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Audit of Atlas Service Corps, Inc., Grant Expenditures and Program Income

CONTRACTS, GRANTS, AND INFRASTRUCTURE DIVISION

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OFFICE OF AUDITS
Contracts, Grants, and Infrastructure Division

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OIG HIGHLIGHTS

AUD-CGI-17-32

What Was Audited

In September 2012, the Department of State (Department) awarded Atlas Service Corps, Inc. (Atlas), a grant to be used to engage Sudanese professionals between the ages of 23 and 35 in fellowship programs. The final total budgeted award amount was $1,884,984.

Acting on the Office of Inspector General's (OIG) behalf, Kearney & Company, P.C. (Kearney), an independent public accounting firm, conducted this audit to determine whether Atlas expended grant funds, collected program income, and reported financial information related to grant S-LMAQM-12-GR-1139 in accordance with Federal regulations, Department requirements, and the grant agreement.

What OIG Recommends

OIG made five recommendations to address issues related to questioned costs and program income. On the basis of the response from the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (A/LM/AQM), OIG considers all five recommendations resolved, pending further action.

A/LM/AQM's comments are included as Appendix B, and Atlas' comments are included as Appendix C. A summary of A/LM/AQM's general comments and Kearney's responses is included as Appendix D, and a summary of Atlas' general comments and Kearney's responses is included as Appendix E.

What Was Found

Kearney found that Atlas did not always expend grant funds, collect program income, or report financial information related to the Department's grant in accordance with Federal regulations, Department requirements, and the grant agreement. Kearney found approximately $117,000 in grant costs that were charged to the Department's share of the grant and were unallowable or unsupported, as defined by Federal policies. Specifically, Kearney found that Atlas made changes to the scope of the grant agreement without approval and identified other unallowable costs related to compensation and other expense categories. Kearney also found that Atlas did not provide the required minimum amount of cost-sharing funds and that the indirect costs charged to the grant should be revised to consider unallowable direct costs.

Kearney also found that Atlas charged certain fees to host organizations and the participants that were not documented in the Department grant agreement. Although Atlas used the program income to offset the agreed-upon cost-sharing portion of the grant, Kearney identified some transactions that were not recorded correctly. Further, some of the program income that Atlas used to fulfill its cost-sharing arrangement was not generated by activities related to the grant. Because this income was generated outside the scope of the grant agreement, the Department and Atlas will need to make a determination as to the appropriate method to handle the income collected by Atlas. If Atlas does not use those funds to fulfill its cost-sharing arrangement, it will need to provide funds from another source to cover the required cost-share amounts.

In addition, Kearney found instances in which Atlas did not comply with general Federal grant requirements and the Department's Standard Terms and Conditions. Specifically, Kearney found that Atlas' financial management system did not comply with Federal requirements and that Atlas did not comply with the requirement to maintain an effective internal control environment, accurately report program income, and spend available program income before requesting Federal funds.

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Audit of Atlas Service Corps, Inc.
Grant Expenditures and Program Income

Office of Inspector General
U.S. Department of State
Washington, D.C.

At the request of the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (A/LM/AQM), Kearney & Company, P.C. (Kearney), has performed an audit of Atlas Service Corps, Inc., Grant Expenditures and Program Income. This performance audit, performed under Contract No. SAQMMA14A0050, was designed to meet the objective identified in the report section titled "Objective" and further defined in Appendix A, "Purpose, Scope, and Methodology," of the report.

Kearney conducted this performance audit from June 2016 through February 2017 in accordance with Government Auditing Standards, 2011 Revision, issued by the Comptroller General of the United States. The purpose of this report is to communicate the results of Kearney's performance audit.

Kearney appreciates the cooperation provided by personnel in Department offices during the audit.

Kearney & Company

Kearney & Company, P.C.
Alexandria, Virginia
February 27, 2017

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OBJECTIVE

The objective of this audit was to determine whether Atlas Service Corps, Inc. (Atlas) expended grant funds, collected program income, and reported financial information related to Department of State (Department) grant S-LMAQM-12-GR-1139 in accordance with Federal regulations, Department requirements, and the grant agreement.

BACKGROUND

A Federal grant is an award of financial assistance from a Federal agency to a recipient to carry out a public purpose. The Department awards grants to various individuals, universities, and non-profit organizations. During FY 2016, the Department provided approximately $1.5 billion to grantees. As a general rule, the Department solicits grant proposals and issues grant awards after competitive bidding. If a grant is selected, the Department issues a formal grant agreement documenting the Department's expectations of the grantee, including the scope of work, the frequency of financial and program progress reports, and the detailed budget. The grant agreement represents the Department's commitment to pay the grantee funds for carrying out the project. The grantee is required to comply with the terms and conditions included in the grant agreement. Additionally, the grantee is expected to work diligently to achieve the intended aim of the grant but is not legally bound to achieve that aim.

Federal Regulations and Department Requirements for Grants

In addition to the specific requirements in the grant agreement, grantees must comply with Federal regulations and Department requirements. Specifically, Department grants are subject to requirements set forth in Title II of the Code of Federal Regulations (CFR), Part 200 (2 CFR 200),[1,2] and the Department's requirements included in the Standard Terms and Conditions for U.S. Based Organizations (Department's Standard Terms and Conditions), which are included in each grant agreement.

2 CFR 200 provides the principles for determining whether costs associated with grants awarded to non-profit organizations are allowable, reasonable, and allocable. To be allowable, Office of Management and Budget (OMB) policy states that a grant cost must be necessary and reasonable for the performance of the award[3] and that the cost must "be adequately

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[1] 2 CFR 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. 2 CFR 200 was issued in December 2013 and went into effect in December 2014. 2 CFR 200 consolidated eight OMB Circulars related to Federal grant awards into one authoritative document relating to grants management. The consolidated document made no substantial changes to guidance in the OMB Circulars.

[2] Because 2 CFR 200 did not go into effect until December 2014, and the period of performance for the grant being audited was September 2012 to June 2016, Kearney used 2 CFR 200 as authoritative guidance for its audit of Atlas transactions that occurred during December 2014 to June 2016. Kearney used the superseded OMB Circulars as authoritative guidance for its review of Atlas transactions that occurred during September 2012 to November 2014.

[3] 2 CFR 200, Subpart E, 200.403, *Factors affecting allowability of costs*, subsection (a).

documented."[4] 2 CFR 200 also provides award recipients with detailed guidance for a number of specific types of grant costs, such as equipment, training, and travel. Additionally 2 CFR 200:

- Sets forth cost principles for grantees. For example, grantees are responsible for the efficient and effective administration of the Federal award through the application of sound management practices.[5]
- Requires grantees to assume responsibility for administering Federal funds in a manner consistent with underlying agreements, program objectives, and the terms and conditions of the Federal award.[6]
- Establishes that grantees are responsible for oversight of the operations supported by the grant.[7]
- Establishes requirements for grantees for the retention of records, stating that "financial records, supporting documents, statistical records, and all other records pertinent to a Federal award must be retained for a period of 3 years from the date of submission of the final expenditure report."[8]
- Requires the financial management systems of grantees to provide records that identify the source and application of Federal funds and that the records be supported by source documentation.[9]

Certain additional requirements are included in the Department's Standard Terms and Conditions that further restrict the grantee's use of funds or clarify Federal regulations. For example, Federal regulations state that it is up to the awarding agency to determine the frequency that grantees are required to submit financial and program progress reports.[10] The Federal regulations also state that except for in unusual circumstances, the frequency of these reports is to be no more than quarterly and no less than annually.[11] In the Department's Standard Terms and Conditions, the Department established a requirement for grantees to submit financial and program reports quarterly.

Department guidance also describes the roles and responsibilities of Government personnel assigned responsibility for awarding, administering, and overseeing grants. The two individuals with primary oversight and monitoring responsibilities with respect to any grant are the Grants Officer (GO) and the Grants Officer Representative (GOR). The GO is responsible for all action on behalf of the Department to enter into, change, or terminate an award. In addition, the GO is responsible for administrative coordination and liaison with the grantee.[12] The GOR is responsible for the programmatic, technical, and scientific aspects of the award.

[4] 2 CFR 200, Subpart E, 200.403(g).
[5] 2 CFR 200, Subpart E, 200.400, *Policy Guide*, subsection (a).
[6] 2 CFR 200, Subpart E, 200.400(b).
[7] 2 CFR 200, Subpart D, 200.328, *Monitoring and reporting program performance*, subsection (a).
[8] 2 CFR 200, Subpart D, 200.333, *Retention requirements for records*.
[9] 2 CFR 200, Subpart D, 200.302, *Financial management*, subsection (b)(3).
[10] 2 CFR 200, Subpart D, 200.327, *Financial reporting*.
[11] Ibid.
[12] Department's Standard Terms and Conditions.

Grant Award to Atlas

Atlas is a non-profit organization whose mission is to address critical social issues by developing leaders, strengthening organizations, and promoting innovation through an overseas fellowship of skilled non-profit professionals. To achieve this mission, Atlas engages professionals from developing countries in 6- or 12-month fellowship programs. During these programs, Fellows serve at non-profit organizations for "on-the-job" training to enhance their professional skills. Atlas Fellows also participate in training sessions and workshops facilitated by Atlas.

On May 14, 2012, the Department issued a Congressional Notification to advise Congress that the Department intended to spend up to $4 million to empower women, to help resolve and mitigate conflict, and promote reconciliation and democratization in Sudan. Of the $4 million, the Special Envoy for Sudan and South Sudan (Special Envoy) intended to use approximately $3.1 million to fund unsolicited proposals received by the office, including $500,000 to support a fellowship program for Sudanese professionals engaged in civil society, democracy, and public activities. Specifically, the fellowship program that the Special Envoy intended to fund was "a 12-month exercise to place 12 individuals in civil society organizations in the United States to increase leadership skills and build cross-cultural relationships." The Special Envoy announced a Request for Application from grantees for this fellowship program, with an application deadline of June 8, 2012.

In September 2012, the Department awarded Atlas a grant (S-LMAQM-12-GR-1139) from the Special Envoy to be used toward engaging 14 Sudanese professionals between the ages of 23 and 35 in 12-month fellowship programs. The period of performance for the grant was September 15, 2012, through September 30, 2014. During the period of performance, the grant was amended three times to increase the number of Fellows funded by the grant, increase the award amount, and extend the period of performance. Amendments 1 and 3 also expanded the scope of the grant to include Fellows from South Sudan, a country that gained its independence from Sudan in 2011. Table 1 provides a summary of key grant terms and changes made through each of the amendments.

Table 1: Summary of the Atlas Grant and Amendments

Award Type	Period of Performance	Total Award Amount	Number of Sudanese Fellows	Number of South Sudanese Fellows
Original Grant Agreement	9/15/12 – 9/30/14	$657,024	14	None
Amendment 1	No Change	$893,482	No Change	10[a]
Amendment 2[b]	No Change	No Change	No Change	No Change
Amendment 3	9/15/12 – 6/30/16	$1,884,984	23	19

[a] Amendment 1 added a requirement to engage 10 South Sudanese Fellows in a 6-month fellowship program. The length of the fellowship program for several of the South Sudanese Fellows was extended in Amendment 3.

[b] Amendment 2 was an administrative amendment that corrected the obligation number included in Amendment 1.

Source: Prepared by Kearney & Company, P.C., on the basis of a review of the original grant agreement and amendments.

The grant agreement included a detailed budget that outlined the categories of expenditures that Atlas planned to incur during the implementation of the grant. The budget included both a federally funded portion, which would be funded by the Department, and a cost-share[13] portion, which would be funded by Atlas. The budget was amended during the period of performance of the grant. Table 2 details the amounts that were allowed to be funded—by category, by the Department, and by Atlas—according to the final budget included in Amendment 3.

Table 2: Department and Atlas Portions of the Budget

Budget Line Items*	Department Portion	Atlas Portion	Total Budgeted Amount
Personnel Costs	$239,384	$114,000	$353,384
Fringe Benefits	$43,327	$19,500	$62,827
Travel	$144,040	$4,224	$148,264
Equipment (> $5,000/unit)	$0	$0	$0
Supplies (< $5,000/unit)	$6,275	$2,040	$8,315
Contractual	$0	$3,000	$3000
Construction	$0	$0	$0
Other Direct Costs	$895,780	$167,625	$1,063,405
Total Direct Costs	**$1,328,806**	**$310,389**	**$1,639,195**
Indirect Costs	$199,231	$46,558	$245,789
Total Project Costs	**$1,528,037**	**$356,947**	**$1,884,984**

* Other direct costs include living stipends, housing, and travel. Table A1 in Appendix A provides details of the categories of expenditures included in the other direct costs budget line item.

Source: Prepared by Kearney & Company, P.C., on the basis of Amendment 3 to the grant agreement.

[13] 2 CFR 200, Subpart A, 200.29, *Cost sharing or matching*, states that "cost sharing or matching means the portion of project costs not paid by Federal funds."

At the end of the period of performance of the grant, Atlas reported total expenditures of $1,428,553, of which $1,101,201 was the Department's portion of the expenditures and $327,352 was Atlas' portion of the expenditures. The total reported expenditures include direct and indirect costs.

In general, the Atlas fellowship program begins with Atlas identifying potential Fellows who meet the requirements for participating in the program from Sudan or South Sudan. Atlas then identified non-profit organizations that were willing to host the Fellow during the program. Depending on the organization's needs, and the amount of funding the organization had available, some host organizations paid a fee to Atlas to host a Fellow although other organizations did not.

Atlas paid costs incurred by the Fellows to obtain visas and travel to the United States. Atlas also charged each Fellow a "participation fee," which Atlas believed increased the Fellows' "buy in" of the program. Fellows could earn this participation fee back by meeting certain metrics, such as participating in training sessions and writing monthly blog posts. When the Fellows were in the United States, Atlas provided them with a monthly stipend to cover living expenses. As shown in Table 2, most funding provided by the Department for the grant is for other direct costs, which includes the monthly stipends paid to Fellows to cover their lodging, meals, and other living expenditures. To provide Fellows with access to affordable housing, Atlas enters into lease agreements to rent homes for Fellows and then enters into secondary lease agreements to rent rooms in those homes to Fellows. For Fellows living in housing provided by Atlas, the amount owed to Atlas for rent was deducted from the Fellows' monthly stipends. At the end of the Fellowship program, Atlas is allowed to provide a cash award to participants. Atlas funded the cost of the Fellows' travel back to their home countries.

AUDIT RESULTS

Finding A: Issues Identified With Expenditures, Program Income, and Financial Reporting

Kearney & Company, P.C. (Kearney) found that Atlas did not always expend grant funds, collect program income, or report financial information related to the Department's grant S-LMAQM-12-GR-1139 in accordance with Federal regulations, Department requirements, and the grant agreement. Specifically, Kearney found that Atlas made changes to the scope of the grant agreement without GO approval, which led to unallowable costs. Kearney also found that Atlas charged certain fees (to host organizations and the participants) that were not documented in the Department grant agreement. Although Atlas properly used the program income to offset the agreed-upon cost-sharing portion of the grant, Kearney identified some transactions that were not recorded correctly. Further, Kearney identified other unallowable costs related to compensation and other expense categories. Kearney also found that Atlas did not provide the required minimum amount of cost-sharing funds and that the indirect costs charged to the grant need to be revised to consider unallowable direct costs.

Table 3 provides details on the portion of questioned costs attributable to amounts funded by the Department.

Table 3: Summary of Questioned Costs[a]

Audit Issues	Unallowable Costs	Unsupported Costs	Questioned Costs [b]
Unapproved Changes to the Scope of the Grant Agreement	$40,452	$0	$40,452
Personnel-Related Issues	$6,372	$0	$6,372
Other Items	$21,642	$7,594	$29,236
Costs Paid by the Department That Should Have Been Covered by Atlas Cost-Sharing Requirement	$29,595	$0	$29,595
Indirect Costs	$10,976	$0	$10,976
Total	**$109,037**	**$7,594**	**$116,631**

[a] This table includes only the portion of the questioned costs funded by the Department. The portion of questioned costs covered by Atlas as part of its cost-share requirement is not included.
[b] Questioned costs are the sum of unallowable costs and unsupported costs.
Source: Prepared by Kearney on the basis of findings identified during the audit.

In addition to questioned costs, Kearney found that some of the funds that Atlas used to fulfill its cost-sharing arrangement were not generated by activities related to the grant and, therefore, are considered income rather than program income. As shown in Table 4, Atlas collected some income for activities outside the scope of the grant and incorrectly recorded some fees it collected as being related to the grant. Because this income was generated outside the scope of the grant agreement, the Department and Atlas will need to make a determination of the appropriate method to handle the income collected by Atlas. If Atlas does not use those funds to fulfill its cost-sharing arrangement, it will need to provide funds from another source to cover the required cost-share amounts.

Table 4: Summary of Program Income That Was Not Generated Under the Grant Agreement

Audit Issues	Program Income That Was Not Generated Under Grant Agreement
Atlas Made Changes to the Scope of the Grant Agreement without Prior Approval	$47,987
Host Fee Issues	$6,700
Total	**$54,687**

Source: Prepared by Kearney on the basis of findings identified during the audit.

In addition to issues with expenditures and income, Kearney found instances where Atlas did not comply with general Federal grant requirements and the Department's Standard Terms and Conditions. Specifically, Kearney found that Atlas' financial management system did not comply with Federal requirements and that Atlas did not comply with the requirement to maintain an effective internal control environment, accurately report program income, and spend available program income before requesting Federal funds as required.

Unapproved Scope Changes to the Grant Agreement

Federal regulations state that grantees "must request prior approvals from Federal awarding agencies for budget and program plan revisions," including a "change in the scope or the objective of the project or program (even if there is no associated budget revision requiring prior written approval)."[14] Further, the Department's Standard Terms and Conditions state, "Written prior approval, by way of amendment, from the Department of State's GO is required for: Change in the scope or the objective of the project or program (even if there is no associated budget revision requiring prior written approval)."

As detailed in Table 5, Kearney identified instances where Atlas made changes to the scope of the grant agreement without GO approval, which led to unallowable costs and program income. The unallowable costs identified in Table 5 reflect the total amount spent by Atlas for the items determined to be unapproved scope changes. As part of a cost-sharing arrangement, some of the costs were offset by program income that Atlas earned specifically related to the scope change. Therefore, the actual amount that the Department provided for the unapproved scope changes (that is, the total amount of unallowable costs) is the amount by which the related unallowable costs exceeded the related program income used by Atlas as part of its cost-sharing arrangement.

Table 5: Summary of Unapproved Scope Changes and Associated Unallowable Costs and Program Income

	Unallowable Costs	Program Income Used for the Atlas Cost-Share Requirement That Was Not Generated in Compliance With the Grant	Net Unallowed Costs
Atlas exceeded the number of allowed participants	$43,462	$12,500	$30,962
Atlas extended the fellowship program for four Fellows	$27,154	$35,487	$0
Atlas began the fellowship program for four Fellows with insufficient time left in the period of performance	$9,490	$0	$9,490
Total	**$80,106**	**$47,987**	**$40,452**

Source: Prepared by Kearney on the basis of its review of Atlas grant expenditure and program income files.

[14] 2 CFR 200, Subpart D, 200.308, *Revision of budget and program plans*, subsection (c).

Atlas Exceeded the Number of Allowed Participants

According to Amendment 3, which was the final amendment to the grant agreement, 42 Fellows were allowed to participate in the fellowship program. On July 13, 2016, Kearney requested a listing of all the Sudanese Fellows, including Fellows who had completed the program, Fellows who were unable to complete the program, and active Fellows. The listing provided by Atlas indicated that 45 Fellows had participated in Department-funded fellowship programs, which is 3 more Fellows than were allowed under the amended grant agreement. The GO did not approve this scope change. Atlas incurred $34,557 in costs related to these three Fellows prior to the end of the grant's period of performance.[15] Atlas also generated approximately $12,500 in program income related to these three additional Fellows, which Atlas used to fund the cost-share portion of the grant.

Upon review of Atlas' June 30, 2016, Performance Progress Report, which was submitted to the Department on September 16, 2016, Kearney noted that Atlas reported that 48 Fellows had participated in the program as of September 16, 2016. This was three more Fellows than were included in the listing Atlas provided to Kearney in July 2016. Kearney determined that two of the Fellows arrived in the United States in May 2016 and costs for these two participants were charged to the Department's grant. This scope change was also not approved by the GO. Specifically, Kearney identified $8,905 in expenditures related to these two Fellows that had been charged to the grant as of June 30, 2016, which is the end of the period of performance of the grant.[16] The third Fellow did not arrive in the United States until September 2016, which was after the period of performance of the grant. Kearney did not identify any costs for this Fellow that were charged to the Department's grant.

The net impact of the unallowable costs and unallowable program income related to the five additional participants was $30,962 in net unallowable costs.

Atlas Extended the Fellowship Program for Four Fellows

According to Amendment 3 to the grant agreement, Fellows could participate in a program funded by the Department for either 6 or 12 months. Kearney found that Atlas extended the duration of the fellowship program for four Fellows from 12 months to 18 months, without approval from the GO. As a result of these extensions, Atlas incurred an additional $27,154 in costs that were charged to the Department's grant. Atlas also generated $35,487 in program income related to the extension of the fellowship program for four Fellows, which Atlas used to fund the cost-share portion of the grant agreement. The additional expenditures and program income are unallowable. Because the unallowable program income generated as a result of these extensions exceeded the unallowable expenditures charged to the Department grant, the net impact to the Department related to these extensions was $0 in unallowable costs.

[15] The three Fellows arrived in the United States in January 2016.

[16] No program revenue was identified for these two additional Fellows.

Atlas Allowed Four Fellows To Begin the Program With Insufficient Time Left in the Period of Performance

Federal regulations state that generally a grantee may only charge "costs incurred during the period of performance."[17] According to Amendment 3 to the grant agreement, the period of performance for the grant ended on June 30, 2016. Of the 42 Fellows allowed for in the grant agreement (that is, excluding the 5 fellows in excess of the approved number of Fellows), 9 Fellows began their 12-month fellowship program with fewer than 12 months left in the period of performance of the grant. Specifically, eight Fellows started the program in September 2015 and one Fellow started the program in January 2016. Although the grant agreement is silent regarding this issue, according to Atlas officials, they believed Atlas would receive a no-cost extension for the grant that would extend the period of performance beyond the end date included in Amendment 3 to the grant agreement. Kearney, in consultation with OIG, determined that the costs incurred for these Fellows prior to the end of the period of performance would be considered allowable. However, Kearney found that some of the costs charged to the grant funded activities after the period of performance had ended. Specifically, Kearney identified $9,490 in costs for these nine Fellows that were charged to the grant and that funded activities after the end of the period of performance of the grant. These costs are unallowable.

Issues Related to "Host" Fees

Federal regulations state that grantees "are encouraged to earn income to defray program costs where appropriate."[18] The regulations further provide that "If the Federal awarding agency does not specify in its regulations or the terms and conditions of the Federal award, or give prior approval for how program income is to be used…ordinarily program income must be deducted from the total allowable costs to determine the net allowable costs."[19]

As part of the fellowship program, Atlas places Fellows at non-profit organizations for "on-the-job" training to enhance their professional skills. Atlas charged a fee, referred to as a "host fee," from some of the non-profits at which the Sudanese and South Sudanese Fellows served. The amounts paid by the host organizations varied significantly and, according to Atlas officials, depended upon various factors, such as the amount of funding the non-profit organization had available. For example, some non-profit organizations paid Atlas $30,000 to host a Fellow although other non-profit organizations paid nothing.

Kearney determined the host fee component of the Atlas business model was not documented in the Department grant agreement. In fact, the grant agreement states that program income is "N/A." Although Atlas properly used the program income to offset the agreed-upon cost-sharing portion of the grant, as shown in Table 6, Kearney identified some transactions that were

[17] 2 CFR 200, Subpart D, 200.309, *Period of Performance*.

[18] 2 CFR 200, Subpart D, 200.307, *Program income*, subsection (a).

[19] 2 CFR 200, Subpart D, 200.307(e).

not recorded correctly. In total, Atlas reported approximately $6,700 more as income than was actually collected from hosts for Fellows funded under the Department's grant.

Table 6: Summary of Issues Related to Host Fees

Issues	Overstatement/ (Understatement) of Program Income
Atlas included host fee that was unrelated to the Department grant.	$15,000
Atlas did not record two host fees in the grant program income file.	($3,300)
Atlas did not record one host fee in the general ledger or the grant program income file.	($5,000)
Total	**$6,700**

Source: Prepared by Kearney on the basis of review of Atlas grant program income file and general ledger detail and the results of testing.

Kearney tested four host fee transactions included in the grant program income file to confirm the program income was generated by Sudanese Fellows. Kearney identified one host fee transaction totaling $15,000 that was not related to a Sudanese Fellow. Additionally, from a listing of all host fees received by Atlas, including those that were for programs unrelated to the Department's grant, Kearney reviewed seven fee transactions that were not reported as program income for the Department's grant to ensure that the amount reported was complete. Kearney identified two host fee transactions totaling $3,300 that related to Sudanese Fellows who were excluded from the grant program income file.

Kearney also tested 23 host agreements related to the Sudanese fellowship program to ensure Atlas recorded the correct amount of program income. For each of the 23 agreements, Kearney validated that the amounts received from non-profit organizations were included in the grant program income file. Kearney found one instance where a host agreement stated the non-profit would pay a $5,000 fee that was not recorded as program income. The non-profit organization paid Atlas at the end of a calendar year, which was before the Fellow began their Fellowship. Atlas recorded the amount as a "deferred" revenue transaction. However, Atlas did not change the status of the deferred revenue amount to program income once the Fellowship had started, as would be appropriate.

Issues Related to Fees Charged to Fellows

As discussed, Federal regulations state that grantees "are encouraged to earn income to defray program costs where appropriate."[20] Federal regulations and the Department's Standard Terms and Conditions related to the tracking and reporting of financial results and the retention of supporting documentation apply to program income as well as to expenditures.[21]

[20] 2 CFR 200, Subpart D, 200.307, *Program income*, subsection (a).

[21] 2 CFR 200, Subpart D, 200.333.

Kearney found that at the start of each Fellowship program, Atlas collected a $500 participation fee from each Fellow for the 12-month programs and $250 for the 6-month programs. According to Atlas management, it is necessary to collect participation fees to ensure Fellows are committed to the program. In total, Atlas collected $19,813 in participation fees from the 47 Fellows who participated in the Department-funded programs. Fellows can earn the participation fee back and receive an additional End of Service cash award of up to $1,000 by participating in key components of the fellowship program, including attending certain training, participating in webinars, and writing monthly blog entries.

Kearney determined the participation fee component of the Atlas business model was not documented in the Department grant agreement. In fact, the grant agreement states that program income is "N/A" and does not mention charging the participants a participation fee. This type of decision—to charge participants a fee—should have been included in the grant agreement to ensure that the GO and the GOR were aware of the arrangement.

Kearney also found that Atlas did not always return the funds to Fellows at the end of the program. Specifically, Kearney identified 10 Fellows who either did not receive an End of Service award or received an End of Service award less than the amount paid as a participation fee. Presumably these Fellows did not fully participate in the key program requirements. For the 10 Fellows identified by Kearney, the program income generated by Atlas as a result of these fees exceeded the End of Service awards paid to the Fellows by $4,477. Because Atlas appropriately reduced grant costs for this program income, no financial impact occurs on the grant. However, the practice of charging a participation fee is in question, considering the lack of communication to the GO.

Kearney also identified some accounting errors when reviewing the grant program income file and the general ledger detail related to participation fees. Specifically, Kearney identified one participation fee of $500 in the grant program income file for a Fellow who was not from Sudan. Conversely, Kearney identified one participation fee of $500 for a Fellow from Sudan that was erroneously excluded from the grant program income file. These errors netted a $0 impact for the Department's grant.

Some Atlas Personnel Costs Did Not Comply with Requirements

Federal regulations state that compensation for grantees' employees includes all remuneration "for services of employees rendered during the period of performance under the Federal award, including but not necessarily limited to wages and salaries."[22] Grantees may apply Federal funds to the costs of compensation as long as the "total compensation for individual employees:

1. Is reasonable for the services rendered and conforms to the established written policy of the non-Federal entity consistently applied to both Federal and non-Federal activities;

[22] 2 CFR 200, Subpart E, 200.430, *Compensation—personal services*, subsection (a).

2. Follows an appointment made in accordance with a non-Federal entity's laws and/or rules or written policies and meets the requirements of Federal statute, where applicable; and
3. Is determined and supported as provided in this section…Standards for Documentation of Personnel Expenses"

To assess compliance with Federal requirements for compensation, Kearney tested timesheets for 35 Atlas employees to verify that the amount of the employee's pay allocated to the Department's grant was reasonable and supported and that timesheets were complete and accurate. Kearney also reconciled information in the expenditure files to the Atlas general ledger detail and identified some exceptions related to compensation. As shown in Table 7, Kearney identified costs that were not correctly allocated, errors in the expenditure files, and errors in Atlas timesheets that resulted in $6,372 in unallowable costs related to compensation.

Table 7: Exceptions Related to Compensation

Issue	Unallowable Costs
Incorrect allocation of compensation	$2,017
Variance in compensation costs reported in the grant expenditure file and the summary file	$4,425
Inaccurate timesheets	($70)
Total	**$6,372**

Source: Prepared by Kearney on the basis of its review of Atlas general ledger detail and employee timesheets.

Incorrect Allocation of Some Compensation Costs

According to 2 CFR 200, grantees should "Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity."[23]

Kearney identified two instances, totaling $2,255, where compensation was not allocated correctly. Both these instances occurred because an employee's salary was variable—that is, increased amounts were paid during the fourth quarter of 2012—and that variability was not considered when allocating costs to the grant. Specifically, the Atlas Chief Executive Officer received 78 percent of his annual salary in the fourth quarter of 2012.[24] For the fourth quarter, Atlas determined that 7 percent of the Chief Executive Officer's hours were attributable to the grant, which it then charged to the grant. Because part of the salary had been deferred from earlier periods in the year that were prior to the period of performance of the Department's

[23] 2 CFR 200, Subpart E, 200.430(h)(8)(vii).

[24] According to an Atlas official, Atlas had cash flow issues during 2012, and the Chief Executive Officer elected to defer some of his salary until the cash flow situation was resolved.

grant, Atlas overcharged the grant for some of the Chief Executive Officer's compensation. Kearney estimates that Atlas inappropriately charged the grant $2,030 for the Chief Executive Officer's compensation for 2012. A similar miscalculation was made related to the Chief Development Officer's pay in the fourth quarter of 2012. Specifically, Atlas calculated the amount to allocate for the Chief Development Officer's compensation on the basis of an amount that incorrectly included a $3,000 bonus.[25,26]

In addition to direct compensation, Atlas also allocated a portion of the cost of fringe benefits provided to its employees, such as health insurance and social security taxes, to the Department's grant. Kearney identified a calculation error in the spreadsheet used by Atlas to calculate the cost of fringe benefits that would be allocated to the Department's grant. Specifically, Kearney found that fringe benefit costs charged to the grant in 2015 were under-allocated by $238. Since Atlas could have charged this additional cost to the grant, Kearney has elected to offset the amount Atlas overcharged for compensation by this amount.

Variance in Compensation Costs Reported in the Grant Expenditure File and the Summary File

Federal regulations state that grantees should have "records that identify adequately the source and application of funds for Federally funded activities. These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income, and interest and be supported by source documentation."[27] To perform the audit, Kearney obtained various financial records from Atlas covering 2012 to 2016, including general ledger detail, trial balances,[28] and details on grant expenditures. Kearney reconciled the grant expenditure files to the summary files of the grant expenditures. In addition, Kearney performed an analysis to ensure that the information in the grant expenditure files was properly generated from the general ledger detail. As a result of the reconciliation and analysis of the grant expenditure files, Kearney identified some variances related to compensation. Specifically, as shown in Table 8, Kearney identified a total variance in compensation of $4,425 between the grant expenditure files and the summary files for 2013 and 2014, which Kearney determined to be unallowable.

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[25] According to 2 CFR 200, Subpart E, 200.430(f), "[i]ncentive compensation to employees…is allowable to the extent that the overall compensation is determined to be reasonable and such costs are paid or accrued pursuant to an agreement entered into in good faith between the non-Federal entity and the employees before the services were rendered, or pursuant to an established plan followed by the non-Federal entity so consistently as to imply, in effect, an agreement to make such payment." Kearney could not identify an agreement between Atlas and the Chief Development Officer documenting eligibility.

[26] Kearney estimates that Atlas inappropriately charged the grant $225 for the Chief Development Officer's compensation for 2012.

[27] 2 CFR 200, Subpart D, 200.302.

[28] A trial balance is a summary of the general ledger that is used to prepare an organizations financial statements.

Table 8: Summary of Compensation Errors Identified in the Grant Expenditure Files

Description of Exception	Grant Expenditure Amount From Summary File	Grant Expenditure Amount Calculated By Kearney	Unallowable Costs
Math errors related to the calculation of 2013 grant personnel costs	$69,965	$69,818	$147
Math errors related to the calculation of 2014 grant personnel costs	$24,782	$20,504	$4,278
Total	**$94,747**	**$90,322**	**$4,425**

Source: Prepared by Kearney on the basis of a reconciliation of the grant expenditure files to the general ledger detail.

Inaccurate Timesheets

According to 2 CFR 200, "[c]harges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed."[29] Kearney reviewed timesheets for 35 Atlas employees who charged some of their compensation to the Department's grant. Kearney identified addition errors in timesheets for 5 of the 35 employee timesheets tested. In total, the addition errors created an underpayment of $70 (that is, Atlas charged the grant a total of $70 less than it could have charged). Since Atlas could have charged this additional cost to the grant, Kearney has elected to offset the amount overcharged by Atlas for compensation by this amount.

Other Unallowable or Unsupportable Items

Federal regulations and the Department's Standard Terms and Conditions require that grantees only incur costs with Federal funds that are allowable under the grant agreement.[30] In addition, Federal regulations state allowable costs must "conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items."[31] Further, Federal regulations state that grantees should have "records that identify adequately the source and application of funds for federally-funded activities. These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income, and interest and be supported by source documentation."[32] Additionally, Federal regulations require that "financial records, supporting documents, statistical records, and

[29] 2 CFR 200, Subpart E, 200.430(h)(8).

[30] The Grant Agreement does not explicitly define "allowable" costs. However, the Grant Agreement includes a detailed budget describing the categories of expenditures that can be used and the amounts allowed for those categories.

[31] 2 CFR 200, Subpart E, 200.403(b).

[32] 2 CFR 200, Subpart D, 200.302.

all other non-Federal entity records pertinent to a Federal award must be retained for a period of three years from the date of submission of the final expenditure report."[33]

Federal regulations also state "a cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received. This standard is met if the cost:

1. Is incurred specifically for the Federal award;
2. Benefits both the Federal award and other work of the non-Federal entity and can be distributed in proportions that may be approximated using reasonable methods; and
3. Is necessary to the overall operation of the non-Federal entity and is assignable in part to the Federal award in accordance with the principles in this subpart."[34]

During the audit, Kearney tested other expenditures and, as detailed in Table 9, identified $29,000 in other unallowable or unsupported costs.

Table 9: Other Unallowable or Unsupportable Expenditure

Unallowable and Unsupported Costs and Allocations	Unallowable Costs	Unsupported Costs	Total Questioned Costs*
Other Expenditures Directly Related to Fellows	$81	$0	$81
Other Fellow Expenditures	$20,069	$2,865	$22,934
Miscellaneous Expenditures	$1,452	$4,729	$6,181
Duplicate Transactions	$40	$0	$40
Total	$21,642	$7,594	$29,236

* Questioned costs are the sum of unallowable costs and unsupported costs.

Source: Prepared by Kearney on the basis of its review of Atlas general ledger detail and supporting documentation.

Other Expenditures Directly Related to Fellows

Kearney tested a sample of expenditures directly related to Fellows,[35] including international travel expenditures, stipends, rent payments, health insurance costs, and End of Service awards. When testing stipends, Kearney identified four reimbursements to Fellows, totaling $81, that were unallowable. For example, Kearney identified payments made to encourage Fellows to clean their rooms, a reimbursement for a yellow fever vaccine, and a penalty charged for bed bugs.

[33] 2 CFR 200, Subpart D, 200.333.

[34] 2 CFR 200, Subpart D, 200.405, *Allocable costs*.

[35] When performing this work, Kearney identified some unallowable costs that are included in other sections of this report, mainly the Unapproved Scope Changes to the Grant Agreement section.

Other Fellow Expenditures

Out of a sample of 35 expense transactions tested of other types of expenditures, totaling $104,774, related to Fellows, for example health insurance expenditures, Kearney identified questioned costs related to 17 transactions totaling $22,934. Of these 17 exceptions, 13 transactions, totaling $20,069, are unallowable and 4 transactions, totaling $2,865, are unsupported. Kearney's findings include:

- For four transactions, Atlas was unable to provide documentation supporting the amount of the End of Service awards paid to Fellows. Atlas implemented a form to use to document the End of Service awards in December 2014. However, before that time, Atlas did not have anything to document the amount paid to the Fellows.
- For five transactions, totaling $1,720, costs related to Fellows that were not from Sudan or South Sudan were charged to the Department's grant.
- For one transaction, Atlas overcharged the Department's grant $15,655 for rent. Specifically, Kearney reviewed a "bulk"[36] transaction used to record multiple Fellows rent expenditures for January 2014. Atlas was initially unable to find supporting documentation for the transaction; therefore, Atlas recalculated the amount charged to the grant and determined that the grant was overcharged. The amount that was overcharged was validated by Kearney.

Miscellaneous Expenditures

Out of a sample of 56 miscellaneous expenditure transactions, totaling $37,796, Kearney identified questioned costs related to 23, totaling $6,181. Of these 23 exceptions, 16 transactions, totaling $1,452, are unallowable. The unallowable costs include:

- Three transactions, totaling $3,473, for contractual services, which is an expenditure category that was not included in the grant agreement budget at the time the costs were incurred. In addition, two of the three contractual service expenditures, totaling $3,150, were incurred either entirely or partially before the grant's period of performance began.
- Seven transactions, totaling $566, for expenditures, such as Fellow support[37] and housing maintenance expenditures[38] that were not documented in the grant agreement.
- One transaction where Atlas undercharged the grant for lodging expenses. Specifically, Atlas allocated a portion of the cost for Sudanese or South Sudanese Fellows to stay at a hostel, even though all the Fellows were related to the Department's grant. Since Atlas could have charged this additional cost, totaling $3,395, to the grant, Kearney has elected to offset the amount overcharged by Atlas for compensation by this amount.

[36] A bulk transaction is a transaction where similar costs are totaled and recorded as a single transaction. For example, Atlas recorded a single expenditure to record the monthly stipend payments made to all the Fellows from Sudan.

[37] Fellow support expenditures include costs incurred by Atlas for instances where a Fellow is experiencing a difficulty, such as the transportation costs to visit a Fellow in the hospital.

[38] Housing maintenance expenditures include costs incurred by Atlas to maintain properties that Atlas rents to Fellows.

In addition, of the 23 exceptions, 7 transactions, totaling $4,729, are unsupported. Specifically, Atlas was unable to produce documentation supporting the expenditure amounts allocated to the Department's grant.

Duplicate Transactions

To perform the audit, Kearney obtained various financial records from Atlas for 2012 to 2016. Kearney reconciled grant expenditures to summary files and performed an analysis to ensure that the information in the grant expenditure files were properly generated from the general ledger detail. As a result of the reconciliation and analysis of the grant expenditure files, Kearney identified four $10 transactions that were duplicates of other transactions. Kearney determined that this overcharge of $40 was unallowable.

Atlas Did Not Provide the Minimum Amount of Cost Sharing

The grant agreement between the Department and Atlas states "It is understood and agreed that the Recipient must provide the minimum amount of cost sharing as stipulated in the Recipient's budget approved by the [GO]."[39] The cost-share amount required by Amendment 3 was $356,947. Kearney determined that Atlas did not contribute the minimum required amount of cost sharing. Specifically, Atlas contributed a total amount of $327,352 over the period of performance of the grant, which is $29,595 less than the grant required.

The grant agreement further states "in the event the Recipient does not provide the minimum amount of cost-sharing as stipulated in the Recipient's approved budget, the [Department's] contribution will be reduced in proportion to the Recipient's contribution."[40] Kearney acknowledges that this language could have more than one interpretation. One interpretation may be that the Federal portion of Atlas' allowable expenditures should be reduced by the unfulfilled amount of the cost share; another interpretation might be that expenditures should be evaluated on a percentage basis. As shown in Table 10, Atlas provided approximately 92 percent of the required amount of its cost-share but only spent approximately 72 percent of the Federal funds authorized. Because Atlas' percentage of expenditures is higher than the Department's percentage of expenditures, this situation may be permissible under the grant agreement depending on what interpretation is applied by the Department. However, because Atlas did not communicate its decision or obtain Department approval to underfund the cost-share portion of the costs, Kearney considers this a questioned cost as to which the Department must make a determination.

[39] Grant Agreement for Award No. S-LMAQM-12-GR-1139, U.S. Department of State, Bureau/Program Specifics, Data Elements – 4, Cost Sharing.
[40] Ibid.

Table 10: Cost-Share and Federal Expenditures Incurred by Atlas in Proportion to the Amounts Stipulated in the Grant Agreement

Expenditure Type	Expenditures Incurred	Expenditures Allowed in the Grant Agreement	Percentage of Allowed Expenditures Actually Incurred
Atlas Cost-Share	$327,352	$356,947	91.7
Federal Share	$1,101,201	$1,528,037	72.1
Total	$1,428,553	$1,884,984	Not applicable

Source: Prepared by Kearney on the basis of review of the June 30, 2016, Federal Financial Report submitted by Atlas on September 16, 2016.

In addition to the amount that was not contributed, as discussed previously, Kearney found that some of the program income that Atlas used to fulfill its cost-sharing arrangement—$84,282—was not generated by activities related to the grant. Kearney netted these amounts against questioned costs to provide an accurate description of overcharges to the Department's portion of the grant. However, because this income was generated outside the scope of the grant agreement, the Department and Atlas should determine the appropriate method to handle the income collected by Atlas. If Atlas does not use those funds to fulfill its cost-sharing arrangement, it will need to provide funds from another source to cover the required cost-share amount.

Impact of Audit Findings on Indirect Costs Charged to the Grant

When implementing a grant, in addition to direct costs, grantees are also allowed to charge indirect costs to the grant. Federal regulations define an indirect cost as "costs incurred for a common joint purpose benefitting more than one cost objective, and not readily assignable to the cost objectives specifically benefited, without effort disproportionate to the results achieved."[41] The Department's grant agreement with Atlas allowed an indirect cost rate of 15 percent of direct costs.[42] New Federal regulations were implemented during the period of performance of the Atlas grant. Specifically, effective December 26, 2013, Federal regulations stated "any non-Federal entity that has never received a negotiated indirect cost rate … may elect to charge a de minimis rate of 10 [percent] of … total direct costs."[43] Even though not required, Atlas elected to charge the de minimis indirect cost rate of 10 percent (rather than the 15 percent allowed by the grant agreement) beginning in 2014.

Because the amount of indirect costs charged by a grantee is based on the amount of direct costs charged, the exceptions Kearney identified related to direct costs would mean that Atlas also overcharged the Department for indirect costs. The amount of the Department's portion of unallowable direct costs identified by Kearney during the audit of the Atlas grant is $105,655, of which $8,205 is related to expenditures incurred during 2012 and 2013 and $97,450 is related to

[41] 2 CFR 200, Subpart A, 200.56, *Indirect (facilities & administrative (F&A)) costs*.

[42] Grant S-LMAQM-12-GR-1139, U.S. Department of State Award Specifics section.

[43] 2 CFR 200, Subpart E, 200.414, *Indirect (F&A) costs*, subsection (f).

expenditures incurred after 2013. As shown in Table 11, on the basis of the exceptions identified, Kearney calculated that Atlas overcharged the Department by $10,976 for indirect costs, which would be unallowable.

Table 11: Impact of Audit Findings on Indirect Costs Charged to the Department

Time Frame	Unallowable Direct Costs	Indirect Cost Rate (percent)	Unallowable Indirect Costs
2012 – 2013	$8,205	15	$1,231
2014 – 2016	$97,450	10	$9,745
Total	$105,655	Not applicable	$10,976

Source: Prepared by Kearney on the basis of audit results and the grant agreement.

Atlas Did Not Comply With Other Federal and Department Grant Requirements

Kearney found that Atlas did not comply with general Federal grant requirements and the Department's Standard Terms and Conditions. Specifically, Kearney found that Atlas' financial management system that was in place during the time of the Department's grant did not comply with Federal requirements and that Atlas did not comply with the requirement to maintain an effective internal control environment, accurately report program income, and spend available program income before requesting Federal funds as required.

Atlas Financial Management System Did Not Comply With Federal Requirements

Federal regulations require that the financial management system of each non-Federal entity provide for the "(1) Identification, in its accounts, of all Federal awards received and expended and the Federal programs under which they were received...(2) Accurate, current, and complete disclosure of the financial results of each Federal award or program...(3) Records that identify adequately the source and application of funds for Federally-funded activities. These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation."[44]

Kearney found that Atlas' financial management system that was in place during the time of the Department's award did not comply with Federal requirements. For example, until 2013, Atlas did not configure its financial system to track grant expenditures and program income separately from other expenditures and program income, which is required. Atlas implemented a process to separately track grant expenditures and program income in 2013; however, in 2015, the new Chief Financial Officer conducted a review of expenditures and program income transactions recorded prior to 2015 and identified numerous instances where transactions were improperly recorded. As a result of this review, amounts were reclassified as grant- or non–

[44] 2 CFR 200, Subpart E, 200.302, *Financial management*, subsection b.

grant-related. Despite the 2015 review, Atlas continues to experience difficulties in properly categorizing transactions as grant- or non–grant-related, as documented throughout this report. Therefore, significant adjustment and review was needed to prepare grant expenditure and program income files for reporting. Further, Atlas was unable to provide current financial results related to the Department's grant in a timely manner.

Atlas Did Not Comply With Internal Control Requirements

Federal regulations require that non-Federal entities "establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award." Federal regulations also require that the non-Federal entity "[t]ake prompt action when instances of noncompliance are identified…"[45]

On the basis of findings identified during the audit, Kearney concluded that Atlas did not comply with the requirement to maintain an effective internal control environment. Specifically, Atlas did not have a sufficient process in place to ensure it complied with Federal regulations and the terms and conditions of the grant agreement with the Department. Atlas experienced significant turnover in financial management staff during the period of performance of the grant, which may have affected its ability to develop a sufficient internal control environment.

Atlas Did Not Report Earned Program Income

Federal standards state that "Unless otherwise approved by OMB, the Federal awarding agency may solicit only the standard, OMB-approved government-wide data elements for collection of financial information (at time of publication the Federal Financial Report or such future collections as may be approved by OMB and listed on the OMB Web site)."[46] OMB has developed Standard Form 425, Federal Financial Report (FFR), for grantees to use to report the financial status of each award to the awarding agency.[47] The Department's Standard Terms and Conditions require grantees to submit FFRs 30 calendar days after the end of each specified reporting period for quarterly reports, and 90 calendar days for annual and final reports. The Department Standard Terms and Conditions also state that "for financial reports required by the award, [grantees] must provide accurate, current, and complete financial information about the [F]ederally assisted activities."[48]

Program income is the "gross income earned by the non-Federal entity that is directly generated by a supported activity or earned as a result of the Department grant during the period of

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[45] 2 CFR 200, Subpart D, 200.303, *Internal controls*.

[46] 2 CFR 200, Part D, 200.327.

[47] OMB's website <https://www.whitehouse.gov/sites/default/files/omb/grants/approved_forms/SF-425.pdf> identifies the relevant fields for reporting.

[48] Department's Standard Terms and Conditions, Section 7, "Financial Management Systems."

performance."[49] The OMB instructions for preparing the FFR direct grantees to include the "recipient share of program income used to finance the non-Federal share of the project or program" in the "Recipient share of expenditures" line on the FFR. The OMB instructions also direct grantees to exclude these amounts from the total Federal share of program income earned line.[50]

Kearney reviewed the grant program income files and determined Atlas generated and collected $327,248 in program income related to the Department's grant between September 15, 2012, and June 30, 2016. Kearney reviewed the quarterly FFRs submitted by Atlas to the Department between December 31, 2014, and June 30, 2016, to determine whether Atlas properly reported its program income. Kearney noted that Atlas did not report program income on any of the FFRs reviewed. Atlas did, however, report information on the "Recipient share of expenditures" line on the FFR, which complied with OMB guidance. However, as shown in Table 12, the amount recorded did not always reflect the actual amount of program income collected. Specifically, until June 2015 the amount Atlas reported was significantly less than program income actually collected.

Table 12: Comparison of Recipient Share of Expenditures Reported in the Federal Financial Report to Program Income*

Date of Federal Financial Report	Recipient Share of Expenditures per Federal Financial Reports	Amount of Actual Program Income	Difference
December 31, 2014	$0	$79,919	$79,919
March 31, 2014	$27,032	$106,176	$79,144
June 30, 2014	$27,032	$152,276	$125,244
September 30, 2014	$27,032	$176,776	$149,744
December 31, 2014	$52,032	$217,824	$165,792
March 31, 2015	$68,818	$222,908	$154,090
June 30, 2015	$231,561	$238,046	$6,485
September 30, 2015	$268,474	$261,808	($6,666)
December 31, 2015	$277,358	$281,535	$4,177
March 31, 2016	$281,685	$308,394	$26,709
June 30, 2016	$327,352	$327,248	$(104)

* The amounts reported in this table are cumulative.

Source: Prepared by Kearney on the basis of its review of Atlas FFRs and Atlas grant program income files.

Accurate FFRs and other communication from the grantee to the awarding agency are necessary to ensure that awarded funds are expended in accordance with Federal regulations and the grant is executed in accordance with the grant agreement. This inaccurate reporting of program income is significantly in non-compliance with requirements.

49 2 CFR 200, Subpart A, 200.80, *Program income*.

50 <https://www.whitehouse.gov/sites/default/files/omb/grants/approved_forms/sf-425-instructions.pdf> accessed on November 21, 2016.

Atlas Did Not Spend Available Program Income Before Requesting Federal Funds

Federal regulations require that grantees use available resources before requesting cash advance payments. Specifically, the regulations state that "to the extent available, the non-Federal entity must disburse funds available from program income (including repayments to a revolving fund), rebates, refunds, contract settlements, audit recoveries, and interest earned on such funds before requesting additional cash payments."[51]

Kearney determined that Atlas did not spend available program income before requesting and obtaining Federal funds. Specifically, Kearney determined that as of July 14, 2014, Atlas requested and received a total of $688,180 in Federal funds without expending a total of $108,254 in available program income.

Recommendation 1: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, (a) determine whether the $40,452 in questioned costs identified related to unapproved changes in the scope of the grant agreement are allowable or supported and (b) recover any costs determined to be unallowable or unsupported.

Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management Response:[52] The Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (A/LM/AQM), concurred with this recommendation, stating that it "determined that the $40,452 related to unapproved changes in the Scope of Work is unallowable cost and Atlas shall reimburse the [U.S. Government] this amount in its entirety."

OIG Reply: OIG considers this recommendation resolved, pending further action. The recommendation will be closed when OIG receives and accepts documentation demonstrating that A/LM/AQM has taken action regarding the $40,452 in questioned costs, including the recovery of the costs determined to be disallowed.

Recommendation 2: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, (a) determine whether the $35,608 in questioned costs identified related to compensation and other miscellaneous expenses are allowable or supported and (b) recover any costs determined to be unallowable or unsupported.

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[51] 2 CFR 200, Subpart D, 200.305, *Payment*.

[52] Atlas' comments on this and the other recommendations are included in Appendix C, and Kearney's responses to Atlas' comments are included in Appendix E. Kearney did not include Atlas' comments in this section because the recommendations are not directed to Atlas.

A/LM/AQM Response: A/LM/AQM concurred with this recommendation, stating it "determined that the $39,604[53] is unallowable cost and Atlas shall reimburse the [U.S. Government] this amount in its entirety."

OIG Reply: OIG considers this recommendation resolved, pending further action. The recommendation will be closed when OIG receives and accepts documentation demonstrating that A/LM/AQM has taken action regarding the $35,608 in questioned costs, including the recovery of the costs determined to be disallowed.

Recommendation 3: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, (a) determine whether the costs associated with the $29,595 in unfulfilled cost sharing are allowable or supported and (b) recover funds for the portion of the cost sharing that is determined to be required to be paid.

A/LM/AQM Response: A/LM/AQM concurred with this recommendation stating that it "determined that $29,595 is unallowable cost and Atlas shall reimburse the [U.S. Government] this amount in its entirety."

OIG Reply: OIG considers this recommendation resolved, pending further action. The recommendation will be closed when OIG receives and accepts documentation demonstrating that A/LM/AQM has taken action regarding the $29,595 in unfulfilled cost sharing, including the recovery of the amounts determined to be disallowed.

Recommendation 4: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, (a) determine whether the $10,976 in questioned costs identified related to indirect costs are allowable or supported and (b) recover any costs determined to be unallowable or unsupported.

A/LM/AQM Response: A/LM/AQM concurred with this recommendation, stating that it "determined that $11,408[54] is unallowable cost and Atlas shall reimburse the [U.S. Government] this amount in its entirety."

OIG Reply: OIG considers this recommendation resolved, pending further action. The recommendation will be closed when OIG receives and accepts documentation

[53] The amount of questioned costs included in the draft report was $39,604. After the draft report was issued, Atlas provided additional information related to $3,996 in questioned costs for visa fees. Based on the additional information, Kearney considered these costs valid and removed them from the list of questioned costs in the report. The revised amount of questioned costs was $35,608. A/LM/AQM considered the full amount of questioned costs reported in the draft report to be unallowable, which would continue to apply to the revised amount.

[54] As noted in the response to Recommendation 2, the amount of questioned costs identified by Kearney was revised after the draft report was issued. Because indirect costs are impacted by direct costs, the amount of questioned indirect costs was revised from $11,408 to $10,976. A/LM/AQM considered the full amount of questioned costs reported in the draft report to be unallowable, which would continue to apply to the revised amount.

demonstrating that A/LM/AQM has taken action regarding the $10,976 in questioned costs, including the recovery of the costs determined to be disallowed.

Recommendation 5: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, make a determination of the appropriate method to handle the $54,687 of income that was not generated by grant-related activities but that was used to fulfill a portion of the grantee's cost-sharing requirements. If the grantee cannot use those funds to fulfill its cost-sharing arrangement, the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, will need to recover funds from the grantee to cover the required cost-share amounts.

A/LM/AQM Response: A/LM/AQM concurred with this recommendation stating that it "determined that the $54,687 not generated by program activities is unallowable cost and Atlas shall reimburse the [U.S. Government] this amount in its entirety."

OIG Reply: OIG considers this recommendation resolved, pending further action. The recommendation will be closed when OIG receives and accepts documentation demonstrating that A/LM/AQM has taken action regarding the $54,687 in cost sharing that was not generated by program activities, including the recovery of the funds determined to be disallowed.

RECOMMENDATIONS

Recommendation 1: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, (a) determine whether the $40,452 in questioned costs identified related to unapproved changes in the scope of the grant agreement are allowable or supported and (b) recover any costs determined to be unallowable or unsupported.

Recommendation 2: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, (a) determine whether the $35,608 in questioned costs identified related to compensation and other miscellaneous expenses are allowable or supported and (b) recover any costs determined to be unallowable or unsupported.

Recommendation 3: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, (a) determine whether the costs associated with the $29,595 in unfulfilled cost sharing are allowable or supported and (b) recover funds for the portion of the cost sharing that is determined to be required to be paid.

Recommendation 4: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, (a) determine whether the $10,976 in questioned costs identified related to indirect costs are allowable or supported and (b) recover any costs determined to be unallowable or unsupported.

Recommendation 5: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, make a determination of the appropriate method to handle the $54,687 of income that was not generated by grant-related activities but that was used to fulfill a portion of the grantee's cost-sharing requirements. If the grantee cannot use those funds to fulfill its cost-sharing arrangement, the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, will need to recover funds from the grantee to cover the required cost-share amounts.

APPENDIX A: PURPOSE, SCOPE, AND METHODOLOGY

The Department of State's (Department) Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management, requested that the Office of Inspector General (OIG) initiate a performance audit to determine whether Atlas Service Corps, Inc. (Atlas) used grant funds, collected program income, and reported financial information related to grant S-LMAQM-12-GR-1139 in accordance with Federal regulations, Department requirements, and the grant agreement. An external audit firm, Kearney & Company, P.C. (Kearney), acting on behalf of OIG, performed this audit.

Kearney conducted fieldwork for this performance audit from July to October 2016 in the Washington, DC, metropolitan area. The audit was conducted in accordance with the Government Accountability Office's *Government Auditing Standards*, 2011 revision. Those standards require that Kearney plan and perform the audit to obtain sufficient, appropriate audit evidence to provide a reasonable basis for the findings and conclusions based on the audit objective. Kearney believes that the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit evidence.

To obtain background information, Kearney researched and reviewed Title II of the Code of Federal Regulations, Part 200 (2 CFR 200), which consolidated eight Office of Management and Budget (OMB) Circulars into one authoritative document relating to grants management. Kearney also researched and reviewed the Department's Standard Terms and Conditions for U.S. Based Organizations and the grant agreement for Federal award S-LMAQM-12-GR-1139.

Additionally, Kearney met with Atlas personnel to gain an understanding of Atlas operations related to the Federal award, including financial processes associated with expenditures and program income. Specifically, Kearney interviewed Atlas officials and discussed each type of expenditure included in the grant agreement, the process for incurring these expenditures, process changes that occurred during the grant's period of performance, and the supporting documentation available for each type of expenditure. Kearney performed similar procedures related to the different types of program income generated by Atlas.

Prior Year Audit Reports

OIG issued a Management Alert[1] that stated that the management and oversight of grants pose heightened financial risk to the Department. OIG and other oversight agencies have identified a number of significant deficiencies in the grant-management process. The Management Alert stated that nearly 40 percent of OIG inspections since 2010 identified specific grant-management deficiencies in the inspected entity and emphasized that one of the most significant grant-management challenges faced by the Department is insufficient oversight, caused primarily by too few employees managing a large number of grants. Audits conducted by OIG have reported similar deficiencies, including insufficient oversight caused by too few staff

[1] OIG, *Management Alert – Grant Management Deficiencies* (MA-14-03, September 2014).

managing too many grants, insufficient training of grant officials, and inadequate documentation and closeout of grant activities.

Work Related to Internal Controls

On the basis of the information obtained during preliminary audit procedures, Kearney performed a risk assessment that identified audit risks related to the audit objectives. Kearney conducted meetings and documented processes to identify controls in place to address those risks. Although Kearney identified certain limited controls related to expenditure and program income processes, Kearney chose not to rely on or specifically test those controls to determine the allowability of expenditures and program income. However, Kearney designed procedures that would enable it to obtain sufficient and appropriate evidence to reach a conclusion on the audit objectives. Weaknesses in internal controls are identified in the Audit Results section of this report.

Use of Computer-Processed Data

Throughout the audit, Kearney used computer-processed data from Atlas. For example, the trial balance[2] and general ledger detail[3] reports were generated by the Atlas financial system, along with the grant expenditure and program income files. During the audit, Kearney performed procedures to validate the completeness and accuracy of the trial balance and general ledger detail provided from the Atlas financial system. Specifically, Kearney reconciled the general ledger detail to the trial balances and also reconciled the trial balances to the audited financial statements for 2012, 2013, and 2014. Because audited financial statements were not available for 2015 or 2016,[4] Kearney performed additional procedures to validate the completeness and accuracy of the grant expenditure and program income files provided. First, Kearney totaled the amounts reported in the grant expenditure and program income files. Next, Kearney reconciled these totaled amounts to the total expenditure and program income amounts reported on the OMB Standard Form 425, Federal Financial Report (FFR) as of June 30, 2016, that was submitted by Atlas on September 16, 2016.[5] For all years (2012 through 2016), Kearney reconciled the trial balances provided by Atlas to the general ledger detail. Next, Kearney confirmed the transactions in the grant expenditure and program income files were included in the general ledger detail. On the basis of results of the reconciliations performed, Kearney determined that the trial balances and general ledger detail provided by Atlas for 2012 through 2016 were sufficiently reliable. Some issues were identified in relation to the reliability of the data. These

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[2] The trial balance is a summary of the transactions listed in the general ledger detail and is used to prepare an organization's financial statements.

[3] The general ledger detail is a listing of all transactions occurring within an entity during a period of time.

[4] Audited financial statements for 2015 were not available because the 2015 audit was not completed prior to Kearney performing its audit. Audited financial statements for 2016 were not available because Atlas operates on a calendar year, which had not ended at the time Kearney performed its audit.

[5] The FFR is a report used by grantees to report the financial status of each grant to the awarding agency. OMB's website <https://www.whitehouse.gov/sites/default/files/omb/grants/approved_forms/SF-425.pdf> identifies the relevant fields for reporting.

issues are included in the Audit Results section of this report. Although these issues were found, they were not material to our findings and conclusions.

Detailed Sampling Methodology

Kearney's sampling objectives were to test Atlas' claimed expenses and reported program income to determine if they were allowable, allocable, and supported, in accordance with Federal regulations and the grant agreement. To determine the universe of Atlas' expenses and program income, Kearney obtained the trial balance, general ledger detail, and the grant expenditure and program income files for 2012 through 2016.

Kearney aggregated the grant expenditure and program income files for 2012 through 2016. Kearney examined each record in the aggregated expenditure file and identified the grant agreement budget line item that would relate to the transaction. Table A.1 lists the budget line items included in Amendment 3 to the grant.

Table A.1: Budget Line Items in the Atlas Grant Agreement

Budget Line Item	Description	Transaction Count[a,b]
A.1.1	Personnel – Project Manager	0
A.1.2	Personnel – Project Assistant	0
A.1.3	Personnel – Chief Executive Officer	0
A.1.4	Personnel – Chief Operating Officer	0
A.1.5	Personnel – Engagement Director	0
A.1.6	Personnel – Training Manager	0
A.1.7	Personnel – Financial Director	0
A.1.8	Personnel – Web Administrator	0
A.1.9	Personnel – Partnerships Director	0
B.1	U.S.-Based Personnel Fringe Benefits	0
C.1	Travel – International Airfare	160
C.1.1	Travel – Per diem for Atlas Corps Staff Travel to Sudan	0
C.1.2	Travel – Visa & Fees for Fellows	110
C.2.1	Travel – Round Trip Flights for Fellows not in DC	37
C.2.2	Travel – Ground Transfer	58
C.2.3	Travel – Staff Domestic Round Trip Airfare	0
C.2.4	Travel – Staff Domestic Lodging	0
C.2.5	Travel – Staff Domestic MI&E	7
C.2.6	Travel – Fellow Domestic Lodging for Training and Orientation	11
C.2.7	Travel – Fellow Domestic M&IE	77
C.2.8	Travel – Fellow Luggage Fees	15
D	Equipment – Not Used	0
E.1	Supplies – Computer Equipment for Project Manager	5
E.2	Supplies – General Office Supplies	12
F.1	Contractual – Web Administrator	0

Budget Line Item	Description	Transaction Count[a,b]
F.1.2	Contractual – Speaker Fees	3
G	Construction Costs – Not used	0
H.1	Other Direct Costs (ODC) – Living Stipend	345
H.2	ODC – Housing Expenses	84
H.3	ODC – End of Service Award	36
H.4	ODC – Health Insurance for Fellows	66
H.5	ODC – Meals for Training & Orientation	24
H.6	ODC – Distance Learning and Training Costs	25
H.7	ODC – Cultural Activities for Fellows	1
H.8	ODC – Recruitment & Fellow Selection	38
H.9	ODC – Internet & Telephone	5
H.10	ODC – Program Evaluation	0
H.11	ODC – Annual Audit Costs	0
H.12	ODC – Room Rental	2
H.13	ODC – Conference Delegation	26
Total	Not Applicable	1,147

[a] Atlas did not track the related budget line in its financial system. As such, Kearney examined each record in the expenditure file to identify the grant agreement budget line item that would relate to the transaction.
[b] The personnel and fringe benefit expenditures for 2012 were not provided at the transaction level. Therefore, Table A.1 does not include the transaction count for the related budget line items.
Source: Amendment 3 to Grant Agreement S-LMAQM-12-GR-1139 and Kearney analysis of Atlas expenditure files.

Sample Design

For all samples selected during the audit, Kearney used non-statistical audit sampling techniques where applicable and appropriate. As guidance, Kearney used the American Institute of Certified Public Accountants Audit Guide Audit Sampling. This guidance assists in applying audit sampling in accordance with auditing standards. With respect to the sampling methodology used, Government Auditing Standards indicate that either a statistical sample or a judgmental sample can yield sufficient and appropriate audit evidence. A statistical sample is generally preferable, although it may not always be practicable. Because of the relatively small population of expenditures and program income, statistical sampling techniques were not possible for this audit. Consequently, Kearney used another type of sample permitted by Government Auditing Standards—a non-statistical sample known as a "judgmental sample." A judgmental sample is a sample selected by using discretionary criteria rather than criteria based on the laws of probability. In this audit, Kearney has taken care in determining the criteria to use for each sample.

Personnel and Fringe Benefits

Kearney judgmentally selected a sample of pay periods that occurred during the grant's period of performance. Specifically, Kearney selected the final pay period of each year within the period of performance of the grant. Kearney reviewed a total of 35 timesheets. Kearney reviewed the timesheets for all personnel who allocated time to the Department grant during the pay periods selected to determine whether the related expenditures were allowable in accordance with Federal regulations and the grant agreement.

Fringe benefit expenditures, which include health insurance costs, payroll fees, and payroll taxes, were allocated by Atlas to the Department grant on a quarterly basis. Kearney judgmentally selected one quarter—targeting the final quarter of 1 year—and reviewed all fringe benefit expenditures allocated to the Department grant during that time period for allowability.

Expenditures Directly Related to Fellows

Kearney judgmentally selected a sample of 23 Sudanese and South Sudanese Fellows from a listing provided by Atlas that listed each Fellow, the non-profit at which the Fellow was placed, and the duration of the Fellow's participation in the fellowship program. Kearney focused on Fellows who stayed in the United States for longer than was allowable by the grant agreement, Fellows who should have stayed in the United States for only 9 months, and Fellows who were brought to the United States to participate in a 12-month fellowship program when fewer than 12 months were left in the grant's period of performance.

For each selected Fellow, Kearney tested expenditures for the budget line items displayed in Table A.2, which Kearney identified as expenditures that Atlas would incur for each Fellow. For budget line items H.1 and H.2, Kearney reviewed the first and last payments made to each Fellow during the period of performance.

Table A.2: Budget Line Items Tested for the Sample of Expenditures Directly Related to Fellows

Budget Line Item	Description
C.1	Travel – International Airfare
C.1.2	Travel – Per diem for Atlas Corps Staff Travel to Sudan
H.1	ODC – Living Stipend
H.2	ODC – Housing Expenses
H.3	ODC – End of Service Award
H.4	ODC – Health Insurance for Fellows

Source: Prepared by Kearney on the basis of its review of Amendment 3 to Grant Agreement S-LMAQM-12-GR-1139.

Other Expenditures Related to Fellows

To further test expenditures related to the budget line items described in Table A.2, Kearney judgmentally selected a sample of 35 other expenditures related to Fellows. Several of the sampled expenditures were "bulk" expenditures, for example, monthly living stipends and housing expenditures for Fellows were at times combined into one expenditure. These samples were selected to confirm all expenditures included in the bulk expenditure were related to the Department grant. Kearney also targeted transactions with descriptions that appeared questionable.

Miscellaneous Expenditures

Kearney also judgmentally selected a sample of 56 miscellaneous expenditures to test the allowability of transactions included in budget line items that were not tested in the other samples. Table A.3 displays the budget line items tested as part of the miscellaneous expenditure sample. Kearney targeted transactions with descriptions that appeared questionable.

Table A.3: Budget Line Items in the Atlas Grant Agreement

Budget Line Item	Description
C.1.1	Travel – Per diem for Atlas Corps Staff Travel to Sudan
C.2.1	Travel – Round Trip Flights for Fellows not in DC
C.2.2	Travel – Ground Transfer
C.2.3	Travel – Staff Domestic Round Trip Airfare
C.2.4	Travel – Staff Domestic Lodging
C.2.5	Travel – Staff Domestic MI&E
C.2.6	Travel – Fellow Domestic Lodging for Training and Orientation
C.2.7	Travel – Fellow Domestic M&IE
C.2.8	Travel – Fellow Luggage Fees
E.1	Supplies – Computer Equipment for Project Manager
E.2	Supplies – General Office Supplies
F.1	Contractual – Web Administrator
F.1.2	Contractual – Speaker Fees
H.5	ODC – Meals for Training & Orientation
H.6	ODC – Distance Learning and Training Costs
H.7	ODC – Cultural Activities for Fellows
H.8	ODC – Recruitment & Fellow Selection
H.9	ODC – Internet & Telephone
H.10	ODC – Program Evaluation
H.11	ODC – Annual Audit Costs
H.12	ODC – Room Rental
H.13	ODC – Conference Delegation

Source: Prepared by Kearney on the basis of its review of Amendment 3 to Grant S-LMAQM-12-GR-1139, U.S. Department of State Award Specifics for Amendments.

Fees Collected From Non-Profit Organizations

Kearney judgmentally selected a sample of 23 Host Agreements that document the fees provided to Atlas from non-profit organizations to "host" some of the Fellows. Specifically, Kearney focused on agreements for Fellows who stayed in the United States beyond what was allowed by the Grant Agreement, Fellows who were brought to the United States to participate in a 12-month fellowship program when fewer than 12 months remained in the grant period of performance, Fellows who earned the largest amount of program income, and Fellows who did not earn Atlas any program income.

In addition, from the grant program income file, Kearney judgmentally selected a sample of four program income transactions. Kearney targeted bulk transactions to verify that all related program income was related to the Department grant. From the Atlas general ledger detail, Kearney also judgmentally selected a sample of seven revenue transactions that were not identified to be related to the grant to verify the transactions were correctly recorded. Kearney targeted transactions that appeared to relate to the Department grant and bulk transactions.

Fees Charged to Fellows

Kearney judgmentally selected a sample of 17 fees charged to Fellows by Atlas during the scope period. Since all Fellows were charged a fee to participate in the Atlas fellowship program, Kearney targeted Fellows for whom a participation fee was not recorded to determine if program income was understated. Kearney also targeted Fellows for whom an End of Service award was not recorded in the grant expenditure file to determine if Atlas profited from the fees charged to Fellows.

Kearney also reviewed the Atlas general ledger detail to determine if transactions related to fees charged to Fellows sponsored by the Department grant were erroneously excluded from the grant program income file.

Rental Income

Kearney judgmentally selected a sample of four rental income transactions in the Atlas general ledger detail that were related to Fellows funded by the Department grant. Because the way in which Atlas accounted for rental income changed during the period of performance of the grant, Kearney targeted transactions recorded during the period of time in which Atlas recorded rental income transactions. To verify that Atlas was not profiting from the properties rented to Fellows funded by the Department grant, Kearney requested a copy of the primary lease agreement between Atlas and its landlord as well as a copy of the secondary lease agreement between Atlas and the Fellows who were renting rooms. Kearney also sampled two rental income transactions in the Atlas general ledger detail that were not related to Fellows funded by the Department Grant to verify the revenue generated was correctly reported.

Donations

During the grant period of performance, Atlas received one donation in the amount of $45,000 that was intended to help fund the cost-share portion of the Department grant. Kearney tested 100 percent of the program income transactions related to donations to ensure the donation was allowable and accurately recorded as program income. No exceptions were noted.

APPENDIX B: BUREAU OF ADMINISTRATION, OFFICE OF LOGISTICS MANAGEMENT, OFFICE OF ACQUISITIONS MANAGEMENT RESPONSE

United States Department of State

Washington, D.C. 20520

February 2, 2017

UNCLASSIFIED

MEMORANDUM

TO: OIG/AUD – Norman P. Brown

FROM: A/LM – Jennifer A. McIntyre

SUBJECT: Draft Report on *Audit of Atlas Service Corps, Inc., Grant Expenditures and Program Income*

Below is the Office of Logistics Management's response to the subject report. Also attached are comments to the report for your consideration. The point of contact for this response is Jim Moore who may be reached at 703-875-6285.

Recommendation 1: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisition Management, (a) determine whether the $40,452 in questioned costs identified related to unapproved changes in the scope of the grant agreement are allowable or supported and (b) recover any costs determined to be unallowable or unsupported.

Management Response to Draft Report: The Office of Acquisitions Management agrees with this recommendation. AQM has determined that the $40,452 related to unapproved changes in the Scope of Work is unallowable cost and Atlas shall reimburse the USG this amount in its entirety.

Recommendation 2: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisition Management, (a) determine whether the $39,604 in questioned costs identified related to compensation, visas, and other miscellaneous expenses are allowable or supported and (b) recover any costs determined to be unallowable or unsupported.

Management Response to Draft Report: The Office of Acquisitions Management agrees with this recommendation. AQM has determined that the $39,604 is unallowable cost and Atlas shall reimburse the USG this amount in its entirety.

Recommendation 3: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisition Management, (a) determine whether the costs associated with the $29,595 in unfulfilled cost sharing are allowable or supported and (b) recover funds for the portion of the cost sharing that is determined to be required to be paid.

Management Response to Draft Report: The Office of Acquisitions Management agrees with this recommendation. AQM has determined that $29,595 is unallowable cost and Atlas shall reimburse the USG this amount in its entirety.

Recommendation 4: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisition Management, (a) determine whether the $11,408 in questioned costs identified related to indirect costs are allowable or supported and (b) recover any costs determined to be unallowable or unsupported.

Management Response to Draft Report: The Office of Acquisitions Management agrees with this recommendation. AQM has determined that $11,408 is unallowable cost and Atlas shall reimburse the USG this amount in its entirety.

Recommendation 5: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisition Management, make a determination of the appropriate method to handle the $54,687 of income that was not generated by grant-related activities.

Management Response to Draft Report: The Office of Acquisitions Management agrees with this recommendation. AQM has determined that the $54,687 not generated by program activities is unallowable cost and Atlas shall reimburse the USG this amount in its entirety.

Addendum: AQM has determined that Atlas must return the generated program income in its entirety in the amount off $ 327,248. This is in accordance with Title 2, CFR 200.307 and GAO Red Book 06-382SP, 3rd Edition, Volume II, Page 10-90&91, Treatment of Program Income, "(e) Use of program income. If the Federal awarding agency does not specify in its regulations or the terms and conditions of the Federal award, or give prior approval for how program income is to be used, paragraph (e)(1) of this section must apply. For Federal awards made to IHEs and nonprofit research institutions, if the Federal awarding agency does not specify in its regulations or the terms and conditions of the Federal award how program income is to be used, paragraph (e)(2) of this section must apply. In specifying alternatives to paragraphs (e)(1) and (2) of this section, the Federal awarding agency may distinguish between income earned by the recipient and income earned by sub-recipients and between the sources, kinds, or amounts of income. When the Federal awarding agency authorizes the approaches in paragraphs (e)(2) and (3) of this section, program income in excess of any amounts specified must also be deducted from expenditures.

(e)(1) Deduction. Ordinarily program income must be deducted from total allowable costs to determine the net allowable costs. Program income must be used for current costs unless the Federal awarding agency authorizes otherwise. Program income that the non-Federal entity did not anticipate at the time of the Federal award must be used to reduce the Federal award and non-Federal entity contributions rather than to increase the funds committed to the project."

APPENDIX C: ATLAS SERVICE CORPS, INC., RESPONSE

Atlas Corps™

January 27, 2017

Mr. Norman P. Brown
Assistant Inspector General for Audits
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Dear Mr. Brown:

Thank you for sending the Draft Audit of Atlas Grant Expenditures and Program Income on January 11th (herein "Draft Atlas Audit"). Per your offer to provide comments within 10 business days of this letter, please find our responses and supporting documentation of these responses below (and attached). We organized our responses by (I) providing an initial overview with three key points, (II) reviewing each of the five recommendations, and (III) providing additional information that we feel addresses inaccuracies and misunderstandings in the Draft Atlas Audit. Requested redactions are discussed in Attachment A: Requested Redactions.

I. Initial Overview of Three Key Points

As we will outline below, there are three key points that we would like to present:

A. We provided costs share in greater proportion than the government funds we drew down and therefore, it is our opinion that Atlas does not owe any additional cost share.

B. There was no "change in the scope of work". In many instances where Kearney identifies a "change in scope of work", Atlas can provide evidence we communicated our interpretations of the scope of work to the Grants Officer, sought guidance and did not receive responses from the Grants Officer indicating our interpretations were incorrect, including the matter related to the number of Fellows.

C. Atlas can provide clear evidence that it was communicated to the State Department (the Department) that there was a fee paid by Host Organizations to participate in the program. This was reported on multiple occasions, from the original grant application, to regular quarterly reports over the life of the grant.

A. Government Funds Drawn Down in Proportion to Cost Share

We appreciate Kearney's work to review four years of transactions over the life of this grant and acknowledge that some mistakes were made by Atlas during the grant. We are, however, proud of the fact that we completed approximately 95% of the proposed objectives of the grant (40 of the 42 full Fellowships were completed as planned), that we spent only 72% of government funds to accomplish this (approximately \$1.1m of \$1.5m awarded), and that Atlas contributed 91% of the budgeted cost share to support this grant (approximately \$327,000 of \$356,000).

B. There was no "Change of Scope" of the work.

Atlas Implemented 40 Full Fellowships and 5 Partial.

Atlas interpreted the Scope of Work to be the provision of full, completed Fellowships; that is six (6), nine (9) or twelve (12)-month Fellowships depending on the program of the Fellow. Our position derives from "The Federal Assistant Award Coversheet" for this grant on 09/18/2012 (see page 1 of Attachment B: 091812 Grant Agreement for S-LMAQM-12-GR-1139), where the purpose reads:

> "This project will establish the Sudanese Civil Society Leaders Fellowship, an initiative that will engage 14 professionals from Sudan in 12 months of training and service in U.S. civil society organization to deepen skills, build cross-cultural relationships, and enhance their ability to engage in the transition of Sudanese society."

The grant was amended to include participants from South Sudan and to change the length of the Fellowship for certain subsets of fellows; regardless of whether that duration was 6, 9 or 12 months, the grant objectives were always stated in terms of the full duration of the fellowship and not just in terms of the number of individuals beginning the program.

The Draft Atlas Audit states on page 8, "Atlas Exceeded the Number of Allowed Participants." Critical to understanding this finding is the distinction between "participants" and completed "fellowships." It is our position that the grant was to support 42 *full* fellowships and a *partial* fellowship did not count against the scope of work we were working to achieve.

For example, if a nonprofit were hired to build 42 houses, but five collapsed while being built, the organization would still be expected to build all 42 houses. We were counting full fellowships as civil society leaders who completed the program and went to graduation, not those who simply started but then returned home before completing the fellowship. This was a decision we communicated on calls with the Department and in the Performance Narratives. For example, in the Performance Narrative on December 30, 2015 we wrote, "We have placed above the proposed number of Fellows from Sudan to replace Fellows who did not successfully complete the Fellowship." (Attachment C: 123015 Performance Narrative, page 5).

We have attached a spreadsheet with the names of the participants (Attachment D: List of Participants), but let us clarify the facts regarding the number of participants and full fellowships:

1. The grant was to support forty-two (42) fellowships.
2. Forty (40) fellows had arrived by January 31, 2016 and had either completed their fellowships or were on track to complete their full fellowships.
3. Five (5) fellows started but ended the fellowship early during the period of the grant. Atlas replaced many of them in order to reach the requirements of the grant.
4. Two (2) fellows arrived in May 2016. We asked the Grants Officer, and the Kearney Audit Team, whether we should include these two May 2016 Fellows in the grant, and received no guidance, so ultimately made our own decision to NOT include them. A few expenses for these fellows were mistakenly included ($8,905). This was an accounting error, not a change of scope or addition of a new participant. [1]

Therefore, based on our understanding which was formally and informally expressed to the Department, during the time of the grant, there were either:

- 40 Full Fellowships + 5 partial Fellowships for fellows who started but ended their Fellowship early (our position).
- 45 Fellows: if you count all of those people the same whether they completed or not (this is the position of Kearney, per page 8 of the Draft Atlas Audit.)
- 47 Fellows (Or 42 full Fellowships and 5 partial Fellowships): if you add the two people who arrived in May (neither Kearney nor Atlas take this position).
- 48 Fellows: is the total number of fellows from Sudan and South Sudan who have been accepted into the fellowship since the organization was founded, only 45 of who were included under this grant. [2]

<u>Atlas Reported Fellow Numbers Throughout the Process and Sought Guidance.</u>

While Atlas reported on the number of full and partial fellowships, we also sought guidance verbally and in writing about whether or not the Department wanted us to calculate the Fellows in a different manner, and communicated this outstanding issue to Kearney during the audit process. We did not receive guidance indicating our formula of full and partial fellowships was out of scope. For example:

- On February 29, 2016: Atlas received a letter from the Grants Officer for a site visit to discuss, among other things, the number of Fellows. The letter indicated (see Attachment E: 022916 Site Visit Letter), that "Upon completion of the site visit, you will receive a

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[1] Atlas requested a no cost extension from the Grants Officer in order to include the final two fellows who arrived in May 2017 which would have allowed Atlas to achieve 100% of the 42 complete fellowships set out in the grant. This request was not approved.

[2] "Kearney noted that Atlas reported that 48 Fellows had participated in the program as of September 16, 2016" based on a reference in a quarterly narrative report submitted by Atlas Corps (p. 8 Draft Atlas Audit). This sentence correctly indicates that this is the total number of Fellows from Sudan or South Sudan who participated in the Atlas fellowship *program* since the organization was founded, and not the total number of fellows included under this *grant*. Our first Fellow from Sudan came in 2011 and was not funded by the U.S. Government and not part of this grant.

letter in about 45 calendar days that identifies any grant management matter that require further action, if any."

- June 28, 2016: The Grants Officer responded to Atlas saying, "We are working on it", when asked when to expect the answers to our questions and results from the Site Visit. (See Attachment F: 062816 GO Response to Atlas)

- On July 7, 2016, Atlas COO wrote to Kearney, "we are still waiting for the letter back from the grants officer on our site visit from March [2016] … We expect the Site Visit letter from the Grants Officer may affect our allowable expenses -- for example, we have held off on some allocations because there is a question about whether the Fellows who arrived in January can be included." (See Attachment G: 070716 COO email to Kearney)

- On July 10, 2016, the Atlas CEO wrote to the Grants Officer, "I fear we are in a difficult circle where the auditors need our 2016 expenses and allocations to do the audit; but, we cannot close out our 2016 expenses and allocation, until we have feedback from the site visit that we have been waiting for over 100 days; and you cannot complete your work until the OIG audit is finished." The Grants Officer replied with the response, "AQM will not provide feedback to Atlas Corps at this time, the auditors will." (See Attachment H: 071016 CEO-GO Email Exchange). The auditors told us that the GO needed to answer questions on the scope of work.

- On August 3, 2016, Atlas CEO emailed the GO seeking guidance on the number of Fellows and the issue of full fellowships (See Attachment I: 080316 CEO email to GO):

  "Fellows Arriving in Class 20 (January 2016): We intend to allocate costs for Fellows who arrived in Class 20 (January 2016) to this grant for expenses up until June 30, 2016 (the end of the grant) because the inclusion of these Fellows is necessary to our plan to achieve ***the scope of work of this grant: to bring 42 civil society leaders on a <u>full</u> Atlas Corps Fellowship***. In our September 2015, December 2015 and March 2016 narrative reports submitted through Grants Solution, we identified the recruitment, placement and engagement of these Fellows who would be starting the Fellowship in January 2016. We also talked about Class 20 (January 2016) Fellows during our quarterly check in call in 2015. Finally, the State Department held a reception for these Fellows who arrived in January 2016 at State Department and the entire Sudan and South Sudan Team was invited. Therefore, we feel there was abundant notification of these Fellows arriving and these are transparent, justifiable, allowable expenses to ***achieve the ultimate scope of work of bringing <u>42 leaders on full fellowships</u>***. As we close our books on this grant for 2016, we will include these Fellows, however if they are unallowable, please let us know why ASAP and we'd appreciate an opportunity to discus in more details why they are justifiable."

Over the lifetime of the grant, Atlas communicated to the Department in each of the quarterly reports the number of fellows joining the program, graduating, terminating early and replacing fellows who ended early, and never received instructions contrary to our understanding of the

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scope or terms of grant achievement. Even after the question was specifically raised, including in person during the site visit in March 2016 and over emails in July and August 2016, we never received an answer. So we believe that it was reasonable to submit to Kearney our financial allocations that included 40 full and five (5) partial fellowships and that this is within scope of the 42 full fellowships in the grant.

Finally, for all of the reasons above, including that our determination that partial fellowships did not count against our total fellowships number and that there was never any indication from the Department this was not acceptable, it is the position of Atlas that the section titled, "Atlas Exceeded the Number of Allowable Participants" be struck from the Draft Atlas Audit and the "$34,557 in costs" and "$12,500" in host fees be considered allowable since they do not represent a change in the scope of work.

C. Atlas communicated the Host Organization Fee clearly, transparently and multiple times.

The Draft Atlas Audit includes two findings related to program income:

1. Program income was generated; and,
2. The Department was unaware that program income was being generated.

Atlas disputes the statement that these fees for participating in the program were not disclosed to the Department, and request that this misstatement in the DRAFT Atlas Audit be corrected. It is our position that this income was disclosed repeatedly and in a very transparent manner. Nevertheless, we treated the Host Organization fees in a similar manner as if they were program income, generally spending this money before we spent the federal funds.

We do not believe that the original Grants Officer or subsequent Grants Officers who approved amendments believed host fees constituted Program Income because it was never noted in a grant agreement or subsequent amendment. It was never raised with Atlas when amendment budgets were discussed or after we submitted quarterly reports. All along, Atlas was transparent about our program model including disclosure in our initial proposal and within each subsequent draft where our business model was described in detail (See Attachment J 022112 Initial Proposal). As such, it is inaccurate to say that the Department was not aware that Host Organizations contributed fees when amounts, target host fees, and names of contributing organizations were included in the narrative quarterly reports under the "Sustainability and Follow-on Funding" sections of most reports (See a sample of reports as example: Attachment K Atlas Corps_October 29 2012_Performance Narrative Sept 30 2012 p.5; Attachment L: Atlas Corps March 31 2013_Performance Narrative (final April 30 2013) p.9; Attachment M Atlas Corps_March 31 2014_Performance Narrative (final April 29 2014) p.15; Attachment N Atlas Corps_2015_Performance Narrative (March 31 2015) p.17; Attachment O Atlas Corps_Report March 2016_S-LMAQM-12-GR-1139 p.12). Given this level of transparency it does not seem reasonable for the Department to assert that it was unaware that host organizations were contributing host fees. Regardless, as noted by Kearney on page 9 of the Draft Atlas Audit, "…Atlas properly used the program income to offset the agreed-upon cost-sharing portion of the grant".

II. Response to Recommendations

Below, we will reply to each one of the recommendations presented in the Draft Atlas Audit:

Response to Recommendation 1

Recommendation 1: OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisition Management (A/LM/AQM), (a) determine whether the $40,452 in questioned costs identified related to unapproved changes in the scope of the grant agreement are allowable or supported and (b) recover any costs determined to be unallowable or unsupported.

This total ($40,452) is, in part, composed of $27,154 in expenses and $35,487 in income deemed unallowable because they relate to the extension of four Fellows, and $9,490 in expenses related to activities after the end of the period of performance that were disbursed prior to the end of the period of performance. Atlas does not dispute the exclusion of these expenses or income. These expenses ($27,154 related to extensions and $9,490 related to activities beyond the period of performance) were erroneously included in the general ledgers that were provided prior to the close-out of the grant.

The remainder of the total ($40,452) referenced in this recommendation is $30,962 (composed of $43,462 in expenses less $12,500 in income) related to what the auditors interpreted as an excess of participants under this grant. As outlined in detail above, we did not exceed the number of participants in the grant, but rather provided 40 full fellowships and 5 partial fellowships who started and ended their fellowships early during the period of availability of funds in our goal of reaching 42 full fellowships. Therefore, these expenses and this income should not be out of scope and both should be allowable.

Recommendation 2

OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisition Management, (a) determine whether the $39,604 in questioned costs identified related to compensation, visas, and other miscellaneous expenses are allowable or supported and (b) recover any costs determined to be unallowable or unsupported.

In the $39,604 of questioned costs is $2,482 and $1,514 in visa-related expenses, which Atlas disputes as being questioned. Kearney identified visas costs over the line item budget amounts of $200 or $250 depending on the related grant agreement as "reasonable" (page 16 Draft Atlas Audit), yet unallowable because they exceeded the maximum line item amount (approximately $340/Fellow; total of $2,482).

Atlas believes, however, that that the adjustment for $2,482 on the total Federal contribution budget of $1,528,037, which at the time of the audit was underspent by approximately 26% falls under the following 10% rule:

- *Page 5 of the original grant agreement, Standard terms and conditions https://www.statebuy.state.gov/fa/Pages/TermsandConditions.aspx, Per*

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> *Section 11:* Prior Approval Requirements, of the Standard terms and conditions of US Based Organizations for FY 2010 to 2014, states that "Written prior approval, by way of amendment, from the Department of State's GO is required for the transfer of funds among direct cost categories or programs, functions and activities for awards in which the Federal share of the project exceeds $100,000 and the cumulative amount of such transfers exceeds or is expected to exceed 10 percent of the total budget."

This statement is also included in the 2016 department terms and conditions document effective 12/28/2015.

As for the $1,514 amount, Kearney determined that these visa-related travel expenditures to be "reasonable" yet "unallowable, because travel-related visa costs were not included in the grant agreement budget" (page 16 Draft Atlas Audit). Atlas disputes this determination based on the inclusion of the following line item description in the grant agreement for S-LMAQM-12-GR-1139 executed on 09/18/2012, page 14:

> "Projected visa fees for Fellows including: processing, ***travel to interviews***, and practice interviews." (Emphases added, See Attachment B: 091812 Grant Agreement for S-LMAQM-12-GR-1139.)

As such, expenses related to "***travel to interviews***" were clearly approved in the budget. Additionally, because the Embassy in South Sudan was closed, these participants had no other choice but to travel to neighboring countries for these interviews. Regardless, it is Atlas' belief that expenses for "travel to interviews" were allowed under the budget description, required for program participation and thus reasonable and allowable by any measure.

Atlas does not dispute the remaining $35,608 of unallowable or unsupported expenses.

Recommendation 3

OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisition management, (a) determine whether the costs associated with the $29,595 in unfulfilled cost sharing are allowable or supported and (b) recover funds for the portion of the cost sharing that is determined to be required to be paid.

The original grant agreement S-LMAQM-12-GR-1139 executed on 09/18/2012, page 5 "U.S Department of State Bureau/Program Specifics" clearly states "in the event the Recipient does not provide the minimum amount of cost-sharing as stipulated in the Recipient's approved budget, the (Department's) contribution will be reduced in proportion to the Recipient's contribution." (See Attachment B: 091812 Grant Agreement for S-LMAQM-12-GR-1139) The key words here are "**in proportion to the Recipient's contribution**."

The grant award clearly states that the remedy for unfulfilled cost-share is a ***proportional*** reduction of the federal contribution. Therefore, Atlas disputes Kearney's assertion that there is any unfulfilled cost-share. While Atlas had attributed expenses to the government equal to approximately $1,101,201 or 72.07% of the federal share of the grant; Atlas had attributed

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expenses at a greater proportion ($327,532 or 91.76% at the time of the audit) of its budgeted cost-share.

Kearney appears to be arguing that cost share must be entirely raised and spent first. This is not what the original grant agreement stated. Therefore, we dispute that more cost share is owed and we dispute that the costs associated with the $29,595 are unallowable.

Recommendation 4
OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisition Management, (a) determine whether the $11,408 in questioned costs identified related to indirect costs are allowable or supported and (b) recover any costs determined to be unallowable or unsupported.

While the exact amount of unallowable indirect costs will depend on the final amount of unallowable costs, Atlas would like to point out that we withdrew less than was permitted. As stated on page 19 of the Draft Atlas Audit, "Even though not required, Atlas elected to charge the de minimis indirect cost rate of 10 percent (rather than the 15 percent allowed by the grant agreement in 2014)." Therefore, we request that this amount ($11,408) be revisited following the determination of other disputed findings and that the Department allow Atlas to use up to the 15% rate for the entire term of the grant as agreed to in the grant award.

Adjustments to the Indirect Cost Rate from 10% to 15% for 2014-2016 would result in an additional $31,306 in allowable expenses. Kearney indicated this extra rate was allowable and we would request that the Department include these $31,306 in additional allowable expenses.

Recommendation 5
OIG recommends that the Bureau of Administration, Office of Logistics Management, Office of Acquisition Management, make a determination of the appropriate method to handle the $54,687 of income that was not generated by grant-related activities but that was used to fulfill a portion of the grantee's cost-sharing requirements. If the grantee cannot use those funds to fulfill its cost-sharing arrangement, the Bureau of Administration, Office of Logistics Management, Office of Acquisition Management, will need to recover funds from the grantee to cover the required cost-share amounts.

Atlas does not understand Kearney's objections to "income that was not generated by grant related activities but that was used to fulfill a portion of the grantee's cost-sharing requirements." As long as income is generated in legal ways, where is the objection, or the restriction, on where the income comes from as long as we use it to pay for expenses that are necessary and reasonable for accomplishment of the program objectives, allowable, and during the period of availability of funds?

III. Additional Information

1. **Use of the term "Work":** In two instances in the Draft Atlas Audit, the activity of fellows at their host organizations is mistakenly referred to as "work." The fellowship

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experience is social change leadership training experience. Fellows receive nearly 200 hours of in-person and virtual instructions in addition to their training placements with host organizations where they receive close supervision and daily on-the-job training from experts in their fields. Fellows and their supervisors collaborate to set a defined training plan and are held accountable for its achievements. The burden on the host organization in overseeing the fellow's training is significant. Atlas would like to request that these two instances be edited to more accurately reflect the nature of the program as follows:

a. Page 5 "Depending on the **Fellow's qualifications**, the organization's needs, and the amount of funding the organization had available, some host organizations paid a fee to Atlas **for the work** of the Fellow although other organizations did not." → *Should read "Depending on the **organization's needs** and amount of funding the organization had available, some of the host organizations paid a fee to **Atlas to host a Fellow** although other organizations did not."*
b. Page 10 "The non-profit organizations paid Atlas at the end of a calendar year, which was before the Fellow started **working.**" *This should read "The non-profit organizations paid Atlas at the end of a calendar year, which was before the Fellow **began their Fellowships.**"*

2. **Fellows serving with Atlas:** Atlas disputes Kearney's assertion that "Atlas effectively received free labor" (page 10 Draft Atlas Audit). As detailed above, fellows are trainees and do not provide work or services. Instead, Atlas took responsibility for training these individuals directly as well as the administrative and oversight burden this training entailed.

   Additionally, Kearney asserts that the fact that two fellows served with Atlas was not communicated to the Department (page 11 Draft Atlas Audit). This is simply not accurate. In each quarterly report during each fellow's term of service, a listing of fellows and the corresponding host organization was provided to the Department and it included the two fellows who trained with Atlas (See the following examples, Attachment L: Atlas Corps March 31 2013_Performance Narrative (final April 30 2013), p.3; Attachment P Atlas Corps_2015_Performance Narrative (Sept 30 2015 FINAL) p.5). Given that Atlas took on a responsibility to foster the achievement of the goals of the grant and was entirely transparent about its decision to do so, we request that the paragraph beginning at the bottom of page 10 and concluding at the top of page 11 of the Draft Atlas Audit be removed or re-written to reflect the true nature of the circumstance.

3. **Atlas' "financial management system does not comply":** Atlas acknowledges that over the years (including during the years of the grant) its financial management system has been continually improved. In addition both the size of our Finance Team and the depth of experience within our Financial Team has grown. For example, when the grant was first approved our Financial Controller only had a few years of experience and made up a one-person team. Now, Atlas Corps has two members of the Finance Team, including a Controller with 25 years of experience managing federal grants and a part-time CFO with 25 years of experience. Maintaining effective internal controls and strong financial

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management is an ongoing top priority of Atlas. We feel that the errors found as a result of this audit process would not occur in the future.

4. **Fellow Fees:** On page 11 of the Draft Atlas Audit, Kearney asserts that Atlas did not "return the funds to the Fellows at the end of the program", but there were no "deposits" associated with the fellowships. "Fees" are rarely returned, and never promised to be returned. Therefore, Atlas had no legal or financial reason to ever "return" fees and Atlas certainly did not "profit" from these fees, since they were 100% used to pay for program expenses (as acknowledged by Kearney.) Therefore, we request this paragraph be removed because it is inaccurate or redacted because it could be taken out of context and is derogatory.

IV. In Summary

Atlas appreciates the opportunity to provide additional information to clarify the Draft Atlas Audit and appreciates your consideration of the edits we provided. In summary, the most important items that need to be clarified and updated are as follows:

1. **Atlas drew down government funds in proportion to the cost share that was provided.** Therefore, we do not owe any additional cost share funds (there is no unfulfilled cost share as stated in Recommendation 3).

2. **Atlas does not believe that there was any "Change of Scope" needed to be requested because the grant was to bring 42 leaders to the U.S. on full fellowships and we only brought 40 participants who completed the fellowships.** Kearney is inaccurately counting participants who did not complete the fellowship but started and ended the fellowship early during the period of availability of funds.

3. **Atlas clearly communicated to the Department that host organizations paid a fee and this money went to pay for the cost share outlined in the budgets.** This was part of the initial grant application, the initial approved budgets, subsequent budgets and in written reports. We did not classify this as "program income" because we had been charging host fees for six years before we received the federal award. Additionally, in the proposal and the approved budgets by State Department, it was never suggested to us that it should be classified as program income, despite clearly stating there were host organization fees. Regardless of whether it is, or is not, program income, we were transparent about the host fees and generally treated the money in a similar manner as if it were program income.

At the end of the day, Atlas spent $1,101,201 and provided $327,000 in cost share for a combined total of $1,428,201 to bring 40 civil society leaders from Sudan and South Sudan to the U.S. on full fellowships. This was done at 20% under the approved budget while completing 95% of the goals of the program. To date, Atlas has only drawn down $910,613 against $1,101,201 of expenses it incurred. So according to our records, before this audit was initiated, the Department owes Atlas $191,588. The Draft Atlas Audit states there are $121,000 in unallowable expenses. We identify $102,951 in adjustments ($71,645 in disputed unallowable expenses and $31,306 in adjustments to the Indirect Cost rate from 10% to 15% for 2014-2016). Therefore, Atlas seeks to resolve this audit by drawing down the final $172,480 that is owed to Atlas.

Total Federal Expenses Reported	**$1,101,201**
LESS: Reductions Identified by Kearney	
Unapproved Scope Changes	
Exceeded number of Fellows	(30,962)
Fellowship Extensions	(0)
Errors in recording expenses for fellows arrived at end of grant period	(9,490)
Personnel Changes (table 7)	(6,372)
Other Items (table 9)	(33,232)
Costs paid by Dept that should have been covered by Atlas	(29,595)
Indirect Costs	(11,408)
LESS: Subtotal of Reductions Identified by Kearney	**(121,059)**
PLUS: Adjustments (Add backs to Kearney) Requested by Atlas	
Exceeded Number of fellows, Atlas disagrees with methodology	30,962
Visa Expenses in excess of budgeted line item (table 9)	3,996
Atlas Corps Cost Share exceeds proportion required based on Program Totals*	29,595
Adjustment to Indirect Costs for unallowable costs	7,092
Adjustment to Indirect Costs Rate from 10% to 15% for 2014-2016	31,306
PLUS: Subtotal Adjustments Requested by Atlas Corps	**102,951**
EQUALS: Adjusted Federal Expenses with Atlas Adjustments added back	1,083,093
LESS: Atlas Drawdowns to Date	(910,613)
EQUALS: Remaining Funds to be Reimbursed to Atlas Corps	$ 172,480

*Note if the Department determines that the proportionality rule is invalid, but the 15% indirect rate may be applied to the entire grant period, then the proportional cost share adjustment should be reduced from $29,959 to $16,653 to reflect increased indirect costs of $12,942 for the period from 1/1/14 to 6/30/16

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We trust that the OIG can make the requested corrections to the Draft Atlas Audit and that the Department of State can make the final determination on allowable and unallowable expenses in accordance with the information and requests provided above. We can then work to close out this grant as soon as possible.

Thank you for your consideration. We are happy to provide additional supporting documentation as needed.

Sincerely,

Scott Beale
Founder & CEO

Attachments:
Attachment A: Requested Redactions
Attachment B: 091812 Grant Agreement for S-LMAQM-12-GR-1139
Attachment C: 123015 Performance Narrative
Attachment D: List of Participants
Attachment E: 022916 Site Visit Letter
Attachment F 062816 GO Response to Atlas
Attachment G 070716 COO email to Kearney
Attachment H 071016 CEO-GO Email Exchange
Attachment I 080316 CEO email to GO
Attachment J 022112 Initial Proposal
Attachment K Atlas Corps_October 29 2012_Performance Narrative Sept 30 2012
Attachment L: Atlas Corps March 31 2013_Performance Narrative (final April 30 2013)
Attachment M Atlas Corps_March 31 2014_Performance Narrative (final April 29 2014)
Attachment N Atlas Corps_2015_Performance Narrative (March 31 2015)
Attachment O Atlas Corps_Report March 2016_S-LMAQM-12-GR-1139
Attachment P Atlas Corps_2015_Performance Narrative (Sept 30 2015 FINAL)

Attachments to the auditee's response are available upon request, consistent with applicable law.

APPENDIX D: SUMMARY OF AND REPLY TO THE BUREAU OF ADMINISTRATION, OFFICE OF LOGISTICS MANAGEMENT, OFFICE OF ACQUISITIONS MANAGEMENT, GENERAL COMMENT

In addition to comments directly related to Office of Inspector General recommendations, the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management (A/LM/AQM), provided a general comment related to the draft of this report (A/LM/AQM's comments in their entirety are in Appendix B.) A summary of A/LM/AQM's general comment and a reply from Kearney & Company, P.C, (Kearney) are presented below.

A/LM/AQM Comment: According to A/LM/AQM's response, in addition to the questioned costs identified during the audit, A/LM/AQM has determined that Atlas must return program income generated during the grant "in its entirety in the amount of $327,248."

Kearney Reply: Kearney takes no position with respect to A/LM/AQM's conclusions on this point. Kearney performed the steps that it believed to be appropriate to complete the audit objectives. Audits are not designed to test all expenditures or revenues and therefore may not identify all questioned costs. The amounts that Kearney identified as questioned costs in this report relate to its audit testing.

Kearney acknowledges that A/LM/AQM performed additional analyses to assess topics that were not addressed during the audit. To clarify, the program income generated by Atlas during the scope of the grant agreement is $272,561. That amount is calculated by subtracting the $54,687 of income that was not generated by grant-related activities from the $327,248 that was included in the program income files.

APPENDIX E: SUMMARY OF AND REPLIES TO ATLAS SERVICE CORPS, INC., GENERAL COMMENTS

Atlas Service Corps, Inc., (Atlas) provided general comments related to the draft of this report (Atlas' comments in their entirety are in Appendix C). Atlas structured its response into four sections – "Initial Overview of Three Key Points," "Response to Recommendations," "Additional Information," and "In Summary." Atlas' comments also included a summary and graph of its calculation of expenses, adjustments, and funds that Atlas believed it was entitled to be reimbursed. Some of the information in the four sections was repetitive, and responses to specific recommendations were included in more than one section. Rather than responding to each point raised by Atlas, Kearney & Company, P.C. (Kearney) summarized Atlas' comments. These summaries, along with replies from Kearney are presented below. Kearney considered Atlas' comments and updated the report, as necessary.

Atlas Comment: Atlas believes that it does not owe any additional cost share because it "provided costs share in greater proportion than the government funds" that it drew down. Specifically, Atlas stated that it completed approximately 95 percent of the proposed objectives of the grant but spent only 72 percent of Government funds. Further, Atlas contributed 91 percent of the budgeted cost share.

Kearney Reply: In the Audit Results section of this report, Kearney acknowledged that the grant agreement included differing guidance on the amount of cost sharing that Atlas was required to provide. Specifically, the grant agreement stated, "It is understood and agreed that the Recipient must provide the minimum amount of cost sharing as stipulated in the Recipient's budget."[1] The cost-share amount required by Amendment 3 was $356,947. However, the grant agreement also stated "in the event the Recipient does not provide the minimum amount of cost-sharing as stipulated in the Recipient's approved budget, the [Department's] contribution will be reduced in proportion to the Recipient's contribution."[2]

As described in the report, Kearney acknowledges that this language can be interpreted in more than one way. One possible interpretation of this language is that the Federal portion of Atlas' allowable expenditures should be reduced by the unfulfilled amount of the cost share, but another possible interpretation is that the cost share portion would be evaluated on a percentage basis. Kearney concluded that the Department must make a determination on this topic. Because Atlas' comments are already addressed in the report, Kearney did not make additional changes to the report on the basis of this comment.

Atlas Comment: Atlas does not believe that the scope of work changed in relation to the number of Fellows, as described in the Audit Results section of this report. According to the response, Atlas "interpreted the Scope of Work to be the provision of full, completed

[1] Grant Agreement for Award No. S-LMAQM-12-GR-1139, U.S. Department of State, Bureau/Program Specifics, Data Elements – 4, Cost Sharing.
[2] Ibid.

Fellowships." Therefore, Atlas took the position that "the grant was to support 42 *full* fellowships and that a *partial* fellowship did not count against the scope of work" Atlas was trying to achieve. Therefore, Atlas only counted Fellows who completed the program and graduated, not those who left the program before completing the fellowship. According to Atlas, this decision was communicated to the Department during calls and in the Performance Narratives. Further, Atlas states that it sought guidance, both verbally and in writing, on whether it should calculate the costs related to Fellows differently. Atlas states that it communicated to the Department "in each of the quarterly reports the number of fellows joining the program, graduating, or terminating and replacing fellows who ended early, and never received instructions contrary to our understanding of the scope or terms" of the grant agreement. Therefore, Atlas believes that it was reasonable to submit costs related to Fellows who had completed or were going to complete the program as well as the Fellows who had not completed the program, and Atlas believes that the expenses related to these Fellows should be allowable.

Kearney Reply: The Department's Terms and Conditions for the grant state, "Written prior approval, by way of amendment, from the Department of State's [Grants Officer] is required for: Change in the scope or the objective of the project or program (even if there is no associated budget revision requiring prior written approval)." On the basis of this requirement, Atlas should have obtained written instructions from the Grants Officer to ensure Atlas' interpretation of the requirements complied with the Department's expectations in advance of any decisions made related to the number of Fellows that could be funded. The Department's response to this draft report stated that it determined these expenditures should not have been made by Atlas, meaning that Atlas' interpretation of the requirement was not supported by the Department. Kearney did not make any changes to the report on the basis of this comment.

Atlas Comment: Atlas disputed the statement that host organization fees were not disclosed to the Department, stating "this income was disclosed repeatedly and in a very transparent manner." Atlas provided information to support its claim, including copies of the initial grant proposal and narrative quarterly reports.

Kearney Reply: On the basis of its review of the supporting documentation provided by Atlas, Kearney removed the statement from the report that "the Department was unaware program income was being generated."

Atlas Comment: The draft of this report included questioned costs ($3,996) for visa-related expenditures. Atlas stated that these costs should be considered allowable and provided additional information to support its claims.

Kearney Reply: On the basis of its review of the additional information provided by Atlas on visa-related expenditures, Kearney revised the report to remove $3,996 in visa-related costs that were originally questioned. Kearney also updated the amount of questioned indirect costs (which was calculated using direct costs).

Atlas Comment: Atlas believes that it charged a lower percentage for indirect costs than was allowed by the contract and therefore that it should not be asked to refund indirect costs that were charged to the Department related to questioned costs. (As explained in the report, indirect costs are calculated using a percentage of direct costs, so if a direct cost is questioned, the indirect cost amount would similarly be impacted). Specifically, as reported in the Audit Results section of this report, Atlas elected to charge an indirect cost rate of 10 percent rather than the 15 percent allowed by the grant agreement. Atlas requests that the Department now allow Atlas to revise the amount of indirect costs charged to the grant to reflect the higher percentage rate.

Kearney Reply: Any determination as to whether Atlas can modify the indirect cost charges made to the grant must be made by the Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management. Accordingly, Kearney did not make any changes to the report on the basis of this comment.

Atlas Comment: Atlas believes that the report should not identify concerns related to the source of funds used to fulfill Atlas' cost-share requirements. According to Atlas, since the income was generated legally, Atlas should be able to use the funds to pay for expenses that are necessary and reasonable to accomplish the program objectives.

Kearney Reply: As discussed in the Audit Results section of this report, Kearney determined the host fee component of the Atlas business model was not documented in the grant agreement. In fact, the grant agreement states that program income is "N/A." Although Atlas used the funds generated to offset its cost-sharing requirements, because the grant agreement did not include authorization to earn program income, the Department should make a determination on how to handle program income collected by Atlas. In its response to the draft report (as detailed in Appendix B), the Department stated that it had performed an assessment of program income and determined that all program income generated during the grant must be returned to the Department. Considering the Department's determination, Kearney did not make any changes to the report on the basis of this comment.

Atlas Comment: Atlas requested that Kearney not refer to the activity of Fellows at the host organizations as "work." According to Atlas, the fellowship experience is "social change leadership training experience" in which "Fellows and their supervisors collaborate to set a defined training plan and are held accountable for the achievement of the plan. The burden on the host organization in overseeing the Fellow's training is significant. Atlas would like to request that these two instances be edited to more accurately reflect the nature of the program."

Kearney Reply: Because the requested wording changes did not impact the report's overall findings, Kearney revised the wording in the report as requested.

Atlas Comment: Atlas disagreed with the report's statement that it had "effectively received free labor" because it had placed two Fellows at its own organization. According to Atlas, Fellows are trainees and do not provide work or services. Instead, Atlas took responsibility for training these individuals directly and also absorbed the administrative and oversight burden this training entailed.

Kearney Reply: Kearney agrees that a component of the Fellowship process is to provide training to the Fellows. However, part of that "training" is to have Fellows perform tasks at the host organization—tasks that an employee would have to perform if the Fellows were not available. For example, the Fellow placed at Atlas in September 2015 served as part of the Finance and Administration team and was responsible for oversight of Atlas accounting and financial functions. Presumably, if an Atlas Fellow was not performing those responsibilities, they would be performed by a paid employee. Although the appearance that Atlas may be taking advantage of the Department grant to benefit itself remains a concern, Kearney did not identify this practice as violating Federal grant regulations or the grant agreement, since the purpose of the grant was for Fellows to be placed at non-profit organizations. Accordingly, Kearney modified the report to remove the discussion of the Fellows placed at Atlas.

Atlas Comment: Atlas provided documentation that it had notified the Department that it had placed two Fellows at Atlas. Atlas also asked that the statement in the draft report claiming it had not notified the Department about this situation be removed.

Kearney Reply: On the basis of its review of the supporting documentation provided by Atlas, Kearney removed the statement from the report.

Atlas Comment: Atlas stated that, during the grant period, it had improved its financial management system. In addition, Atlas indicated that the size and experience level of the Financial Team has grown. Atlas stated that maintaining effective internal controls and strong financial management is a top priority. Atlas requested that the section on the financial management system deficiencies be removed because it primarily focuses on mistakes made in the past that have been addressed. Atlas feels that the errors found as a result of this audit process would not occur in the future.

Kearney Reply: Kearney agrees that Atlas improved its financial management system during the grant period and acknowledged those improvements in the Audit Results section of this report. However, Kearney identified numerous errors related to improper accounting, including issues that occurred near the end of the grant period. Although Kearney is pleased that Atlas now considers internal controls and strong financial management to be a top priority, Kearney has a responsibility to report deficiencies that it identified during the scope period of the audit. Kearney did not make any changes to the report on the basis of this comment.

Atlas Comment: With respect to the report's comment that Atlas did not "return the funds to the Fellows at the end of the program," Atlas stated that fees collected from Fellows are rarely returned and that there is no promise that the fees will be returned. Atlas stated that it had "no legal or financial reason to ever return fees" and "did not 'profit' from the fees, since they were 100% used to pay for program expenses." Atlas requested that the paragraph on fees from

Fellows "be removed because it is inaccurate or redacted because it could be taken out of context and is derogatory."

Kearney Reply: Kearney found that the majority of the Fellows received back some or all the fees that they paid to Atlas, but Atlas did not always return the funds to the Fellows at the end of the program. The report does not imply that Atlas has a legal requirement to refund the fees to Fellows. As discussed in the Audit Results section of this report, the issue is that Atlas charged a fee that was not included in the grant agreement. Kearney agrees that Atlas did not earn a profit from the practice because the funds were used to offset expenses, and Kearney modified the report accordingly. Kearney did not make any other changes to the report on the basis of this comment.

Atlas Comment: In summary, Atlas stated that the draft audit report identified "$121,000 in unallowable expenses." However, throughout its response to the draft report, Atlas identified "$102,951 in adjustments ($71,645 in disputed unallowable expenses and $31,306 in adjustments to the Indirect Cost rate)." Therefore, Atlas stated that it "seeks to resolve this audit by drawing down the final $172,480 that is owed to Atlas."

Kearney Reply: Kearney has considered Atlas' position on each of the items of questioned cost that were included in the draft report and has responded to Atlas' comments throughout this section. In summary, Kearney has removed $3,996 in costs originally identified as questioned related to visa expenses from the report and also adjusted the amount questioned related to indirect costs. The final total of questioned costs identified related to Atlas expenditures is $116,631. As noted in its response to Atlas' comments, Kearney did not obtain sufficient information from Atlas to modify the amount of other questioned costs. The Department is responsible for making the final determination as to the amount of questioned costs identified during an audit. In its response to the draft report, the Department stated that it had determined that the costs identified by Kearney were unallowed or unsupported and that Atlas would be required to reimburse the Government for the amounts identified. Atlas should work with Department officials during the grant close-out process to determine the best methodology to address the questioned costs identified during the audit.

ABBREVIATIONS

A/LM/AQM	Bureau of Administration, Office of Logistics Management, Office of Acquisitions Management
CFR	Code of Federal Regulations
FFR	Federal Financial Report
GO	Grants Officer
GOR	Grants Officer Representative
OMB	Office of Management and Budget

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