and 2012 G&A costs using the actual FY 2011 and 2012 rates and claimed the difference; however, the actual FY 2011 and 2012 rates were higher than the maximum allowable rates.

The reasons for AFYA's belief that it could claim costs using the higher rates and our reasons for questioning the G&A costs, shown in the following table, are discussed in Note 1. We questioned $200,389 of G&A costs. We also identified $1,687 of unallowable FY 2013 G&A costs that AFYA claimed after the end of our audit period.

[4] Due to rounding, the calculated amount of $170,075 ($327,319 x 51.96%) is $9 higher than the claimed amount of $170,066.

Period	Claimed Base Costs[5]	Claimed G&A Rate	Maximum Allowed G&A Rate	Adjusted Base Costs	Claimed G&A Costs	Allowable G&A Costs	Questioned G&A Costs
During Audit Period							
10/01/09-09/30/10	$2,941,021	19.02%	15.35%	$2,926,487	$559,382	$449,216	$110,166
10/01/10-12/31/10	820,753	19.02%	16.98%	819,195	156,107	139,099	17,008
01/01/11-12/31/11	4,407,025	16.97%	16.98%	4,395,948	747,872	746,432	1,440
01/01/12-12/31/12	4,878,300	18.28%	16.98%	4,829,081	891,753	819,978	71,775
01/01/13-03/31/13	822,481	16.98%	16.98%	822,482	139,657	139,657	0
Total	$13,869,580			$13,793,193	$2,494,771	$2,294,382	$200,389
Outside Audit Period							
04/01/13-09/30/13	$1,690,195	16.79%	16.98%	$1,661,021	$283,729[6]	$282,042	$1,687

AFYA's Response: AFYA provided an overall response, a response concerning its interpretations of the phrase "maximum allowable rate," and specific responses to statements made in the report. These responses are summarized below.

- AFYA holds itself to exceptionally high fiduciary standards and ethics. As with most, if not all, for-profit organizations, its costs and rates change each calendar year. These costs and rates are internally monitored on a monthly basis, undergo an annual review by AFYA's outside auditors, and are submitted to its cognizant audit agency annually for review and approval/finalization. AFYA has always treated its cooperative agreements with the Corporation as contracts and has been conservative in its billings.

- AFYA reviewed the report carefully and understood that the OIG determined that AFYA claimed unallowable fringe benefit, overhead, and general administrative costs because the rates used exceeded the "maximum allowable rate." AFYA was not certain what the "maximum allowable rate" in the draft report meant; however, it believed there were two plausible interpretations: the final NICRA rate and the NICRA ceiling rate.

    - AFYA's first interpretation was that "maximum allowable rate" meant "final NICRA rate" and that the auditors may have determined that AFYA did not adjust its FY 2011, 2012, or 2013 billings for the final NICRA rates. AFYA stated that it never received final NICRA rates for those years and cited Federal Acquisition Regulation (FAR) Subpart 42, Section 705, *Final indirect cost rates,* which states "Within 120 days (or longer period, if approved in writing by the contracting officer), after settlement of the final annual indirect cost rates for all years of a physically complete contract, the contractor must submit a completion invoice or voucher reflecting the settled amounts and rates."

[5] The base costs include claimed onsite and offsite personnel costs, onsite and offsite fringe benefit costs, onsite and offsite overhead costs, and other direct costs.

[6] Due to rounding, the calculated amount of $283,784 ($1,690,195 x 16.79%) is $55 higher than the claimed amount of $283,729.

AFYA stated that it charged the provisional rates from the applicable NICRA for each year, as required by the cooperative agreement and FAR Subpart 42 Section 705, and that it intends to make any necessary adjustments for FYs 2011 through 2014 once it receives the finalized NICRA rates. Additionally, AFYA cited and provided copies of its 2006 and 2009 rate adjustment invoices, which demonstrated its practice of complying with the FAR and the cooperative agreement to make any necessary retroactive adjustments once it receives the final NICRA rates.

- AFYA's second interpretation was that "maximum allowable rate" meant "NICRA ceiling rate" and that the auditors may have determined that AFYA exceeded the NICRA ceiling rate; however, AFYA did not exceed this rate. In its monthly billings, AFYA only invoiced at the provisional rates in the most recent NICRA. It never exceeded the ceiling rates stipulated by the NICRA, the rates in the agreement, or the award budget. AFYA provided an exhibit that compared invoices submitted for FYs 2011 through 2013 to the ceiling rates in effect and stated that the exhibit demonstrated that AFYA did not exceed the ceiling rates.

  AFYA stated that it consistently invoices the Corporation for allowable costs based on the approved provisional rates as set forth in the NICRA. As the rates in its agreement changed, AFYA provided the Corporation with information regarding the rate changes, as well as copies of the rates; updated its records; prepared invoices based on the rate changes; and submitted these invoices to the Corporation.

- It has always been AFYA's policy to bill its customers for allowable costs. As such, when invoicing the Corporation under the cooperative agreements, AFYA has always used the provisional rates from the government NICRA. When it received the final NICRA rates for a period, AFYA followed the closeout procedures established in FAR Subpart 42.7 and the cooperative agreement. AFYA has not yet received final NICRA rates for FYs 2011 through 2014 and has thus been unable to follow the closeout procedures for those years. AFYA intends to comply with the closeout procedures once it receives the final NICRA rates for those years.

- AFYA provided monthly invoices and submitted separate invoices for the rate variance billings. Prior to the submission of the rate variance invoices, AFYA communicated with the appropriate parties via email regarding the rates used in the invoices. The response received stated, "if there are any closeout issues related to the indirect cost rate we will let you know." AFYA was never notified of any closeout issues. If AFYA had been notified of any problems, it would have addressed them immediately.

- AFYA maintained constant and regular communication with both the Project Officer and the Grants Officer assigned to its agreement. Communication regarding the rates used in AFYA's invoices took place in person, over the telephone, and through email exchanges. AFYA provided examples of the emails.

- Since the inception of the cooperative agreement, it has been AFYA's practice to submit monthly invoices and supporting backup documentation to both the Project Officer and the Grants Officer, even though this is not required per the cooperative agreement. AFYA prepares, reviews, and submits the invoices based on its standard operating procedures. Based on the directives it received, AFYA has continued to submit monthly invoices and supporting backup documentation to the Corporation. AFYA did not have knowledge regarding the qualifications of the Corporation personnel and was simply complying with the information and instructions that it had previously received.

- It is AFYA's position that the provisional rates used in its billings were accurate, correct, and in accordance with the terms of the agreement.

Auditors' Comments:

- AFYA incorrectly treated the cooperative agreements as contracts. As such, it incorrectly billed fringe benefit, overhead, and G&A costs using rates that were higher than the "maximum allowable rate." This phrase is not subject to interpretation and is clearly defined in the 2008 and 2011 Cooperative Agreement Terms and Conditions as the maximum rates approved by the Corporation in AFYA's award budgets. This is a common treatment of indirect costs on grants and cooperative agreements.

  Because the budgeted fringe benefit, overhead, and G&A rates are ceilings, they are subject to downward adjustment only, and AFYA therefore should not have billed fringe benefit, overhead, and G&A costs in excess of budgeted rates. If the provisional rates are lower than the budgeted rates, the lower rates should be used, and prior billed costs should be adjusted downward using the provisional rates. If the final rates are lower than the provisional rates, the final rates should be used, and the provisional costs should be adjusted to the final costs, with the difference being returned to the Corporation. According to the cooperative agreement the provisional and final rates can be lower but not higher than the budgeted rates.

- We disagree with AFYA's statement that it had communicated via email with the appropriate parties regarding the rates used in its invoices before it submitted the rate variance invoices. The only example that AFYA provided was a series of email communications from August 2010 concerning the closeout of its 06TAHMD001 agreement and the final drawdown of funds for that agreement. This agreement was not included in the scope of this engagement.

- AFYA did not support its statement that it maintained constant and regular communication with its Project Officer and Grants Officer regarding the rates in its invoices. Of the 14 example emails that AFYA provided, 11 related to the closeout of its 06TAHMD001 agreement; as noted above, this agreement was not included in the scope of this engagement. The remaining emails were related to the Corporation's July 2012 request for an updated NICRA. The Corporation made the request and added a special condition to Notice of Grant Award Amendment No.10 after noticing that AFYA's prior NICRA had ended on June 30, 2012.

EXHIBIT D

Corporation for National and Community Service Cooperative Agreements
Consolidated Schedule of Awarded, Claimed, and Questioned Costs
Education Northwest

Agreement No.	Awarded Costs In Audit Period	Claimed Costs In Audit Period	Questioned Costs In Audit Period	Questioned Costs Outside Audit Period	Schedule
08TAHOR001	$14,949,171	$12,043,393	$42,017	$18,179	D-1
09RWHOR001	$2,030,000	$2,030,000	$11,829	$0	D-2
Total			$53,846	$18,179	

Education Northwest
Cooperative Agreement No. 08TAHOR001
Schedule of Awarded, Claimed, and Questioned Costs
April 1, 2010, through March 31, 2013

Description	Awarded Costs In Audit Period	Claimed Costs In Audit Period	Questioned Costs In Audit Period	Questioned Costs Outside Audit Period	Note
Contractual & Consultant Services					
Bank Street College		$837,631	$42,017	$18,179	1
Other		3,450,451	0	0	
Subtotal	$4,891,039	$4,288,082	$42,017	$18,179	
Personnel	$3,758,537	$2,861,462	$0	$0	
Fringe Benefits	1,432,625	1,098,541	0	0	
Travel	297,653	84,802	0	0	
Supplies	112,601	75,794	0	0	
Other Support	$1,749,907	$1,487,162	0	0	
G&A	2,706,809	2,179,954	0	0	
Conference & Expense Recovery	0	(32,404)	0	0	
Total	$14,949,171	$12,043,393	$42,017	$18,179	

Note 1: We questioned unallowable salary, fringe benefit, and travel costs claimed by Education Northwest's subrecipient BSC.

	Amount During Audit Period	Amount Outside of Audit Period	Note Reference
Claimed Costs	$837,631		
Questioned Costs:			
Unallowable Fringe Benefit Costs	$29,633	$13,353	a
Unsupported Salary & Fringe Costs	11,980	4,826	b
Unallowable Train Costs	404	0	c
Total Questioned Costs	$42,017	$18,179	

a. We questioned $29,633 of unallowable fringe benefit costs billed by BSC during the audit period and identified $13,353 of additional unallowable costs claimed outside of the audit period.

BSC claimed fringe benefit costs for full-time employees using its budgeted 37.5 percent fringe benefit rate instead of using the lower fringe benefit rates from its June 4, 2007, and August 26, 2010, NICRAs. BSC classified the Education Northwest subaward as a non-Federal grant from a private organization even though its subrecipient agreement identified the Corporation as a Federal funding source and included the Catalog of Federal Domestic Assistance (CFDA) number for Program Development and Innovation Grants (94.007). As a result, BSC claimed fringe benefit costs using the higher fringe benefit rate and omitted VISTA expenditures from the Schedule of Expenditures for Federal Awards (SEFA) included in its OMB Circular A-133 audit reports. Education Northwest was unaware that BSC had omitted VISTA expenditures from the SEFA because it did not adequately review BSC's OMB Circular A-133 reports. We calculated the difference between fringe benefit costs billed using the 37.5 percent fringe benefit rate and the fringe benefit rates allowed per BSC's NICRAs as follows:

Period	Claimed Direct Labor	Claimed Fringe Benefit Rate	Allowable Rate	Claimed Costs	Allowable Costs	Questioned Costs
During Audit Period						
03/01/09[7]-06/30/10	$231,755	37.5%	28.7%	$86,908	$66,514	$20,394
07/01/10-09/30/10	45,670	37.5%	35.1%	17,126	16,030	1,096
10/01/10-01/31/11	62,610	37.5%	35.1%	23,479	21,976	1,503
02/01/11-06/30/11	54,898	37.5%[8]	35.1%	20,452	19,269	1,183
07/01/11-02/28/13	236,223	37.5%	31.5%	88,584	74,410	14,174
Total						$38,350
Outside Audit Period						
10/01/08-02/28/09	$80,131	37.5%	28.7%	$30,049	$22,998	$7,051
03/01/13-09/30/13	105,041	37.5%	31.5%	39,390	33,088	6,302
Total						$13,353

We determined the amount of questioned fringe benefit costs for each agreement and multiplied total questioned fringe benefit costs by the monthly percentage Education Northwest used to allocate costs.[9]

Period	Questioned FB Costs	08TAH Questioned Costs	09RWH Questioned Costs
During Audit Period			
03/01/09-06/30/10	$20,394	$12,228	$8,166
07/01/10-09/30/10	1,096	545	551
10/01/10-01/31/11	1,503	1,503	0
02/01/11-06/30/11	1,183	1,183	0
07/01/11-02/28/13	14,174	14,174	0
Total	$38,350	$29,633	$8,717

BSC's NICRAs dated June 4, 2007, and August 26, 2010, state, "The rates approved in this agreement are for use on grants, contracts, and other agreements with the Federal Government…"

BSC and Education Northwest officials concurred with the finding. BSC officials stated that BSC would refund all of the questioned costs and has revised internal

[7] On July 23, 2009, the Corporation approved Education Northwest's May 15, 2009, request to incur pre-award costs from March 1, 2009, on the 09RWHOR001 agreement.

[8] In April 2011, BSC claimed fringe benefits using a rate of 37.5 percent in February, March, May, and June 2011 and a rate of 36.4 percent in April 2011.

[9] Education Northwest allocated costs between the two agreements using the labor allocation percentages that BSC identified on its monthly invoice submissions to Education Northwest. The allocation percentage for the 09RWHOR001 agreement varied each month and ranged from 2 percent to 56 percent. The average for the award period was 41 percent.

processes to ensure Federal compliance. Education Northwest officials stated that Education Northwest would refund the questioned costs to the Corporation.

b. BSC did not maintain adequate timekeeping documentation, such as time-and-effort reports signed by the employee and/or supervisor to support the actual amount of effort contributed by the employees. Instead, it claimed costs using estimates of the actual amount of time worked by the employees and provided documentation to support costs, such as final effort reports that had been completed before month-end, journal entries transferring costs between BSC accounts, and an internal spreadsheet used to track the amount of time spent on VISTA project tasks.

- BSC did not provide any documentation to support March 2012 personnel costs for one employee.

- BSC provided a month-end journal entry supporting the transfer of salary and fringe benefit costs from the Finance and Administration account to the VISTA account to support February 2012 personnel costs for one employee.

- BSC provided a time-and-effort report signed by the employee's supervisor to support one month of personnel costs for one employee; however, the time-and-effort report showed that the employee spent all of her time working for the Finance and Administration Department and did not spend any time working on the VISTA project during that month.

- Preliminary and final monthly time-and-effort reports provided to support the effort percentages for one employee had been completed before month-end and did not support the actual amount of effort contributed by the employee.

Month	Director's Estimate Report	Monthly Final Effort Report
July 2010	06/30/10	07/27/10
August 2010	08/06/10	08/19/10

- BSC provided a spreadsheet that it used to track employee effort percentages on specific VISTA project tasks. The spreadsheet, which BSC considered a timesheet, was created in response to a finding in the previous OIG audit of Education Northwest and BSC. While these spreadsheets supported the effort percentages shown on the monthly time-and-effort reports, the spreadsheets did not support the July 2011, February 2012, or March 2012 personnel costs because they were not signed and dated by the employee or the employee's supervisor/director.

According to 2 CFR Part 220 (formerly OMB Circular A-21), *Cost Principles for Educational Institutions,* Appendix to Part 220, *Principles for Determining Costs Applicable To Grants, Contracts, and Other Agreements With Educational Institutions, J. General Provisions for Selected Items of Cost, 10. Compensation* *for personal services, c. Examples of Acceptable Methods for Payroll Distribution*, (2) *After-the-fact Activity Records*, the distribution of salaries and wages by the institution must be supported by activity reports that reflect the distribution of activity expended by employees covered by the system. Initial charges may be based on estimates made before the services are performed, if such charges are promptly adjusted for significant differences as indicated by activity records. For professional staff, the reports must be prepared and signed by the employee or supervisor no less frequently than every six months. For other employees, the reports must be prepared and signed by the employee or supervisor no less than monthly, and coincide with one or more pay periods.

Because the documentation provided to support costs claimed for the two employees either was not provided or was inadequate, we questioned $11,980 ($6,850+$5,130) of salary and benefit costs in the audit period and $4,826 ($483+$4,343) of salary and benefit costs outside of the audit period for the two employees.

- We questioned $7,158 of salary and benefit costs during the audit period and $505 of salary and benefit costs outside of the audit period for one employee; however, a portion of these costs is included in Note 1a. As a result, we are questioning $6,850 ($7,158-$308) of fringe benefit costs during the audit period and $483 ($505-$22) of fringe benefit costs outside of the audit period for Agreement No. 08TAHOR001 here, and $330 ($308+$22) of the costs in Note 1a.

Description	**Questioned in Audit Period**	**Questioned Outside of Audit Period**
Salaries	$5,206	$367
Fringe Benefit Costs	1,952	138
Subtotal	$7,158	$505
Less: Fringe Benefit Costs (Included in Note 1a)	308	22
Total	$6,850	$483

- We questioned $5,268 of salary and benefit costs during the audit period and $4,643 of salary and benefit costs outside of the audit period for one employee; however, a portion of these costs is included in Note 1a. As a result, we are questioning $5,130 ($5,268-$138) of salary and benefit costs during the audit period and $4,343 ($4,643-$300) of salary and benefit costs outside of the audit period here, and $438 ($138+$300) of the costs in Note 1a.

Description	Questioned in Audit Period	Questioned Outside of Audit Period
Salaries	$3,832	$3,373
Fringe Benefit Costs	1,436	1,270
Subtotal	$5,268	$4,643
Less: Fringe Benefit Costs (Included in Note 1a)	138	300
Total	$5,130	$4,343

c. We questioned $404 of unallowable train fares billed during the audit period. Travel costs for four trips included costs for business-class train fares and fares for travel on Amtrak's high-speed Acela Express train. BSC's travel policy prohibits personnel from using business class or from taking the Acela Express train without supervisor approval. None of the travelers obtained such approval. We multiplied total questioned costs by the monthly percentage that Education Northwest used to allocate costs between Agreement No. 08TAHOR001 and Agreement No. 09RWHOR001.

Trip	Claimed Costs	Questioned Costs	08TAH Questioned Costs	09RWH Questioned Costs
August 2010	$406	$308	$142	$166
August 2010	284	186	86	100
February 2012	190	141	141	0
March 2012	153	35	35	0
Total	$1,033	$670	$404	$266

The Bank Street College of Education, Business Office, Policies and Procedures Manual (2011), Section 2. *General Policies*, 6. *Travel Policy, Travel* states:

> *Official intercity travel on behalf of the College should be at the least expensive rate available, normally tourist/economy class for plane or train. Efforts should be made to book travel early to take advantage of special fares.*

The Bank Street College of Education, Business Office, Policies and Procedures Manual (2011), Section 2. *General Policies*, 6. *Travel Policy, Transportation Documentation Requirements, Rail*, states:

> *An original passenger receipt showing amount and payment. Employees traveling by rail should purchase unreserved seating. Business or First Class must be approved by a Dean and may only be used if it significantly saves time, which must be explained in a memo from the Dean of the Department. The use of high speed trains along the Eastern corridor (Washington, New York, Boston) must also be approved by the Dean. Employees are expected to use regular trains and not the more expensive high speed trains. The time-savings is barely 1 hour, which is not worth triple the expense of regular trains.*

BSC and Education Northwest officials concurred with the finding. BSC officials stated that BSC would refund the all of the question costs and has revised internal processes to ensure adherence to the BSC travel policy. Education Northwest officials stated that Education Northwest would refund the questioned costs to the Corporation.

Education Northwest
Cooperative Agreement No. 09RWHOR001
Schedule of Awarded, Claimed, and Questioned Costs
April 6, 2009, through September 30, 2010

Description	Awarded Costs in Audit Period	Claimed Costs in Audit Period	Questioned Costs	Note
Contractual & Consultant Services				
Bank Street College		$187,637	$11,829	1
Other		493,469	0	
Subtotal	$703,444	$681,106	$11,829	
Personnel	$530,248	$532,662	$0	
Fringe Benefits	187,180	201,266	0	
Travel	10,200	23,853	0	
Supplies	22,618	4,143	0	
Other Support	$226,424	$257,699	$0	
General & Administrative	320,386	329,271	0	
Other	29,500	0	0	
Total	$2,030,000	$2,030,000	$11,829	

Note 1: We questioned unallowable fringe benefit, personnel, and indirect costs claimed by Education Northwest's subrecipient BSC.

Description	Amount	Note Reference
Claimed Costs	$196,548	
Questioned Costs:		
Excess Fringe Benefit Costs	$8,717	a
Unsupported Personnel Costs	2,846	b
Unallowable Train Fare	266	c
Total Questioned Costs	$11,829	

a. We questioned $8,717 of unallowable fringe benefit costs claimed by BSC for the reasons stated in Schedule D-1, Note 1a.

b. We questioned $2,846 of personnel costs claimed by BSC for the reasons stated in Schedule D-1, Note 1b.

Description	Questioned Costs
Salaries	$2,190
Fringe Benefit Costs	823
Subtotal	$3,013
Fringe Benefit Costs (Included in Note 1a)	167
Total	$2,846

c. We questioned $266 of unallowable train travel costs claimed by BSC for the reasons stated in Schedule D-1, Note 1c.

**Performance Audit of Corporation for National and Community Service
Cooperative Agreements Awarded to
AFYA Incorporated and Education Northwest
Compliance Findings**

Finding 1: Education Northwest did not adequately monitor costs claimed by BSC or review the costs for allowability.

Education Northwest did not have adequate monitoring procedures to ensure the allowability of costs claimed by its subrecipient BSC. It did not obtain all supporting documentation for costs that BSC claimed on the monthly invoices that BSC submitted to Education Northwest. It also did not have adequate procedures for obtaining and reviewing BSC OMB Circular A-133 audit reports, or ensuring BSC's compliance with the OMB Circular A-133 audit requirements.

BSC Invoices

In the prior OIG audit conducted on Education Northwest (Report No. 06-08), the auditors found that timesheets and receipts for expenses did not support BSC's invoices. Education Northwest agreed with the auditor's recommendation to work with the Corporation to ensure that invoices from BSC include all necessary documentation. Education Northwest's current practice, however, does not follow either the auditor's recommendation or Education Northwest's written policies and procedures.

Education Northwest's current practice is to obtain from BSC an invoice summarizing the amount of salaries, fringe benefits, travel, other direct costs, and indirect costs incurred by month. Education Northwest also received a printout from BSC's automated accounting system to support the costs. However, Education Northwest did not request, and BSC did not provide, the underlying documentation (e.g., timesheets, time-and-effort reports, Federal NICRAs, invoices, employee travel expense reports, travel policies, accounting reports) that supported billed costs.

Education Northwest officials stated that after the last audit, Education Northwest had strengthened controls over monitoring and obtaining proper supporting documentation for invoices, and that it had made an effort to ensure compliance with Federal regulations.

Without obtaining and reviewing all supporting documentation for subrecipient invoices, Education Northwest will not be able to ensure that costs billed by the subrecipient are allowable in accordance with established rate agreements, cooperative agreement terms and conditions, applicable Federal regulations, and subrecipient policies and procedures.

OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Subpart D.400 d) *Pass-through entity responsibilities*, No. 3, states that pass-through entities will monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grants, and that performance goals are achieved.

According to 45 CFR *Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-profit Organizations*, §2543.51*, Monitoring and reporting program performance* *(a)*, “Recipients are responsible for managing and monitoring each project, program, subaward, function or activity supported by the award.”

BSC OMB Circular A-133 Reports

Education Northwest did not have adequate procedures in place for obtaining BSC OMB Circular A-133 audit reports timely, or for ensuring BSC’s compliance with the OMB Circular A-133 audit requirements or the requirements of its own subcontract. To ensure compliance with the A-133 audit requirements, Education Northwest required BSC to provide a copy of the completed audit report, as well as a certification form stating that BSC had met all of the A-133 audit requirements; however, this procedure was not performed timely. The audit report for the fiscal year ending June 30, 2012, was completed on March 28, 2013; however, BSC did not sign the audit certification until October 15, 2013, and did not provide the audit certification and FY 2012 audit report to Education Northwest until October 17, 2013, after the OIG audit notification letter dated September 4, 2013. Education Northwest officials indicated that Education Northwest had received the FY 2010 and FY 2011 audit reports, but were unable to locate the reports during the planning visit.

Education Northwest did not reconcile payments to BSC to expenditures that BSC reported on the SEFA included in its A-133 audit reports. Because Education Northwest did not perform such reconciliations, it was not aware that BSC had omitted VISTA expenditures from the SEFA audit schedules. We noted that BSC had excluded VISTA expenditures from the SEFA in the FY 2012 audit report, as well as from the FYs 2009, 2010, and 2011 SEFA schedules submitted to the Federal Audit Clearinghouse.

Education Northwest officials stated that Education Northwest was aware that pass-through entities are responsible for ensuring that subrecipients undergo OMB Circular A-133 audits and that it therefore requires all of its subrecipients to certify that they have met all of the OMB Circular A-133 audit requirements. It was and is Education Northwest’s position that it is the responsibility of BSC’s A-133 auditor to ensure compliance with SEFA reporting requirements. In the future, Education Northwest will be incorporating organization-wide internal controls and monitoring to ensure that it performs the reconciliation.

OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Subpart D.400 (d), *Pass-through entity responsibilities,* requires grantees to ensure that subrecipients undergo audits that meet the circular’s requirements and consider whether subrecipient audits necessitate adjustment of the pass-through entity’s own records.

Education Northwest’s subcontract with BSC, Section 5.0, *Audit Compliance and Federal Pass-through CFDA*, paragraphs 5.2 and 5.3, states that BSC is required to provide Education Northwest with an annual certification stating that its A-133 audit was completed in accordance with OMB Circular A-133 and other information as described by Section 320 of the Circular. The subcontract also states that BSC is required to cooperate with Education Northwest in resolving any questions about the audit findings, corrective action plans, or the A-133 reporting package.

Recommendations: We recommend that the Corporation:

1a. Ensure that Education Northwest establishes invoice documentation requirements for all subrecipient billed costs. The invoice documentation requirements should include, but not be limited to, requirements to obtain employee timesheets, employee time-and-effort reports, employee travel expense reports, itemized invoices, itemized receipts, travel policies, NICRAs, and accounting reports.

1b. Verify that Education Northwest has established new requirements for invoice documentation by reviewing the most recent BSC invoice submission to Education Northwest and ensuring that the invoice package includes employee timesheets, employee time-and-effort reports, employee travel expense reports, invoices, receipts, travel policies, NICRAs, and accounting reports.

1c. Ensure that Education Northwest's monitoring procedures for ensuring that BSC complies with the requirements of OMB Circular A-133 include procedures to:

- Require BSC to provide Education Northwest with a copy of its audit report once the report has been finalized.

- Review BSC's audit reports for findings that affect its agreements to determine if its records require adjustment for any unallowable costs identified by the auditor.

- Reconcile expenditures on BSC's SEFA audit schedules to payments made by Education Northwest and determine if the amounts shown on the schedules are accurately presented.

1d. Verify that Education Northwest has established new procedures for reviewing BSC audit reports by reviewing documentation of Education Northwest's review of the BSC FY 2013 OMB Circular A-133 report.

Corporation Response: As previously discussed in Exhibit B Recommendations 4 and 5, the Corporation stated that it now considers BSC a vendor of Education Northwest.

Education Northwest Response:

BSC Invoices

- Based on the findings of the previous OIG audit, Education Northwest determined that the supporting documentation necessary to demonstrate that claimed costs were allowable included project reports detailing hours and dollars charged by BSC, as well as specific transitional data for travel and other direct costs. Its agreement with BSC contained clauses that gave Education Northwest the right to audit BSC's costs, as well as the appropriate clauses to ensure that BSC would follow General Services Administration per diem rates and Federal Travel Regulations. Education Northwest also stated that it practices extensive and routine materiality checks for each contract on a monthly basis.

- It was Education Northwest's opinion that the documentation received from BSC was adequate for the scope of work and resources that BSC provided on this program. The majority of the staff employed by BSC only worked on this agreement, and as a result, only a relatively small amount of BSC's professional services work required a timekeeping system. Education Northwest therefore did not find it necessary to require

BSC to procure a costly system. The materiality of the issue did not justify the added annual costs to the program or the vendor.

- With regard to the unallowable fringe benefit costs, Education Northwest stated that its standard practice is to submit rate adjustment invoices/credit at contract closeout; anomalies identified will therefore be addressed at closeout, as is the usual practice for Federal contracts. Additionally, in a competitive environment, indirect rates are not shared with prime contractors due to the proprietary nature of the data, and Education Northwest is not required to obtain this information.

BSC OMB Circular A-133 Reports

- OMB Circular A-133 audits are intended to report annual costs to Federal agencies. All costs for this program, including the costs for BSC, were included in Education Northwest's annual A-133 report.

- Education Northwest stated that it subcontracted the work performed by BSC under this cooperative agreement as a vendor, not as a subrecipient, and therefore did not assume subrecipient monitoring requirements. It stated that it used OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Subpart B.210, *Subrecipient and vendor determinations,* for guidance in making this determination. Additionally, BSC performed a limited and defined scope of work, working closely with the Education Northwest program director, and did not have programmatic decision-making responsibilities.

- BSC did not include the Education Northwest/VISTA grant/contracts in its SEFA schedule because it had classified them as private.

Auditors' Comments:

- We disagree with Education Northwest's statement that its agreement with BSC contained appropriate clauses to ensure that BSC would follow General Service Administration per diem rates and Federal Travel Regulations. Its agreement with BSC lacked any such clause. The only clause concerning Federal compliance requirements was the requirement that BSC comply with the audit requirements of OMB Circular A-133, if required.

- We disagree with Education Northwest's statement that BSC would be required to purchase a costly timekeeping system. BSC would not be required to purchase a costly timekeeping system because it already had a timekeeping system in place; however, it did not use this timekeeping system correctly.

- We disagree with Education Northwest's statement regarding the unallowable fringe benefit costs and the submission of rate adjustment invoices at closeout. While Education Northwest stated that such a procedure was a usual practice for Federal contracts, it did not demonstrate that it performed this procedure when the 09RWHOR001 agreement was closed out. Additionally, as discussed elsewhere in our response, Education Northwest referred to BSC as subrecipient in the audit certification form and, as such, Education Northwest was responsible for ensuring that BSC used its NICRA rates for this agreement.

Bank Street College

OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Subpart B, Section.210 (d), *Use of judgment in making determination,* states that when determining whether a subrecipient or vendor relationship exists, the substance of the relationship is more important that the form of the agreement and that judgment should be used in determining whether an entity is a subrecipient or a vendor. For the following reasons, we disagree with the Corporation's determination and Education Northwest's statement that it subcontracted the work performed by BSC under this cooperative agreement as a vendor.

- Education Northwest did not communicate its position that it considered BSC to be a vendor and not a subrecipient during planning or fieldwork. Further, in April 2014, when Education Northwest and BSC provided their responses to the preliminary findings, both Education Northwest and BSC agreed with the findings and questioned costs and were ready to repay the questioned costs to the Corporation. Education Northwest did not present its position that BSC was a vendor until after the Corporation inquired about the type of agreement at the June 2014 exit conference.

- BSC's contract with Education Northwest meets the definition of a federal award and BSC's relationship with Education Northwest meets definition of a subrecipient in The American Institute of Certified Public Accountants (AICPA) Audit and Accounting Guide, *State and Local Governments,* (AAG-SLA) and OMB Circular A-133. Both define a federal award as "Federal financial assistance and federal cost-reimbursement contracts that nonfederal entities receive directly from federal awarding agencies or indirectly from pass-through entities." Both define a subrecipient as "A nonfederal entity that expands federal awards received from a pass-through entity to carry out a federal program."

  Based on the language in OMB Circular A-133 and the AAG-SLA and because both Education Northwest and BSC referred to the agreement as a grant or an award in various documents, we believe that both BSC and Education Northwest considered the award to be a grant, and considered BSC to be a subrecipient. Additionally, Education Northwest identified itself as a pass-through entity in the subcontract, and performed pass-through entity responsibilities, such as informing BSC of the Catalog of Federal Domestic Assistance (CFDA) number, the award name, and the Corporation award number; ensuring that BSC had an annual A-133 audit; and notifying BSC of its responsibility to cooperate with Education Northwest regarding any questions it had regarding audit findings disclosed in the A-133 reports and any corrective action plans.

- Education Northwest and BSC referred to the cost reimbursable contract as a grant or an award and to BSC as a subrecipient in various documents. Specifically, in an October 30, 2013, email sent from BSC to Education Northwest, a BSC official stated "...this Grant (CFDA #94.007) is not classified as a federal grant and therefore is not submitted for our A-133 report. The grant we have from you is listed as private." On November 4, 2013, an Education Northwest official replied and stated "Please reclassify this work in your system so that it IS included in you're [sic] A-133 reporting. This work is definitely a federal grant as indicated in your subcontract with us."

  As discussed in the finding, Education Northwest requires all of its subrecipients to certify that they have met all of the OMB Circular A-133 audit requirements. The first sentence of Education Northwest's October 2013 certification states, "As a subrecipient of federal funds subcontracted to you by Education Northwest (formerly Northwest Regional Educational Laboratory), we are requesting certification from your organization that your [sic] are in compliance with A-133 requirements." In completing this certification, BSC's Chief Operating Officer (COO) certified that there were no findings of non-compliance with federal laws and regulations or any reportable conditions specifically related to the subrecipient awards and that, if applicable, management had addressed prior-year findings related to subrecipient awards.

- BSC appears to have agreed that it was a subrecipient of Education Northwest, as it included expenditures for CFDA #94.07 on its FY 2013 and 2014 SEFA, as instructed by Education Northwest.

BSC OMB Circular A-133 Reports

- As previously stated, we disagree with Education Northwest's statement that BSC was a vendor and not a subrecipient and as such, did not assume subrecipient monitoring requirements; however, Education Northwest was still required to monitor BSC's compliance with OMB Circular A-133 regardless of whether it considered BSC to be a subrecipient or a vendor. This requirement is discussed in Education Northwest's agreement with BSC, Section 5.0, *Audit Compliance and Federal Pass-through CFDA*. Specifically, in paragraph 5.2, BSC agreed to provide Education Northwest an annual certification stating that its A-133 audit was completed in accordance with OMB Circular A-133 and other information as described by Section 320 of the Circular. In paragraph 5.3, BSC agreed to cooperate with Education Northwest in resolving any questions it had concerning any findings, corrective action plans, or the A-133 reporting package. This language was included in the agreements signed by Education Northwest and BSC in 2008, 2011, 2012, and 2013.

Finding 2: Education Northwest did not include all of the requirements imposed on it by Federal laws, regulations, and the cooperative agreement terms in its BSC subrecipient agreement.

Education Northwest did not include all of the requirements imposed on it by Federal laws, regulations, and provisions of cooperative agreements, as well as any supplemental requirements, in its agreement with BSC. Education Northwest informed BSC of the agreement number, CFDA number, and the requirement to have an OMB Cost Circular A-133 audit. It omitted other requirements, however, such as the cost principles, record retention requirements, and non-discrimination requirements found in 2 CFR Part 220 (formerly OMB Cost Circular A-21), *Cost Principles for Educational Institutions*; 2 CFR Part 215 (formerly OMB Cost Circular A-110), *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals and Other Nonprofit Organizations*; and the cooperative agreement terms and conditions.

Failing to include references to all of the requirements imposed on subrecipients by Federal laws, regulations, provisions of the cooperative agreement terms and conditions, and any supplemental regulations, could result in subrecipients being unaware of their responsibilities to comply with the requirements. Education Northwest officials stated that they will follow the guidance discussed above and will strengthen Education Northwest's internal controls and processes to ensure that it complies with Federal requirements for pass-through entities.

OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Subpart D, Section.400 (d), *Pass-through entity responsibilities,* states that pass-through entities shall advise subrecipients of requirements imposed on them by Federal laws, regulations, and provisions of contracts or grant agreements, as well as any supplemental requirements.

Recommendations: We recommend that the Corporation:

2a. Work with Education Northwest to ensure that subrecipient agreements include all requirements imposed on the subrecipients by Federal laws, regulations, and provisions of contracts or grant agreements.

2b. Verify that subrecipient agreements include all requirements imposed on the subrecipients by reviewing a copy of Education Northwest's subrecipient agreements.

Education Northwest Response: Based on Education Northwest's position that BSC was a vendor and not a subrecipient, it believes that it took the appropriate steps to maintain adequate fiscal control and oversight. Education Northwest stated that the audit confirmed that BSC retained appropriate records.

Auditors' Comments: We continue to make the recommendations stated above. As discussed in our response to Finding 1, Education Northwest stated in a November 4, 2013, email that the work performed by BSC was a Federal grant, and it referred to BSC as a subrecipient in the audit certification form completed by BSC.

COTTON & COMPANY LLP

Michael W. Gillespie, CPA, CFE
Partner

June 25, 2015
Alexandria, VA

EXHIBIT F

Objectives, Scope, and Methodology

Objectives

The objectives of the task order engagement were to:

1. Assessed the effectiveness of the Corporation's monitoring and oversight of the quality of training provided by Education Northwest.

2. Assess the effectiveness of the Corporation's fiscal monitoring and oversight of the cooperative agreements.

3. Determine whether Corporation-funded Federal assistance provided to the grantees was expended in accordance with cooperative agreement terms and provisions, laws, and regulations.

Scope and Methodology

The scope of the audit covered the training and technical assistance cooperative agreements awarded to Education Northwest and AFYA, as listed below. The period of coverage for each agreement was determined to be 36 months from the most recently filed FFR for the agreements.

Awardee	Agreement No.	Agreement Period	Audit Period	Claimed Costs
Education Northwest	08TAHOR001	10/01/08-09/30/14	04/01/10-03/31/13	$12,043,393
	09RWHOR001	04/06/09-09/30/10	04/06/09-09/30/10	2,030,000
AFYA Inc.	09RWHMD001	04/10/09-10/30/09	04/10/09-10/30/09	3,104,899
	09TAHMD001	10/01/09-09/30/13	10/01/09-03/31/13	16,364,352

To meet these audit objectives, we used the following methodology:

- Reviewed Corporation agreement award files.

- Reconciled expenditures that Education Northwest and AFYA claimed on FFRs submitted to the Corporation to expenditures in the Education Northwest and AFYA accounting systems.

- Conducted planning visits to Education Northwest and AFYA to obtain an understanding of Education Northwest and AFYA operations.

- Prepared a planning memorandum summarizing the results of planning visits and submitted the planning memorandum to the OIG for approval.

- Prepared audit programs to be used during fieldwork at Education Northwest and AYFA and obtained OIG approval of the audit programs.

- Selected samples of Education Northwest and AFYA agreement costs and tested the costs for allowability in accordance with Federal cost principles and cooperative agreement terms and conditions.

- Selected samples of costs claimed by Education Northwest's subrecipient BSC. We tested the costs for allowability in accordance with Federal cost principles and cooperative agreement terms and conditions during a site visit to BSC.

- Tested Education Northwest and AFYA's compliance with selected cooperative agreement terms and conditions.

- Reviewed Corporation agreement documents, reviewed Education Northwest and Corporation correspondence, and spoke to Education Northwest officials to obtain an understanding of training services that Education Northwest provides to the Corporation.

- Reviewed Corporation correspondence and files and conducted interviews with Corporation officials to obtain an understanding of the Corporation's processes for monitoring Education Northwest and AFYA cooperative agreements, as well as for assessing the quality of the services provided by Education Northwest.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives. We performed testing at Education Northwest, AFYA, and the Corporation from October 2013 through April 2014.

AFYA INC. RESPONSE TO DRAFT REPORT

AFYA inc 8101 Sandy Spring Road | 3rd Floor | Laurel, Maryland 20707 | 301-957-3040 | Fax 301-497-9902

April 15, 2015

Stuart Axenfeld
Assistant Inspector General for Audit
Office of Inspector General
Corporation for National and Community Service
1201 New York Avenue NW
Suite 830, Office 13
Washington, DC 20525

Dear Mr. Axenfield:

Thank you for the opportunity to respond to the issues and recommendations in the draft audit report titled, "Audit of Corporation for National and Community Service (CNCS) Cooperative Agreements Awarded to AFYA, Incorporated (AFYA) and Education Northwest." Following is a summary of AFYA's overall position, along with its position/response on each of the report issues and recommendations.

AFYA prides itself on consistently going above and beyond the required procedures in order to ensure that we are compliant in all requirements of agreements and contracts received by our organization. We are consistent in our standard operating procedures (SOP) and practices and make every attempt to employ best practices in providing outstanding services to our customers and invoicing for the correct and appropriate costs incurred in the performance of these services.

AFYA holds itself to exceptionally high fiduciary standards and ethics and, as with most, if not all For-Profit Organizations, based on costs and corporate activities, our rates change each calendar year. These rates and costs are internally monitored monthly, reviewed annually by our outside auditors, and are submitted to our cognizant audit agency (CAA) annually for review and approval/finalization. Significantly, we have always treated the CNCS Cooperative Agreements as contracts and have been conservative in our billing.

We have carefully reviewed the report and understand that the Office of Inspector General (OIG) determined that AFYA claimed unallowable fringe benefit, overhead, and general administrative costs because the rates use exceeded "maximum allowable rate." Although we are not certain what "maximum allowable rate" in the draft report means, we believe there are two plausible interpretations.

First Interpreation: "Maximum Allowable Rate" Means Final NICRA Rate

The OIG may have been referring to the final NICRA rate when it referred to a "maximum allowable rate." Specifically, the OIG may have determined that AFYA failed to reimburse the government for FY 2010 through 2013 to reflect the finalized rates in the Negotiated Indirect Contract Rate Agreement (NICRA). However, we ***never*** received final NICRA rates for 2011, 2012, or 2013. We note the relevant FAR provision states: "Within 120 days (or longer period, if approved in writing by the contracting officer,) ***after settlement of the final annual indirect cost rates*** for all years of a physically complete contract, the contractor must submit a completion invoice or voucher reflecting the settled amounts and rates." FAR 42.705. Without settlement of the final annual indirect cost rates, AFYA could not closeout the invoices. As such, it would have been impossible for AFYA to close out the invoices for the years in question.

AFYA charged the provisional rates from the applicable NICRA for each year, as required by the Agreement and FAR 42.705. Our current NICRA is valid through June 2015. A copy of our NICRA is attached in Exhibit A. We intend to make any necessary adjustments for FY 2011 through 2014 once we receive the finalized NICRA rates. If the OIG meant final NICRA rates when referring to "maximum allowable rates," then the audit report is premature. AFYA has not had the opportunity to reconcile the provisional rates it charged with the final rates.

We would like to bring your attention to our 2006 and 2009 rate adjustment invoices (Exhibit B), which demonstrate our practice of complying with the FAR and the Agreement to make any necessary retroactive adjustments once we receive the final NICRA rates. The rates used in these invoices were audited rates for 2006 and 2007 and the year end actual rates for 2008. These rates were lower than the approved provisional rates in our NICRA and were extended to CNCS. And, as a result of AFYA doing its due diligence and performing in a manner we deem fiscally responsible, the calculated variance between the actual rates and the approved NICRA resulted in $ 348,479.30 being due back to CNCS. This amount was returned to CNCS in the form of a credit invoice. The 2006 agreement was closed as a quick-closeout and during this time, communications were exchanged and questions raised by AFYA regarding the rates that were being used in the 2006 rate variance invoice (Exhibit C).

Second Interpretation: "Maximum Allowable Rate" Means the NICRA Ceiling Rate
Alternatively, "maximum allowable rate" in the draft report may refer to the NICRA ceiling rate, and the auditors' conclusions may have been based on the notion that AFYA exceeded the NICRA ceiling rate. However, AFYA never exceeded the NICRA ceiling rate. In our monthly billing, AFYA has only invoiced at the provisional rates in the most recent NICRA. Never once has AFYA exceeded the ceiling rates stipulated by the NICRA, the rates in the Agreement, or the award budget. Comparing the invoices submitted for FY 2011 through 2013 to the ceiling rates in effect (Exhibit D) demonstrates that AFYA did not exceed the ceiling rates. AFYA consistently invoiced CNCS for allowable costs based on the approved provisional rates, as set forth in the NICRA. As the rates in our agreement changed, information regarding the rate changes and copies of the rates are provided to CNCS, our records are updated and invoices based on the rate changes were prepared and submitted to CNCS. This was the process AFYA followed as shown in our email dated August 19, 2010. A copy has been provided in Exhibit E.

Finally, please note that AFYA has received numerous kudos for our performance on the agreement (Exhibit F) and through AFYA's effective cost management we were able to provide the agreed upon services below cost. AFYA completed its first cooperative agreement below the budgeted amount. This under run includes the indirect rate variance invoices and approved NICRA rates as discussed above.

Below are our responses to the specific issues/comments cited in your report:

<u>OIG Statement No. 1:</u>
During the audit, we found that AFYA claimed certain unallowable fringe benefit, overhead, and general & administrative costs and Education Northwest claimed unallowable costs that did not comply with applicable laws and regulations and the terms of their cooperative agreements. Specifically:

• AFYA claimed unallowable fringe benefits, overhead and general administrative costs because it charged rates that exceeded the maximum allowed rates specified in the approved award budgets. AFYA did not obtain the Corporation's approval of the rate increases (Exhibit C).

<u>AFYA Response No. 1:</u>
As explained above, it has always been AFYA's policy to ensure that costs being billed to its customers are allowable costs. As such, when invoicing CNCS under the Agreement, AFYA has always used the provisional rates from the governing NICRA. When AFYA received the final NICRA rates for a time period, AFYA followed the closeout procedures established in FAR Subpart 42.7 and the Agreement. AFYA has not yet received final NICRA rates for FY 2011 through 2014 and has thus been unable to follow the closeout procedures for those years. AFYA intends to comply with the closeout procedures once it receives the final NICRA rates for those years.

Additionally, AFYA provided monthly invoices and submitted separate invoices for the rate variance billings. Prior to the submission of the rate variance invoices, email communication (Exhibit E) was sent to the appropriate parties regarding the rates being used in our invoices and the response received stated, "if there are any closeout issues related to the indirect cost rate we will let you know." AFYA was never notified that any closeout issues existed. If AFYA had been notified of any problems, we would have addressed them immediately.

Additionally, AFYA maintained constant and regular communication with both the project and grants officers assigned to our agreement. Communications regarding the rates being used in our invoices, took place in person, over the telephone, and also through email exchanges. Examples of such email exchanges are attached in Exhibit G.

<u>OIG Statement No. 2:</u>
Based on the audit procedures performed, we determined that:
• Certain expenditures claimed by AFYA and Education Northwest did not comply with cooperative agreement terms and conditions, laws, and regulations (Exhibits C and D).

We questioned $276,775 of AFYA's fringe benefit, overhead, and G&A costs under Agreement No. 09TAHMD001 because the rates used by AFYA to calculate these costs exceeded the maximum allowed rates specified in the approved award budgets. AFYA neither sought nor obtained authorization from the Corporation to deviate from its budget.

<u>AFYA Response No. 2:</u>
Please refer to AFYA Response No. 1.

<u>OIG Statement No. 3:</u>
Many of the unallowable costs that we found during the audit period also occurred before and after the audit period. These costs are not included in the foregoing Audit Results. Here, we report excessive costs claimed before and after the audit period and recommend that the Corporation include them when disallowing unallowable costs. Specifically,

For the period April 1, 2013 through September 30, 2013, AFYA claimed excessive costs totaling $30,854 under Agreement No. 09TAHMD001 for unallowable fringe benefit, overhead, and G&A costs. AFYA originally used the provisional rates from the June 2011 NICRA to calculate these costs before its FY 2013 actual rates were determined. Once the actual fiscal year rates were available,

AFYA recalculated its costs for FY 2013 and claimed the difference. However, the actual FY 2013 rates were higher than the maximum allowable rates.

AFYA Response No. 3:
See AFYA Response No. 1. AFYA has not yet received final NICRA rates for 2013.

OIG Statement No. 4:
Fiscal Monitoring of AFYA
AFYA is a for-profit corporation that treats its cooperative agreements as contracts. It therefore submitted invoices and compact discs with cost details to the Corporation. The invoices were the basis for AFYA's drawdowns reported on its Federal Cash Transaction Reports (FCTRs), as well as for the expenditures reported on its FFRs. The recipients of the cost details varied throughout the cooperative agreement periods. From March 2008 through April 2011, AFYA sent the cost details to two officials within the OLDT. From May 2011 through June 2013, AFYA sent the cost details to an OLDT official, who also served as AFYA's Program Officer and a VISTA Training Specialist. Beginning in July 2013, AFYA sent the cost details to the new Program Officer, who is also the Director of OOTMS and the VISTA Training Specialist. These individuals performed reviews of select expenditures, such as spot-checking hotel per diem rates; however, they did not perform tests for allowability of costs in accordance with Federal cost principles, such as checking indirect cost rates, because they are not qualified to review the expenditures.

"The Corporation's Grants Officer is qualified to review expenditures, could have tested the allowability of costs, and checked the indirect cost rates; however, she was unable to do so because she did not receive copies of the cost details and was not aware that AFYA was providing such documentation to the Corporation. The OLDT and VISTA officials did not provide the Grants Officer with a copy of the cost details, nor did they advise AFYA that it should provide this information to the Grants Officer. As a result, the only time that the Grants Officer tested costs for allowability was during site visits to the grantee. These site visits are infrequent; for grantees that are determined to be low risk, site visits are only required if it has been more than five years (60 months) since the last site visit. According to the Corporation's eGrants system, the Corporation conducted its last onsite site visit on February 11, 2009, before the start dates of the 09RWHMD001 and 09TAHMD001 cooperative agreements."

AFYA Response No. 4:
Since the inception of the agreement, it has been AFYA's practice to submit monthly invoices and supporting backup documentation to both the projects officer and the grants officer. Although this was not stated as a requirement in the agreement, the invoices were prepared, reviewed, and submitted based on our SOP.

Our monthly invoices were prepared and submit to the Grants Officer per the attached email from the Program Officer (Exhibit H). Based on the directives we received and following the changes in points of contacts and personnel (Exhibit I), AFYA has continued to submit monthly invoices and supporting backup documentation to CNCS. AFYA has no knowledge of the qualifications of the personnel and was simply keeping in compliance based on the information and instructions we had been provided.

Additionally, as a requirement of the agreement, AFYA was required to provide cost detail to the grant officer in order to remove the Special Conditions of the agreement (Exhibit J).

OIG Statement No. 5:
AFYA provided cost details for its drawdowns to the Corporation; however, the Corporation's Grants Officer did not receive these cost details, and the Corporation was therefore unable to determine the allowability of the costs.

AFYA Response No. 5:
Please refer to AFYA Response No. 4, which addresses this issue.

OIG Statement No. 6:
Recommendation:
6. Calculate and recover the appropriate amount of disallowed costs during and after the audit period for AFYA Agreement No. 09TAHMD001 based on our questioned costs.

AFYA Response No. 6:
As discussed above, AFYA has not yet received final NICRA rates for FY 2011 through 2014. As such, it has not been possible for AFYA to complete the close out process and determine what, if any, unallowable costs exist. AFYA will cooperate with CNCS to true-up any amounts owed once the closeout process is carried out.

OIG Statement No. 7:
Recommendation:
7. Monitor fringe benefit, overhead, and G&A costs on AFYA's current agreement, Agreement No. 13VTMD001, and ensure that these costs are billed using the provisional rates in AFYA's most current rate agreement, as well as that the rates do not exceed the rates in AFYA's approved budgets.

AFYA Response No. 7:
AFYA has no objection to this recommendation. We are ready and able to cooperate with the government for the remainder of the agreement.

OIG Statement No. 8:
Note 1: AFYA claimed fringe benefit costs using rates that were higher than the maximum allowed rates specified in the approved award budgets.
• AFYA initially claimed 2010 fringe benefit costs using the provisional rates from its December 10, 2008 NICRA. When AFYA received the NICRA dated June 27, 2011, it recalculated FY 2010 fringe benefit costs using the final FY 2010 NICRA fringe benefit rate and claimed the difference; however, the final FY 2010 NICRA fringe benefit rate was higher than the maximum allowable rate.

• AFYA initially claimed fringe benefit costs for FYs 2011 and 2012 using the provisional rates from the June 2011 NICRA. Once actual fiscal year rates were available, AFYA recalculated the FY 2011 and 2012 fringe benefit costs using the actual FY 2011 and 2012 rates and claimed the difference. The actual FY 2011 and 2012 fringe benefit rates were higher than the maximum allowable rates, however.
• AFYA initially claimed FY 2013 fringe benefit costs using the provision rates from the June 2011 NICRA. These rates were the same as the maximum allowable rates in the approved budgets. Once actual fiscal year rates were available, AFYA recalculated fringe benefit costs using the FY 2013 rate and claimed the difference. However, the actual FY 2013 rate was higher than the maximum allowable rate.
The 2008 and 2011 Cooperative Agreement Terms and Conditions, Section XIV. General Provisions, C. Indirect Cost Rates, state:
Reimbursement for indirect costs, general and administrative costs, overhead, or any similar cost rate type agreement, will be at the rate(s) and on the base(s) specified in the approved award budget. These amounts are subject to finalization by the cognizant federal agency or the Corporation. Any provisional rate(s) is subject to downward adjustment only under this award. Accordingly, final approved rate(s) charged to this award may not exceed the maximum provisional rate(s). If the cognizant federal agency or the Corporation does not approve a final rate, then the maximum provisional rate will be considered the final rate.
AFYA believed that it could claim costs using the higher actual fiscal year end rates because it considered the award budgets to be estimates. It also believed that the paragraph discussing indirect cost rates in the cooperative agreement terms and conditions permitted this adjustment. Specifically, AFYA understood the statement that final approved rates may not exceed the "maximum provisional rate(s)" to mean that the final rates may not exceed the "Ceiling" rates in the NICRA.

AFYA Response No. 8:
Please refer to AFYA Response No. 1.

OIG Statement No. 9:
We recalculated fringe benefit costs using the maximum allowable rates from the award budgets. As shown in the following table, allowable fringe benefit costs were $10,758 less than claimed fringe benefit costs. We questioned this amount. We also identified $7,982 of unallowable FY 2013 fringe benefit costs that AFYA claimed after the end of our audit period.

AFYA Response No. 9:
Please refer to AFYA Response No. 1.

OIG Statement No. 10:
Note 2: Except for the period of January through March 2013, AFYA claimed onsite overhead costs using rates that were higher than the maximum allowed rates specified in the approved award budgets.
• AFYA initially claimed 2010 onsite overhead costs using the provisional rates from the December 2008 NICRA. When it received the NICRA dated June 27, 2011, AFYA recalculated FY 2010 onsite

overhead costs using the final FY 2010 NICRA overhead rate and claimed the difference; however, the final FY 2010 NICRA onsite overhead rate was higher than the maximum allowable rate.
• AFYA initially claimed onsite overhead costs for FYs 2011 and 2012 using the provisional rates from the June 2011 NICRA. Once actual fiscal year rates were available, AFYA recalculated the FY 2011 and 2012 onsite overhead costs using the actual FY 2011 and 2012 rates and claimed the difference; however, the actual FY 2011 and 2012 rates were higher than the maximum allowable rates.
• AFYA claimed FY 2013 onsite overhead costs using the provisional rates from the June 2011 NICRA. These rates were the same as the maximum allowable rates in the approved budgets.
The reasons for AFYA's belief that it could claim costs using the higher rates and the reasons for questioning the onsite overhead costs, shown in the following table, are discussed in Note 1. We questioned $65,628 of onsite overhead costs. We also identified $21,185 of unallowable FY 2013 onsite overhead costs that AFYA claimed after the end of the audit period

AFYA Response 10:
Please refer to AFYA Response No. 1.

OIG Statement No. 11:
Note 3: Except for the period of January through March 2013, AFYA claimed G&A costs using rates that were higher than the maximum allowed rates specified in the approved award budgets.
• AFYA initially claimed 2010 G&A costs using the provisional rates from the December 2008 NICRA. When it received the NICRA dated June 27, 2011, AFYA recalculated FY 2010 G&A costs using the final FY 2010 NICRA overhead rate and claimed the difference; however, the final FY 2010 NICRA G&A rate was higher than the maximum allowable rate.

• AFYA initially claimed FY 2011 and 2012 G&A costs using the provisional rates from the June 2011 NICRA. Once actual fiscal year rates were available, AFYA recalculated the FY 2011 and 2012 G&A costs using the actual FY 2011 and 2012 rates and claimed the difference; however, the actual FY 2011 and 2012 rates were higher than the maximum allowable rates.

• AFYA claimed FY 2013 G&A costs using the provisional rates from the June 2011 NICRA. These rates were the same as the maximum allowable rates in the approved budgets.

The reasons for AFYA's belief that it could claim costs using the higher rates and our reasons for questioning the G&A, shown in the following table, are discussed in Note 1. We questioned $200,389 of G&A costs. We also identified $1,687 of unallowable FY 2013 G&A costs that AFYA claimed after the end of our audit period.

AFYA Response No. 11:
Please refer to AFYA Response No. 1.

In conclusion, based on the foregoing information provided and attached, it is our position that the provisional rates used by AFYA in our billings were accurate, correct, and in accordance with the terms of the agreement. AFYA fully intended to make any necessary adjustments once it received the final NICRA rates for the years in question and still intends to do so.

Once again, thank you for the opportunity to review and provide comments and feedback to the draft report. If you have any additional or follow up questions based on our responses above, please feel free to contact us on (301) 957-3040 extension 212.

Sincerely,

LeMont E. Joyner, M.S.P.H.
President & CEO

Exhibits

cc: Michael Gillespie, Operations Managing Partner, Cotton & Company LLP
Karen Feggans-James, Chief Operating Officer, AFYA, Inc.

APPENDIX B

EDUCATION NORTHWEST RESPONSE TO DRAFT REPORT

Education Northwest
Comment on OIG Report XX-XX
Audit of CNCS Cooperative Agreements
08TAHOR001 & 09RWHOR001

Please accept this document as Education Northwest's (EdNW) comments to OIG Report XX-XX – Audit of Corporation for National and Community Service Cooperative Agreements enumerated above. The report findings are below in standard font and *EdNW comments are italicized* following each summarized finding.

We wish to note at the outset that we were pleased to be able to respond to all questions regarding this audit in a timely and cooperative manner. Further, we note that the findings below, even those with which we take exceptions, amount to questioned costs of $53,846 (or 0.38%) of the total claimed costs ($14,073.4K) of activities performed for CNCS by EdNW.

Excerpt from Audit Report *(Middle of page 4)***:**
III. Audit Results *(see second sub-bullet)*:
We questioned $53,846 of the costs claimed by Education Northwest under Agreement Nos. 08TAHOR001 and 09RWHOR001 because Education Northwest paid BSC for salary, fringe benefit and travel costs that were not allowable in accordance with applicable Federal cost principles and cooperative agreement terms and conditions. Certain salary and fringe benefit costs were unallowable because BSC did not maintain adequate timekeeping documentation for particular employees. Fringe benefit costs were also unallowable to the extent that BSC calculated them based on rates that exceeded the rates specified in BSC's June 4, 2007, and August 26, 2010 Negotiated Indirect Cost Rate Agreements (NICRAs). BSC also charged excessive costs for business-class travel and travel on Amtrak's high-speed Acela Express train, prohibited by BSC's internal policies. BSC's travel policy allows personnel to travel in business-class or on the Acela Express train only with supervisor approval, which the travelers did not obtain *(Exhibit D)*.

EdNW comment:
EdNW program and finance staff discussed with the auditors from Cotton & Company LLP that the documentation received was adequate in our opinion for the scope of work and resources provided by BSC on this program. The staff employed by BSC to work on behalf of this agreement, the bulk of their full-time equivalent on this subcontract only. As such, the reports provided by BSC as supporting documentation illustrated a pro-ration of their salary for the period of performance. Due to BSC's amount of professional services work that would require a timekeeping system, EdNW did not find it necessary that they procure such a costly system. The materiality of the issue did not justify the added annual costs to the program or the vendor.

To address the unallowable Fringe Benefit costs – It is standard practice at contract close-out, that rate adjustment invoices/credits are submitted; therefore, identified anomalies will be addressed at closeout, as is usual practice for federal contracts. Additionally, in a competitive *environment, indirect rates would not be shared with Prime contractors due to the proprietary nature of the data, nor are we required to obtain this information.*

Excerpt from Audit Report *(Top of page 5 in the Audit Report):*
Education Northwest did not comply with certain cooperative agreement terms and conditions, laws, and regulations (Exhibit E).

o Education Northwest did not obtain all of the supporting documentation necessary to ensure that all of the costs claimed by its subrecipient, BSC, were allowable. This represents a recurrence of a deficiency identified in a prior OIG audit of Education Northwest, which found that BSC had received payment for invoices not supported by timesheets and expense receipts. *See Audit of Corporation for National and Community Service Cooperative Agreements Awarded to Northwest Regional Educational Laboratory,* Audit Report No. 06-08. In response, Education Northwest had agreed to work with the Corporation to ensure that invoices from BSC included all necessary documentation. In the current audit, however, we discovered that Education Northwest did not have the required documentation.

EdNW comment:
EdNW discussed with the auditors at Cotton & Company that after the findings of the previous audit, EdNW determined project reports detailing hours and dollars charged by BSC staff, as well as specific transactional data for travel and other direct costs, represented the necessary support for EdNW to ensure claimed costs were allowable. Additionally, executed agreements with BSC contained clauses that EdNW maintains the right to audit, as well as the appropriate clauses to ensure GSA per diem rates and federal travel regulations would be followed. Importantly, EdNW does practice extensive and routine materiality checks for each contract and monthly costs claimed to ensure Federal funds are being spent appropriately.

o Education Northwest did not have adequate procedures for obtaining the audit reports conducted of BSC under OMB Circular A-133 timely, nor did it ensure that BSC complied with the A-133 audit requirements. The audit report for the fiscal year ending June 30, 2012, was completed on March 28, 2013. More than six months elapsed before BSC provided that audit report to Education Northwest. Education Northwest officials stated that Education Northwest had received BSC's FY 2010 and FY 2011 audit reports, but were unable to locate the reports. When Education Northwest reviewed the A-133 audit reports, it failed to note that BSC had omitted VISTA-related expenditures from its audit schedules.

EdNW comment:
It should be noted that the intent of the A-133 audit is to report costs annually to Federal agencies. All the costs for this program, including its subcontractor BSC, were included on

EdNW's annual A-133 audit report. As such, EdNW subcontracted the work performed by BSC under this cooperative agreement as a vendor, not a subrecipient, consequently did not assume subrecipient monitoring requirements (see below an excerpt in the A-133 Circular for reference and guidance EdNW used in making this determination). BSC performed a limited and defined scope of work, working closely with EdNW program director and had no programmatic decision-making capacity. BSC did not include the EdNW VISTA grants/contracts in SEFA reports included in BSC's OMB Circular A-133 audit reports because it had classified them as private.

Excerpt from A-133 Audits of States, Local Governments, and Non-Profit Organizations:

§___.210 Subrecipient and vendor determinations.

(a) General. An auditee may be a recipient, a subrecipient, and a vendor. Federal awards expended as a recipient or a subrecipient would be subject to audit under this part. The payments received for goods or services provided as a vendor would not be considered Federal awards. The guidance in paragraphs (b) and (c) of this section should be considered in determining whether payments constitute a Federal award or a payment for goods and services.

(b) Federal award. Characteristics indicative of a Federal award received by a subrecipient are when the organization:

(1) Determines who is eligible to receive what Federal financial assistance;

(2) Has its performance measured against whether the objectives of the Federal program are met;

(3) Has responsibility for programmatic decision making;

(4) Has responsibility for adherence to applicable Federal program compliance requirements; and

(5) Uses the Federal funds to carry out a program of the organization as compared to providing goods or services for a program of the pass-through entity.

(c) Payment for goods and services. Characteristics indicative of a payment for goods and services received by a vendor are when the organization:

(1) Provides the goods and services within normal business operations;

(2) Provides similar goods or services to many different purchasers;

(3) Operates in a competitive environment;

(4) Provides goods or services that are ancillary to the operation of the Federal program; and

(5) Is not subject to compliance requirements of the Federal program.

(d) Use of judgment in making determination. There may be unusual circumstances or exceptions to the listed characteristics. In making the determination of whether a subrecipient or vendor relationship exists, the substance of the relationship is more important than the form of the agreement. It is not expected that all of the characteristics will be present and judgment should be used in determining whether an entity is a subrecipient or vendor.

o Education Northwest, as a pass-through entity, did not inform BSC of all the requirements imposed on it by Federal laws, regulations, and provisions of cooperative agreements, as well as supplementary requirements, as required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Its subrecipient agreement with BSC omits such key requirements and compliance with Federal cost principles, record retention obligations, and non-discrimination requirements found in 2 CFR Part 220 (formerly OMB Cost Circular A-21), *Cost Principles for Educational Institutions*; 2 CFR Part 215 (formerly OMB Cost Circular A-110), *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals and Other Nonprofit Organizations*; and the cooperative agreement terms and conditions

EdNW comment:

Based on our position that BSC was a vendor and not a subrecipient we believe that we took appropriate steps to maintain adequate fiscal control and oversight. Additionally, the audit confirmed that appropriate records were retained by BSC.

APPENDIX C

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

RESPONSE TO DRAFT REPORT

Corporation for NATIONAL & COMMUNITY SERVICE

To: Stuart Axenfeld, Assistant Inspector General for Audit

From: Dana Bourne, Chief Grants Officer

Cc: Cyprian Ejiasa, Chief Financial Officer
Jeremy Joseph, General Counsel
Joe Liciardello, Director, Field Financial Management Center
Kathryn Gillis, Director, Office of Oversight and Accountability
Paul Monteiro, Director, AmeriCorps VISTA

Date: June 5, 2015

Subject: Corporation for National and Community Service (CNCS) Response to OIG Draft Report of Cooperative Agreements Awarded to AFYA Incorporated (AFYA) and Education Northwest (EdNW).

The Corporation for National and Community Service (CNCS) appreciates the opportunity to review the draft Audit of CNCS Cooperative Agreements Awarded to AFYA Incorporated (AFYA) and Education Northwest (EdNW). Responses to some of the OIG's findings and recommendations follow. CNCS will resolve the questioned costs and address all findings and recommendations when the OIG issues the report as final and CNCS staff receives the working papers and works with AFYA and Education Northwest to take any required corrective action.

Assessment of the Adequacy of the Corporation's Monitoring

CNCS agrees that its criteria for assessing risk in its cooperative agreements that provide services requires review. Staff in the Office of Accountability and Oversight is currently reviewing all risk assessment and monitoring processes in an effort to enhance its oversight of them. In addition, CNCS understands that consistent program officer and grants officer communication is essential in properly managing all awards. CNCS follows oversight and monitoring practices for Federal grants which, as noted in the draft audit report, include review of Federal Financial Reports and tests to compare drawdowns to the expenditures reported on FFRs. We appreciate the OIG's recommendations (page 14 of the draft report) related to customizing the risk assessment process and will consider them as part of our review of risk factors associated with cooperative agreements for services.

Assessment of Education Northwest

CNCS appreciates the OIG's review of the quality of training provided by Education Northwest. We also note that the review of costs incurred by EdNW did not find any questioned costs in EdNW's accounting system, only in its oversight of Bank Street School's costs. The lack of any questioned costs at Education Northwest itself acknowledges that the organization has established good systems for managing its Federal resources. CNCS will, nevertheless, require EdNW to ensure it clearly defines its relationships with its subrecipients and vendors, like Bank Street College. Here, Bank Street College was a vendor to EdNW. CNCS will, therefore, determine the allowability of questioned costs related to Bank Street College under the procurement standards for contracts at 45 CFR Part 2543.

Assessment of AFYA

CNCS staff agree that AFYA claimed fringe benefit and general and administrative costs at rates higher than the maximum allowable rate specified in the approved budget and referenced in the grant provisions. We will determine final amounts to be repaid to CNCS during the audit resolution process.