DEPARTMENT OF HEALTH & HUMAN SERVICES

OFFICE OF INSPECTOR GENERAL

Washington, D.C. 20201

June 10, 2010

TO: Yvette Sanchez Fuentes
Director, Office of Head Start
Administration for Children and Families

FROM: /Lori S. Pilcher/
Assistant Inspector General for Grants, Internal Activities,
and Information Technology Audits

SUBJECT: Results of Limited Scope Review at Acelero Learning Clark County's Head Start Program (A-09-09-00094)

The attached final report provides the results of our limited scope review of Acelero Learning Clark County's (Acelero Learning) Head Start program. The Administration for Children and Families (ACF), Office of Head Start, requested this review as part of its overall assessment of Head Start grantees that have applied for additional funding under the American Recovery and Reinvestment Act of 2009 (Recovery Act).

President Obama signed the Recovery Act into law on February 17, 2009. The Recovery Act includes measures to modernize our Nation's infrastructure, enhance energy independence, expand educational opportunities, preserve and improve affordable health care, provide tax relief, and protect those in greatest need.

At the President's direction, Federal agencies are taking critical steps to carry out the Recovery Act effectively. All Federal agencies and Departments receiving Recovery Act funds must maintain strong internal controls and implement oversight mechanisms and other approaches to meet the accountability objectives of the Recovery Act.

The objectives of our limited scope review were to determine whether (1) Acelero Learning is fiscally viable and (2) Acelero Learning's financial management system adequately managed and accounted for Federal funds.

We were unable to determine whether Acelero Learning is a fiscally viable Head Start grantee because only limited audited financial data covering its startup operations for the year ended December 31, 2007, were available at the time of our review. In addition, Acelero Learning's financial management system did not adequately manage and account for Federal funds.

- Contrary to Federal regulations, Acelero Learning's management affiliation agreement with Acelero Inc. was a sole-source agreement because Acelero Learning did not request or obtain competitive bids from other management companies. In addition, the affiliation agreement was a less-than-arms-length transaction that violated generally accepted sound business practices and created a conflict of interest or the appearance thereof.

- Contrary to Federal regulations and the terms of the affiliation agreement, Acelero Learning overcharged the Head Start program for Acelero Inc.'s management fees and other costs. Conversely, Acelero Learning undercharged the Extended Day and Food programs for these costs. This disproportionate allocation of costs resulted in Acelero Inc. earning an excessive profit.

- Contrary to Federal regulations, Acelero Learning charged the Head Start program for unallowable and unsupported costs.

- Acelero Learning's systems and internal controls related to accounting, personnel, procurement, and property management had weaknesses.

In written comments on our draft report, Acelero Learning generally disagreed with our findings. Acelero Learning stated that its management affiliation agreement with Acelero Inc. was properly disclosed, structured, and implemented. In addition, Acelero Learning believed that almost all of the costs charged to the Head Start program were allocable and allowable. Furthermore, Acelero Learning disagreed with most of the weaknesses that we identified in its systems and internal controls. Nothing in Acelero Learning's comments caused us to revise our findings.

In determining whether Acelero Learning should be awarded additional Head Start and Recovery Act grant funding, we recommend that ACF consider the information presented in this report in assessing Acelero Learning's financial condition and ability to manage and account for Federal funds.

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that the Office of Inspector General (OIG) post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at http://oig.hhs.gov.

Please send us your final management decision, including any action plan, as appropriate, within 60 days. If you have any questions or comments about this report, please do not hesitate to contact me at (202) 619-1175 or through email at Lori.Pilcher@oig.hhs.gov. Please refer to report number A-09-09-00094 in all correspondence.

Attachment

Department of Health & Human Services

OFFICE OF INSPECTOR GENERAL

RESULTS OF LIMITED SCOPE REVIEW AT ACELERO LEARNING CLARK COUNTY'S HEAD START PROGRAM

Daniel R. Levinson
Inspector General

June 2010
A-09-09-00094

Office of Inspector General

http://oig.hhs.gov

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OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.

EXECUTIVE SUMMARY

BACKGROUND

Head Start is a national program that promotes school readiness by enhancing the cognitive, social, and emotional development of children through the provision of health, educational, nutritional, social, and other services to enrolled children and families. The program was most recently reauthorized by Public Law 110-134, Improving Head Start for School Readiness Act of 2007. Within the U.S. Department of Health & Human Services, the Administration for Children and Families (ACF), Office of Head Start, administers the Head Start program. Head Start provides grants to local public and private nonprofit and for-profit agencies to deliver comprehensive child development services to economically disadvantaged children and families.

Under the American Recovery and Reinvestment Act of 2009 (Recovery Act), P.L. No. 111-5, enacted February 17, 2009, ACF received $1 billion, including nearly $354 million to help improve staff compensation and training, upgrade Head Start centers and classrooms, increase hours of operation, and enhance transportation services. An additional $356 million was allocated to award all Head Start grantees a nearly 5-percent cost-of-living increase and bolster training and technical assistance activities.

Acelero Learning Clark County (Acelero Learning), a for-profit agency, operates a Head Start program that provides comprehensive early childhood development services for disadvantaged preschool children and their families at locations throughout Clark County, Nevada. Acelero Learning was incorporated in 2006 as a wholly owned subsidiary of Acelero Learning, Inc. (Acelero Inc.), a for-profit agency located in New York City. On September 29, 2008, Acelero Learning and Acelero Inc. entered into a management affiliation agreement in which Acelero Inc. agreed to provide oversight, programmatic, and administrative support services to Acelero Learning for all of its programs.

Acelero Learning is funded through Federal and State grants and was awarded ACF grant funds for Head Start totaling $11,634,376 for the budget period April 1, 2008, through March 31, 2009. Acelero Learning was also awarded Recovery Act grant funds for the budget period July 1, 2009, through September 30, 2010, totaling $856,727 for cost-of-living increases and quality improvement.

In addition to operating the Head Start program, Acelero Learning operates the Extended Day and Food programs. The Extended Day program provides childcare for working parents before and after the regular hours of the Head Start program. The Food program provides nutritious meals and snacks to children enrolled in the Head Start program.

OBJECTIVES

The objectives of our limited scope review were to determine whether (1) Acelero Learning is fiscally viable and (2) Acelero Learning's financial management system adequately managed and accounted for Federal funds.

SUMMARY OF FINDINGS

We were unable to determine whether Acelero Learning is a fiscally viable Head Start grantee because only limited audited financial data covering its startup operations for the year ended December 31, 2007, were available at the time of our review.

Acelero Learning's financial management system did not adequately manage and account for Federal funds:

- Contrary to Federal regulations, Acelero Learning's management affiliation agreement with Acelero Inc. was a sole-source agreement because Acelero Learning did not request or obtain competitive bids from other management companies. In addition, the affiliation agreement was a less-than-arms-length transaction that violated generally accepted sound business practices and created a conflict of interest or the appearance thereof.

- Contrary to Federal regulations and the terms of the affiliation agreement, Acelero Learning overcharged the Head Start program for Acelero Inc.'s management fees and other costs. Conversely, Acelero Learning undercharged the Extended Day and Food programs for these costs. This disproportionate allocation of costs resulted in Acelero Inc. earning an excessive profit.

- Contrary to Federal regulations, Acelero Learning charged the Head Start program for unallowable and unsupported costs.

- Acelero Learning's systems and internal controls related to accounting, personnel, procurement, and property management had weaknesses.

RECOMMENDATION

In determining whether Acelero Learning should be awarded additional Head Start and Recovery Act grant funding, we recommend that ACF consider the information presented in this report in assessing Acelero Learning's financial condition and ability to manage and account for Federal funds.

ACELERO LEARNING COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, Acelero Learning generally disagreed with our findings. Acelero Learning stated that its management affiliation agreement with Acelero Inc. was properly disclosed, structured, and implemented. In addition, Acelero Learning believed that almost all of the costs charged to the Head Start program were allocable and allowable. Furthermore, Acelero Learning disagreed with most of the weaknesses that we identified in its systems and internal controls. We included Acelero Learning's comments as Appendix B, but we excluded the attachments because of their length.

Nothing in Acelero Learning's comments caused us to revise our findings.

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INTRODUCTION

BACKGROUND

Head Start Program

Head Start is a national program that promotes school readiness by enhancing the cognitive, social, and emotional development of children through the provision of health, educational, nutritional, social, and other services to enrolled children and families. The program was most recently reauthorized by Public Law 110-134, Improving Head Start for School Readiness Act of 2007. Within the U.S. Department of Health & Human Services (HHS), the Administration for Children and Families (ACF), Office of Head Start (OHS), administers the Head Start program.

Head Start provides grants to local public and private nonprofit and for-profit agencies to deliver comprehensive child development services to economically disadvantaged children and families, with a special focus on helping preschoolers develop the early reading and math skills needed to be successful in school. Local Head Start programs engage parents in their children's learning and emphasize parental involvement in program administration.

Under the American Recovery and Reinvestment Act of 2009 (Recovery Act), P.L. No. 111-5, enacted February 17, 2009, ACF received $1 billion, including nearly $354 million to help improve staff compensation and training, upgrade Head Start centers and classrooms, increase hours of operation, and enhance transportation services. An additional $356 million was allocated to award all Head Start grantees a nearly 5-percent cost-of-living increase and bolster training and technical assistance activities.

Acelero Learning Clark County

Acelero Learning Clark County (Acelero Learning), a for-profit agency, operates a Head Start program that provides comprehensive early childhood development services for disadvantaged preschool children and their families at locations throughout Clark County, Nevada. Acelero Learning was incorporated in 2006 as a wholly owned subsidiary of Acelero Learning, Inc. (Acelero Inc.), a for-profit agency located in New York City.

Acelero Learning is funded through Federal and State grants and was awarded ACF grant funds for Head Start totaling $11,634,376 for the budget period April 1, 2008, through March 31, 2009.[1] Acelero Learning was also awarded Recovery Act grant funds for the budget period July 1, 2009, through September 30, 2010, totaling $856,727 for cost-of-living increases and quality improvement.

In addition to operating the Head Start program, Acelero Learning operates the Extended Day and Food programs:

- The Extended Day program provides childcare for working parents before and after the regular hours of the Head Start program. It is a Federal- and State-funded program.

[1] The Head Start program accounted for 86 percent of Acelero Learning's total revenues.

Within ACF, the Child Care Bureau awards Federal funds through a block grant to the State from the Child Care and Development Fund.

- The Food program, funded by the U.S. Department of Agriculture, provides nutritious meals and snacks to children enrolled in the Head Start program.

For the 16-month period ended June 30, 2009, Acelero Learning's accounting records showed Extended Day program revenues of $1,327,806 and Food program revenues of $819,142.

Management Affiliation Agreement Between Acelero Learning and Acelero Inc.

On September 29, 2008, Acelero Learning and Acelero Inc. entered into a management affiliation agreement.[2] Under the agreement, Acelero Inc. agreed to provide oversight, programmatic, and administrative support services to Acelero Learning for all of its programs, including the Head Start, Extended Day, and Food programs.[3] Acelero Learning's board of directors has ultimate authority over the applicant, and the chairman of the board signed the affiliation agreement.

For the Head Start program, the management affiliation agreement required Acelero Learning to pay Acelero Inc. for "allowable, allocable out-of-pocket administrative and support costs necessary to perform [oversight, programmatic, and administrative support] services either directly or as measured by a fair and equitable cost allocation system."[4]

For programs other than Head Start (the Extended Day and Food programs), the affiliation agreement stated that Acelero Inc. "shall bear the full cost of performing services necessary to fulfill [Acelero Learning's] responsibilities … in exchange for all revenues generated by such programs." Under the agreement, Acelero Learning and Acelero Inc. agreed that Head Start funds would not be used to pay Acelero Inc. for services provided under the Extended Day and Food programs or to subsidize the operation of the Extended Day and Food programs. (See Appendix A for an example of the reimbursement arrangement under the affiliation agreement.)

Requirements for Federal Grantees

Pursuant to 45 CFR § 74.21, grantees are required to maintain financial management systems that contain written procedures for determining the reasonableness, allocability, and allowability of costs in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award. Grantees must maintain accounting records that are supported by source documentation and must maintain financial systems that provide for accurate and complete reporting of grant-related financial data. Grantees are also required to compare outlays with budget amounts for each award and may use grant funds only for authorized purposes.

[2] According to the agreement, ACF specifically authorized Acelero Learning to enter into the affiliation agreement with Acelero Inc.

[3] Acelero Inc. also provides management services to two other subsidiaries that are Head Start grantees (one grantee is an Early Head Start grantee).

[4] Acelero Learning had three cost allocation plans covering the period April 2008 to August 2009.

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

The objectives of our limited scope review were to determine whether (1) Acelero Learning is fiscally viable and (2) Acelero Learning's financial management system adequately managed and accounted for Federal funds.

Scope

We conducted our audit for the limited purpose described in the objectives; thus, the audit would not necessarily have disclosed all material weaknesses. Accordingly, we do not express an opinion on Acelero Learning's overall system of internal accounting controls. We also do not express an opinion on the reasonableness of Acelero Learning's cost allocation plans. We performed limited tests and other auditing procedures on Acelero Learning's financial management system to assess its ability to administer federally funded projects. We did not intend the audit to be a full-scope audit, nor did we intend to issue a report with fully developed findings and recommendations.

We conducted our fieldwork in July and August 2009 at Acelero Learning's administrative office in Las Vegas, Nevada.

Methodology

To accomplish our objectives, we:

- reviewed relevant Federal laws and regulations;
- reviewed Acelero Learning's policies, procedures, and accounting records;
- reviewed selected Federal grant award documentation to determine Acelero Learning's Federal funding;
- reviewed Acelero Learning's board of directors meeting minutes, articles of incorporation, and corporate bylaws;
- reviewed Acelero Inc.'s audited consolidated financial statements for the years ended December 31, 2007, and December 31, 2006;
- reviewed Acelero Learning's unaudited financial statements for the period January 1, 2008, through June 30, 2009;
- reviewed the management affiliation agreement between Acelero Learning and Acelero Inc.;

- reviewed supporting documentation for selected costs that Acelero Learning charged to the Head Start program;

- reviewed Acelero Learning's equipment inventory records;

- interviewed Acelero Learning's executive director, interim director of finance, chairman of the board of directors, and head of the finance committee; and

- interviewed Acelero Inc.'s interim vice president of finance.

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

FINDINGS AND RECOMMENDATION

We were unable to determine whether Acelero Learning is a fiscally viable Head Start grantee because only limited audited financial data covering its startup operations for the year ended December 31, 2007, were available at the time of our review.

Acelero Learning's financial management system did not adequately manage and account for Federal funds:

- Contrary to Federal regulations, Acelero Learning's management affiliation agreement with Acelero Inc. was a sole-source agreement because Acelero Learning did not request or obtain competitive bids from other management companies. In addition, the affiliation agreement was a less-than-arms-length transaction that violated generally accepted sound business practices and created a conflict of interest or the appearance thereof.

- Contrary to Federal regulations and the terms of the affiliation agreement, Acelero Learning overcharged the Head Start program for Acelero Inc.'s management fees and other costs. Conversely, Acelero Learning undercharged the Extended Day and Food programs for these costs. This disproportionate allocation of costs resulted in Acelero Inc. earning an excessive profit.

- Contrary to Federal regulations, Acelero Learning charged the Head Start program for unallowable and unsupported costs.

- Acelero Learning's systems and internal controls related to accounting, personnel, procurement, and property management had weaknesses.

ACELERO LEARNING'S FISCAL VIABILITY

We were unable to determine whether Acelero Learning is fiscally viable. Acelero Learning provided us with a copy of Acelero Inc.'s audited consolidated financial statements for the years ended December 31, 2007, and December 31, 2006. Based on the information provided, Acelero Learning reported no financial activity for fiscal year (FY) 2006. For FY 2007, Acelero Learning had only 9 cents in current assets for every $1 in current liabilities and incurred a net loss of $138,454. Acelero Learning did not provide any audited financial information for FY 2008. However, Acelero Learning did receive a Head Start grant of $303,357 for startup costs for the period February 28 through September 1, 2008.

ACELERO LEARNING'S FINANCIAL MANAGEMENT SYSTEM

Acelero Learning's financial management system did not adequately manage and account for Federal funds.

Sole-Source and Less-Than-Arms-Length Management Affiliation Agreement With Acelero Inc.

Acelero Learning's management affiliation agreement with Acelero Inc. was a sole-source agreement and a less-than-arms-length transaction.

Sole-Source Agreement

Pursuant to 45 CFR § 74.43, all procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition. Acelero Learning entered into a sole-source management affiliation agreement with Acelero Inc. Acelero Learning did not request or obtain competitive bids, proposals, or offers from other management companies.

Pursuant to 45 CFR § 74.46, procurement records and files for purchases in excess of the simplified acquisition threshold of $100,000[5] shall include the following at a minimum: the basis for contractor selection, justification for lack of competition when competitive bids or offers are not obtained, and basis for award cost or price. Acelero Learning's procurement records and files for the affiliation agreement with Acelero Inc. did not include the basis for contractor selection, a justification for lack of competition, or the basis for award costs or prices. The affiliation agreement set a $361,809 reimbursement limit for Head Start services.

Less-Than-Arms-Length Transaction

Pursuant to 45 CFR § 74.42:

> No employee, officer, or agent shall participate in the selection, award, or administration of a contract supported by Federal funds if a real or apparent conflict of interest would be involved. Such a conflict would arise when the

[5] The term "simplified acquisition threshold" means $100,000 as defined in 48 CFR § 2.101.

> employee, officer, or agent, or any member of his or her immediate family, his or her partner, or an organization which employs or is about to employ any of the parties indicated herein, has a financial or other interest in the firm selected for an award.

In addition, the Federal regulations (48 CFR § 31.201-3(b)(2)) for determining the reasonableness of costs for commercial organizations require arm's length bargaining and generally accepted sound business practices to be followed.[6]

The affiliation agreement between Acelero Learning and Acelero Inc. was a less-than-arms-length transaction that violated generally accepted sound business practices and created a conflict of interest or the appearance thereof. A conflict of interest or the appearance thereof was created because the chief executive officer of Acelero Inc. (who signed the agreement for Acelero Inc.) was also the interim chief executive officer and a member of the board of directors of Acelero Learning when the agreement was formulated and negotiated. In addition, because Acelero Inc. is the parent company, it has a financial interest in Acelero Learning (its wholly owned subsidiary) and therefore could possibly influence the awards made by Acelero Learning.

Disproportionate Charging of Costs to Head Start

Pursuant to 48 CFR § 31.201-4, a cost is allocable if it is incurred specifically for the contract; benefits both the contract and other work and can be distributed to them in reasonable proportion to the benefits received; or is necessary to the overall operation of the business, although a direct relationship to any particular cost objective cannot be shown.

Pursuant to 45 CFR § 74.81: "… no HHS funds may be paid as profit to any recipient even if the recipient is a commercial organization. Profit is any amount in excess of allowable direct and indirect costs."

Contrary to Federal regulations and the terms of the affiliation agreement, Acelero Learning overcharged the Head Start program for Acelero Inc.'s management fees and related travel and for Acelero Learning's meeting costs. Conversely, Acelero Learning undercharged the Extended Day and Food programs for these costs. This disproportionate allocation of costs resulted in Acelero Inc. earning an excessive profit. (See Appendix A for a comparison of the current practice and correct approach.) The following are examples of disproportionate costs charged to Head Start:

- For the period March 1, 2008, through March 31, 2009, Acelero Learning paid Acelero Inc. $430,828 for management services and charged the entire amount to the Head Start program. The services provided included accounting, administration, program development, human resources, education and training, and information technology support.

[6] Federal regulations (45 CFR § 74.27(a)) state that the cost principles for commercial organizations are found in the Federal Acquisition Regulation (FAR) at 48 CFR part 31.

- For the period September 1, 2008, through March 31, 2009, Acelero Learning paid Acelero Inc. $19,555 for travel expenses incurred by Acelero Inc.'s employees when providing management services. The entire amount was charged to the Head Start program.

- Acelero Learning incurred $10,000 in costs for a training and staff development meeting held from August 18 through August 29, 2008, and charged the entire amount to the Head Start program. According to Acelero Learning's interim director of finance, all employees attended this meeting.

Because the Extended Day and Food programs also benefited from these services, Acelero Learning should have allocated to these programs their fair share of costs. Prior to the affiliation agreement, Acelero Learning allocated some of Acelero Inc.'s travel costs to the Extended Day program, which appeared to indicate that Acelero Learning acknowledged a shared benefit.

Unallowable and Unsupported Costs Charged to Head Start

Pursuant to 48 CFR § 31.201-2(a), among other requirements, a cost is allowable only when the cost is reasonable, allocable, and complies with the terms of the contract. Pursuant to 48 CFR § 31.201-3(a): "A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person in the conduct of competitive business."

Pursuant to 48 CFR § 31.205-14: "Costs of amusement, diversions, social activities, and any directly associated costs such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities are unallowable."

Pursuant to 45 CFR § 74.21(b)(7), the recipient's financial management system shall provide for accounting records that are supported by source documentation.

Based on our limited review, we found that Acelero Learning charged the Head Start program for $1,418 in unallowable costs incurred by Acelero Inc.:[7]

- $889 for the spouse of an Acelero Inc. employee to travel from New York City to Las Vegas, Nevada;

- $265 for a Global Positioning System (GPS) purchased by an Acelero Inc. employee that was never received by Acelero Learning, according to its interim director of finance; and

- $264 for entertainment.

According to Acelero Learning's interim director of finance, supporting documentation for Acelero Inc.'s services and expenses was not always provided to her. She told us that, in some

[7] In a May 2009 review, ACF identified $73,730 of unallowable costs that Acelero Learning charged to the Head Start program, including $39,793 for Acelero Inc.'s employee recruitment and placement costs; $17,400 for unallowable marketing, public relations, and special event costs; and $16,537 for a holiday party.

cases, Acelero Inc. provided only prepared checks for Acelero Learning's approval and required signatures.

In addition, Acelero Learning charged the Head Start program for unsupported costs. Specifically, for the 8-month period ended May 31, 2009, Acelero Learning charged the Head Start program $54,517, or about $6,800 per month, for program development services provided by Acelero Inc.'s vice president of program development. Neither Acelero Learning nor Acelero Inc. provided us with documentation supporting any program development services. Acelero Learning employs a Head Start executive director, an operations director, three zone directors, a program information specialist, and three center directors at a yearly salary cost of over $583,000, plus benefits. It is reasonable to assume that these individuals' duties would include program development services.

Weaknesses in Systems and Internal Controls

Our limited review disclosed weaknesses in Acelero Learning's systems and internal controls related to accounting, personnel, procurement, and property management. Specifically, Acelero Learning did not (1) have written policies and procedures to ensure that deposits with financial institutions were adequately insured, (2) have written policies and procedures to ensure that Federal funds not be used to pay employees in excess of the Head Start employee compensation limit, (3) adequately segregate duties for timekeeping and payroll or for duties related to the procurement of supplies, or (4) maintain adequate equipment inventory records.

Lack of Written Policies and Procedures for Deposits With Financial Institutions

Pursuant to 45 CFR § 74.22(i)(2), advances of Federal funds shall be deposited and maintained in insured accounts whenever possible. Pursuant to section 11(a)(1)(A) of the Federal Deposit Insurance Act, the Federal Deposit Insurance Corporation (FDIC) provides insurance coverage for deposits with an FDIC-insured financial institution. Under 12 CFR § 330.1(n), FDIC provides maximum insurance coverage of $250,000, including principal and accrued interest.

Acelero Learning did not have written policies and procedures to ensure that cash deposits at financial institutions were adequately insured. Acelero Learning deposited grant funds in a financial institution that is a member of the FDIC. For the period May 1 through May 31, 2009, the balances that exceeded $250,000 ranged from $262,464 to $721,062. Because Acelero Learning had no written policies or procedures, it had no assurance that its cash deposits were adequately insured in amounts exceeding $250,000.

Lack of Written Policies and Procedures for Employee Compensation

Pursuant to section 653(b)(1) of the Head Start Act: "… no Federal funds may be used to pay any part of the compensation of an individual employed by a Head Start agency, if such compensation, including non-Federal funds, exceeds an amount equal to the rate payable for level II of the Executive Schedule under section 5313 of title 5, United States Code."

Acelero Learning did not have written policies and procedures to ensure that Federal funds not be used to pay employees in excess of the Head Start employee compensation limit. For 2009, the rate payable for level II of the Executive Schedule was $177,000. At the time of our review, none of Acelero Learning's employees was paid more than $177,000.

Inadequate Segregation of Duties

Pursuant to 45 CFR § 74.21(b)(3), the recipient's financial management system shall provide for effective control over and accountability for all funds, property, and other assets.

Acelero Learning did not adequately segregate duties for timekeeping and payroll or duties related to procurement of supplies. At the time of our audit, the same employee was responsible for processing timesheets, entering required information in the payroll contractor's system, electronically submitting payroll information to the contractor for processing, and distributing payroll checks to employees. In addition, the employee who purchased supplies was also responsible for receiving and reviewing the items purchased. For internal controls to be effective, duties should be segregated among different individuals.

Inadequate Equipment Inventory Records

Federal regulations (45 CFR § 74.34(f)(1)) specify that records shall be maintained accurately for equipment acquired with Federal funds and federally owned equipment and must include, among other things, the following information: (1) source of the equipment (including the award number); (2) whether title vests in the recipient or the Federal Government; (3) information from which one can calculate the percentage of the HHS share in the cost of the equipment; (4) location and condition of the equipment and the date that the information was recorded; (5) unit acquisition cost; and (6) ultimate disposition data, including the date of disposal and sales price or the method used to determine current fair market value where a recipient compensates the HHS awarding agency for its share.

Acelero Learning's equipment inventory records did not identify the source of the equipment (including the award number), where title vested, information to calculate the HHS share in the cost of the equipment, the condition of the equipment (including the date that this information was reported), the unit acquisition cost, and ultimate disposition data for all equipment. Because Acelero Learning did not maintain adequate equipment inventory records, Acelero Learning is unable to provide current information about the existence, use, and condition of its federally funded equipment.

RECOMMENDATION

In determining whether Acelero Learning should be awarded additional Head Start and Recovery Act grant funding, we recommend that ACF consider the information presented in this report in assessing Acelero Learning's financial condition and ability to manage and account for Federal funds.

ACELERO LEARNING COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, Acelero Learning generally disagreed with our findings. Acelero Learning stated that its management affiliation agreement with Acelero Inc. was properly disclosed, structured, and implemented. In addition, Acelero Learning believed that almost all of the costs charged to the Head Start program were allocable and allowable. Furthermore, Acelero Learning disagreed with most of the weaknesses that we identified in its systems and internal controls. We included Acelero Learning's comments as Appendix B, but we excluded the attachments because of their length.

Nothing in Acelero Learning's comments caused us to revise our findings.

Sole-Source and Less-Than-Arms-Length Management Affiliation Agreement With Acelero Inc.

Acelero Learning Comments

Acelero Learning stated that OHS was fully aware of the relationship between Acelero Learning and Acelero Inc. when it awarded the Head Start grant to Acelero Learning. In addition, Acelero Learning stated that there was no prohibition against this type of relationship provided that it was properly structured. Acelero Learning stated that the affiliation agreement was properly structured to reimburse only the actual cost of performing Head Start services as provided for in the FAR.

Furthermore, Acelero Learning stated that, contrary to the statements in the draft report, Acelero Learning ensured that it obtained independent approval, free of real or apparent conflicts, of the relationship between Acelero Learning and Acelero Inc. Specifically, Acelero Learning stated that the chair of its board of directors approved the affiliation agreement before execution and submission to OHS.

Acelero Learning also stated that Acelero Inc. and OHS have agreed to designate Acelero Inc. as the Head Start grantee for Clark County and other areas served by Acelero-affiliated companies and to have Acelero Learning and other local affiliates serve as delegate agencies. Because of this agreement, Acelero Learning stated that the issues raised in the draft report should not serve as a basis to question Acelero Learning's ability to receive additional Federal funds.

Office of Inspector General Response

OHS was aware of the management affiliation agreement when it awarded the Head Start grant to Acelero Learning. In addition, the agreement was structured to reimburse the actual cost of performing Head Start services. However, in practice, Acelero Learning overcharged the Head Start program and undercharged its other programs, resulting in excessive management fees and profits earned by Acelero Inc.

The affiliation agreement between Acelero Learning and Acelero Inc. violated Federal regulations. Specifically, the agreement was a sole-source agreement because Acelero Learning did not request or obtain competitive bids, proposals, or offers from other management companies as required by Federal regulations (45 CFR § 74.43). In addition, contrary to Federal regulations (45 CFR § 74.42 and 48 CFR § 31.201-3(b)(2)), the agreement was a less-than-arms-length transaction, violated generally accepted sound business practices, and created a conflict of interest or the appearance thereof.

The relationship between Acelero Learning and Acelero Inc. was not free of real or apparent conflicts. Not only is Acelero Learning a wholly owned subsidiary of Acelero Inc. but the chief executive officer of Acelero Inc. (who signed the agreement for Acelero Inc.) was also the interim chief executive officer and a member of the board of directors of Acelero Learning when the agreement was formulated and negotiated. This condition, in our opinion, constitutes a real or apparent conflict of interest.

Regarding Acelero Learning's comment that OHS has agreed to designate Acelero Inc. as the Head Start grantee for Clark County, this would be an OHS program decision and does not affect the facts presented in this report. Any decision regarding funding of a Head Start grantee for Clark County is also an OHS program decision.

Disproportionate Charging of Costs to Head Start

Acelero Learning Comments

Acelero Learning agreed that it overcharged the Head Start program for travel costs incurred by Acelero Inc.'s employees. However, Acelero Learning disagreed with the overall finding that Head Start was overcharged for services provided by Acelero Inc. and stated that it utilizes a cost allocation plan to charge shared costs and uses time and effort reports to directly charge unshared costs. Specifically, Acelero Learning disagreed that it overcharged the Head Start program for management services and for the training and staff development meeting. Acelero Learning stated that Acelero Inc.'s management services related only to the Head Start program and that the training and staff development meeting was conducted solely to meet Head Start program requirements.

Acelero Learning requested that footnote 7 be removed because neither Acelero Learning nor Acelero Inc. has ever received a report from ACF for the May 2009 onsite review.

Office of Inspector General Response

During our audit period, Acelero Inc.'s time and effort reports included both direct and indirect activities. Employees' time and effort reports included direct time charged to Acelero Learning's Head Start program and indirect time related to the Support Center.[8] Support Center activities included support services, such as accounting, administration, program development, human resources, education and training, and information technology. Because these services

[8] Acelero Inc.'s employees' direct time related to the Extended Day and Food programs was not identified on the time and effort reports.

benefited all of Acelero Learning's programs, employee time and related costs should have been allocated among all benefiting programs. Instead, Acelero Inc. directly charged 100 percent of employees' time to the Head Start program, creating an improper payment.

Because Acelero Learning acknowledged that the travel costs associated with Acelero Inc.'s management services should have been allocated to all benefiting programs, a reasonable person would conclude that the fees paid for the services should have been allocated to all benefiting programs as well. In addition, the topics discussed at the training and staff development meeting included timekeeping, recordkeeping, fiscal systems and forms, recruiting, classroom setup, and Food program requirements. Because the Extended Day and Food programs benefited from this meeting, Acelero Learning should have allocated a fair share of the costs to these programs.

We did not review Acelero Learning's cost allocation plans. Therefore, as stated in our report, we do not express an opinion on the reasonableness of Acelero Learning's cost allocation plans.

We did not remove footnote 7 because our review showed that the costs questioned in the May 2009 ACF review were unallowable. Our review of Acelero Learning's accounting records showed that Acelero Learning credited the Head Start program for some of these unallowable costs and reclassified these costs to the Extended Day program.

Unallowable and Unsupported Costs Charged to Head Start

Acelero Learning Comments

Acelero Learning stated that it has reimbursed the Head Start program for unallowable travel and entertainment costs incurred by Acelero Inc. However, Acelero Learning disagreed with our finding that the purchase of a GPS was unallowable. In addition, Acelero Learning disagreed that it charged the Head Start program for unsupported costs for program development services provided by Acelero Inc. According to Acelero Learning, for the period between March and May 2009, Acelero Inc.'s vice president of program development produced 48 pages of documents, all consistent with the description of Head Start services.

Office of Inspector General Response

According to Acelero Learning's interim director of finance, there was no documentation to support the purchase of the GPS. Therefore, the cost of the system was unallowable (48 CFR § 31.201-2(a)). In its comments on our draft report, Acelero Inc. did not provide any additional documentation supporting the purchase of the GPS.

Regarding the program development services, Acelero Learning did not provide documentation to support the $54,517 paid to Acelero Inc. for program development services, other than stating that 48 pages of documents, consistent with the description of Head Start, were produced by Acelero Inc. These documents were not provided to us. In our opinion, it is reasonable to assume that Acelero Learning's program management team could have provided the necessary program development services.

Weaknesses in Systems and Internal Controls

Acelero Learning Comments

Acelero Learning provided comments on the four weaknesses identified in systems and internal controls:

- Acelero Learning stated that it could find no practical way to divide its financial operations such that its bank balances were below the $250,000 threshold at all times. Acelero Learning also stated that it was not aware of a regulation that states there must be a written policy for this issue and asked that the finding be removed from the report.

- Regarding the employee compensation limit, Acelero Learning stated that it was not aware of a regulation that states that there must be a separate written policy. Furthermore, Acelero Learning stated that the lack of written policies and procedures was not evidence of a weakness and asked that the finding be removed from the report.

- Acelero Learning stated that the finding related to segregation of duties for timekeeping and payroll had been fully addressed. Acelero Learning did not comment on the finding related to segregation of duties for procurement of supplies.

- Regarding equipment inventory records, Acelero Learning stated that such records were not necessary because, at the time of our review, it did not have any equipment in excess of $5,000 as defined by its fiscal policies and procedures.

Office of Inspector General Response

Federal regulations (45 CFR § 74.22(i)(2)) make it clear that advances of Federal funds should be deposited in insured accounts whenever possible. Acelero Learning's written policies and procedures should reflect these requirements.

Acelero Learning's policies and procedures should also reflect that no employee should be paid in excess of the employee compensation limit (section 653(b)(1) of the Head Start Act). In addition, Acelero Learning should ensure that it segregates duties related to the procurement of supplies.

The equipment inventory records that Acelero Learning provided to us included 17 vehicles that exceeded Acelero Learning's $5,000 threshold for capitalizing equipment as defined by its fiscal policies and procedures. These records did not identify the information required by Federal regulations. Acelero Learning's equipment inventory records should be updated to contain all required information.

APPENDIXES

APPENDIX A: EXAMPLE OF REIMBURSEMENT ARRANGEMENT UNDER MANAGEMENT AFFILIATION AGREEMENT

ASSUMPTIONS OF THE EXAMPLE

- Acelero Learning, Inc. (Acelero Inc.), provided $5,000 in management services to Acelero Learning Clark County (Acelero Learning) for a given year and billed Acelero Learning for this amount.
- The Head Start program benefited 80 percent from the management services provided by Acelero Inc.
- The Extended Day program benefited 20 percent from the management services provided by Acelero Inc.
- Acelero Learning drew down $5,000 in Head Start funds to cover costs incurred during the year.
- Acelero Learning was paid $1,000 in Extended Day funds by the State of Nevada based on a predetermined rate and the number of services to be provided. (There is no reconciliation of actual to "budgeted" costs after the costs are incurred.)

CURRENT PRACTICE

For the given year, Acelero Learning recorded to its accounting records $6,000 in funds received ($5,000 in grant funds from Head Start and $1,000 from the Extended Day program) and $5,000 in management fees for the Head Start program. Acelero Learning did not allocate costs to the Extended Day program in accordance with the benefits received.

Acelero Learning	Head Start	Extended Day	Total
Funds Received	$5,000	$1,000	$6,000
Expenses: Acelero Inc. Management Fees	$5,000	$0	$5,000
Amount Paid to Acelero Inc.	$5,000	$1,000	$6,000

Based on the terms of the affiliation agreement, Acelero Learning paid $5,000 to Acelero Inc. for management services from the Head Start grant and transferred $1,000 to Acelero Inc. from the Extended Day program, for a total of $6,000 in revenue to Acelero Inc. The terms of the agreement state that Acelero Inc. shall bear the full cost of performing services necessary to fulfill Acelero Learning's responsibilities for the Extended Day and other programs in exchange for all revenues generated by such programs. By not allocating the management fees between the two programs, Acelero Learning (a wholly owned subsidiary) earned a $1,000 profit for Acelero Inc. (the parent organization).

Acelero Inc.	
Revenue	$6,000
Cost of Services Provided	(5,000)
Net Income	1,000

CORRECT APPROACH

Acelero Learning should have allocated the $5,000 in management fees using a cost allocation plan. Based on the assumptions provided, 80 percent of the management fees ($4,000) should have been allocated to the Head Start program and 20 percent of the fees ($1,000) should have been allocated to the Extended Day program.

Acelero Learning	**Head Start**	**Extended Day**	**Total**
Funds Received	$5,000	$1,000	$6,000
Expenses: Acelero Inc. Management Fees	$4,000	$1,000	$5,000
Amount Paid to Acelero Inc.	$4,000	$1,000	$5,000

Under this approach, Acelero Inc. should have recorded $5,000 in revenues ($4,000 from the Head Start program and $1,000 from the Extended Day program) and $5,000 for costs of services provided.

Acelero Inc.	
Revenue	$5,000
Cost of Services Provided	(5,000)
Net Income	0

APPENDIX B: ACELERO LEARNING COMMENTS

Acelero Learning Clark Co.
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Acelero Learning
CLARK COUNTY HEAD START

February 12, 2010

Ms. Laura Ahlstrand
Regional Inspector General for Audit Services
Office of Audit Services, Region IX
90-7th Street, Suite 3-650
San Francisco, CA 94102

Referencing report number: A-09-09-00094

Dear Ms. Ahlstrand:

We would like to thank you and the Office of the Inspector General for the time and attention you have afforded our Acelero Learning Clark County, Inc. ("ALCC") Head Start program. While we do not agree with all of the findings, your team helped us to identify areas for improvement in our current practices. As noted in our response below, in these areas of agreement, we have already implemented these changes and, as always, are grateful for any feedback that helps us improve the quality of our work. In addition, the team from the OIG's office was very courteous in their time on-site and in subsequent follow up conversations.

With respect to the areas of disagreement, we think it important to note that as the only, so far as we know, for-profit grantees in the entire federal Head Start program, issues that have not arisen previously in Head Start often come up. An example of this is the issue you raised about agreements between affiliated entities – a common business model in the for-profit world. We do not believe that the findings take into consideration unique aspects of operating a for-profit corporation in a program that, up until a few years ago, only provided funding to non-profit and local government agencies. In that regard, we have worked closely with the senior staff at the Office of Head Start ("OHS") to resolve such issues and, as discussed in our response, have resolved the issues arising from the use of affiliated entities in a manner that is fair to all parties and beneficial to the Head Start program.

Finally, as also detailed in our response, many of the practices identified in the report were approved in advance by OHS or the regional office of the Administration for Children and Families, the parent division of OHS. For those and other reasons, we very much hope a number of findings will be withdrawn.

As always, we stand ready to work with you to provide any additional information you need.

Sincerely,

Laura Harrison
Executive Director
Acelero Learning Clark County

Acelero Learning Clark County Responses to Specific Findings

I. Issues with Affiliation Agreement with Acelero, Inc.

The Office of Inspector General ("OIG") offers two concerns with the Affiliation Agreement (the "Agreement") between Acelero Learning Clark County ("ALCC") and Acelero, Inc. ("Acelero"): 1) that the Agreement was a sole source award and 2) that the Agreement a less-than-arms-length transaction. As more specifically discussed below, OHS was fully aware of the relationship between ALCC and Acelero when it awarded the grant to ALCC. In addition, there is no prohibition to this type of relationship provided that it is properly structured. Finally and most importantly, these issues will, in the very near future, become moot. OHS has informed Acelero that it is willing to restructure this and other, similar arrangements with Acelero affiliates into a grantee/delegate agency structure with Acelero becoming the grant recipient and each affiliate, including ALCC, the delegate (*i.e.* sub recipient) agency. This new structure will eliminate any issues about procurement standards and less-than-arms length transactions as those provisions do not apply to sub recipient agreements.

First, ALCC did not hide the relationship between it and Acelero. Not only do the entities share the same name but ALCC included the original affiliate agreement between it and Acelero in its January, 2007 proposal to provide Head Start services in Clark County. After extensive discussions, ACF/OHS selected the ALCC proposal for funding as a Head Start grantee. This selection effectively approved the proposed structure that your office now questions.[1] In fact, a subsequent revision to the affiliate agreement (which was the agreement referred to in the OIG report), was also provided to OHS for their review and comment before its signing, and no issues were raised by OHS at that time.

Second, with respect to the less-than-arms length nature of the transaction, the Federal Acquisition Regulation ("FAR") does not prohibit such relationships but explicitly allows them and recognizes that requiring a contractor or grantee to conduct a competition with itself makes no sense. Instead, it requires a higher level of scrutiny: "[r]easonableness of specific costs must be examined with particular care in connection with firms or their separate divisions that may not be subject to effective competitive restraints." FAR 31.201-3(a).

The FAR goes on to detail in the section on specific items of cost how a contractor or grantee should treat materials, services and space obtained from companies "under common control." In such situations, a contractor or grantee must charge the contract or grant the actual cost of the goods or services provided and not some negotiated price. For example, with respect to "sales" between companies under common control, the FAR provides, with some

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[1] Under the HHS Grants Policy Statement at II-55, the approved application can serve as authority for performing "substantive programmatic work." As Acelero provided administrative and programmatic support to ALCC, the approval of ALCC's grant application constituted approval of the Acelero relationship.

exceptions not relevant here, that "[a]llowance for all materials, supplies, and services that are sold or transferred between any divisions, subdivisions, subsidiaries, or affiliates of the contractor under a common control **shall be on the basis of cost incurred** . . ." (emphasis added.) Similarly, under FAR 31.205.36(b)(3) "rent for property between any divisions, subsidiaries, or organizations under common control" is limited to the "the normal costs of ownership, such as depreciation, taxes, insurance, facilities capital cost of money, and maintenance." Finally, to the extent your office would find that these provisions do not exactly address the ALCC/Acelero relationship, under FAR 31.204(d) "Failure to include any item of cost does not imply that it is either allowable or unallowable. The determination of allowability shall be based on the principles and standards in this subpart and the treatment of similar or related selected items." In other words, the policy in the FAR is to allow related companies like ALCC and Acelero to work together but to limit the amounts paid by a federal contract or grant to actual cost.

Based on these and similar provisions in the OMB Cost Circulars, ALCC and Acelero structured the Affiliation Agreement to only reimburse the actual cost of performing Head Start services as provided for in the FAR. *See* Art. III.A.1 of Affiliation Agreement of September 29, 2008.

Third, contrary to the statements in the draft report, ALCC did ensure that it obtained independent approval, free of real or apparent conflicts, of the ALCC/Acelero relationship. Specifically, the chair of the board of ALCC approved the Affiliation Agreement *prior* to execution and submission to OHS in October of 2008 and subsequently, the entire ALCC board ratified the agreement (after some suggested minor modifications). Importantly, ALCC's Board must be independent of ALI and comply with numerous composition and conflict of interest requirements found in the § 642(c) of the Head Start Act. Among those requirements is a requirement that the Board be composed of members who are not paid for serving on the Board, not paid for providing services to the grantee, are free from financial conflicts of interest (which would include any relationship with Acelero) and are otherwise independent. See § 642(c)(1)(C). All of the ALCC Board members met these qualifications and the Board therefore provided the independent oversight of the relationship between ALCC and ALI.

Finally, with respect to the question of whether ALCC should receive additional Head Start and Recovery Act funds (the stated purpose of the "Limited Scope Review"), it is important to note that the procurement issues raised in the draft report have been resolved by restructuring the ALCC/Acelero relationship. Recently, Acelero and OHS have agreed to designate Acelero as the Head Start grantee for Clark County and other areas served by Acelero-affiliated companies and to have ALCC and other local affiliates serve as delegate agencies. This recipient/sub recipient relationship is subject to explicit approval of OHS, incorporates all terms and conditions applicable to recipients of federal funds (including payment terms) and is not subject to the procurement rules found under Part 74 that are cited in the draft report. Thus, the issues raised in the draft report should not serve as a basis to question ALCC's ability to receive additional federal funds.

For the reasons discussed above, we ask that this finding be removed.

II. Allocation of Costs to Head Start Program

The draft report asserts that Acelero "overcharged" ALCC's Head Start program for services and "undercharged" ALCC's other programs. While in one instance, travel costs, we agree that $2,346 should have not been charged to Head Start, we do not agree with the overall finding that Head Start is being overcharged for services provided by Acelero. In fact, as discussed below, it is likely that Head Start is being undercharged for management services.

As recognized in the review report, Acelero utilizes a cost allocation plan to charge shared costs and uses time and effort reports to directly charge unshared costs, *i.e.* those that benefit only one activity or cost objective. The cost allocation plan recognizes two categories of shared costs: 1) those shared between ALCC's Head Start and Extended Day programs and 2) those shared between Acelero, ALCC and Acelero's other local affiliates. With respect to the first pool, the plan utilizes an hours of service allocation base and with respect to the second, the plan utilizes a full-time equivalent or "FTE" base. Significantly, the review report raised no questions or concerns about the fairness or accuracy Acelero's cost allocation methodology or with the adequacy of its time and effort reporting.

Instead, the report asserts that three specific groups of costs (management fees, travel and meetings) should have been included in the shared cost pools, a portion of which should have been allocated to ALCC's Extended Day program. We only agree in part.

First, the report claims that Head Start paid all of Acelero's management costs (in the amount of $430,828) associated with ALCC and that a portion of those costs should have been allocated to ALCC's Extended Day program. ALCC does not agree with this unsupported characterization of these costs as shared. The $430,828 is for time that Acelero staff worked on ALCC's Head Start program based on properly completed time and effort reports. A sample of those reports is found in Attachment 1[2]. All of this work corresponds with the *Head Start* work described in the affiliate agreement which explicitly refers to "Head Start services" and its Appendix A, which specifically refers to "Support for Implementing the Head Start Management Systems" and "Support for Implementing the Head Start Services Areas". [3]

[2] Acelero utilizes an electronic time and effort reporting system. The sample time sheet is filled out by the employee and is electronically "signed" by the employee through the individual's secure log-in and password. Acelero, Inc's typical practice is that any entry on the electronic time card system that says Inc refers to services that were provided for either Extended Day or other non-Head Start programs. Any entry with a county name on a program refers explicitly to work done on behalf of that Head Start program.

[3] Indeed, only one employee, the controller at Acelero, Inc. was ever fully charged ALCC's Head Start program, and that was for work during a period in which ALCC only had an interim finance director who was a consultant only on-site five days a month. Since ALCC's permanent finance director was hired in September of 2009, this employee's time, like all other Acelero staff, has been allocated between Head Start and Extended Day.

Moreover, a review of Acelero's most recent federal audit show Acelero has carefully allocated expenses between Head Start and other, non-federal, services. Out of a total salaries and benefits for Acelero personnel of $ 1,259,392 for FY 2008 (Attachment 2 (pg 19) contained Acelero's consolidated audit for FY 2008 which was not available at the time of the review), roughly half or $639,671, was paid from federal funds, *i.e.*, Head Start or Early Head Start. The balance was paid by non-federal sources of income. This compares quite favorably to the fact that of the $17,833,071 in total revenue for FY 2008, $14,469,842 or roughly 81% comes from Head Start or Early Head Start funds. Given that one would expect that the management costs for 81% of the activities of a corporation would be roughly 81% of total management costs, the only possible conclusion is that the federal funds are not subsidizing Acelero's non-federal activities as the draft report claims. To the contrary, these numbers fully support ALCC's position that it is more than fairly charged (and possibly undercharged) for Acelero's services.[4] Accordingly we ask that this item and the accompanying Appendix be removed from the draft report.

Second, as indicated above, ALCC does agree with the draft report Acelero travel time should not be fully charged to Head Start. Until the change in grantee structure described above takes place, Acelero will allocate the cost of future travel in accordance with its cost allocation plan described above (*i.e.* using a service hour allocation base). Using this method, for the period in question, 12% of the $19,555 would have been charged to Extended Day. Acelero will extend a credit for this amount ($2,346) on its next reimbursement bill to ALCC to resolve this issue.

Third, the draft report also asserts that some portion of the $10,000 cost of pre-service training in August of 2008 should be charged to Extended Day. While we agree that *if* this training benefited the Extended Day program, *then* it should bear its fair share of the cost of the training. That is not the case here. This training was conducted solely to meet Head Start program requirements which require grantees to:

> ... provide pre-services training and in-services training opportunities to program staff and volunteers to assist them in acquiring or increasing the knowledge and skills they need to fulfill their job responsibilities. *This training must be directed toward improving the ability of staff and volunteers to deliver services required by Head Start regulations and policies.* (emphasis added.)

45 C.F.R. § 1306.23(a). Thus, Head Start regulations require pre-service training directed at compliance with Head Start requirements – unquestionably an allowable Head Start cost. More particularly, this training came during the first summer after ALCC was named the Head Start

[4] Even though it is only a hypothetical, the example in the Appendix is simply misleading and should be removed. It is misleading because i) it assumes that the amounts charged to Head Start benefited Extended Day and 2) it asserts without basis that the "split" between the two programs should be 80/20.

grantee for Clark County and was essential to the success of the new program. Staff needed extensive training in the Head Start management systems and service areas and that is what was provided. Any mention of Extended Day was necessary to put ALCC's programs in context, not, as claimed in the report, to do training on the Extended Day program. Charging this cost to the Head Start grant was appropriate and allowable and this item should be removed from the report.

Finally, we would ask that footnote number 7 be removed as neither ALCC nor Acelero has ever received a report from the May 2009 on-site review. Accordingly, if accurate, this information should not be made public until ALCC has had a chance to review and possible challenge the report's findings.

III. Costs Charged to Head Start

A. Miscellaneous Items

The report stated three instances of unallowable costs totaling $1,418 on total expenses in excess of twelve million dollars. Acelero Inc has reimbursed the program for $1,153 related to travel and entertainment which were incorrectly billed to ALCC. This amount represents approximately .0001 of dollars for which ALCC has a fiduciary duty. ALCC agrees that every effort should be made to ensure costs charged to our Head Start program are allowable; and this is evidenced by the processes and procedures that were and remain in place to achieve the above noted result. We do not agree with the finding that the purchase of a GPS system for $265 on behalf of ALCC is unallowable. It was purchased for use by an ALI employee who was serving as the Interim Assistant Director for the ALCC Head Start program. ALCC operates a program in 14 locations in a county that is 8,000 square miles. The unfortunate fact that the GPS system was subsequently lost in the course of normal operations does not make the expense unallowable or unreasonable. We would ask that this item be removed from the final report

B. Program Development Costs Charged to Head Start

The draft report asserts that Acelero overcharged ALCC by $54,517 for the time of Acelero's Vice President of Program Development. The draft report asserts, without any support, that the program development services provided by Acelero's Vice President should have been subsumed within the job duties of ALCC's management team. This assertion is incorrect for a number of reasons not the least of which is that it is in conflict with Head Start's definition of program development. More importantly, as also discussed below, ALCC has the authority to create an organizational structure for its Head Start program that meets its needs so long as it meets the requirements of the Head Start program. As there is no allegation that ALCC has failed to meet Head Start program requirements and there is no support for the report's assertion that the services are unnecessary, the finding should be removed.

First, under 45 C.F.R. Part 1304, Subpart D, "Program Design and Management" or "PDM" consists of four areas: "Program Governance," "Management Systems and

Procedures," "Human Resources Management," and "Facilities, Materials and Equipment." Each area has extensive regulations associated with it. Accordingly, the assertion in the draft finding that there were no "programs developed" for the $54,517 is correct because the term program development in Head Start generally means the PDM section of the Head Start regulations, *i.e,* Subpart D, not the development of new programs as asserted in the draft. Moreover, it was the "PDM" activities that ALCC and Acelero intended when they divided up responsibilities in the Affiliation Agreement.

Specifically, in the September 29, 2008 Affiliation Agreement between ALCC and Acelero, Acelero was responsible for, as detailed in the Scope of Work, "Head Start Management Services." Those services track much of the PDM section of the regulations and include:

"A. Program Governance: ALI will provide the training, tools, resources, technical assistance, technology, and monitoring support for the following:
1. Policy Council and Board orientation, program governance training, and meetings;
2. Joint Board/Policy Council annual strategic planning meetings;
3. Policy Council and Board member job descriptions and bylaw templates;
4. On-going monitoring training and tools, including the weekly Manage by Information (MBI) reports, which contain programmatic data relating to education, health & nutrition, family services, ERSEA, and disabilities & mental health; and,
5. Head Start Act updates, Policy Clarifications, Information Memorandums (IMs) , Program Instructions (PIs), and clarifications on standards and requirements.

B. Planning: ALI will provide the training, tools, resources, technical assistance, technology, and monitoring support for the following:
1. Triennial Community Assessment and updates every 2 years;
2. Short and long-term strategic goal development;
3. Annual Self-Assessment;
4. Integrated Service Plan (ISP) to meet and/or exceed Head Start Performance Standards;
5. System monitoring in Child Plus and online curriculum (currently Creativecurriculum.net) for child outcome data;
6. Weekly MBI reports;
7. Quarterly Manage by Outcomes (MBO) reports; and,
8. Child outcome monitoring and reporting in online curriculum.

C. Communication: ALI will provide the training, tools, resources, technical assistance, technology, and monitoring support for the following:
1. "Facilitative Leadership" training;
2. Communication strategies, including effective feedback;

3. Monthly staff newsletter (the Acelerated) template and content;
4. Weekly MBI reports, including recommended follow-up;
5. Templates and contents for parent communication, including newsletters, surveys, etc.;
6. Service Area Resource Guide for Excellence (SARGE) and the Acelero Desktop; and,
7. Network leadership team meetings.

D. Record-Keeping and Reporting: ALI will provide the training, tools, resources, technical assistance, technology, and monitoring support for the following:
1. Head Start-specific IT packages (including Child Plus, online curriculum, etc.);
2. Weekly (MBI) and quarterly (MBO) reports; and,
3. Templates for effective filing systems, including child files and Master Binders.

E. On-going Monitoring: ALI will provide the training, tools, resources, technical assistance, technology, and monitoring support for the following:
1. Child Plus and online curriculum data entry and analysis;
2. Systems auditing process and support;
3. Classroom and education monitoring, including CLASS;
4. Short and long-term goal progress;
5. Weekly MBI and quarterly MBO;
6. Parent feedback surveys;
7. Child Plus reporting;
8. Annual mock-Monitoring Review and corrective action plans; and,
9. Federal Monitoring preparation."

The OIG auditor never interviewed ALCC's Executive Director, who could have provided extensive detail on all of these services, and never requested any back up, to our knowledge, about the activities of Acelero's Vice-President for Program Development.

In preparing this response, a review of the documents emailed to the ALCC Executive Director that the Vice-President for Program Development created just in the three month period between March 1 and May 30, 2009 (the last three months of the period in question) revealed extensive documentation of work produced for ALCC's Head Start program. In that time period alone, Acelero's VP for Program Development produced the following documents:

Date	Document	Pg	KB	Description
3/13/2009	Board Meeting Follow-Up Chart	8	599	*List of actions required from board based on HS requirements*
3/23/2009	Training Plan for Monitoring Specialist	1	92	*Training plan for new Head Start monitoring position*
3/24/2009	Action Plan for Monitoring Preparation	3	91	*Action plan based on OHS Monitoring Protocol*
4/13/2009	Grantee Contact Form	2	102	*Completed for Regional Office*
4/13/2009	Board Meeting Follow-Up Chart	1	128	*Detailed plan for continued board to meet HS requirements*
4/13/2009	Grantee Presentation to Monitoring Team	16	274	*Draft of opening presentation for OHS Monitoring Review Team*

4/28/2009	Program Approach Form	1	89	*Required document from OHS Regional Office*
4/29/2009	Monitoring Plan Template	1	19	*Follow up on monitoring plan, as required by OHS*
5/4/2009	Annual Report	5	132	*To comply with new requirement of 2007 HS Act*
5/6/2009	Wage Comparibility Study	10	189	*As required by Head Start performance standards*
		48	**1715**	

In this time period alone, the Vice-President produced nearly 50 pages of documents, over 1700 KBs of information, all consistent with the description of Head Start services provided in the Affiliation Agreement and required by Head Start regulations. The notion that the costs for this extraordinary level of production are somehow unsupported simply does not hold up in light of all of the available documentation on this project.

Finally, Head Start regulations (45 C.F.R. § 1304.52(a)(1) and accompanying guidance) gives programs wide latitude in designing a organizational structure that meets their needs and the needs of the Head Start program. In this case, ALCC with ALI's assistance with program design, was able to:

- Doubled the number of full-day, full-year slots from less than 200 in April 2008 (we we be began operations) to more than 410 by December 2009;
- Increased teacher salaries by 20 %;
- Increased number of teachers who have an Associate's degree (or better) from 45% when we began operations to 74% by Fall 2009. An additional 26% are on track to receive an AA within one year's time;
- Hired an additional 11 family advocates -- a 38% increase -- to reduce program case-loads;
- Provided 66,000 additional hours of summer service for children and families in summer of 2009.

These results speak for themselves and we ask that this finding be removed.

IV. Acelero Learning Clark County Response to "systems and internal controls related to accounting, personnel, procurement, and property management have weaknesses.

The report sites four separate instances of concern.

A. "Because Acelero Learning had no written policies or procedures, it had no assurance that its cash deposits were adequately insured in amounts exceeding $250,000."

We are fully aware of the FDIC limits with the financial institution that holds our funds, Bank of America. We could find no practical way to divide our financial operations such that our balances were below the $250,000 threshold at all times. For example, our payroll is often in excess of $300,000 and as such during the 24 hours between when we draw down our funds and when the payroll company removes the funds from our account, we necessarily have a balance in excess of $250,000. Dividing our funds up between a variety of bank accounts and banks is not only impractical but would unnecessarily introduce complexities (and the possibility of increased errors) solely to guard against highly unlikely events. We are certainly open to modifying our banking practices if there is a specific and practical proposal. At this time, we are drawing down Federal funds within all of the guidelines that have been provided and not aware of a regulation that states that this must be a written policy. We believe this finding should be removed.

B. "Lack of Written Policies and Procedures for Employee Compensation Limit"

As the report accurately states, we have no employee who is paid in excess of the compensation limit. In addition, following the compensation cap is a condition listed on the Financial Assistance Award ("FAA") from the regional office of ACF, so by accepting the FAA and drawing down funds, we agree that no employee will be paid in excess of the compensation cap. We are not aware of a regulation that states that there must be a separate written policy and do not agree that the absence of a non-required written policy is evidence of a weakness. Accordingly, we ask that this finding be removed.

C. "Inadequate Segregation of Duties"

The third area of concern cited was an inadequate segregation of duties. As discussed on site, this issue has been fully addressed. Additional personnel are now involved in the processing of payroll and the distribution of checks.

D. "Inadequate Equipment Inventory Records"

We do not believe this is an accurate concern. As discussed during the interview process, ALCC's fiscal policies and procedures define items costing in excess of $5,000 as equipment. We update our equipment inventory record annually. At the time of the OIG visit we did not have any equipment valued in excess of $5,000. We have subsequently purchased copiers and a computer server that were in excess of the $5,000 threshold and as such we have an Equipment Inventory that conforms to the guidelines set forth. We do not believe that the absence of items in excess of $5,000, and thus no Equipment Inventory Records, constitutes a weakness in property management. We again ask that this finding be removed.