

CORPORATION FOR NATIONAL & COMMUNITY SERVICE

OFFICE OF INSPECTOR GENERAL

Audit of Corporation for National and Community Service Grants Awarded to Mayor's Fund to Advance New York City

OIG Report 18-07

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This report was issued to Corporation management on March 29, 2018. Under the laws and regulations governing audit follow up, the Corporation is to make final management decisions on the report's findings and recommendations no later than October 1, 2018 and complete its corrective actions by March 29, 2019. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.



March 29, 2018

TO: Chester Spellman
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Executive Director, Mayor's Fund to Advance New York City

FROM: Stuart Axenfeld /s/
Assistant Inspector General for Audit

SUBJECT: Office of Inspector General (OIG) Report 18-07: Audit of Corporation for National and Community Service Grants Awarded to Mayor's Fund to Advance New York City

Attached is the final report on the OIG Report 18-07: *Audit of Corporation for National and Community Service Grants Awarded to Mayor's Fund to Advance New York City*. This audit was performed by OIG staff in accordance with the Government Auditing Standards, issued by the Comptroller General of the United States.

Under the Corporation's audit resolution policy, a final management decision on the findings and recommendations in this report is due by October 1, 2018. Notice of final action is due by March 29, 2019.

If you have questions or wish to discuss the final report, please contact Thomas Chin, Audit Manager, at (202) 606-9362 or t.chin@cncsoig.gov; or me at (202) 606-9360 or s.axenfeld@cncsoig.gov.

Attachment

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OFFICE OF INSPECTOR GENERAL
AUDIT OF CORPORATION FOR NATIONAL AND COMMUNITY SERVICE GRANTS
AWARDED TO MAYOR’S FUND TO ADVANCE NEW YORK CITY

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EXECUTIVE SUMMARY

The Mayor's Fund to Advance New York City (Mayor's Fund) served as the intermediary (*i.e.*, the prime grantee) for a Social Innovation Fund (SIF) grant totaling approximately \$28.5 million from the Corporation for National and Community Service (CNCS or Corporation) for the period from August 1, 2010 to July 31, 2015. The Mayor's Fund made subawards totaling more than \$25 million to 19 subgrantees. The Office of Inspector General (OIG) audited the costs incurred by the Mayor's Fund and three of its subgrantees for the period from July 1, 2012 to June 30, 2015. As a result of this audit, we question Federal costs totaling \$4,606,377.

CNCS exercised little financial oversight of this large grant in its newly created SIF program. More than five years into the grant, it had not conducted a financial monitoring site visit. Although the Mayor's Fund delegated oversight of subgrantees' financial management and compliance to its partner, MDRC, CNCS never reviewed MDRC's performance or assessed the quality of subgrantee monitoring. Had CNCS done so, it might have discovered and corrected the many problems that we found in this audit.

The majority of the questioned costs flow from two findings: MDRC's failure to conduct criminal history checks for its 165 staff members who were paid with SIF funds, and a decision by the Mayor's Fund to award a subgrant to an unqualified organization with a substantial conflict of interest. CNCS was apparently unaware of either of these problems, which we summarize below:

A. MDRC, the partner that fulfilled key intermediary responsibilities, did not perform required criminal history checks for its grant-funded staff. (Finding No. 1)

A SIF intermediary and its partner organizations must perform specific criminal history checks for all staff members paid with SIF grant funds. Although (1) MDRC was a partner that performed the intermediary's grants management and other functions, (2) the agreement between MDRC and the Mayor's Fund promised that MDRC staff paid from the SIF award would undergo criminal history checks, and (3) the grant budget approved by CNCS contemplated that the checks would be performed, none of the 165 MDRC staff members paid from the SIF grant underwent a criminal history check.

CNCS has devoted increased attention to criminal history checks to safeguard the public and ensure that dangerous offenders do not use national service to gain access to easily exploited individuals. Based on the grant application and MDRC's role in fulfilling the intermediary's grant management responsibilities, CNCS expected that MDRC staff paid from the grant would undergo those checks.

B. The Mayor's Fund awarded a subgrant to an unqualified applicant with a conflict of interest. (Finding No. 2)

The Mayor's Fund awarded a subgrant to Madison Strategy Group (Madison), which it knew did not meet the requirements of prior experience or financial management capabilities. Madison was newly created by Grant Associates (Grant) for the purpose of obtaining a SIF subaward. Grant was not eligible for a SIF subaward because it is a for-profit entity. Madison entered into a non-competitive and non-arms' length consulting agreement with Grant, under which Grant approved payment of its own invoices. The Mayor's Fund relied on Grant's qualifications in awarding the funding to Madison. For the first year of the subaward, Madison was essentially a shell, with all of its activities conducted by Grant staff or consultants.

In its pre-award due diligence report on Madison, MDRC identified these and other issues regarding Madison's qualifications. MDRC recommended that the Mayor's Fund obtain CNCS's advance consent to any contract between Grant and Madison, after full disclosure of the nature of their relationship, the lack of independence and the potential conflicts of interest; that Madison adopt and implement strict conflict of interest policies; and that the Mayor's Fund assess independently and objectively the reasonableness of the costs to be charged by Grant for services to Madison. The Mayor's Fund did not follow these recommendations. Madison ultimately received a total of \$1,663,952 from a subaward that it was not qualified to obtain and would not have obtained absent its relationship with Grant.

Auditors found a number of other weaknesses and improprieties in the administration of this SIF award and the costs charged under it. Although the Corporation's budget for FY 2017 did not include funding for the SIF program, a number of SIF grants will continue for two years, making the recommendations of continued relevance. We therefore offer numerous recommendations to improve grant management and oversight.

The audit procedures were conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. The following table summarizes Mayor's Fund and selected subgrantees amounts claimed and questioned as a result of this audit. The claimed column represents costs claimed during our audit period of July 1, 2012 through June 31, 2015.

**MAYOR'S FUND TO ADVANCE NYC SCHEDULE OF
CLAIMED AND QUESTIONED COSTS Social
Innovation Fund AWARD NO. 10SIHNY002**

	<u>Federal Costs Claimed During Audit Period</u>	<u>Federal Costs Questioned</u>	<u>Findings</u>
<u>Mayor's Fund Costs</u>	\$2,741,041	\$2,851,433 ¹	1
<u>Federal Funds Awarded to Subgrantees</u>	\$13,751,005		
<u>Audited Subgrantees</u>			
<u>Children's Aid Society NYC</u>	\$2,307,991		
		\$82,368 ²	1
		\$ 5,589	6
		\$ 98	9
<u>Henry Street Settlement</u>	\$590,104	\$2,937	9
<u>Madison Strategies Group</u>	\$987,474		
		\$1,663,952 ³	2
		\$ 7,223	6
		\$ 224	8
		\$ 252	10
<u>Other Subgrantee Costs</u>	<u>\$9,865,436</u>	<u>N/A</u>	
<u>Total</u>	\$16,492,046	\$4,606,377	

¹ This amount represents the personnel Federal expenses paid to MDRC for the entire period of the SIF grant from August 1, 2010 to October 31, 2016. (See Finding No.1)

² The Mayor's Fund subgrantees that we audited did not distinguish between Federal and Match expenditures in their accounting systems. (See Finding No. 4.) We therefore determined our Federal questioned costs based on the percentage of Federal funds received for the SIF program, which was 33.3 percent. Match costs were not questioned because the grantee and subgrantees audited have excess match.

³ This questioned cost of \$1,663,952 represents the total Federal costs paid to Madison Strategies Group (Madison) for the entire period of the subgrant - from April 1, 2011 to June 30, 2016. (See Finding No. 2) Madison questioned costs in Findings 6 (\$7,223), 8 (\$224) and 10 (\$252) are included in this amount.

FINDINGS

Our audit uncovered violations of applicable grant terms and provisions, rules and regulations, which give rise to questioned costs.⁴ Our findings fall into ten categories:

1. One subgrantee and the partner that fulfilled key intermediary responsibilities of the Mayor's Fund did not perform required criminal background checks.
2. The Mayor's Fund knowingly awarded funding to an unqualified subgrantee with a conflict of interest.
3. Subgrantees incorrectly charged labor costs based on budget estimates.
4. Subgrantees' financial management systems did not segregate Federal and match costs and have other defects.
5. Two subgrantees issued debit cards without adequate internal controls to prevent misuse.
6. Subgrantees could not fully support costs paid to contractors.
7. The Mayor's Fund lacked adequate subgrantee termination policies and did not retain comprehensive financial records.
8. One subgrantee claimed unsupported employee morale costs.
9. Subgrantees claimed unallocable expenses that benefited other programs.
10. One subgrantee claimed expenses not authorized by the approved budget.

We discuss the findings in turn and highlight the questioned costs associated with each finding.

Introduction

During the five years ended July 31, 2015,⁵ the Social Innovation Fund (SIF) awarded the Mayor's Fund to Advance New York City (Mayor's Fund) \$28,500,000 as an intermediary grantee. The Mayor's Fund has four full-time employees; one was paid with Federal funds and the others with match funds.

The responsibilities of the intermediary (the SIF term for the prime grantee) were divided among three entities: The Mayor's Fund, the Center for Economic Opportunity (CEO) and MDRC, a non-profit, nonpartisan social and education policy research firm. CEO focused mostly on programmatic and site operations, while MDRC performed due diligence for subgrantee selection,

⁴ A questioned cost is: (1) an alleged violation of a provision of law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds; (2) a finding that at the time of testing, such costs were not supported by adequate documentation; or (3) a finding that the expenditure of funds for the intended purpose was unnecessary or unreasonable.

⁵ CNCS granted the Mayor's Fund a no-cost extension through October 31, 2016.

and conducted program evaluations and undertook programmatic and financial oversight of the subgrantees.

Ultimately, the Mayor's Fund awarded \$25,870,988 to 19 subgrantees. For this audit, CNCS-OIG examined certain expenses incurred by the Mayor's Fund and three of its subgrantees:

- The Children's Aid Society (CAS) operates the SIF Family Rewards program, which offers cash awards as incentives related to students' academic achievement and effort, families' preventive health care and parents' work and job training;
- Madison Strategies Group (Madison) operates the SIF Work Advance program, which assists unemployed and low-wage workers to find jobs in sectors with opportunities for advancement; and
- The Henry Street Settlement (Henry Street) operates Project Rise, which assists young adults aged 18-24 to earn a high school equivalency degree and an internship with long-term employment prospects.

In the course of early field work, the auditors issued a Management Alert concerning weaknesses in CNCS's financial monitoring of this SIF grant. A key finding was that CNCS never monitored the performance of MDRC, which was overseeing the subawards. CNCS therefore had no assurance that subgrantees practiced appropriate financial management. Partway through the grant's fifth year, CNCS had not conducted a single financial monitoring site visit. The Program Officer who conducted the only site visit focused on programmatic oversight and failed to complete four of the financial monitoring areas listed on the monitoring tool. Proper oversight of MDRC would have enabled CNCS to discover and correct the problems identified in this after-the-fact audit.

The lack of attention to this large grant is striking, given that five subawards terminated early, two of them for financial reasons. One of those subgrantees, Federation Employment and Guidance Service (FEGS), declared bankruptcy, and another subgrant was terminated and reassigned. We found no evidence that these adverse outcomes led CNCS to question the quality of subgrantee selection or monitoring or whether there were lessons to be learned that should inform future funding decisions. CNCS deferred its formal response to the Management Alert pending completion of this audit.

Findings

Finding 1 - One subgrantee and the partner that fulfilled key intermediary responsibilities of the Mayor's Fund did not perform required criminal history checks.

- a. The Mayor's Fund was required to, but did not, perform criminal history checks for MDRC staff paid through the grant.

By law, CNCS grantees and subgrantees must perform specific criminal history checks on individuals who receive a salary from a CNCS grant. SIF intermediaries and their partner organizations must also perform these checks for staff members whose salaries are treated as

Federal share or match share costs.⁶ No criminal history check is required, however, for a SIF contractor that performs collateral administrative services in return for a fee, per guidance issued by CNCS in the form of Frequently Asked Questions (NSCHC FAQs).⁷

Although MDRC had its costs for 165 MDRC staff members paid from the SIF grant, none of these employees underwent a criminal history check. The Mayor's Fund now contends that no checks were required because MDRC was merely a contractor or consultant that did not provide services to program beneficiaries. Its contentions are incorrect and are contradicted by contemporaneous evidence.

i. MDRC was a partner, not a contractor

From the outset, the Mayor's Fund intended the SIF grant to be a joint enterprise among the Mayor's Fund, CEO and MDRC. Indeed, the grant application describes the SIF project as an extension of an existing partnership among the three organizations:

MF [Mayor's Fund], CEO and MDRC have partnered effectively over the past 4 years on a \$58 million anti-poverty portfolio. This collaboration will be expanded for the SIF, as MDRC's national expertise complements and extends the MF's [Mayor's Fund's] and CEO's experience in NYC. Application for Federal Assistance (Application) pp. 2-3 (July 7, 2010).

The application also characterizes MDRC as a "key collaborator" that will "jointly manage" the grant. Application, pp. 2-3.

CNCS relied on these representations about MDRC's role in awarding the grant to the Mayor's Fund. Multiple application reviewers described MDRC as an intended "partner" or "collaborating partner" under the SIF grant, noted the importance of its contemplated involvement and cited that partnership favorably.

MDRC's duties were not discrete and isolated tasks outsourced to a contractor. Instead, consistent with the characterizations in the grant application, MDRC performed core intermediary functions across all phases of grants management. The agreement between the Mayor's Fund and MDRC states that "MDRC will perform multiple roles with respect to the SIF" and that, "[i]n general, MDRC's roles shall include involvement in the subgrant due diligence and selection

⁶ National Service Criminal History Check, Frequently Asked Questions, issued in 2013 and updated in 2014 (FAQs), Section 2.6 provides:

Does the requirement to conduct a NSCHC [National Service Criminal History Check] pass-through to sub-recipients and partners (e.g., sub-grants, stipends; MOUs, etc.)?

Yes, as with all grant program provisions, law and regulations, the requirement to perform the NSCHC applies to any subrecipients or partners implementing a covered national service program.

Section 3.2 of those FAQs provides that a staff member working on a national service program must undergo a criminal history check if his or her personnel costs are included in the Federal or match costs reported on the Federal Financial Reports.

⁷ NSCHC FAQs, Sections 2.2 (no criminal history checks for contractors who deliver goods or services for a fee), 3.13 (SIF contractors who perform client services required to undergo criminal history checks but those who provide administrative services not central to the program need not undergo the checks).

process; provision of technical assistance and support to sub-grantees; sub-grantee oversight, including fiscal management; and the evaluations [of the programs].” Agreement at Section II, *Scope of Services*, p. 2. MDRC was also required to “fully participate in successfully completing all Federal grant closeout requirements.” *Id.* at Section XV, *Data Retention and Grant Closeout*, p. 14.

MDRC, rather than the Mayor’s Fund, performed most of the intermediary’s grants management tasks. These included:

- *Conducting the competitive subaward process.* SIF Terms and Conditions effective July 31, 2010 (T&C), II (B) ((2)). MDRC conducted comprehensive pre-award due diligence of potential subgrantees to assess their ability to manage Federal funds. This assessment required consideration of each applicant’s: (1) “governance structure, track record, staff competence” to determine “the viability of a potential subgrantee to be a recipient of federal funds;” (2) “accounting systems and financial policies and procedures, including timekeeping, cash management and property controls” and “a review of audited financial statements and management letters; and (3) “budget assumptions and narratives, analysis of proposed costs, comparison of budget with work timeline and review detailed schedules supporting budgets,” as well as review of the reasonableness of the subgrantee’s proposed indirect costs, under the standards contained in OMB Circulars A-122 and A-110. Agreement, Attachment A, pp.1-2.
- *Financial monitoring of subgrantees*, including financial management reviews, monitoring compliance with applicable laws, regulations and OMB Circulars, ensuring A-133 audits where appropriate, with follow-up of any findings, and financial reporting. T&C III (B)(3) (financial monitoring), II(B)(1) (subgrantee compliance with T&Cs, OMB Circulars, etc.) and II(G)(2) (financial reporting). MDRC performed all post-award financial monitoring of subgrantees, e.g., review of subgrantees’ (1) “financial reports, both federal and matching expenses, and cash flow forecasts” to “recommend to MF [Mayor’s Fund]/CEO approval of payments and advances to subgrantees,” as well as subgrantees’ receipt of payments; (2) audited financial statements and single audit reports; (3) reconciliation of financial statements and amounts reported as expended under the grant; (4) follow-up on recommendations from pre-award assessment and audit findings; and (5) documentation supporting Federal and match expenditures, timekeeping records, the adequacy of systems and processes and other measures to validate subgrantees’ financial management. Agreement, Attachment A, pp. 4-6. MDRC was expected to conduct periodic site visits.
- *Advising subgrantees regarding the requirements imposed on them.* T&C III (B)(3). MDRC explained to grantees the terms and conditions of their subawards and provided technical assistance “in such areas of cost allowability, compliance with federal regulations, indirect cost rate system, budget and workplan review and presentation, and evaluation and improvement of financial systems,” including providing legal advice about applicable requirements. Agreement, Attachment A, pp. 8-9.
- *Overseeing subgrantee compliance with criminal history checking procedures.* T&C III (E). MDRC monitored subgrantees compliance with these requirements. Agreement, Attachment D. Cooperative Agreement, Section E. Criminal History Checks.

- *Evaluating subgrantees.* T&C II (B)(3). MDRC led an evaluation of program results, including site visits, surveys and in-depth qualitative interviews of staff and program participants. Agreement at pp. 26-27.

Since the Mayor's Fund devoted only four employees to managing this \$28.5 million grant, it could not fulfill its obligations as intermediary without its MDRC partnership. In recognition that MDRC would function as an extension of the Mayor's Fund, MDRC agreed to be bound by all terms and conditions of the SIF grant, which defines the intermediary's duties and responsibilities and includes the requirement to check the staff's criminal histories. T&C III (E), Agreement, Section XXII, *Incorporation of Cooperative Agreement Terms and Conditions*, p. 16.

MDRC's compensation also reflects its status as a partner or co-intermediary. Unlike a contractor, MDRC did not receive a fee for the services of its staff members. Rather, the Mayor's Fund reimbursed MDRC for the employees' payroll and fringe benefits costs, as contemplated in the grant application budget. Agreement, Attachment C. p.1.

ii. CNCS, MDRC and the Mayor's Fund expected MDRC staff to undergo criminal history checks

The agreement between MDRC and the Mayor's Fund promised expressly that MDRC staff paid from the SIF award would undergo criminal history checks:

MDRC acknowledges and warrants that any person directly compensated using SIF award funds will undergo a complete criminal history check, a national sex offender registry check, and potentially an FBI fingerprint check if required before receiving a living allowance, stipend, education award, or salary using SIF funds. Agreement, Section VII, *Key Personnel*, p. 7.

The grant budget approved by CNCS included costs for criminal history checks for MDRC staff. *Id.*; budget narrative of grant no. 10SIHNY002. The Mayor's Fund produced no evidence that anyone informed CNCS of the decision not to complete these checks.

For the foregoing reasons, characterizing MDRC as a mere contractor is untenable, given its integral role in discharging the intermediary's responsibilities, the representations in the grant application and the terms of the agreement between the Mayor's Fund and MDRC. Moreover, accepting the position of the Mayor's Fund and excusing the lack of criminal history checks for MDRC would allow intermediaries to outsource their ongoing core grant management responsibilities to murderers and rapists by expediently labeling them contractors. Instead, because MDRC functioned as a "partner" that shared the intermediary's duties, MDRC staff members paid from the grant should have undergone the required criminal history checks. We therefore question the costs reimbursed for their compensation during the entire five-year grant period, a total of \$2,851,433.

b. CAS staff did not undergo criminal history checks.

The Children's Aid Society of New York City (CAS) claimed personnel costs for three grant-funded staff members, each of whom was required to undergo a criminal history check. These individuals, according to the subgrantee assessment, had access to vulnerable populations.

Our audit found no evidence that the checks were properly and timely performed. In one case, CAS told auditors that it had performed a proper criminal history check but could not produce evidence of it; program rules require that the subgrantee maintain the original check results its files. 45 C.F.R. § 2540.206(b). The staff member was no longer employed by CAS, so no new check could be performed. In another case, the fingerprint results in the file were marked "void" and "unauthorized." CAS is in the process of obtaining an authorized copy. The third employee's personnel file did not contain an FBI fingerprint report; the report was finally obtained on March 18, 2016. As a result of this we question a total of \$82,368⁸ for salaries and fringe benefits charged against the grant as Federal-share costs.

By not ensuring that the criminal history checks were performed thoroughly and on time and the results maintained, the intermediary placed CAS's clients at risk.

Criteria

45 CFR §2540.201, *To whom must I apply the National Service Criminal History Check eligibility?* states:

You must apply the National Service Criminal History Check eligibility criteria to individuals serving in covered positions. A covered position is a position in which the individual receives an education award or a Corporation grant-funded living allowance, stipend, or salary.

45 CFR §2540.204, *When must I conduct a National Service Criminal History Check on an individual in a covered position?* states:

(a) Timing of the National Service Criminal History Check Components. (1) You must conduct and review the results of the nationwide NSOPW check required under §2540.203 before an individual in a covered position begins work or starts service. (2) You must initiate state registry or FBI criminal history checks required under §2540.203 before an individual in a covered position begins work or starts service. You may permit an individual in a covered position to begin work or start service pending the receipt of results from state registry or FBI criminal history checks as long as the individual is not permitted access to children age 17 years or younger, to individuals age 60 years or older, or to individuals with disabilities, without being in the physical presence of an appropriate individual, as described in § 2540.205(g) of this chapter.

45 CFR §2540.206, *What documentation must I maintain regarding a National Service Criminal History Check for a covered position?* states:

⁸ MDRC identified this noncompliance during its monitoring in October 2015 and already disallowed \$3,000 under CNCS's interim disallowance guide. Our original questioned cost was \$85,368.

You must:

(a) Document in writing that you verified the identity of the individual in a covered position by examining the individual's government-issued photo identification card, and that you conducted the required checks for the covered position; and

(b) Maintain the results, or a results summary issued by a State or Federal government body, of the NSOPW check and the other components of each National Service Criminal History Check, unless precluded from doing so by State or Federal law or regulation. You must also document in writing that an authorized grantee representative considered the results of the National Service Criminal History Check in selecting the individual [See footnotes 6 and 7 on page 6].

The Social Innovation Fund Agreement between Mayor's Fund to Advance New York City and MDRC, pp. 7, 16, (Dec. 22, 2010) states:

Section VIII "Key personnel"

MDRC acknowledges and warrants that any person directly compensated using SIF award funds will undergo a complete criminal history check, a national sex offender registry check, and potentially an FBI fingerprint check if required before receiving a living allowance, stipend, education award, or salary using SIF funds. Sub grantee may not use SIF funds to provide a living allowance, stipend, education award, or salary to anyone convicted of murder or to anyone who has been convicted of a sex offense.

* * *

Section XXII "Incorporation of Cooperative Agreement Terms and Conditions"

The terms and conditions set forth in the SIF Cooperative Agreement apply to MDRC and all of MDRC's subcontractors. The Certifications, Assurances, and the Grant Program Civil Rights and Non-Harassment Policy set forth in the SIF Cooperative Agreement apply to MDRC and MDRC's subcontractors.

Recommendations:

We recommend that the Corporation:

1a. Disallow and recover the questioned Federal costs totaling \$2,933,801; and

1b. Determine whether other current SIF intermediaries have conducted criminal history checks for "partners" or other entities that perform core intermediary functions, ensure that any missing checks are completed and recover the costs for any missing or unperformed checks.

Mayor's Fund Responses and OIG Comments:

Finding 1a:

Mayor's Fund Response:

Overall, the Mayor's Fund disagrees with this finding and contends that the questioned costs were allowable, arguing that MDRC was properly treated as a contractor, rather than as a partner or subrecipient of SIF funds. As a result, the Mayor's Fund maintains that NSCHC were not required for MDRC staff.

OIG Comments:

The Mayor's Fund did not perform criminal history checks for MDRC staff paid from SIF grant, even after 20 such criminal checks were budgeted for MDRC staff and approved. We have no written evidence that the Mayor's Fund independently consulted with CNCS about this decision. The decision to treat MDRC as a contractor, rather than as a partner, flew in the face of the following facts:

- The grant application repeatedly described MDRC as a partner or "key collaborator" that would "jointly manage" the grant;⁹
- CNCS relied on these representations in awarding the SIF grant. The grant application reviewers described MDRC as a "gold-plated partner," whose work would consume a significant share of the intermediary budget.¹⁰ They understood that, "[g]iven their expertise working nationally, MDRC is likely to play a leadership role throughout the project (not limited to evaluation)."¹¹ The reviewers considered MDRC's participation to be integral to the grant's success.¹²
- The grant budget submitted by the Mayor's Fund, and approved by CNCS, allocated funds specifically for criminal history checks of multiple MDRC staff members.
- The Agreement between MDRC and the Mayor's Fund contemplated collaboration across all phases of the five-year SIF grant, from the competitive subaward process, to financial monitoring, oversight and technical assistance, to program evaluation and finally to grant closeout. MDRC fulfilled numerous core intermediary responsibilities, which the Mayor's Fund itself lacked the resources to meet.

⁹ Application, pp. 2-3.

¹⁰ 2010 Social Innovation Fund, The Mayor's Fund to Advance New York City, Section 1 – Reviewer Comments: Group 1 (Phase 1 Grant Application Review), p. 8.

¹¹ *Id.* p. 4. The phase 2 reviewers likewise considered the SIF grant an expansion of the existing partnership among the Mayor's Fund, CEO and MDRC. Corporation for National and Community Service, 2010 Social Innovation Fund, The Mayor's Fund to Advance New York City, Reviewer Comments – Phase 2 (Phase 2 Grant Application Review), p. 4.

¹² "As noted in the application, the collaborating partner, MDRC, has been conducting large-scale multi-site randomized control studies for 35 years, as well as designing, developing and improving programs and organizations. . . . As a result, MDRC brings the expertise and credibility needed to implement the proposed initiative." Phase 1 Grant Application Review, p. 2; see also Phase 2 Grant Application Review, p. 7 ("[t]he established partnership with the MDRC brings both evaluative capacity as the program-specific experience that would lead to a successful program.")

- The Agreement treated MDRC as a “subrecipient of Federal funds,” rather than as a vendor. The agreement expressly incorporated and obligated MDRC to comply with the same terms and conditions that applied to the Mayor’s Fund as an awardee, including specified regulations and OMB Circulars (to include obtaining an annual audit under OMB Circular A-133) governing the administration of such grant funds.¹³ Vendors are not subject to these requirements.
- The Agreement expressly required MDRC staff to undergo the criminal history checks that apply to SIF intermediaries and their partners and to other subrecipients of Federal funds: “[A]ny person directly compensated using SIF award funds will undergo a complete criminal history check, a national sex offender check, and potentially an FBI fingerprint check if required.”¹⁴ This term restates the criminal history checking requirements for SIF intermediaries and subrecipients established in the Edward M. Kennedy Serve America Act of 2009.¹⁵
- MDRC’s responsibilities were so extensive that **MDRC was paid more than five times as much as the Mayor’s Fund** from the SIF award.¹⁶ During our audit period, the MDRC personnel costs paid from the grant were **17 times** those of the Mayor’s Fund.¹⁷
- Contracts funded through a grant must generally be awarded competitively. Grant administration rules for nonprofits require that “[a]ll procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition.” 45 CFR 2543.43, *Competition*. However, the Mayor’s Fund entered into its Agreement with MDRC without any competition and without preparing a sole source justification.
- The same FAQs that the Mayor’s Fund claims support its decision not to perform criminal history checks for MDRC staff also make clear that the requirement to perform criminal history checks passes through to subrecipients and partners implementing a national service program.¹⁸

Under all of these circumstances, the argument that MDRC was nothing more than a vendor of administrative support services is unsustainable. Nevertheless, the Mayor’s Fund considered MDRC exempt from the criminal history checking requirements applicable to partners and subrecipients. That is particularly striking, given the Mayor’s Fund’s contention in response to this audit that the term “partner” is vague and ambiguous and should not be given its colloquial meaning. If the Mayor’s Fund did not know what CNCS meant by the term “partner,” how could it determine that MDRC was not a partner?

Overall, the Mayor’s Fund response focuses on form rather than substance and avoids addressing squarely the picture that emerges from the facts adduced in our audit. MDRC

¹³ See MDRC Agreement, pp. 2-3, 7.

¹⁴ Agreement, p. 7.

¹⁵ The statute requires that grantee and subgrantee staff paid salaries from SIF funds must undergo certain criminal history checks. Those with recurring access to vulnerable populations must also undergo an FBI fingerprint-based check. 42 U.S.C. § 12645g(d).

¹⁶ MDRC received a total of \$5,494,718 from the SIF grant, while the Mayor’s Fund was paid \$1,027,703 in Federal funds.

¹⁷ The Mayor’s Fund received \$76,323, or 5.88%, or the \$1,303,482 for salaries that MDRC received during the audit period in Federal funds.

¹⁸ See footnote No. 6 on page 6.

functioned as a collaborative partner in administering the SIF grant and performed core intermediary functions. Labeling it a contractor does not overcome these facts.

Below we address specific propositions offered by the Mayor's Fund in its response.

Mayor's Fund Response

The Mayor's Fund contends that MDRC is a contractor and was not required to have national service criminal history checks (NSCHCs), citing 45 CFR §2540.201 *To whom must I apply the National Service Criminal History Check eligibility criteria?* and CNCS NSCHC Frequently Asked Questions (NSCHC FAQs) from 2012 and 2014, which state that the checks are not required for certain contractors.

OIG Comments

The Mayor's Fund misinterprets the regulation and the NSCHC FAQs. The regulation states that an individual whose salary is paid from CNCS grant funds must undergo a criminal history check. This is consistent with the FAQs that differentiate between contractors who are paid a fee for their services, and partners or subrecipients of grant funds.¹⁹ Here, MDRC's personnel costs (salaries, fringes, etc.) were paid from SIF program funds, not out of fees earned by MDRC. For the reasons stated above and in our audit report, MDRC is properly considered a partner or subrecipient, rather than a contractor, and criminal history checks were required for its grant-funded staff.

Mayor's Fund Response

The Mayor's Fund states that the term "partner" is not defined under Federal guidance and that OIG has equated the term "partner" with the term "subrecipient." OMB Circulars only make a legal distinction between "contractor" and "subrecipient," and the Mayor's Fund determined that MDRC was a "contractor" under the OMB Circulars' criteria. The term "partner" and "key collaborator" were used colloquially in the grant application to demonstrate how well the parties would work together, not to demonstrate a subrecipient relationship with the Mayor's Fund.

OIG Comments

As described by the SIF Notice of Funding Opportunity (NOFA), "[t]he primary functions of the recipients of these awards will be to conduct subgrant competitions and administer those subgrants as required" by the Serve America Act, the NOFA, and the terms and conditions of the final awards. MDRC performed the lion's share of those tasks. In assessing the grant application and the description of MDRC's contemplated role, CNCS described MDRC as a partner, which is consistent with nature and breadth of the responsibilities that it actually fulfilled. MDRC meets the definition of the term partner.

Moreover, the NSCHC FAQs cited by the Mayor's Fund themselves use the term "partner," directing that "the requirements to perform the checks apply to any sub-award *or partner* . . ." NSCHC FAQ Section 2.4 (2012); NSCHC FAQ Section 2.6 (2014) (emphasis added)

¹⁹ While the NSCHC FAQs state that "Contractors delivering . . . services to the program for a fee" are not covered by NSCHC rules, they also state that any "person who receives a . . . salary through a national service program" are covered positions under NSCHC rules. NSCHC FAQ Sections 2.2 and 1.1 (2012); see also, NSCHC FAQ Sections 2.2 and 2.1 (2014).

Mayor's Fund Response

The Mayor's Fund contends that its Cooperative Agreement with CNCS listed the Mayor's Fund as the intermediary, and that it had sole legal responsibility for programmatic decision-making and adherence to the SIF program rules. The Mayor's Fund presented MDRC in its grant application not as a grant recipient or subrecipient but as contractor.

OIG Comments

Whether a party is a vendor or a subrecipient/partner depends not on the label affixed by the parties but on the substance of the relationship and the allocation of duties. The Agreement between the Mayor's Fund and MDRC tasked MDRC to perform many key functions required of a SIF intermediary. The Mayor's Fund did not merely outsource incidental administrative functions, it instead delegated to MDRC important intermediary tasks, including grant management and oversight, conducting the subaward competition, participating in the recommendations of subawards to particular applicants, and explaining legal and regulatory requirements to subgrantees. Clearly the grant application reviewers understood that MDRC would play a substantive, indeed, a leading role in the program and would be integral to its success.

That is exactly what occurred. MDRC accounted for the overwhelming share of labor costs associated with the SIF grant during the audit period, by a factor of 17:1. In effect, the Mayor's Fund contends that *the party who performed 94.2 percent of the work was merely a contractor*. To the contrary, the Mayor's Fund was in many respects a pass-through entity, with MDRC performing the work. As for the Mayor's Fund's legal responsibility for adhering to SIF program rules, it is precisely that legal responsibility that causes us to look to the Mayor's Fund, and not to MDRC, for recovery of the questioned costs.

Mayor's Fund Response

The Mayor's Fund states that MDRC's tasks under the Agreement met the definitions of a "vendor" under OMB Circular A-133, §__210(c), rather than a "subrecipient" under §__210 (b). Like a vendor, MDRC provides goods or services within the normal business operations, provides similar goods or services to many different purchasers, and operates in a competitive environment.

OIG Comments

We disagree with the Mayor's Fund's characterization of MDRC as a "vendor" under the applicable portion of OMB Circular A-133. Under §__210(c), *Payment for Goods and Services*, a vendor, unlike a subrecipient, is not subject to the compliance requirements of a federal program. Yet the Agreement between the Mayor's Fund and MDRC require MDRC to comply with the following Federal grant administration rules:

- OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*;
- Corporation grant administration rule 45 C.F.R. 2543, *Grants and Agreements with Institutions of Higher Education, Hospitals, and other Non-profit organizations*;
- The Uniform Guidance 2 C.F.R. 215, *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*;
- OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, and

- OMB Circular A-133, *Audits of States, Local Governments and Non Profit Organizations*.²⁰

The requirements governing vendors are much narrower, principally Section 48, *Contract Provisions*, of OMB Circular A-110, and Appendix A, *Contract Provisions*. But in laying out the rules that MDRC was required to follow, the Mayor's Fund incorporated the requirements applicable to subrecipients and the grant terms and conditions that applied to the Mayor's Fund itself. If MDRC were no more than a vendor, these terms would have been irrelevant, unnecessary and unduly burdensome.

Moreover, if MDRC were a contractor, the Mayor's Fund would have been expected to procure the specified services competitively. It made no attempt to do so, having pre-selected MDRC because they were already working together closely. See Mayor's Fund Response, p. 3 (Mayor's Fund grant application referred to MDRC as a partner to demonstrate how closely they would collaborate).

Mayor's Fund Response

The Mayor's Fund contends that the Agreement made reference to the SIF terms and conditions simply to ensure that MDRC was aware of them and could properly assist the Mayor's Fund; the language was not intended to suggest that MDRC was performing intermediary functions.

OIG Comments

The MDRC Agreement states that "the terms and conditions set forth in the SIF Cooperative Agreement **apply to** MDRC . . ."²¹ . This does more than make MDRC aware of their existence; the provision legally binds MDRC to the same terms and conditions that bind the Mayor's Fund. The Agreement also states that "MDRC must also comply with all other applicable statutes, executive orders, regulations, and policies governing the cooperative agreement, including, but not limited to, those cited in the Notice of Federal Funds Availability, the Cooperative Agreement Assurances and Certifications, and those cited in 45 C.F.R. Parts 2541 and 2543."²² The referenced documents are the grant rules that apply to Federal pass-through entities, such as SIF intermediaries. MDRC was thus accountable to the Mayor's Fund for its use of the Federal funds that it received.

Mayor's Fund Response

The Mayor's Fund states that its staff and CEO were in charge of approving MDRC work. MDRC work in the subgrantee selection was merely considered a recommendation. The final authority was always with the Mayor's Fund. MDRC functions were considered administrative rather than central to the program.

OIG Comments

MDRC's responsibilities were far from ministerial or incidental and constitute *de facto* management of key aspects of the SIF award. These responsibilities included deep involvement throughout the life-cycle of the grant. The grant application states that MDRC, CEO and the Mayor's Fund will "work jointly to manage the grants and provide fiscal oversight" (p. 3) and "jointly oversee and provide technical assistance for site operations" (p. 3). MDRC was to

²⁰ Agreement, pp. 2-3.

²¹ Agreement, p.16 (*emphasis added*).

²² *Id.* p. 3.

“assess each applicant’s capacity based on pre-determined criteria” (p. 12), “work closely with each nonprofit, delivering TA [technical assistance] directly” (p. 14), “develop metrics and performance targets” for subgrantees (p. 15), “schedule periodic phone calls and visits” with the subgrantees, who “will submit quarterly performance and expenditure reports” to MDRC (p. 16). The grant application states that “MDRC regularly helps program operators scale-up, replicate adapt, and strengthen programs” (p. 21). Moreover, the Agreement specified that MDRC would be responsible for financial oversight, monitoring compliance and subgrantees’ financial reporting. These tasks can hardly be described as “administrative,” as claimed by the Mayor’s Fund and instead involve grant and program management.

Mayor’s Fund Response

The Mayor’s Fund contends that the provision of the Agreement requiring criminal checks for any person directly compensated with SIF funds was intended only as a placeholder, depending on whether CNCS decided to require such checks for contractors. Once CNCS decided that no checks were required for contractors performing administrative functions, MDRC staff were no longer required to undergo the checks.

OIG Comments

The MDRC Agreement states:

MDRC acknowledges and warrants that any person directly compensated using SIF award funds will undergo a complete criminal history check, a national sex offender check, *and potentially an FBI fingerprint check if required* before receiving a living allowance, stipend, education award, or salary using SIF funds. Subgrantee may not use SIF funds to provide a living allowance, stipend, education award, or salary to anyone convicted of murder or to anyone who has been convicted of a sex offense.²³

This clause aptly summarizes the criminal history checking requirements of the Serve America Act, which have been in effect since 2009. The words “if required,” to which the Mayor’s Fund attaches undue significance, plainly modify the phrase “and potentially an FBI fingerprint check.” Under the statute, an FBI fingerprint check is “required” in addition to the other criminal history searches only “if” the individual will have recurring access to children, the disabled or the elderly. Nothing in this accurate restatement of the law indicates uncertainty as to whether MDRC staff paid with SIF funds would require the first two components: a “complete criminal history check” and a search of the National Sex Offender Registry. The Mayor’s Fund’s suggestion to the contrary is incorrect.

Finding 1b:

Mayor’s Fund Response

The Mayor’s fund concurred with the facts of improper or untimely criminal history checks for three grant-funded staff, but disputes the amount of questioned costs. The Mayor’s Fund reports that it applied the CNCS Interim Disallowance Guide (Guide) which dictated a disallowance of only \$3,000. Further, the Mayor’s Fund assures us that it has procedures in place to monitor NSCHC compliance, requiring no additional improvements of its monitoring practices.

²³ Agreement, p. 7 (*emphasis added*).

OIG Comments

As stated in past reports, CNCS-OIG objects to CNCS's decision to impose token penalties for disregard of this important safety requirement. The penalties are not commensurate with the paramount objective of protecting the most vulnerable beneficiaries of CNCS programs. We reiterate that the best way to do this is to set all penalties at a level that will necessarily make NSCHC compliance one of the foremost priorities for top grantee leaders, relative to other financial and programmatic considerations, taking into account all of the compliance assistance that CNCS now offers grantees, maintaining deterrence and encouraging appropriate risk management. While it might be reasonable to recognize some mitigation through tiered sanctions, the absolute and relative amounts cannot remain at the current *de minimis* levels.

Finding 2 – The Mayor's Fund knowingly awarded funding to an unqualified subgrantee with a conflict of interest.

The Mayor's Fund deviated materially from its subgrantee selection plan and knowingly awarded a subgrant to Madison Strategy Group (Madison), which lacked the required experience and capabilities. In making the selection, the Mayor's Fund relied on the expertise of Grant Associates (Grant), a for-profit entity that created and controlled Madison. Madison entered into a non-competitive and non-arms' length consulting agreement with Grant, under which Grant approved payment of its own invoices, an obvious conflict of interest. Madison ultimately received a total of \$1,663,952 from the subaward.

The SIF award required the Mayor's Fund to submit to CNCS a plan for selecting the organizations to receive subgrants. That Subgrantee Selection Plan, submitted on September 6, 2010, required that subgrantees have past success in operating a similar program, sufficient fiscal capacity and adequate staff experience. The Request for Proposals (RFP) for subgrants specified that a subgrantee must have at least five years of relevant experience in serving similar populations, providing similar services, as well as experience using data to evaluate program's performance. RFP, Section III, *Scope of Services and Requirements*. The Kennedy Serve America Act, which authorizes the SIF, requires that subawards go to organizations with proven initiatives and a demonstrable track records of achieving measurable outcomes. 42 U.S.C. § 12653k(g)(5)(A)(i).

As a for-profit business, Grant was not eligible to receive a subaward. SIF Cooperative Agreement, Section II.A. Definitions, para. 3.a. Grant therefore created Madison as a non-profit entity for the specific purpose of applying for a subaward from the Mayor's Fund. As a startup organization, Madison lacked the financial management capabilities, prior relevant experience and track record to qualify for a subaward. In its application, Madison relied upon the programmatic experience and financial management capabilities of Grant, which was owned by Madison's founder. The Mayor's Fund told MDRC and our auditors that it relied on Grant's experience in making the subaward. For the first year of the subaward, Madison was essentially a shell, with all of its activities conducted by Grant staff or consultants.

MDRC's pre-award due diligence report on Madison raised a number of substantive issues regarding its qualifications for a subaward. That report noted that Madison's plan to engage Grant to administer the subaward created potentially significant conflicts of interest, because Madison and Grant were not independent. The longtime President of Grant chaired Madison's Board of Directors, and Grant's President served as Madison's Executive Director for almost three years of the grant period. The contract between them was not the result of open competition, nor was it negotiated at arms' length. There could be no assurance that the government would receive the best value for its money by reimbursing Madison for Grant's services.

To address these issues, MDRC made a number of recommendations, including:

- Obtaining CNCS's advance consent to any contract between Grant and Madison, after full disclosure of the nature of their relationship, the lack of independence and the potential conflicts of interest;
- Adoption of stringent conflict of interest policies; and
- Independently and objectively assessing the reasonableness of the costs to be charged by Grant for its services to Madison.

The Mayor's Fund did not follow these recommendations. It did not obtain CNCS's consent to this large related-party transaction, nor did it perform any independent review of the reasonableness of the costs submitted by Grant to Madison for reimbursement. Instead, the Mayor's Fund merely recommended that *Madison* assess the reasonableness of its related party's costs. We found no evidence that the Mayor's Fund or MDRC devoted particular attention to monitoring the costs arising from this known high-risk transaction. Their actions did little to mitigate those risks.

Moreover, the conflict of interest policies adopted by Madison were ineffective. First, from March, 2011 until December 2011, Grant operated Madison's accounting system, allowing Grant to approve its own invoices and make payments to itself. Second, Madison's conflict of interest policy purported to require the President of Grant (Madison's Executive Director) to recuse herself from any SIF WorkAdvance program decisions. Madison's records, however, show that she participated actively in Madison's decisions concerning the program. Third, we saw no evidence that at any time during the contract Madison subjected Grant's payment requests to independent and objective review for reasonableness. Ultimately, Grant received a total of \$106,214 for its SIF consulting work.

Although a for-profit organization may receive funding under a subaward as a vendor of goods or services, such contracts are subject to Federal requirements of open competition. 45 C.F.R. § 2543.43, *Competition*. The agreement between Madison and Grant was not awarded competitively. The intermediary is responsible for ensuring compliance with these procurement requirements.

The Mayor's Fund asserts that it informally advised its Program Officer (PO) at CNCS that Madison was a new entity. No such information appears in CNCS's grants management system. The Mayor's Fund did not disclose the related-party business relationship between Madison and Grant, did not reveal that the subaward would pay Grant for services that were not procured competitively, did not share the due diligence report raising conflict of interest warnings and did not tell CNCS that it declined to adopt key measures recommended to mitigate the risk of excessive charges. CNCS's records show no awareness that Madison would not independently qualify for a subaward, nor do they mention of Grant's role.

Critical information bearing on Madison's eligibility and its non-competitive engagement of a for-profit related party was withheld from CNCS, contrary to MDRC's written recommendation of complete disclosure. Had the Corporation been notified of these facts, it would likely not have allowed the subgrant to be awarded to Madison. Because Madison lacked the required track record and capabilities, and contracted with a for-profit related party to obtain them, we have questioned all costs associated with the subaward to Madison.

Criteria

42 U.S.C. § 12635k(f) *Funds — Eligibility* states:

To be eligible to receive a grant under subsection (d), an entity shall—

* * *

(5) have appropriate policies, as determined by the Corporation that protect against conflict of interest, self-dealing, and other improper practices.

2009 Social Innovation Fund Cooperative Agreement Terms and Conditions (Version 1.2), Section II. SIF Special Provisions Definitions, A. Definitions, states:

3. Competitive sub-grant selection process means an open and merit-based process to select sub-grantees carried out by an Awardee in compliance with section 198k(j)(3) of the NCSA (42 U.S.C. § 12653K9J)(3)), and in a manner which:

a. Is open to all eligible nonprofit organizations (including nonprofit organizations not previously funded or affiliated with the Awardee);

b. Provides sufficient public notice of the availability of SIF subgrants to eligible nonprofit community organizations within the specific local geographic areas and issue area(s) covered under this Cooperative Agreement;

c. Advises potential applicants of:

i. What organizations are eligible for funding;

ii How to obtain and submit an application;

iii. The criteria (including appropriate subcriteria) that will be considered in reviewing applications; and

iv. Any relative percentages, weights, or other means used to distinguish among the criteria; and

d. Ensures that sub-grant applications will be reviewed consistent with the established criteria and will be free from any actual conflicts of interest (or the reasonable perception of any such conflict).

45 CFR § 2543.42 *Codes of conduct* states:

The recipient shall maintain written standards of conduct governing the performance of its employees engaged in the award and administration of contracts. 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 employee, officer, or agent, 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.

45 CFR § 2543.43 *Competition* states:

All procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition. The recipient shall be alert to organizational conflicts of interest as well as noncompetitive practices among contractors that may restrict or eliminate competition or otherwise restrain trade. In order to ensure objective contractor performance and eliminate unfair

competitive advantage, contractors that develop or draft specifications, requirements, statements of work, invitations for bids and/or requests for proposals shall be excluded from competing for such procurements. Awards shall be made to the bidder or offeror whose bid or offer is responsive to the solicitation and is most advantageous to the recipient, price, quality and other factors considered. Solicitations shall clearly set forth all requirements that the bidder or offeror shall fulfill in order for the bid or offer to be evaluated by the recipient. Any and all bids or offers may be rejected when it is in the recipient's interest to do so.

SIF WorkAdvance RFP sections:

Section II. Summary of the Request of Proposals, states:

For-profit entities are not eligible to apply as sub-grantees for the SIF; they are eligible to participate as vendors to sub-grantees, as appropriate and in accordance with federal regulations.

Section III. Scope of Services and Requirements states:

(A)(1) Preferred experience and Expertise: Applicants should have at least five years of successful experience

Section III. Scope of Services and Requirements, (B) Assumptions Regarding Organizational Capacity, states:

The Mayor's Fund Collaborative anticipates that the selected providers would have the following qualifications:

1. Fiscally sound and capable of managing the proposed program.
2. Experience managing government contracts or grants.

Section III. Scope of Services and Requirements, (A) (3) Collaborations and Partnerships, states:

The proposal must name a lead applicant (fiduciary agent) and fully describe each copartner, its role and responsibilities, and its qualifications. This agency will be held responsible for the fiscal operations of the grant. (For-profit entities are not eligible to receive federal funds as a sub-grantee or partner. If for-profits are expected to receive program funds in exchange for goods or services they must be separately procured as a vendor.

Recommendations:

We recommend that the Corporation:

2a. Disallow and recover \$1,663,952 in Federal costs awarded to Madison;

2b. Where a pass-through entity relies on the qualifications of an entity other than the applicant for a subaward, require the pass-through entity to advise CNCS of its reasons for doing so and the terms on which the non-applicant will participate or render services;

2c. Require pass-through entities and their subgrantees to follow Federal procurement requirements for open competition when selecting for-profit organizations to procure goods or services to be paid for from grant funds;

2d. Require pass-through entities and their subgrantees to have adequate conflict of interest policies in place and maintain written documentation to support their program decisions, especially regarding subgrant awards and resolutions of conflict of interest issues;

2e. Require pass-through entities to maintain documentation sufficient to demonstrate that any related party transactions paid for from grant funds are on terms that are commercially reasonable and do not result in excessive charges to the government; and

2f. Determine whether any current SIF awards involve reimbursement of costs for goods or services procured through related party transactions.

Mayor's Fund Response

The Mayor's Fund disagrees with this finding and the recommended questioned costs for the following reasons:

The Mayor's Fund stated that Madison was not created by Grant to compete for the SIF award and noted that Madison was formed on February 22, 2010, before the Mayor's Fund applied for the SIF grant in April 2010. The Mayor's Fund asserted that Madison carried another program with the Robin Hood Foundation, prior to the award of the SIF grant.

OIG Comments

We adhere to our position that this subgrant should not have been awarded to Madison, for the reasons stated in the audit report.

As for the timing, Madison was formed less than two months after CNCS announced availability of SIF funds in the Federal Register on December 29, 2009. The SIF program was Madison's overwhelming source of revenues during the audit period. The inference that Grant formed Madison for the purpose of obtaining a SIF subaward is reasonable in light of the timing and the parties' subsequent conduct. The Mayor's Fund does not provide support for its proposition that Madison would have been qualified without its contract with Grant, which as a for-profit entity, was not itself eligible for the subaward. Likewise, the Mayor's Fund did not dispute that Madison's contract with Grant was awarded noncompetitively.

Additionally, the Mayor's Fund claimed that it carried another program prior to the SIF grant; however, it did not provide evidence of this program. The Robin Hood Foundation was one of the major sources of match funds for the SIF grant.²⁴

Mayor's Fund Response

The Mayor's Fund stated that the requirement in its SIF Workadvance RFP that a subgrantee have at least five years of successful experience was not a fixed-level requirement, asserting that this was only "preferred experience and expertise." The Mayor's Fund contends that it had "flexibility" under the RFP to consider an applicant of less than five years of experience in combination with the experience of a key staff. The Mayor's Fund claimed that the program manager had highly relevant experience as a former Grant staff member.

²⁴ See, MDRC WorkAdvance SIF evaluation report "Encouraging Evidence on a Sector-Focused Advancement Strategy."

OIG Comments

The RFP states “[a]pplicants should have at least five years of experience” (*emphasis added*). A fair reading of that expression is that the Mayor’s Fund expected to treat this as a bare minimum standard for all applicants competing for the SIF funds. Even if the Mayor’s Fund had some flexibility as to the level of experience, selecting a start-up organization created two months before the Mayor’s Fund’s SIF application deviates remarkably far from the preferred five-year track record, even if Madison had available a single experienced staff person. As set forth in the audit report, Madison also came up short on other requirements, including its fiscal management capabilities. The selection of Madison was contrary to the SIF Terms and Conditions requirements for a merit based and competitive subgrant selection process with precise and publicized criteria.

Mayor Fund’s Response

The Mayor’s Fund claims that it responded favorably to the recommendations in MDRC’s due diligence report and required Madison to put policies in place to mitigate the risk of potential conflict of interest and self-dealing from consulting fees Madison paid to a firm owned by Madison’s Chairwoman. The Mayor’s Fund also asserts, without providing any support, that a “contemporaneous report from that time” showed that it disclosed the potential conflict to the CNCS program office, and that there is “extensive evidence” MDRC and the Mayor’s Fund devoted attention to the reasonableness and monitoring of costs arising from the agreement with Grant. The Mayor’s Fund also stated that its conflict of interest policy is adequate, and that MDRC monitored its implementation in the monitoring site visits.

OIG Comments

Federal grant regulations prohibit subcontracts of federal funds where an officer or employee (in this case the Chairwoman) “has a financial or other interest in the firm selected for an award.” 45 C.F.R. § 2543.43 *Codes of Conduct*. The rule contains no provisions for waiver of the rule, or mitigation through oversight.

Despite the Mayor’s Fund’s assertion that a “contemporaneous report” shows it disclosed to CNCS the conflict of interest between Grant and Madison, the CNCS grants management system contains no record of such a disclosure, and the Mayor’s Fund did not provide the alleged “contemporaneous report” in its response. As described in the audit report, the Mayor’s Fund refused to follow key recommendations from MDRC for mitigating the conflict of interest: It failed to obtain CNCS’s advance official consent to the arrangement between Grant and Madison (nor did it convey the concerns about Madison’s qualifications set forth in MDRC’s due diligence reports). There is no evidence that the Mayor’s Fund disclosed the related-party business relationship between Madison and Grant, nor did it reveal that the sub-award from Madison to Grant was procured without competition.

In addition, the Mayor’s Fund provides nothing apart from its bare assertion that any independent third party reviewed the reasonableness of the costs charged by Grant to Madison. Finally, while the Mayor’s Fund contends that the conflict of interest policies adopted by Madison were sufficient, based on our review of Madison’s Board of Directors minutes, we have no evidence that Madison’s founder recused herself from participating in decisions regarding Madison.

Finding 3 – Subgrantees incorrectly charged labor costs based on budget estimates.

CAS and Henry Street improperly charged the grant for labor based on budget allocation estimates, rather than for the actual hours their staff devoted to grant-funded activities. Each of the subgrantees allocated hours based on predetermined percentages; as a result, the timesheets contemporaneously prepared by the employees do not match the allocations between funding sources shown on their payroll distribution reports.

a. CAS's timekeeping system reports labor charges based on the employee's home-based department allocations, which are approved in advance when the employee is hired. Moreover, the allocation of time between funding sources is approved at the start of each fiscal year based on CAS's Board of Directors' approved budget. During the year, CAS makes adjustments to the allocation percentages; however these adjustments are made prospectively and they do not change or correct prior charges. CAS's timekeeping policies do address how the allocations are revised through the fiscal year. The Budget Director is responsible for updating and maintaining all salary allocation changes in the payroll system.

b. Henry Street charged the SIF grant based on estimated labor hours that were developed in advance. Time studies were performed three times per year to test the accuracy of the allocated time. We reviewed one of these time studies for one payroll period. Henry Street used the results to change allocations prospectively and adjusted allocations for the prior pay period. This seems to have been an ad hoc practice, because Henry Street's timekeeping policy does not address reallocation of labor charges based on time studies, nor do we know why the retrospective reallocation was limited to a single pay period.

Criteria

OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, Attachment B. Selected Items of Cost, Paragraph 8.m.(2)(a) Support of salaries and wages, states:

The reports must reflect an after-the-fact determination of the actual activity of each employee. Budget estimates (i.e., estimates determined before the services are performed) do not qualify as support for charges to awards.

Recommendations:

We recommend that the Corporation:

3a. Require Mayor's Fund to compare contemporaneous time and labor records of CAS and Henry Street to the hours charged to the grant, disallow any overcharges and recoup and remit the costs to CNCS;

3b. Require all pass-through entities to evaluate subgrantees' timekeeping systems to verify that their labor charges to the grant reflect the actual hours worked;

3c. Require pass-through entities strengthen their monitoring procedures to ensure that subgrantees record labor hours based on actual hours worked instead of budgeted time; and

3d. Have all pass-through entities confirm that their subgrantees are recording actual staff labor hours.

Mayor's Fund Response

The Mayor's Fund does not concur with this finding and states that the corrective action is not necessary because its subgrantees' timekeeping systems are compliant with the OMB standards, and the staff hours charged to the SIF grant are based on actual time and effort. The Mayor's Fund claims that it currently has monitoring procedures in place to monitor its grants and ensure the accuracy of the after-the-fact time and effort reporting. Additionally, it states that its subgrantees did not have any findings on its Single Audit related to staff time allocations.

OIG Comments

We do not agree that the timekeeping systems are adequate and meet OMB standards for the following reasons:

- CAS does not have written timekeeping policies and procedures specifying how it adjusts staff hours retroactively. Without such policies in place, we have no reasonable assurance that the revisions to the labor hours were performed accurately and cover the entire grant period.
- Henry Street also does not have adequate written timekeeping policies and procedures that would provide reasonable assurance that its revisions to the labor hours were performed consistently and accurately.

CNCS-OIG will engage with CNCS during the audit resolution process in its final determination of these issues.

Finding 4 – Subgrantees' financial management systems did not segregate Federal and match costs and have other defects.

We found multiple deficiencies in the financial management systems, policies and procedures of each of the three subgrantees.

Most importantly, each subgrantee failed to distinguish expenditures charged to Federal funds from those charged against their match obligations. Applicable regulations and the subgrantees' agreements require that a subgrantee's accounting records specify the funding source—Federal or match—for every cost incurred, as a condition of reimbursement. 45 CFR § 2543, *Grants and Agreements with Institutions of Higher Education, Hospitals, and other Non-Profit Organizations*; Subgrantee Agreements, Section IV, *Budget and Compensation* (requiring that subgrantees' general ledgers record the source of funds used for expenditures). While their records showed the source of incoming funds, none of them recorded whether individual expenses were paid with Federal dollars or with match dollars. Henry Street began to maintain such records only in 2015, the last year of the grant.

The periodic financial reports submitted to the Mayor's Fund by the subgrantees reported match and Federal expenditures separately, but the totals were not based on the actual funding source used for individual expenditures. Rather, when preparing the reports, the subgrantees allocated their aggregate expenses to Federal funds vs. match after the fact, based on the availability of funds.

Other ways in which the subgrantees did not meet mandatory standards of financial management include:

- Madison, Henry Street, and CAS do not have written policies governing the allowability, allocability and reasonableness of grant costs. Their financial management staff have no criteria or standards for determining whether particular expenses may or may not be charged to the grant.
- Madison does not have written policies to ensure that records are retained as required. Without proper records, accountability cannot be maintained, nor can CNCS determine whether the subgrant was properly administered.

Criteria

45 CFR § 2543.21, *Standards for financial management systems*, states, in part:

(a) Federal awarding agencies shall require recipients to relate financial data to performance data and develop unit cost information whenever practical.

(b) Recipients' financial management systems shall provide for the following:

(1) Accurate, current and complete disclosure of the financial results of each federally-sponsored project or program in accordance with the reporting requirements set forth in § 215.52. If a Federal awarding agency requires reporting on an accrual basis from a recipient that maintains its records on other than an accrual basis, the recipient shall not be required to establish an accrual accounting system. These recipients may develop such accrual data for its reports on the basis of an analysis of the documentation on hand.

(2) Records that identify adequately the source and application of funds for federally-sponsored activities. These records shall contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, outlays, income and interest.

* * *

(6) 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.

(7) Accounting records including cost accounting records that are supported by source documentation.

Subgrantees' Agreement, Section IV, Budget and Compensation, (item e) as a condition for reimbursement as follows:

The Mayor's Fund will compensate the Subgrantee on a cost-reimbursement basis for performing services in accordance with this Agreement. The Subgrantee must track and record the expenses of activities in the Subgrantee's general ledger separately from the costs of the Subgrantee's other programs, regardless of the source of funds. In addition, the Subgrantee must track and record separately in the Subgrantee's general ledger the sources of funding for the expenses incurred for this initiative: the Mayor's Fund award under this agreement (federal CNCS SIF and non-federal funds portions separately) and other awards.

Recommendations:

We recommend that the Corporation:

- 4a. Require pass-through entities to ensure that subgrantees maintain financial management systems that meet the requirements of 45 CFR § 2543.21 *Standards for financial management systems*, or more current Uniform Guidance at 2 C.F.R. Subpart D - *Post Federal Award Requirements, Standards for Financial and Program Management*; and
- 4b. Verify that pass-through entities monitor subgrantees to ensure that their financial management, retention policies comply with Federal laws.

Mayor's Fund Response

The Mayor's Fund does not concur with this finding because it claims that its subgrantees' financial systems were compliant with 45 CFR § 2543.21, *Standards for financial management systems*. The Mayor's Fund states that the subgrantees maintained financial management systems that include standard accounting practices, sufficient internal controls, clear audit trail, and written cost allocation procedures. The Mayor's Fund acknowledges that it attempted to implement cost segregation internal controls in its subgrantees' financial systems, but it became a burden to the subgrantees' infrastructure. Additionally, the Mayor's Fund states that its subgrantees had no financial management findings in their prior Single Audit reports.

The Mayor's Fund agreed to review its subgrantees' policies and make updates, if needed. It also provided Madison's new record retention policy. The Mayor's Fund claimed that its current subgrantee monitoring includes procedures to ensure that subgrantees' financial management policies meet Federal standards.

OIG Comments

With the exception of Madison's action to enhance its record retention policy, we disagree with the Mayor's Fund's position for the following reasons:

- **Finding on Madison, CAS, and Henry Street segregation of match and Federal expenditures:**

We maintain our position on this finding and the related recommendations. During our audit, we did not receive any documents demonstrating how the subgrantees segregated Federal and match expenses; we did not observe a clear audit trail on how expenses were paid with match or Federal funds. Additionally, the subgrantees did not provide us any written policies and procedures documenting how they tracked their match expenditures.

- **Finding on Madison, Henry Street, and CAS policies governing the allowability, allocability and reasonableness of grant costs:**

We maintain our position on this finding and related recommendations. CAS and Henry Street did not provide us financial policies during our fieldwork or at any other time that address the allowability, allocability and/or reasonableness of grant costs, key determinations required for use of grant funds.

The Mayor's Fund's response to the draft audit report provided us a different version of Madison's financial policy from the policy we reviewed during our fieldwork. The financial policy we reviewed during our fieldwork included a five-page document dated of June 30, 2015. However, the financial policy provided in the Mayor's Fund's response is dated October 31, 2013 and is a 10-page document which includes requirements on grant cost allowability and allocability. We are not able to determine which policy was in effect when Madison's expenses were incurred and recorded in its accounting system. During the audit resolution, we recommend that CNCS determine which policy was in effect during our fieldwork; and determine which one is currently in effect.

- **Finding on Madison record retention policies:**

Madison's record retention policies were not in place during our fieldwork. The subgrantee's after-the-fact policy, dated December 31, 2016 provided by the Mayor's Fund meets the intent of OIG recommendation 4b.

Finding 5 – Two subgrantees issued debit cards without adequate internal controls to prevent misuse.

Henry Street and Madison issued debit cards to their program beneficiaries for certain transportation costs and to reward achievement of program milestones (collectively "incentive cards"). The incentive cards are cash equivalents and pose high risks for fraud, waste and abuse, requiring strong safeguards. Neither Henry Street nor Madison maintained adequate records or sufficient internal controls over the possession, distribution and security of the incentive cards.

a. Henry Street incentive cards:

Type of Cards	Cards Purchased	Cards Issued	Not Supported with Logs	Dollar Value Purchased (\$)	Dollar Value Not Supported with Logs(\$)
Metro Card	230	247	(17)	25,200	(2,264)
Movie Theater Card	25	13	12	625	300

Henry Street does not have written policies or procedures governing the purchase and distribution of incentive cards or securing unused cards. Its only control mechanism is requiring the recipient to sign a log confirming receipt of the card and its value. The log does not identify the staff member who issued the card, the accomplishment that entitled the recipient to receive it (in the case of movie theater cards) or the card's registration number. In some cases, the signatures are illegible, making it impossible to verify the eligibility of the recipient. The cards require no activation, and the unused cards are not maintained securely. Henry Street does not periodically reconcile the distribution logs against the remaining card inventory. The lack of effective controls increases the risk of unauthorized use of the cards.

When auditors attempted a reconciliation, they discovered that Henry Street distributed more Metro cards than it had a record of purchasing. Its staff could not account for the discrepancy. Henry Street told auditors that it had distributed all of the movie theater cards, but it had no record of who received nearly half of them.

b. Madison incentive cards:

Type of Cards	Cards Purchased	Cards Issued	Not Supported with Logs	Dollar Value Purchased (\$)	Dollar Value not Supported with Logs(\$)
Fuel Card	267	249	18	8,940	900
Visa Card	50	34	16	1,250	600
Walmart Card	85	85	0	1,875	0

Madison has a written policy that describes the procedures for purchasing incentive cards, completing sign-in sheets to record distribution and issuance of cards and safeguarding unused cards. It did not always follow its policy. Moreover, every Madison employee who supervises program clients had access to the cards. Allowing such widespread access contributed to Madison's inability to maintain a complete inventory and did not secure the cards from unauthorized use.

Madison was unable to account for all of the cards that it purchased. It responded to the auditors that 21 of the 34 undistributed cards remained in storage and would be treated as undistributed supplies because they cannot be returned to the vendor. For seven of the cards, program supervisors recorded that they were earned by participants, but there was no signature to verify that those participants received them. Six of the cards are simply unaccounted for.

Criteria

45 CFR § 2543.21, *Standards for financial management systems*, states:

(b) Recipients' financial management systems shall provide for the following:

* * *

(3) Effective control over and accountability for all funds, property and other assets. Recipients shall adequately safeguard all such assets and assure they are used solely for authorized purposes.

* * *

(6) 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.

(7) Accounting records including cost accounting records that are supported by source documentation.

Recommendations:

We recommend that the Corporation require that pass-through entities whose subgrantees issue incentive cards to do the following:

5a. Include in subgrantee monitoring a review of internal controls related to the purchase, distribution and security of incentive cards;

5b. Require subgrantees to develop appropriate policies and procedures purchasing, distributing and safeguarding incentive cards, (including, for example, the registration/control number of each card, the legibly printed name of the recipient, the justification/entitlement to the card, the legibly printed name and job title of the person issuing the card, the value of the card and the date that the card was issued) maintaining sufficient records and limiting supervisory access to the distribution of cards; and

5c. Reconcile the incentive cards purchased against the total distributed and unused at least quarterly.

We also recommend that for all Mayor's Fund subgrantees that issued incentive cards, the Corporation:

5d. Review the entire grant period to determine if there is a discrepancy between incentive cards purchased, those issued and those remaining, as well as the identity and eligibility of the recipients.

Mayor's Fund Response

The Mayor's Fund does not concur with this finding and our recommendations. It states that its subgrantees' financial management systems were compliant with 45 CFR § 2543.21, *Standards for financial management systems*, and that these systems were capable of preventing the misuse of debit cards. The Mayor's Fund states that the subgrantees' policies in place meet the applicable grant standards, but agrees to review the subgrantees' policies on debit cards. Also, claims that it currently has monitoring procedures on subgrantees' usage of debit cards, and therefore no corrective action is needed.

OIG Comments

With the exception of Madison's action to enhance its incentive policy, we disagree with the Mayor's Fund's position for the following reasons:

- The Mayor's Fund provided us new Madison documentation to support the six debit cards that were previously unaccounted for. The new documentation was from the Salesforce system, which tracks the benefits earned by the program participants. However, the response does not address the lack of a sign-in log.

Also, the Mayor's Fund provided Madison's new debit card policy that describes the types of debit cards and how the logs are prepared. However, this new policy does not address our finding regarding the safeguarding of the cards. With the exception of the lack of debit card

safeguarding procedures explained in the new written policy, Madison's new policy meets the remaining OIG recommendations in 5b.

- Henry Street's formal policy only covers the metro card purchases; it does not address the distribution and safeguarding of the debit cards.

Contrary to the Mayor's Fund's assertion that corrective action is not needed for its subgrantees' monitoring process, its current monitoring checklist does not include procedures to evaluate subgrantees' distribution and safeguarding of debit cards, and the Mayor's Fund did not produce a modified or revised checklist to address this concern and risk.

Finding 6 - Subgrantees could not fully support costs paid to contractors.

CAS and Madison each charged the SIF grant for contractor costs that were insufficiently supported and not clearly related to the activities authorized under the grant.

We question \$12,812 in consultant costs, because neither CAS nor Madison could provide sufficient documentation to support consultant costs charged to the SIF grant or to demonstrate that the procured services were needed for the SIF grant.

- a. CAS charged the grant \$5,589 in Federal costs for the services of a temporary staffing agency, with no documentation to demonstrate the nature or purpose of the work performed. The invoices and timesheets that CAS provided to auditors include no information that demonstrates that the work was related to the SIF grant, rather than to CAS's other activities.
- b. Madison claimed \$6,223 in consulting costs for two consultants provided by Grant (refer to **Finding 2b**). The supporting documentation consists solely of an agreement between Madison and Grant, written in very general terms, with a fixed labor rate of \$200 per hour. The agreement does not specify the services to be provided or the number of consultants, nor did it require any status reports. The invoices were in summary form, containing the number of hours and the total amount charged by Grant, with no description of the services. This documentation does not demonstrate that the work related to the SIF program.
- c. Madison claimed \$167 for costs incurred for hiring an aviation consultant,²⁵ without a written contract to set forth the services or the terms on which those services were provided.²⁶ Its only supporting documentation was a summary invoice.
- d. Madison claimed \$833 in costs for a training consultant, supported only by an internal email from the Madison's Program Director to its Director of Operations confirming the hiring of the training consultant and the labor rate for the development of a curriculum for to prepare participants to work in the shipping and receiving departments of a warehouse. There was no written agreement between Madison and the consultant.

²⁵ The Work Advance program was a transportation program that includes job training opportunities for participants in the aviation sector.

²⁶ Not only do applicable regulation require a signed agreement as a precondition for paying a contractor, Madison's own policies contain the same requirement.

Criteria

OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, Attachment B. Selected Items of Costs, Paragraph 37. Professional services costs, states:

b. In determining the allowability of costs in a particular case, no single factor or any special combination of factors is necessarily determinative. However, the following factors are relevant:

- (1) The nature and scope of the service rendered in relation to the service required.
- (2) The necessity of contracting for the service, considering the non-profit organization's capability in the particular area.
- (3) The past pattern of such costs, particularly in the years prior to Federal awards.
- (4) The impact of Federal awards on the non-profit organization's business (i.e., what new problems have arisen).
- (5) Whether the proportion of Federal work to the non-profit organization's total business is such as to influence the non-profit organization in favor of incurring the cost, particularly where the services rendered are not of a continuing nature and have little relationship to work under Federal grants and contracts.

* * *

- (8) Adequacy of the contractual agreement for the service (e.g., description of the service, estimate of time required, rate of compensation, and termination provisions).

Recommendations

We recommend that the Corporation:

6a. Disallow and recover the questioned Federal costs totaling of \$5,589 for CAS and \$7,223 for Madison;²⁷and

6b. Require SIF intermediaries to train and monitor subgrantees to maintain supporting records for contractual agreements for personal services.

Mayor's Fund Comments

The Mayor's Fund does not concur with this finding and disagrees with the questioned costs related to CAS and Madison. The Mayor's Fund believes that the subgrantees' contracting procedures were compliant with the OMB Circular A-122. Its responses to each questioned costs are summarized below:

- CAS's temporary staffing agency contract: The Mayor's Fund states that the timesheets and invoices provided to the auditors fully support the reimbursed costs. Further, these invoices were adequately reviewed by the CAS SIF program manager and were correctly coded by the CAS budget manager.

²⁷ The Madison costs are also questioned in Finding 2.

- The Madison / Grant contract: The Mayor's Fund states that the invoices and contract provided to the auditors fully supported the reimbursed costs. It claims the Madison / Grant contract states that the invoices would be billed based on the "time spent," and the invoices submitted included such information. Additionally, the Mayor's Fund claims that Madison's operation and program directors closely reviewed the work of the consultants to ensure compliance with contract terms.
- Madison aviation contract: The Mayor's Fund responded that the consultant performed work in accordance with the scope of services, which was in the aviation consultant's job announcement. It also stated that Madison's program director managed the consultant work and approved all of the invoices.
- Madison training contract: The Mayor's Fund does not agree that a written agreement is necessary because the consultant agreed to set deliverables and timetables documented through an online project management program. The Mayor's Fund provided print screens from the online project management program to support its response. It also states that the program director reviewed all work performed and approved all invoices.

The Mayor's Fund stated that corrective action is not needed because it has current procedures in place to monitor subgrantees' contract costs. However, subgrantees agreed to review their written policies and procedures related to their contractors' costs.

OIG Comments

We disagree with the Mayor's Fund's position and maintain the recommendations for the following reasons:

- CAS temporary staffing agency contract: A written formal contract is necessary to clearly establish the relationship and the terms of agreement between CAS and the temporary agency. As stated in our audit finding above, the timesheets and invoices we reviewed did not include information that demonstrated that the work of the temporary agency benefited or was properly allocable to the SIF grant.
- The Madison / Grant contract: Although the invoices we reviewed included the labor rate and the number of hours (as stated in the Mayor's Fund's response), the details of the work performed were not included/explained. In addition, there were no work status reports for the work performed by the two consultants. As previously stated in our audit finding, the consulting contract was written in very general terms, and therefore we have no evidence to confirm that the scope of the service rendered benefitted the SIF grant.
- Madison Aviation contract: The Mayor's Fund only provided the hiring announcement for this position after fieldwork was completed, but did not provide the actual consultant agreement. Also, the invoices provided did not include any details of the work performed; therefore we have no evidence to confirm that the scope of the service rendered benefitted the SIF grant.
- Madison training contract: The project management program print screens provided did not include any information that would allow us to determine whether the work performed would benefit the SIF grant.

Therefore, all of the above costs remain questioned.

Finding 7 - The Mayor's Fund lacked adequate subgrantee termination policies and did not retain comprehensive financial records.

The Mayor's Fund did not maintain sufficient auditable financial records for five subgrantees that it terminated.²⁸ It had no policy or procedure to ensure that records were preserved following termination of a subgrant, and it took no steps regarding record retention when terminations occurred.

For example, after the subgrant to Federal Employment & Guidance Service (FEGS) was terminated due to bankruptcy, the Mayor's Fund authorized and paid its final reimbursement request without obtaining or reviewing supporting documentation. At the request of our auditors, the Mayor's Fund obtained the underlying documentation from FEGS' bankruptcy counsel. Luckily, we found no exceptions when we reconciled the ledgers, the supporting documentation and the final reimbursement request.

Without performing a financial review, however, the Mayor's Fund had no assurance that the reimbursement request was *bona fide*. FEGS' bankruptcy showed that the organization was under financial pressure, which increases the risk that an entity will misuse or misapply awarded funds for unauthorized purposes. The Mayor's Fund took no action in response to this risk, because, its representatives told auditors, FEGS cooperated in transitioning the subaward to a new subgrantee and the expenses incurred never exceeded any of the budget line items. Therefore, the Mayor's Fund made no effort to determine whether funds were misspent or whether it had grounds to file a claim in the bankruptcy. The Mayor's Fund and CNCS are fortunate that FEGS conducted itself properly.

As a pass-through entity, the Mayor's Fund is responsible for maintaining the financial records of terminated subgrantees to comply with the Corporation's record retention requirements. In its agreement with the Mayor's Fund, MDRC was to perform this task. Neither party did so.

Criteria

45 CFR § 2543.53, *Retention and access requirements for records*, states:

(a) This section sets forth requirements for record retention and access to records for awards to recipients. Federal awarding agencies shall not impose any other record retention or access requirements upon recipients.

(b) Financial records, supporting documents, statistical records, and all other records pertinent to an award shall be retained for a period of three years from the date of submission of the final expenditure report or, for awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, as authorized by the Federal awarding agency.

The Agreement between Mayor's Fund and MDRC, p. 14, (Dec. 22, 2010) states: Section XV "Data Retention and Grant Closeout"

MDRC shall retain all books, documents, papers and records of Subgrantee involving financial

²⁸ Two of the subgrants were terminated for financial reasons, and three were terminated for programmatic underperformance.

transactions directly related to this Agreement for a period of six (6) years after the Mayor's Fund makes the final disbursement under the Agreement. Subgrantee agrees that Mayor's Fund, and its designees, shall, until the expiration of six (6) years after final payment under the Agreement, have access to and the right to examine any and all books, documents, papers or records of Subgrantee involving transactions directly related to this Agreement, and to determine MDRC's compliance with the Agreement and relevant OMB Circulars; and during this period, the Mayor's Fund shall have the right to challenge any costs claimed, even if payment for those costs have been made. Upon request, MDRC shall provide its books, documents, papers or records involving transactions directly related to this Agreement directly to the Mayor's Fund or to the Federal auditing official.

MDRC agrees to fully participate in successfully completing all federal grant closeout requirements. This will include but is not limited to retaining data according to the policy contained in this agreement, submitting reports that are consistent with program records, and working with the Mayor's Fund to reconcile all disbursements accurately down to the penny.

Recommendations:

We recommend that the Corporation:

7a. Ensure that pass-through entities develop subgrantee termination procedures, including performing a final financial review and reconciliation of financial documents to the final claimed expenses; and

7b. Require that all pass-through entities follow record retention requirements for all their subgrantees, including terminated subgrantees. In cases where subgrantees are no longer operating, the pass-through entities must obtain and retain the records in accordance with 45 CFR § 2543.53.

Mayor's Fund Response

The Mayor's Fund does not concur with this finding. It states that it had standard policies written into its agreements to require retention of auditable financial records upon termination. The data retention time period required by the Mayor's Fund is six years after the final grant disbursement, which exceeds the three-year period required under 45 CFR § 2543.53, *Retention and access requirements for records*. The Mayor's Fund believes that this agreement is sufficient and there is no need to obtain supporting documentation upon grant termination.

Additionally, the Mayor's Fund claims the requirement under the MDRC agreement, Section XV "*Data Retention and Grant Closeout*," was meant to make MDRC responsible only for retaining the subgrantee records that it received as part of its oversight work, not the source documentation retained by subgrantees.

The Mayor's Fund asserts that its procedures for subgrants closed in 2016 consisted of reconciliation of all financial reports to the organization's general ledger and providing data retention guidance to subgrantees. In addition, the Mayor's Fund required each subgrantee to submit a signed final grant closeout form to confirm the subgrantee's understanding of the SIF data retention requirements. The Mayor's Fund provided this additional information to the OIG with its responses to the draft audit report.

OIG Comments

Although we disagree with the Mayor's Fund's non-concurrence on this finding, grant close-out process for all of the subgrantees for 2016, including the record retention guidance provided to subgrantees, as implemented, meets the intent of the OIG recommendations.

Finding 8 - One subgrantee claimed unsupported employee morale costs.

Madison claimed \$224 for "employee morale costs" to fund meals for its staff. Its budget included employee morale costs as an element of fringe benefits, without specifying that meals would be included. Employee morale costs may be allowable if otherwise part of a grantee's established practice. Madison, however, had no written policies or procedures reflecting an established practice of providing meals or specifying the circumstances under which meals would be provided in celebration of accomplishments.

Moreover, Madison had no record of who participated in the meals charged to the grant. Its only documentation is three restaurant invoices, which do not identify the individuals served or the purpose of the event, including whether it related in any way to grant-funded activities. These records do not suffice to demonstrate the allowability or allocability of the expenses.

Criteria

OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, Attachment B. Selected Items Of Costs, Paragraph 13. Employee morale, health, and welfare costs, states:

a. The costs of employee information publications, health or first-aid clinics and/or infirmaries, recreational activities, employee counseling services, and any other expenses incurred in accordance with the non-profit organization's established practice or custom for the improvement of working conditions, employer-employee relations, employee morale, and employee performance are allowable.

OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, Attachment A. Basic Considerations, Paragraph 2. Factors affecting allowability of costs, states:

To be allowable under an award, costs must meet the following general criteria:

* * *

g. Be adequately documented.

Recommendations:

We recommend that the Corporation:

8a. Disallow and recover the questioned Federal costs totaling \$224;²⁹ and

8b. Require pass-through entities to prepare policies/agreements that identify the employee morale costs that are allowable under the program.

²⁹ These costs are included in the costs questioned in Finding No. 2.

Mayor's Fund Response

The Mayor's Fund does not concur with this finding and its recommendations. It states that the expenses claimed were in line with established Madison practices and OMB Circular A-122 requirements. In its response The Mayor's Fund provided Madison's written policies and emails supporting the purpose of the meals and attendees information that were not previously provided during OIG fieldwork.

OIG Comments

We maintain our position on this finding and the related recommendations. Based on the new emails provided, we note that certain Madison staff invited to these employee morale meals were not included in the approved budget and benefited from various events in which these employees were not entitled. Our analysis is shown as follows:

Dinner Date	Purpose	Attendees
April 9, 2013	Celebration among staff members for the second year of operation	Only five of the nine attendees were included as part of the approved budget. Also, a Grant consultant was invited to this dinner.
August 29, 2014	Company picnic	Only two of the six attendees were included as part of the approved budget.
April 29, 2015	Participants graduation	Only two of the six attendees were included as part of the approved budget.

In addition, Madison's policy is written only in general terms and states that the morale events are based on Madison's management discretion without consideration for any SIF program requirements.

Finding 9 - Subgrantees claimed unallocable expenses that benefited other programs.

We question \$3,034 of other direct Federal costs charged by subgrantees:

- a. Henry Street charged the SIF grant for 100 percent of the cost of a billboard advertisement recruiting for an internship. The internship benefited two programs: the SIF-funded Project Rise, and the Young Adult Internship Program (YAIP), which was unrelated to the SIF. We therefore question \$1,433, half of the cost.
- b. Henry Street also charged the SIF grant for clothing gift card costs of \$1,503 that were used by YAIP beneficiaries. The invoice specified that the cards were for YAIP, but Henry Street charged them to the SIF account. No logs or other records demonstrated that the gift cards were distributed to beneficiaries of Project Rise, rather than YAIP.
- c. CAS claimed electricity costs of \$98 for a building that the SIF Family Rewards program did not use and was not expected to use.

Criteria

OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, Attachment, A. General Principles, Paragraph A.4. Allocable costs, states:

- a. A cost is allocable to a particular cost objective, such as a grant, contract, project, service, or other activity, in accordance with the relative benefits received. A cost is allocable to a Federal award if it is treated consistently with other costs incurred for the same purpose in like circumstances and if it:

- (1) Is incurred specifically for the award.

- (2) Benefits both the award and other work and can be distributed in reasonable proportion to the benefits received.

Recommendations:

We recommend that the Corporation:

9a. Disallow and recover the questioned Federal costs totaling \$3,034; and

9b. Require SIF intermediaries to provide guidance for subgrantees regarding the cost principles of allowability, allocability and reasonability of grant costs.

Mayor's Fund Response

The Mayor's Fund agrees with the finding. The Mayor's Fund stated that it currently has procedures in place to monitor allocation methodologies on its Federal grants. The Mayor's Fund also states that it provided guidance to subgrantees regarding allowability, allocability and reasonability of costs charged to Federal grants.

OIG Comments

Since the Mayor's Fund agrees with the questioned amount, we will engage with CNCS in the audit resolution process to ensure CNCS recoup the questioned costs.

Finding 10 - One subgrantee claimed expenses not authorized by the approved budget.

Madison claimed Federal costs of \$252 for items that were not authorized or approved in its budget. The expenses were for T-shirts, which were purchased for a National Manufacturing Day³⁰ event in Tulsa, Oklahoma. There was no budget authorization for the T-shirt expense in the subgrantee agreement or any of the subsequent budget amendments. Though it appears that at least some Madison staff and SIF program participants wore the T-shirts, we were unable to determine how this expense benefited the SIF program. We also could not determine which program participants received the T-shirts or whether shirts went to persons not affiliated with the SIF program. Madison did not keep a record of who received the shirts.

³⁰ National Manufacturing Day is an event between companies and community organizations whose purpose is to inspire the next generation of manufacturers.

Criteria

OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, Attachment A. General Principles, Paragraph A.2. Factors affecting allowability of costs, states:

To be allowable under an award, costs must meet the following general criteria:

a. Be reasonable for the performance of the award and be allocable thereto under these principles

* * *

g. Be adequately documented.

Recommendations

We recommend that the Corporation:

10a. Disallow and recover the questioned costs totaling \$252;³¹

10b. Ensure pass-through entities prepare subawards that include detailed written narratives of the expenses allowed under the program; and

10c. Require SIF intermediaries to provide guidance for subgrantees regarding the cost principles of allowability, allocability and reasonability of grant costs.

Mayor's Fund's Comments

The Mayor's Fund does not concur with this finding. It states that the claimed expenses were in line with established Madison practices and the OMB A-122 requirements. The Mayor's Fund also claims that the claimed expenses were in line with the budget line item descriptions of participant and program support cost. The Mayor's Fund added that the approval was not required because the claimed expenses did not exceed 10 percent of the budget. Finally, the Mayor's Fund states that Madison provided the distribution of the t-shirts with its response to the draft audit report.

OIG Comments

We maintain our position on this finding and related recommendations, even though the distribution list was provided. We disagree that the claimed expenses were in line with the participant and program support costs because the budget line item in the grant budget was not for t-shirts, but for academic fees, books and tools, transportation, incentives, and outreach events supplies. Also, because the distribution list was not in place when the t-shirt purchase took place, we recommend that the Corporation confirm that the individuals on the distribution were beneficiaries of the program.

³¹ The Madison costs are also questioned in Finding No. 2.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of the audit were to determine whether SIF funds provided to the Mayor's Fund were expended in accordance with SIF grant terms and provisions, laws and regulations; to determine whether the costs claimed against the grant are allowable, adequately supported, and properly charged; and to report compliance findings, internal control issues, and questioned costs that result from performing these audit procedures. The audit covered a three-year period from July 1, 2012 to June 30, 2015.

The audit procedures required us to obtain an understanding of the Mayor's Fund, its policies, procedures, and subgrants. We reviewed records at the Mayor's Fund's office and subgrantees' (CAS, Henry Street, and Madison) offices related to SIF participants' costs and other claimed costs to determine compliance with laws, regulations, and the terms and conditions of SIF grant agreements. Our audit procedures included randomly selecting samples to test costs claimed by the Mayor's Fund for compliance with its SIF grant agreement, grant cost circulars issued by the OMB, and other Federal requirements. The questioned costs detailed in this report are based on these limited samples, and the total costs questioned might have been higher had we tested all of the expenditures incurred during the audit period, or had we projected or estimated the amounts that would have been questioned based on the sampling. We began our audit in July 2015; conducted our on-site fieldwork at the Mayor's Fund and selected subgrantees' offices in New York City, New York, from January 11, 2016, to January 15, 2016; and concluded our audit fieldwork in April 25, 2016. The specific site visits dates for the entities audited were as follows:

- Mayor's Fund to Advance New York City: January 11, 2016 and January 15, 2016
- Children's Aid Society: January 12, 2016
- Madison Strategies Group: January 13, 2016
- Henry Street Settlement: January 14, 2016

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.

BACKGROUND

The Corporation, under the authority of the National and Community Service Trust Act of 1993, as amended, awards grants and cooperative agreements to State commissions, nonprofit entities, and tribes and territories to assist in the creation of full and part-time national and community service programs. Established by the Edward M. Kennedy Serve America Act of 2009, the Social Innovation Fund (SIF) makes awards to grant-making institutions and partnerships (known as intermediaries), which in turn make subawards. As of May 2017, the Corporation's SIF program has awarded \$351,812,693 million in Federal funds. The SIF has made a total of 57 awards to grantees located in 46 states and the District of Columbia.

The Mayor's Fund was incorporated as a 501c (3) in June 24, 1994, to make grants for public-private partnerships throughout New York City. It managed the \$28,500,000 SIF award No. 10SIHNY002 jointly with the Center for Economic Opportunity (CEO)³² and MDRC. MDRC helped to select and oversee the financial management of 19 SIF subgrants. CEO focused on programmatic performance. MDRC and CEO each provided technical assistance to subgrantees.

The subgrantees selected for audit managed the SIF Family Rewards program (Children's Aid Society), the SIF Work Advance program (Madison Strategies Group), and the SIF Project Rise program (Henry Street Settlement). The Family Rewards program offered conditional cash transfers to families in New York, NY and Memphis, TN for eight activities related to high school students' academic achievement and effort, families' preventive health care efforts, and parents' work and training. The Work Advance program helped unemployed and low-wage working adults to obtain jobs in sectors with opportunities for career growth. The Project Rise program helped young people between the ages of 18 and 24 earn a high school equivalency certificate and obtain an internship for a long-term employment opportunity.

We issued a Management Alert to CNCS on November 15, 2015 regarding CNCS's weaknesses in financial monitoring of these SIF grants. We recommended the CNCS perform a comprehensive risk assessment of the SIF program by identifying and developing risk indicators in accordance with the specific SIF grant requirements. The Corporation deferred to comment on our Management Alert until the issuance of this audit draft report.

EXIT CONFERENCE

The exit conference was conducted on September 19, 2017. At the exit conference, we presented each of the findings set forth in this report. The Mayor's Fund's response was received on December 22, 2017 and is included in its entirety in Appendix A. The Corporation's response was received on November 14, 2017 and is included in its entirety in Appendix B.

³² CEO is a New York City agency that works with other city agencies and federal government to implement anti-poverty initiatives in New York and partner cities.

APPENDICES

APPENDIX A

MAYOR'S FUND TO ADVANCE NEW YORK CITY RESPONSE TO DRAFT REPORT

MAYOR'S FUND
TO ADVANCE
NEW YORK CITY

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Bill de Blasio
Mayor, City of New York

Chirlane McCray
Chair, Board of Directors

Rob Speyer
Chair, Board of Advisors

Darren Bloch
Executive Director

December 22, 2017

Stuart Axenfeld
Assistant Inspector General for Audit
Corporation for National and Community Service
250 E Street, S.W., Suite 4100
Washington, DC 20525

Dear Mr. Axenfeld,

Thank you for the opportunity to respond to the Office of Inspector General (OIG) draft report on the Social Innovation Fund grant (10SIHNY002) to the Mayor's Fund to Advance NYC. The Mayor's Fund takes its role for oversight, compliance and stewardship of federal funds very seriously, and appreciates the opportunity to provide a full response. As the following pages describe in detail, we concur with only one of the ten findings in the OIG's draft report (Finding 9, for \$3,034 in questioned costs).

The OIG has now conducted an exhaustive and thorough audit of the Mayor's Fund's work and that of three subgrantees. As a result, the OIG draft report questioned \$4.6M in costs. Of these questioned costs, \$4.5M come from two findings. Those two findings stem from the OIG's interpretation of legal requirements with which we strongly disagree, rather than lax oversight or malfeasance. First, the OIG has chosen to define one of the Mayor's Fund's contractors as a co-intermediary, which contradicts its role on our project, and second, the OIG has questioned the selection of a nonprofit that our due diligence determined was a qualified subgrantee. The Mayor's Fund has a strong track record of high quality federal grants management, and offered evidence of our oversight throughout this audit process. We believe the OIG's characterizations do not take into consideration certain facts and ample evidence of the full range of oversight provided by both CNCS and the Mayor's Fund. We present this detailed evidence in the response enclosed. The remaining eight findings question costs that total only 0.3% of the federal funds spent. We do not concur with many of those findings with respect to costs for which we believe that Subgrantees have provided sufficient documentation. We believe that our responses to the findings and the supporting documentation will bear out the Mayor's Fund's strong system of grants management and compliance.

Further, we respectfully but strongly disagree with many of the characterizations found in the OIG draft report. Before laying out the details of our response to each finding, we want to address some of these characterizations.

CNCS Monitoring

The OIG auditor described CNCS' oversight of the SIF portfolio overall and the Mayor's Fund grant specifically as weak, and inaccurately states that CNCS

conducted no site visits. CNCS monitored the Mayor's Fund SIF grant in multiple ways, including two site visits, progress report and ongoing communication. The report also states that CNCS was not aware of certain characteristics of the Mayor's Fund's project, such as the role of our contractor, MDRC, in evaluation and subgrantee fiscal monitoring. This is not accurate. From the beginning of the grant through the end, CNCS was aware of the role MDRC played as a contractor on the project, and regularly highlighted the Mayor's Fund's subgrantee oversight work as an example of strong risk-based monitoring. Based on multiple visits, conversations and review of documents, CNCS was deeply familiar with the role that MDRC was playing to support the Mayor's Fund in this project. We include this context because we take issue with the OIG claim that "Had CNCS done so [conducted a financial oversight visit], it might have discovered and corrected the many problems that we found in this audit." CNCS engaged the Mayor's Fund extensively and concluded that the Mayor's Fund had strong systems in place to manage this award and oversee subgrantees.

Oversight of Subgrantees

We also disagree with the OIG's blanket characterization of the five subawards that were terminated early as "adverse outcomes" should have led CNCS to question the quality of subgrantee selection or monitoring. The Mayor's Fund undertook a rigorous selection process and believes that subgrantees were selected wisely based on the information then available. Thereafter, the Mayor's Fund's risk-based approach and active monitoring enabled it to rapidly respond to subgrantee capacity issues across 18 subgrantees implementing five SIF-funded program models over seven cities during a five-year period. The success of the majority of the subgrantees is evidenced in the programmatic reporting and published evaluation reports documenting their implementation and success. In the case of the five subawards that did not complete five years of SIF funding, two did not choose to seek continued funding during annual grant review cycles due to the significant requirements of the SIF program (including securing matching funds). Three subawards were not continued based on the Mayor's Fund discretion. Of those three, only one organization's subaward was not renewed due to program performance and two organization's subawards were assigned to other organizations. The Mayor's Fund made these assignments due to concerns about developments (unrelated to their SIF programs) at the initial organizations. In both cases, the Mayor's Fund acted swiftly to assign the subgrant agreements to different organizations in order to ensure continuity of services to program participants. The Mayor's Fund provided extensive information to CNCS about these processes and steps it was taking.

We believe the foregoing demonstrates the Mayor's Fund's effective monitoring of a performance-based grant program.

Grant Closeout & Actions for Improvement

Throughout the full implementation of this grant from July 2010 to September 2016, the Mayor's Fund managed its SIF grant effectively and maintained a

persistent dedication to corrective action and process improvement. Notwithstanding our areas of disagreement, we took OIG recommendations seriously during the 2015 audit fieldwork and made real-time improvements as necessary. For example, based on data retention questions raised by the OIG, the Mayor's Fund was able to modify its closeout procedures in advance of closing out its 15 subgrantees in 2016. We believe this strengthened our approach and provided more guidance to Subgrantees. Finally, while the three former Subgrantees sampled in this audit have no ongoing SIF-funding, they stand ready to improve their own systems if any additional corrective actions are identified during the audit resolution process.

The Mayor's Fund is prepared to work closely with CNCS through the audit resolution process, and understands that CNCS will inform us of any requirements after it completes its own review of the OIG findings and the Mayor's Fund's response.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Darren Bloch', with a stylized flourish at the end.

Darren Bloch
Executive Director, Mayor's Fund

Cc: Thomas Chin, Audit Manager, Office of Inspector General, CNCS
Autumn Rose, Grants Management Specialist, Audit Resolution, CNCS
Alexander Delaney, Grants Management Specialist, CNCS
Sinead Keegan, Director, Social Innovation Fund, Mayor's Fund
Brigit Beyea, Deputy Director, Social Innovation Fund, Mayor's Fund

Response to Office of Inspector General Audit of Corporate for National and Community Service Grant Awarded to Mayor's Fund to Advance New York City

December 22, 2017

This memo provides the Mayor's Fund to Advance NYC's response to each of the findings in the draft audit report. We concur with only one of the ten findings in the OIG's draft report (Finding 9, for \$3,034 in questioned costs). However, the OIG draft report made some general statements and characterizations about CNCS's monitoring and level of awareness of the Mayor's Fund award which also merit a response. Specifically, the OIG auditor described CNCS's oversight of the SIF portfolio overall and the Mayor's Fund grant specifically as weak, and inaccurately states that CNCS conducted no site visits.

In fact, CNCS monitored the Mayor's Fund SIF grant in multiple ways, including two site visits, progress reports and ongoing, regular communication. From the beginning of the grant through the end, CNCS was aware of the role MDRC played as a contractor on the project. CNCS was particularly aware of the Mayor's Fund's subgrantee oversight work as an example of strong risk-based monitoring, citing it as an example to be shared with other intermediaries. Based on multiple visits, conversations and review of documents, CNCS was deeply familiar with the role that MDRC was playing to support the Mayor's Fund in this project and the ways that Mayor's Fund was managing its grant. To illustrate:

- OIG conducted a pre-award visit to the Mayor's Fund in July 2010. This was designed to strengthen the Mayor's Fund operating systems related to managing federal awards. During this visit, the OIG auditors reviewed a description of the Mayor's Fund Subgrantee Approval and Monitoring Process, MDRC's role in the project, and record retention policies. The OIG also met with representatives of the Mayor's Fund and MDRC during this visit and specifically discussed the role of MDRC as contractor performing the following services for the Mayor's Fund: evaluation, technical assistance, and fiscal oversight.
- The CNCS Grants Office followed up on the OIG visit in December 2010 and then conducted a site visit in January 2011. CNCS's Grants Officer reviewed the Mayor's Fund's financial management and administrative systems, including record retention as it applied to the SIF grant, and the Mayor's Fund Subrecipient Policies and Procedures. This review of the Mayor's Fund's planned monitoring approach specifically included MDRC's role.
- The CNCS Program Office conducted a site visit in December 2014. During this visit, CNCS reviewed the Mayor's Fund's subgrantee monitoring and management, the role of MDRC as a contractor and at least one subgrantee that had not been renewed and was closed out. The Mayor's Fund provided extensive documentation as part of that visit, and the Program Officer tested several financial transactions. The CNCS Program officer's post-visit feedback letter states: "I used the draft Social Innovation Fund Monitoring Checklist as a guide to review and assess compliance and performance in the areas of Organizational Management, Financial Management, and Subgrantee Oversight. Based on my review, it appears that The Mayor's Fund to Advance New York City has strong systems in place to ensure compliance with federal requirements at both the intermediary and subgrantee levels."
- CNCS continuously reviewed the Mayor's Fund program through detailed progress reports, monthly calls and ongoing communications. The Mayor's Fund kept CNCS apprised of its progress and challenges with the programs, and sought input on areas where needed. At all times, the Mayor's Fund sought to better understand the CNCS requirements (which were being clarified during the

early years of the SIF) and to comply. The Mayor's Fund received consistent positive feedback on its work from CNCS.

- CNCS reviewed and approved the Mayor's Fund's detailed Subgrantee Selection Plan and Evaluation Plan, which clearly laid out the roles of the Mayor's Fund, the New York City Center for Economic Opportunity (CEO)¹ and MDRC in that process. These plans were developed and overseen by the Mayor's Fund and CEO, which had extensive experience in both performance and program management of non-profit agencies and engaging entities to perform evaluation services. CEO (now NYC Opportunity) regularly oversees more than 20 contracted evaluation projects at any given time.

Our response to each finding is provided below.

Finding 1: One subgrantee and the partner that fulfilled key intermediary responsibilities of the Mayor's Fund did not perform required criminal history checks.

Finding 1a: The Mayor's Fund was required to, but did not, perform criminal history checks for MDRC staff paid through the grant.

We do not concur with this finding and strongly disagree with questioned costs related to MDRC in particular. As a contractor to the Mayor's Fund, MDRC was not required by CNCS to perform the criminal history checks. In 2010, the Mayor's Fund determined that MDRC was a contractor tasked with the provision of specific services and was closely supervised by the Mayor's Fund. This determination is consistent with applicable OMB Circulars and is supported by the contemporaneous SIF grant documents, the language of the Mayor's Fund contract with MDRC (August 2010 and as amended in 2014), and the Mayor's Fund oversight of MDRC's assigned tasks. These are described in full below.

CNCS did not require contractors to have National Service Criminal History Checks (NSCHCs).

In accord with 45 CFR §2540.201, CNCS determined that contractors are not required to have NSCHCs.² This was repeatedly clarified through CNCS's grants management guidelines from 2010. CNCS's July 2010 guidance states: "Nonstaff positions on program grants paid as consultants or contractors are not subject to criminal history background checks." (Section 5.7 of CNCS FAQ on NSCHCs, July 16, 2010.) In 2012, after the federal rules were amended, CNCS clarified that "Contractors delivering goods or services to a program for a fee" and "Consultants charging for services and not paid a salary, stipend or similar" are not covered by CNCS's requirements for criminal history checks (Section 2.2, *CNCS FAQ on NSCHCs, May 20, 2012*)

In CNCS's current Frequently Asked Questions update (2016), Section 3.12 states that NSCHCs are not required of contractors. It states: "Contractor: The NSCHC requirements do not apply to individuals

¹ The Center for Economic Opportunity is currently known as the Mayor's Office of Economic Opportunity, or NYC Opportunity. We use the terms Center for Economic Opportunity and CEO in this report, as that was the name of the entity during the SIF project period and this audit period.

² 45 CFR §2540.201 states that organizations must apply National Service Criminal History Check (NSCHC) only to individuals serving in covered positions, defined as "a position in which the individual receives an education award or a Corporation grant-funded living allowance, stipend or salary." CNCS determined that consultants and contractors, which receive a fee or charge for services, are not considered covered positions.

providing services under a contract, as defined under 2 C.F.R. § 200.22. If your organization enters into a contract with an entity to provide services, the NSCHC requirements do not apply to the contractor because payments made by your organization to the contractor are not grant-funded living allowances, stipends, or salaries.” (Section 3.12, CNCS FAQ on NSCHCs, 2016)

Applicable OMB Circulars and the grant and contract documents do not support the view that MDRC was a “partner” equivalent to a subrecipient.

The term “partner” is not a defined term in Federal grant guidance nor CNCS guidance. Federal guidance under OMB Circulars A-110 and A-133 (“OMB Circulars”) solely specify the legal distinction between “contractor” and “subrecipient.” Without pointing to a definition of “partner” in Federal grant guidance, the OIG appears to equate the term “partner” with “subrecipient.” We do not agree that MDRC was a partner equivalent to a subrecipient.

Language in the grant application does not create a subrecipient relationship.

The proper determination of whether MDRC is a contractor or a subrecipient is guided by the criteria in the applicable OMB Circulars discussed below. The colloquial use of the term “partner,” “partnering” and “collaborator” in the grant application is not dispositive of this issue. Notwithstanding the intermittent characterization of MDRC as a “partner” or “key collaborator,” it is clear throughout the document that MDRC is going to play the role of providing professional services and technical expertise to the Mayor’s Fund for the program, rather than carry out the program goals. Although the Mayor’s Fund uses the verbs “partnering” and “collaborating” to describe its work with MDRC, those words are colloquially meant to demonstrate how well the parties would work together. They do not in and of themselves create a subrecipient relationship.

CNCS made the SIF Grant to the Mayor’s Fund, who bore all responsibility for the project.

In this SIF project, the Mayor’s Fund had all the legal responsibility for programmatic decision making and adherence to the SIF program requirements. CNCS entered into a Cooperative Agreement with the Mayor’s Fund. CNCS listed Mayor’s Fund as the intermediary, with all funding running through it. The Notice of Award identifies the Mayor’s Fund as the Grantee and does not mention MDRC as either a grant recipient or subrecipient, but rather as a contractor in the proposed budget. MDRC’s work is represented in one line in the proposed and approved budget under Section F: Contractors and Consultants for “Evaluation and Technical Assistance: MDRC.” Thus, starting with the application phase in 2010, it was clear that the Mayor’s Fund presented MDRC as a contractor.

Given that the Mayor’s Fund identified MDRC as an evaluator with unique expertise in evaluating these SIF program models, this provided the basis for the MF to designate MDRC as the evaluation contractor in the grant application and to award them the contract. This is in accord with the Mayor’s Fund’s own written procurement policies, which permitted the President (also known as the Executive Director) of the Mayor’s Fund to make a contract award to a single source in these circumstances.

At the time of the application and notice of award in 2010, CNCS’s guidelines for NSCHCs were being clarified through Frequently Asked Questions and other documents and the Mayor’s Fund included the costs of conducting NSCHCs in the first year’s Budget Narrative for MDRC out of an abundance of caution. However, by the second year, due to subsequent clarification, the Mayor’s Fund removed NSCHCs costs for MDRC from its budget narrative and CNCS approved Years 2-5 budgets for the Mayor’s Fund contractor line without NSCHCs costs.

Applying the criteria in the OMB Circular, the Mayor's Fund determined that MDRC was a contractor.

The Mayor's Fund considered the services it required MDRC to perform as well as the nature of MDRC's business, and determined that the required services were the tasks of a contractor, and not those of a subrecipient, under the terms of the OMB Circulars.

OMB Circular A-110 defines a "subaward" as an award of financial assistance made to an eligible subrecipient, but it does not include contracts for goods and services (see Subpart A, § 2).³ OMB Circular A-133 defines a "subrecipient" to include a non-Federal entity that expends Federal awards received from a pass-through entity to carry out a Federal program and a "vendor" (also referred to as a "contractor" herein) to include an entity providing goods or services that are required for the conduct of a Federal program (see Subpart A, § 105). OMB Circular A-133 provides more specific guidance under "Subrecipient and vendor determinations" on the characteristics indicative. The services that MDRC was to provide to the Mayor's Fund did not meet the characteristics of a "subrecipient" (§ 210(b)). Specifically, unlike a "subrecipient", (1) MDRC did not determine who is eligible to receive SIF subawards or program services, (2) MDRC's performance was not measured in relation to whether the objectives of the SIF program were met; its performance is based on how well it performed services (evaluation, technical assistance, and fiscal oversight), (3) MDRC did not have responsibility for programmatic decision making; only the Mayor's Fund had that responsibility, (4) MDRC was not responsible for the subgrantees' adherence to applicable federal program requirements; only the Mayor's Fund had that responsibility, and (5) MDRC's contract did not require it to carry out the SIF program goals, but rather to provide certain services to assist the Mayor's Fund and subgrantees in carrying out the program. While MDRC provided technical support to the Mayor's Fund in a few of these areas, they did not have ultimate responsibility for any of them.

The services that MDRC was to provide to the Mayor's Fund do, however, meet OMB Circular A-133's characteristics indicative of a vendor or contractor (§ 210(c)). These are principally: the entity provides goods or services within the normal business operations, provides similar goods or services to many different purchasers, operates in a competitive environment, and provides services that are ancillary to the operation of the federal program (which was carried out by SIF subgrantees). MDRC is a social policy research organization which, as part of its normal business operations, performs evaluations of social programs and provides various types of technical assistance to organizations. MDRC provides these services to many different clients, and operates in a competitive environment, competing with other similar firms for engagements. The services MDRC provided to the Mayor's Fund in connection with the SIF program, i.e., evaluation of the social programs' effectiveness, technical assistance of various forms, and assisting the Mayor's Fund to oversee the use of the funds by Subgrantees, were ancillary to the actual SIF program goals undertaken by the Subgrantees.

³ OMB Circular A-110, the Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations, Subpart A-General; § 2 Definitions briefly lays out the difference between a contract and a subaward. A-133, Audits of Institutions of Higher Education and Other Non-Profit Organizations, Subpart B-Audits; § 210(c)) provides additional clarity on the characteristics of a contract/vendor vs. subaward, and § 210(d) provides authority for the use of judgment in making this determination. The Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards later combined the OMB Circulars. [2 C.F.R. §§ 200.22 & 200.92](#) now define subawards and contractors, and guidance on how to determine a subaward or a contract is described in [2 C.F.R. § 200.330](#), "Subrecipient and contractor determinations."

We point out that OMB Circular A-133 provides in § 2.210(d) that “All of the characteristics listed [...] may not be present in all cases, and the pass-through entity must use judgment in classifying each agreement as a subaward or a procurement contract.” The Mayor’s Fund therefore appropriately used its judgment and authority in this case to determine that MDRC was a contractor and not a subrecipient.

The language of the contract between Mayor’s Fund and MDRC evidences that MDRC is a contractor.

After CNCS awarded the SIF grant to the Mayor’s Fund, the Mayor’s Fund contracted with MDRC for certain professional services, and not to carry out the program goals undertaken by the Subgrantees. It is clear from the scope of work and the terms of the agreement between the Mayor’s Fund and MDRC (the “MDRC Contract”) that the Mayor’s Fund engaged MDRC to perform discrete services, such as evaluation of the Subgrantee programs, technical assistance to the Subgrantees, and assistance to the Mayor’s Fund in fiscal monitoring. None of these services consisted of carrying out the program goals as the Subgrantees were doing, and thus none of these services would give MDRC the status of a subrecipient. In all instances, the Mayor’s Fund maintained ultimate decision making authority and responsibility for the program.

The OIG draft report notes that the CNCS Terms and Conditions were incorporated in the MDRC Contract and that this is somehow a recognition that MDRC would function as an extension of the Mayor’s Fund. We do not view the inclusion of these terms as a factor determining that MDRC is a subrecipient. First, we wanted MDRC to be aware of the CNCS terms and conditions that the Mayor’s Fund and the Subgrantees would be subject to so that MDRC could properly assist the Mayor’s Fund. Moreover, MDRC would only have to comply with such provisions as are applicable to contractors.

The OIG draft report also notes that the MDRC Contract did not have a “fee for the services of its staff members” but was instead a cost reimbursement contract. This form of contract pricing is extremely common with nonprofit contractors, especially in federal projects, and is not dispositive of or evidence that MDRC is a subrecipient. The Mayor’s Fund has entered into many procurement contracts that are reimbursement based.

The Mayor’s Fund managed MDRC as a contractor under the MDRC Contract.

The OIG draft report attributes core responsibilities to MDRC that it simply did not have. The Mayor’s Fund did not give MDRC any of the privileges or rights to the SIF project beyond those of a contractor. The entire scope of MDRC’s work was to support the Mayor’s Fund’s directives and make recommendations. The Mayor’s Fund had full responsibility for managing the subgrantee selection process and for ongoing programmatic and financial decisions related to the Subgrantees. For example, the Mayor’s Fund conducted the Subgrantee selection process itself, using input from a range of reviewers including MDRC, and the Mayor’s Fund Executive Director and Board made the final decisions. In MDRC’s subgrantee monitoring work, MDRC had no decision-making responsibilities in terms of approving budgets and modifications, authorizing financial reports for payment, making payments, disallowing expenses, etc. The Mayor’s Fund had the sole ability to make those decisions and give those approvals. Further, the Mayor’s Fund did not follow MDRC’s recommendations as a matter of course but formed its own opinions and took action independently.

The Mayor’s Fund oversaw MDRC’s contract budget and scope of service by reviewing and approving all invoices, progress reports and final work products. The Mayor’s Fund held regular check-ins and meetings with MDRC’s teams to closely monitor the services provided by MDRC under the contract. To

oversee the contract and the overall SIF program, the Mayor's Fund had four full-time staff working on the SIF grant, out of a staff of 13. Beyond the SIF-funded staff, the Mayor's Fund had a Director of Finance and an Accountant who oversaw payments on SIF, and CEO had four staff (generally pro-bono to the grant) that oversaw each project and provided programmatic and technical leadership during the grant. Together, the Mayor's Fund and CEO team brought significant experience in program design, grants management and evaluation, sufficient to successfully manage and oversee the project, including closely overseeing the MDRC contract.

The Mayor's Fund assigned MDRC duties in the MDRC Contract that are typical contract functions.

MDRC's duties were typical contract functions and supportive of the Mayor's Fund's responsibilities in three distinct areas: evaluation, technical assistance and professional services. The vast majority of costs were for evaluation and technical assistance across the five program models of the SIF. The professional services function was 8% of the contract budget; at any given time, only two full-time equivalent individuals were working on the professional services functions of the MDRC contract. Professional services covered pre-award due diligence, financial monitoring of subgrantees, advising subgrantees on fiscal/compliance requirements, and monitoring NSCHCs. These tasks were monitored by the Mayor's Fund fiscal coordinator.

Under the terms of the MDRC Contract, MDRC performed functions that can be characterized as administrative rather than central to the program. Counter to the OIG draft report, MDRC was required to perform the following functions under the supervision of the Mayor's Fund:

Participating in the competitive subaward process. The Mayor's Fund conducted the Subgrantee selection process and made all final selection decisions. The OIG draft report incorrectly describes MDRC's role as 'conducting' the process. As described in the CNCS-approved Subgrantee Selection Plan and contemporaneous documents, the Mayor's Fund convened review committees, generally comprised of 5-7 experts in the field, to score proposals based on the Mayor's Fund published criteria. MDRC researchers served as 1-2 of those experts on each of those review committees. The review committees' combined scores were used to identify the top-scoring finalists. The Mayor's Fund then tasked MDRC with conducting a financial due diligence review on the finalists in order to assess their ability to manage Federal funds. This is a typical contract support service that in another context could have been performed by a consulting firm. The Mayor's Fund Executive Director and Board then determined the selection of the Subgrantees.

Financial monitoring of subgrantees. Financial monitoring is another task performed by MDRC that could have been performed by an accounting firm. In other SIF projects, the type of subgrantee monitoring work done by MDRC under this contract was actually conducted by an accounting firm. The Mayor's Fund, not MDRC, authorized payments to the Subgrantee and determined whether fiscal requirements had been met, such as match, audit and closeout requirements.

Advising subgrantees regarding the requirements imposed on them. After the Mayor's Fund selected subgrantees and issued subawards to them, MDRC explained to subgrantees the terms and conditions of their subawards and provided technical assistance. In this role, MDRC was clearly supporting the work, obligations, and decisions of the Mayor's Fund, and as such was acting in the role of a contractor.

Overseeing subgrantee compliance with criminal history check procedures. MDRC monitored subgrantees' compliance with these requirements. This was an administrative task that was supervised

by the Mayor's Fund and again, a function commonly outsourced to a third party. The Mayor's Fund, not MDRC, issued any disallowances and corrective actions for any Subgrantee found to be out of compliance.

Evaluating SIF programs carried out by subgrantees. All SIF intermediaries, including the Mayor's Fund, were required to have third-party evaluations for its SIF programs, as distinct from routine program monitoring. CNCS reviewed and approved the Mayor's Fund's detailed Subgrantee Evaluation Plan (SEP) which described the role of MDRC in conducting five evaluations under the Mayor's Fund grant. As a result, MDRC led an evaluation of program results to build evidence in the field. As a social policy research organization, MDRC performs evaluations as part of its normal business operations as a contractor for many different federal funders. The Mayor's Fund conducted the routine program monitoring and performance management of the subgrantees.

The language about criminal checks in the MDRC Contract states only if necessary.

In 2010, CNCS was providing frequent updates to its guidelines on which entities were required to conduct criminal history checks. The Mayor's Fund included the following clause in its 2010 contract with MDRC out of an abundance of caution:

“MDRC acknowledges and warrants that any person directly compensated using SIF award funds will undergo a complete criminal history check, a national sex offender registry check, and potentially an FBI fingerprint check ***if required*** before receiving a living allowance, stipend, education award, or salary using SIF funds.” (Page 7, emphasis added.)

However, the Mayor's Fund and MDRC, from the outset, understood this clause to mean *only if CNCS required* contractors to conduct checks. Once CNCS clarified that contractors are not required to conduct checks, this clause by its terms meant that MDRC as a contractor did not have to conduct checks.

Further, this provision was amended by a modification to the MDRC Contract dated August 15, 2014, which recognized CNCS's revision to the November 2013 FAQ. This FAQ, 3.12(a) stated in pertinent part: “SIF programs will have covered and not covered positions among their contractors as a result of their program design. Contractors performing primary functions of the program such as client services (transportation, training, peer navigation, patient education and support, mobile engagement teams, etc.) are covered positions for the purpose of the National Service Criminal History Check. Contractors providing generally administrative services, not those central to the program supported under the grants, are not covered. SIF grantee program staff must make an assessment against the assignment of the contractor to determine if the contractor will perform a primary function of the grant and program activities.”

The Mayor's Fund determined at the time that MDRC did not serve in a primary function, as all of MDRC's work involved interacting with the subgrantees and their staff, not client services as described in the FAQ. However, the Mayor's Fund amended the MDRC Contract to include the requirement in the case that MDRC's role changed in the future. The amendment states “As CNCS now requires consultants serving in a primary function to complete required national service criminal history checks, MDRC shall annually apprise the Mayor's Fund if it has any consultants that meet that standard, and if so, shall submit confirmation that the checks have been completed in compliance with the CNCS regulations.”

The Mayor's Fund determined that MDRC's role did not change, and therefore did not need to invoke the requirement.

CNCS later removed the requirement for contractors with primary functions to conduct NSCHC in its 2016 FAQ when section 3.12 was removed, and again clarified that NSCHCs were only required for subawards, not contractors. Therefore, under CNCS requirements, there was never a blanket requirement for everyone working under the MDRC Contract.

As a result, MDRC was never required to conduct NSCHCs and therefore the costs should not be questioned.

Finding 1b. CAS staff did not undergo criminal history checks

We concur with the facts described in the finding related to the criminal history checks of three individuals, but do not concur with the questioned costs related to Children's Aid Society (CAS). The OIG auditor identified three individuals who the Mayor's Fund had already found to be out of compliance and whom CAS had taken the required corrective actions. In January 2016, the Mayor's Fund used CNCS's Interim Disallowance Guide (now called Enforcement Guide for Staff and Grantees) to handle findings on non-compliance for CAS. As the Guide notes, "this guide applies to all NSCHC noncompliance findings identified through oversight and monitoring (e.g. IPERA sampling, Inspector General audit or investigation, site visit, desk review, etc.). The purpose of this guide is to explain how to resolve NSCHC findings." In the case of an individual who had already left the organization which was not covered in the Guide, the Mayor's Fund sought CNCS's guidance on how to handle the situation and followed it accordingly.

In accord with CNCS's written guidance, the Mayor's Fund ensured that CAS undertook corrective actions and levied a disallowance on CAS. Therefore, the Subgrantee should not be penalized again.

Corrective Action: The Mayor's Fund's currently has procedures in place for federal grants to monitor grant-specific requirements, such as NSCHCs, to ensure adequate documentation and appropriate eligibility. Thus, we believe no further corrective action is needed.

Finding 2: The Mayor's Fund knowingly awarded funding to an unqualified subgrantee with a conflict of interest.

We do not concur with this finding, in fact or characterization, and strongly disagree with the questioned costs related to Madison Strategies Group (MSG). The Mayor's Fund awarded funding to a qualified subgrantee and ensured appropriate risk mitigation to avoid potential conflicts of interest. Adhering to its approved Subgrantee Selection Process, the criteria established in the Request for Proposals (RFP) that governed the competition, and the Kennedy Serve America Act, the Mayor's Fund determined that MSG was a qualified non-profit organization with sufficient capabilities to be eligible for SIF funds. MSG was a relatively new nonprofit with staff experienced in delivering effective, innovative, workforce development strategies. With this SIF award, they launched a new program in Tulsa which resulted in the expansion of the workforce capacity in that city. The Mayor's Fund was aware of a potential conflict of interest surrounding a contract with a for-profit related party (Grant Associates), and took steps to mitigate any risk to federal funds that this presented. MSG's Board, MDRC and the

Mayor's Fund monitored any related party transactions and ensured that they were proper. These are described in full below.

The Mayor's Fund did not deviate from its CNCS-approved Subgrantee Selection Plan, as MSG was a qualified non-profit that met the Mayor's Fund's requirements under this Plan.

The Mayor's Fund Subgrantee Selection Plan was approved by CNCS, as it satisfied the requirements set forth under the SIF Special Provisions definition for "competitive subgrantee selection." It outlined a process for identifying subgrantees from across eight metropolitan areas to deliver one of five program models that showed promising evidence in other contexts (including WorkAdvance). The scoring rubric included in the Plan placed significant value on fiscal capacity and staff expertise (for example, 20 points each out of 100). However, the plan also clearly stated that award selection "will be based on the best technically rated proposal whose price does not exceed the maximum funding set forth in the RFP" (see page 10 of the approved Subgrantee Selection Plan) and it did not set a minimum score for any category.

In accordance with its approved Subgrantee Selection Plan, the Mayor's Fund set forth its evaluation criteria for selecting subgrantees to deliver the WorkAdvance model specifically in its Request for Proposals (WorkAdvance RFP or RFP) issued on October 26, 2010. In developing the SIF WorkAdvance RFP, the Mayor's Fund drew upon evidence of workforce development programs in other contexts and sought organizations that would have the capacity to deliver the WorkAdvance program model; it did not mandate a fixed level of experience for applying organizations, but rather, as explained below, set forth preferences for experience. (See Goals and Objectives and Project Overview in RFP.) The RFP restated the Mayor's Fund's authority to select subgrantees by identifying the best technically rated proposal(s) whose budget did not exceed the maximum funding set forth in the RFP. The RFP further specified the Mayor's Fund's flexibility to select the proposers whose proposals were determined to be the most advantageous, taking into consideration factors such as geographic areas, program diversity, the target population to be served, and other factors.

To assess organizational capacity, the WorkAdvance RFP, under the subsection titled "**Preferred Experience and Expertise**" (See Section III(A), page 11, emphasis added), set forth the "**Required or Preferred Organizational Experience of the Selected Provider...**" and the "**Required or Preferred Qualifications of Key Staff**" (emphasis added). The subsection further stated that "Applicants should have at least five years of successful experience in providing workforce development services and several years of experience working with employers and training providers in one or more industry sectors that the applicant is proposing to focus on." (Emphasis added.) The foregoing provisions clearly do not mandate a fixed level of experience, but rather gave the Mayor's Fund the flexibility to consider an applicant and its key staff as a whole in the instance where an applicant did not have five years of experience. MSG's proposal clearly described how the organization would have the capacity to implement the evidence-based program model, relying in part on the staffing of a Program Manager with highly relevant professional experience as a former Grant Associates staffer. Thus, the Mayor's Fund acted within the terms of the RFP by deciding that the organization as a whole, and a lead employee of MSG at the outset (i.e. Program Manager) had sufficient experience for the organization to be responsive to the RFP.

The Mayor's Fund's selection of MSG is consistent with the Kennedy Serve America Act, which requires that subawards go to organizations "(i) with proven initiatives and a demonstrated track record of achieving specific outcomes related to the measurable outcomes for the eligible entity; or (ii) ***that articulate a new solution with a significant likelihood for substantial impact***" (42 USC 12653k (g)(5)(A))

(emphasis added). The Mayor's Fund determined that the WorkAdvance implementation plan offered by MSG in its proposal overall and the experience and qualifications of its designated Program Manager were likely to produce substantial impact and were consistent with the goals of the Act to use federal funds in "seeding experimental initiatives focused on improving outcomes" and "to strengthen the infrastructure to identify, invest in, replicate, and expand initiatives with effective solutions to national and local challenges." (42 USC 12653k (b)3C and 4.)

Therefore, the selection of MSG as a SIF subgrantee did not deviate from the Mayor's Fund CNCS-approved Subgrantee Selection Plan nor did it fail to meet the requirements of the governing legislation. The approved Mayor's Fund Subgrantee Selection Plan and criteria and language of the RFP gave the Mayor's Fund flexibility in determining whether the experience of an applicant was sufficient. Through its extensive review process, the Mayor's Fund determined that MSG was a qualified non-profit.

The Mayor's Fund responded to the recommendations in MDRC's Due Diligence report and provided oversight and mitigation of the conflict of interest.

The Due Diligence process conducted by MDRC on the Mayor's Fund's behalf during the subgrantee selection process identified issues related to a potential conflict of interest between MSG and Grant Associates. The OIG is correct that the President of Grant Associates also served as the Board Chair and as the startup Executive Director of MSG. While the OIG characterizes this situation differently, based upon all contemporaneous documentation and as explained below, the Mayor's Fund required MSG to put policies in place to mitigate the risk of a conflict of interest or potential self-dealing arising from this relationship. At the recommendation of MDRC, the Mayor's Fund took the following steps to mitigate this risk:

Disclosure: The Mayor's Fund actively engaged with CNCS about MSG and its establishment in Tulsa. While CNCS did not require the Mayor's Fund to submit documents such as due diligence reports, a contemporaneous report from that time indicates that CEO/Mayor's Fund did disclose the potential conflict of interest issue related to MSG to the Mayor's Fund's CNCS Program Officer prior to making the subaward. CNCS's grants management system unfortunately did not capture that record, but this fact should not lead to a conclusion by the OIG that the Mayor's Fund intentionally withheld information.

Adopted Conflict of Interest Policies: In accord with 42 U.S.C. § 12635k(f) Funds Eligibility, the Mayor's Fund required MSG to have appropriate Conflict of Interest (COI) policies prior to the award. MSG submitted evidence of their adoption of COI policies on March 15, 2011 and MDRC monitored implementation in all subsequent site visits to MSG, as further explained below.

Reasonableness & Independence: Contrary to the OIG's draft report, there is extensive evidence that MDRC and the Mayor's Fund devoted particular attention to evaluating the reasonableness of and monitoring the costs arising from the Grant Associates contract and to strengthening of systems under the grant to improve monitoring over time.

MSG is a distinct 501(c)3 organization which contracted with Grant Associates.

The draft OIG report mischaracterizes the nature of the relationship between MSG and Grant Associates. MSG was not created by Grant Associates "for the specific purpose of applying for the subaward from The Mayor's Fund," and there is no evidence to support this claim. In fact, MSG was formed as a non-profit corporation on February 22, 2010, before the Mayor's Fund even applied to CNCS for the SIF grant in April 2010.

MSG's proposal to the Mayor's Fund for the WorkAdvance program clearly stated that MSG expected to rely on the expertise of Grant Associates to develop its SIF program operating model and to establish an office in Tulsa, Oklahoma. With this support, MSG launched a new program in Tulsa, with the goal of expanding the workforce capacity in that city. Over time, MSG built its own capacity, hired more staff, reduced its reliance on Grant Associates, and successfully developed the program. This was similar to the activities of subgrantees of other SIF intermediaries that set up program operations in new cities with the ultimate goal of reaching greater scale. Over the life of the program in Tulsa, MSG served 700 program participants, providing high-quality workforce services and improving employment outcomes for program participants. The rigorous impact evaluation by MDRC concluded that MSG's services increased earnings of program participants by over \$1,800 per year, compared to similar individuals who did not receive these services.⁴ MSG continues to provide WorkAdvance services to Tulsa residents even after the ending of SIF funds.

Despite OIG's characterization in the draft report, MSG was not a shell organization acting on behalf of Grant Associates. MSG operated other programming beyond its SIF award, including work on a grant of \$475,000 from the Robin Hood Foundation, received prior to receipt of the SIF award. MSG maintained its own Board of Directors of experts in the field with extensive experience in nonprofits and workforce development. Of the total Year 1 federal costs under the SIF grant, Grant Associates consultants made up less than 8% of MSG's budget (less than \$20,000). The vast majority of costs under the SIF-funded grant were for seven MSG employees (wholly independent of Grant Associates), local consultants and trainers, and participant support costs.

Necessary steps were taken to avoid conflicts of interest and self-dealing.

As described below in more detail, there were several levels of oversight to ensure that funds paid by MSG to Grant Associates under this grant were spent in the best interest of MSG and the federal government. First was the MSG board COI policies and oversight. Second was the control MSG maintained over its financial transactions and reporting to the Mayor's Fund. Third was the external review of reasonableness that MSG's board, MDRC and Mayor's Fund provided.

Board Policies and Oversight

MSG's Board of Directors adopted a COI policy that governed the financial transactions between MSG and Grant Associates, and helped to ensure that any services provided by Grant Associates were at the best price and in the best interests of MSG and the federal government. The MSG Board-approved COI policies included the following procedures for addressing a conflict of interest: "If a more advantageous transaction or arrangement is not reasonably possible under circumstances not producing a conflict of interest, the governing board or committee shall determine by a majority vote of the disinterested directors whether the transaction or arrangement is in the Organization's best interest, for its own benefit, and whether it is fair and reasonable. In conformity with the above determination it shall make its decision as to whether to enter into the transaction or arrangement." (Article III3d.) The COI policies therefore provided safeguards to protect the SIF grant from being used to reimburse unreasonable charges in a transaction where there is a potential conflict of interest.

⁴ Hendra, Richard and Greenberg, David H. and Hamilton, Gayle and Oppenheim, Ari and Pennington, Alexandra and Schaberg, Kelsey and Tessler, Betsy L., *Encouraging Evidence on a Sector-Focused Advancement Strategy: Two-Year Impacts from the WorkAdvance Demonstration* New York: MDRC, 2016.

After the COI policy adoption, the MSG Board continued to actively review the MSG-Grant Associates relationship in accordance with standards provided under that policy. This is reflected in the minutes of several Board meetings where the Board discussed the role of Grant Associates as a paid consultant under the SIF WorkAdvance program. Per the policies, the Board Chair recused herself from these discussions. While the minutes do not specifically reflect her recusal, two Board members have provided documentation affirming their clear recollection of this occurring.

At all times MSG maintained control over its financial transactions and reporting to the Mayor's Fund

The OIG draft report states that the conflict of interest policies were ineffective because Grant Associates operated MSG's accounting system from March 2011 to December 2011, allowing Grant Associates to approve its own invoices and make payment to itself. The facts do not bear out the OIG's suggestion that Grant Associate's bookkeeping personnel acted on their own. Although Grant Associates was contracted in 2011 to provide bookkeeping services for MSG, prior to MSG's hiring of a Controller to oversee its finances, Grant Associates personnel did not have control of MSG's finances or reporting. MSG itself was independently responsible for authorizing costs allocable to the SIF grant, and requesting reimbursement from the Mayor's Fund for allowable activities. MSG took steps to ensure a clear internal division of labor between MSG and the Grant Associates bookkeeping personnel and to ensure independent financial reporting under the control of MSG. As early as the first month of the grant (April 2011), MSG hired an Operations Consultant (later a full-time employee) whose role in part was to manage the finances and federal billing. This ensured that MSG needed to approve any costs charged to the SIF grant before submitting them for reimbursement by the Mayor's Fund. This provided internal controls and oversight by MSG of those reports, ensured that they only included pre-approved line items, and reduced any risks associated with Grant Associates being contracted to provide bookkeeping services. As of December 2011, MSG hired a consultant Controller to provide financial and accounting services and who took over bookkeeping functions previously provided by Grant Associates.

Determinations of Reasonableness

The costs paid by MSG to Grant Associates were reviewed for reasonableness at multiple levels. In total over five years, MSG paid \$106,000 to Grant Associates. Of that, approximately \$41,000 was paid using federal funds. These payments were based on Board-approved consulting agreements between Grant Associates and MSG, which outlined the types of services that Grant Associates would provide and the basis of payment for those services. There were no mark-ups or service fees added.

Before the Mayor's Fund awarded MSG the subgrant, the Mayor's Fund required MSG's Board of Directors to provide an analysis of the reasonableness of the costs proposed by Grant Associates. In the Board's written cost reasonableness analysis, for costs that could otherwise be provided by an external firm (e.g., accounting, IT), the Board provided a comparison of costs that demonstrated Grant Associates' more advantageous price. The Board's written analysis also described how funds would be used to cover a small amount of time of two Grant Associates employees, who would provide unique technical expertise. These individuals were industry experts and had technical knowledge of the WorkAdvance model, Tulsa, and expanding services within the workforce development sector. For fee-based consulting, MSG agreed to fees not to exceed \$200 per hour, plus travel, based on standard industry rates that were below what Grant Associates charged other organizations for similar services. The Mayor's Fund accepted the board's analysis of reasonableness.

Once the subgrant was awarded, the Mayor's Fund and MDRC continued to monitor the reasonableness of costs – including those provided by Grant Associates. The Mayor's Fund reviewed and approved annual detailed budgets for all subgrantees and reimbursed them based on actual, after-the-fact

expense reporting. MDRC conducted site visits and reviewed MSG's line item financial reports, prior to approval by the Mayor's Fund. The financial reports provided a sufficient level of detail for MDRC and Mayor's Fund to know the exact costs being charged against each line item, and were subject to transaction testing for verification.

In summary, the actions of the Board of Directors of MSG and the oversight provided by MDRC and the Mayor's Fund successfully mitigated any risk associated with the approximately \$41,000 in federal funds paid over five years to Grant Associates under this grant. The relatively small amount of under \$41,000 should be viewed in the context of a total subgrant of \$1.6 million awarded to MSG, given the success of MSG in carrying out the intended purposes of the program and delivering effective workforce development services in Tulsa. Final federal costs were as follows:

- **\$814,324** in local staffing of the Tulsa office, including program director, career advisors and job coaches, trainers, educational/outreach coordinator, business development manager and others.
- **\$230,228** in training and courses for participants
- **\$132,346** in direct participant support to help transition to the workforce
- **\$446,276** in other costs to operate the program (including local rent, IT support, outreach, staff development)
- **\$40,777** in consulting with Grant Associates for technical support

We emphasize that MSG spent only 2% of the federal award on Grant Associates over five years. (The federal share was \$40,777 of the \$106,214 paid to Grant Associates, as noted above and in the OIG draft report.) Further, the issues of potential conflict of interest were identified and resolved through a transparent due diligence process prior to award.

Corrective Action: The Mayor's Fund takes very seriously the requirements to avoid conflict of interest or self-dealing. The Mayor's Fund currently has monitoring procedures in place for federal awards to ensure subgrantee compliance with Uniform Guidance procurement policies and conflict of interest policies. Thus, we believe no further corrective action is needed.

Finding 3: Subgrantees incorrectly charged labor costs based on budget estimates.

We do not concur with this finding. The Mayor's Fund grant monitoring records demonstrate that these two subgrantees, Children's Aid Society and Henry Street Settlement, met the standards for timekeeping systems compliant with A-122 (B. Selected Items of Cost, Paragraph 8.m.(2)(a) Support for salaries and wages). Most of the positions on these subgrants were full time to the SIF project and timesheets adequately captured the actual costs to the grant. In the cases where staff split their time between SIF and non-SIF projects and whose time on one project might vary from their budget, the subgrantees maintained adequate systems to ensure proper charges to the grants for labor based on after-the-fact determination using actual hours their staff devoted to grant funded activities. Further, each subgrantee has systems that have been audited annually with no findings related to process of allocating staff time towards their federal grants under their A-133 audits.

Corrective Action: The OIG did not identify any instances of inaccurate charges. The Mayor's Fund currently has monitoring procedures in place for federal grants that monitor the requirement to ensure after-the-fact determination of time and effort. Thus, we believe no further corrective action is needed.

Finding 4: Subgrantees' financial management systems did not segregate Federal and match costs and have other defects.

We do not concur with this finding. The Mayor's Fund grant monitoring records demonstrate that the Subgrantees met the standards as described in the CNCS Terms and Conditions for financial management systems and in 45 CFR § 2543.21 (Standards for financial management systems). As required by the Terms and Conditions, the subgrantees maintained financial management systems that include standard accounting practices, sufficient internal controls, a clear audit trail, and written cost allocation procedures, as necessary. Further, the Mayor's Fund grant monitoring records demonstrate that these three subgrantees' financial management systems adequately segregated Federal and match costs. Finally, each subgrantee has systems that have been audited annually with no findings related to financial management, written policies and/or segregation of costs relating to federal/match funds in their A-133 audits.

Segregation of Expenses

The Mayor's Fund grant monitoring records document that these subgrantees complied with the CNCS Terms and Conditions requiring that financial management systems "must be capable of distinguishing expenditures attributable to its award from expenditures not attributable to its award." In addition, these subgrantees complied with 45 CFR § 2543.21, which requires subgrantees to have "[r]ecords that identify adequately the source and application of funds for federally-sponsored activities", and provides that "[t]hese records shall contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, outlays, income and interest." Further, the Mayor's Fund grant monitoring records demonstrate that these three subgrantees' financial management systems adequately segregated Federal and match costs. In cases where the subgrantee's General Ledger (GL) was unable to code each individual transaction by funding source, the Mayor's Fund's monitoring determined that they met the standards by having written allocation methodologies to serve as the required records. These allocations were generally done through excel worksheets which allocated the total spending per period on the SIF project across the funding sources, using the approved budget. This efficiently meets the standards of tracking by source (but not by item) as is laid out in 45 CFR § 2543.21.

We acknowledge that the requirement noted in the OIG draft report to "segregate expenses *within the general ledger* by funding source" was an additional condition in the Subgrantee Agreements (Section IV, Budget and Compensation, item e) that the Mayor's Fund imposed on top of the already rigorous federal standards. This proved overly burdensome to many Subgrantees due to the changes that would have been required to be made in their accounting software program infrastructure and which was not consistent with the standard procedures already in place in those organizations. As a result, the Mayor's Fund chose not to enforce this condition, so long as the federal standard were met, i.e., that all funds could be traced within the financial management system – which could include a written allocation methodology that resided outside of the accounting software.

Written policies and procedures

All three subgrantees had written policies at the time of the SIF grant to ensure that all costs charged to federal grants are allowable, allocable and reasonable.

Policy	CAS	HSS	MSG
Allowability	Budget Claims (p15) and Procedures for Processing Government Claims (pdf)	Grant Claims Process (Policy 2.5.2, p33)	Expense Payment and Allocation (p2)
Allocability	Cost Allocation (p31)	Vendor Invoice Processing (Policy 2.3.4, p18); Budget Process (Policy 2.5.1, p31)	Expense Payment and Allocation (p1-2)
Reasonableness	A-133/Standards of Reasonableness (p32-33)	Bulk Purchasing (p15)	Above and Purchasing (p2)
Date of Policies	2007 (revision planned by July 2018)	2002, with date of revisions for various policies	2012 (Revised copy also provided from Dec 2016)

In cases where their policies do not specifically use the words “allowable”, “allocable” or “reasonable”, the written policies noted above and the organization’s internal controls described therein are sufficient to ensure their applicability. For example, budgets and grant documents (including Mayor’s Fund’s “Managing Your SIF Award” document) guide allowability. Allocation methodologies and program/manager sign-off on expenditures and budget-to-actuals ensure allocability, and procurement policies ensure reasonableness. In addition to its Fiscal Policies and Procedures Manual, Children’s Aid has a “Procedures for Processing Government Claims” document which guides the finance staff in determining what is allowable on the grant.

The OIG report also noted that MSG did not have a data retention policy at the time of audit. The Mayor’s Fund has since received confirmation that MSG has added this policy to its Financial Policies. In addition, prior to the end of the grant, the Mayor’s Fund provided all subgrantees, including MSG, with data retention guidance as part of its 2016 closeout procedures. The Mayor’s Fund requested and received MSG’s confirmation of the data retention requirements on August 15, 2016 as part of its closeout procedures.

Corrective Action: Although the Mayor’s Fund believes the Subgrantees’ policies are sufficient to meet financial management standards for federal grants, the organizations have agreed to review their policies and make updates if needed. The Mayor’s Fund has also reviewed MSG’s current financial management policies which now include record retention (Page 5, MSG’s Financial Policies and Procedures, dated December 31, 2016). The Mayor’s Fund currently has monitoring procedures in place to ensure that all Subgrantees of federal grants have sufficient written financial management policies to meet federal standards under Uniform Guidance. Thus, we believe no further corrective action is needed.

Finding 5: Two subgrantees issued debit cards without adequate internal controls to prevent misuse.

We do not concur with the finding. The Mayor's Fund grant monitoring records demonstrate that the Subgrantees met the standards under 45 CFR 2543.21 and maintained adequate internal controls to prevent misuse for the debit cards issued under the program. Both Subgrantees had written protocols, dedicated staff overseeing their safety and use, and provided documentation for the use of debit cards. This appropriately mitigated any risks that otherwise may have been presented.

Corrective Action: The subgrantees provided documentation during the audit that documented the appropriate distribution of the cards. Although the Mayor's Fund believes the Subgrantee policies and documentation were sufficient to meet grant standards, the organizations have agreed to review their policies and practices around incentives. The Mayor's Fund currently has procedures in place for federal grants to monitor that any Subgrantee using incentives (such as metro cards or gift cards) follows written policies for their use and submits reconciliations with financial reports. Thus, we believe no further corrective action is needed.

Finding 6: Subgrantees could not fully support costs paid to contractors.

We and the subgrantees in question do not concur with the finding and disagree with the questioned costs related to Children's Aid Society (CAS) and MSG. Subgrantees fully supported costs paid to contractors, and costs expended met the standards under A-122 for professional services. They met the terms of allowability and adequacy of the contractual agreement for the services as defined in A-122 Attachment B, Selected Items of Costs, Paragraph 37.

Finding 6a.

CAS does not concur that they cannot fully support the \$5,589 in Federal costs for the services of a temporary staffing agency. CAS provided invoices and timesheets with the individual's name to demonstrate the work performed on the grant. In the case of CAS' SIF Family Rewards programs, staffing from the temp agency were primarily related to the Claims Processing role on the project. CAS had no other positions in the organization similar to the Family Rewards positions so it was abundantly clear which temp staff were for Family Rewards, a unique program in their organization. CAS's SIF program manager provided the supervision and monitoring of that employee while they were working. The temp firm's weekly invoices were sufficiently detailed and included the employee name, rate of pay, hours worked, and amount owed. They also include the employee's hourly timesheets. CAS's budget manager was able to correctly code the invoices to SIF.

Finding 6b.

MSG does not concur that they cannot fully support the \$6,223 in federal costs for the services of two consultants provided by Grant Associates. MSG signed a contract with Grant Associates for "program management oversight, industry expertise and other program related tasks." The contract stated that services would be billed based on "time spent" and expenses, as was done and evidenced in the invoices. At different times during the project, MSG's Operations Manager and Program Director managed the consultants closely. They each reviewed and approved all invoices, affirming that the work provided met the terms of the contract and was in support of the SIF project. Consultants included a former MSG employee and founding WorkAdvance program manager who was contracted to help onboard the new Program Manager, ensuring a smooth transition to new leadership. The second

consultant had experience with similar initiatives and provided tactical support to MSG leadership throughout the research period of the program through weekly phone consults and regular, often monthly, in-person meetings in Tulsa.

Finding 6c.

MSG does not concur that they cannot fully support the \$167 for federal costs for the services of an aviation consultant. MSG and the consultant agreed to a detailed scope of services for this industry expert. MSG's Program Director managed the consultant closely and reviewed and approved all invoices, affirming that the work provided met MSG's expectations and was in support of the SIF. Per the scope of services, the consultant visited the MSG offices approximately two to four times per month to present to the current Career Readiness Training class on industry knowledge in aerospace and manufacturing careers and helped program participants improve and practice their interviewing skills.

Finding 6d.

MSG does not concur that they cannot fully support the \$883 for federal costs incurred for a Training Consultant. MSG and the consultant agreed to a set of deliverables and timetables documented through Asana, an on-line project management program. MSG's Program Director managed the consultant and work product and reviewed and approved all invoices, affirming that the work met MSG's expectations and were in support of the SIF project. The Training Consultant, who had an extensive background in corporate training, assisted in the development of curriculum for the SIF WorkAdvance Shipping, Receiving and Warehousing training class.

After the audit fieldwork, MSG provided to the Mayor's Fund additional supporting documentation related to the three abovementioned consultants and the work they performed for the SIF project. We will provide this documentation to CNCS during the audit resolution process.

Corrective Action: Although the Mayor's Fund believes the agreements and work product documentation are sufficient to meet grant standards, the organizations have agreed to review their policies. The Mayor's Fund currently has procedures in place for federal grants to monitor the A-122 requirement that any Subgrantee using consultants has adequate policies for contractual agreements for their service (e.g., description of the service, estimate of time required, rate of compensation, and termination provisions) and documentation of services rendered. Thus, we believe no further corrective action is needed.

Finding 7: The Mayor's Fund lacked adequate subgrantee termination policies and did not retain comprehensive financial records.

We do not concur with this finding. The Mayor's Fund had standard policies written into its agreements to require retention of auditable financial records upon termination. The data retention time periods required by the Mayor's Fund (six years) after the final payment exceed those required by CNCS under 45 CFR 2543.53 (three years). In cases where subgrantees were not renewed or were assigned, it is the position of the Mayor's Fund that the existing data retention requirements were more than sufficient to ensure subgrantee compliance. Moreover, the Mayor's Fund's existing monitoring policies were deemed sufficient to ensure compliance. The Mayor's Fund saw no need to create an additional requirement to

routinely obtain source documentation upon termination and relied on its authority to request such documentation when needed.

Mayor's Fund had sufficient data retention policies upon termination.

The Subgrantee agreements contained rigorous data retention requirements that applied after final disbursement to a Subgrantee, whether due to termination or expiration of the agreement. Specifically, Section XV "Data Retention and Grant Closeout" of the Subgrantee agreements state:

"Subgrantee shall retain all books, documents, papers and records of Subgrantee involving financial transactions directly related to this Agreement for a period of six (6) years after the Mayor's Fund makes the final disbursement under this Agreement. Subgrantee agrees that Mayor's Fund, and its designees, shall, until the expiration of six (6) years after final payment under this Agreement, have access to and the right to examine any and all books, documents, papers or records of Subgrantee involving financial transactions directly related to this Agreement, and to determine Subgrantee's compliance with this Agreement and relevant OMB circulars; and during this period, the Mayor's Fund shall have the right to challenge any costs claimed, even if payment for those costs have been made. Upon request, Subgrantee shall provide its books, documents, papers or records involving transactions directly related to this Agreement directly to the Mayor's Fund or to the Federal auditing official."

The Mayor's Fund contract with MDRC also contained similar data retention requirements for six years. Therefore, MDRC was required to retain copies of all Subgrantee financial reports that it received and reviewed and copies of all monitoring results from routine testing, desk audit or site visits. MDRC also retained copies of the Subgrantee general ledger reconciliation on all 2016 subgrantees that were submitted and reviewed during closeout. However, the MDRC contract language in the data retention provision cited by the OIG was not intended to require MDRC to maintain all Subgrantee records. We recognize that such provision could have been clearer that MDRC was responsible only for retaining the Subgrantee records it received as part of its work, not the source documentation retained by Subgrantees.

The Mayor's Fund fully acknowledges that as a pass-through entity, it is responsible for ensuring that Subgrantees comply with the data retention requirements of their SIF grants. Through its own monitoring policies and agreements with Subgrantees, the Mayor's Fund had the tools to enforce such compliance.

Oversight of non-continuing subgrantees

In accord with its risk-based monitoring, the Mayor's Fund and MDRC increased oversight of any Subgrantee that was considered high-risk, which was the case for two organizations whose subgrant agreements were assigned. This more intensive monitoring was tailored to mitigate the risks that may have been present at each organization. As noted above, the Mayor's Fund data retention policies were in effect whether a subgrantee's agreement was terminated or expired. The Mayor's Fund did not deem it necessary to supplement its data retention requirements by providing that the Mayor's Fund would routinely obtain source documentation upon termination.

In the case of FEGS, whose subgrant agreement was assigned due to bankruptcy, the Mayor's Fund had sufficient familiarity with the service delivery and the costs incurred in the Subgrantee's final quarter. The majority of costs in the final quarter were for staff with whom the Mayor's Fund staff had regular

contact, and which Mayor's Fund monitored to ensure uninterrupted service delivery. The Mayor's Fund reimbursed FECS only after it was clear that the work of that quarter and staff transition to the new entity had been completed in full. This mitigated the risk of misuse or misapplication of funds that could have occurred. Further, FECS's court-appointed records retention firm and FECS wind-down staff were able to provide the supporting documentation on the costs within a reasonable timeframe (March 11 response to Feb 18, 2016 request for a General ledger detailed report; June 23 response to May 9 request for source documentation). The OIG draft report confirms that the documentation made available by the Subgrantee was sufficient.

Corrective Action: As part of its closeout procedures for all 15 Subgrantees that closed out in 2016, the Mayor's Fund and MDRC reconciled all financial reports under the grant to the organization's general ledger and provided subgrantees with data retention guidance. The Mayor's Fund required each subgrantee to submit a signed, final closeout form to confirm their understanding of the SIF data retention requirements. Thus, we believe no further corrective action is needed.

Finding 8: One subgrantee claimed unsupported employee morale costs.

We and MSG do not concur with the finding that the employee morale costs of \$244 are unsupported. They were in line with MSG's established, written policies and practices, and allowable under A-122. We understand that the OIG did not have access to the written policies during its fieldwork, and we have since provided it.

MSG provides modest staff incentives and celebrations to encourage morale and reward hard work, including meals after special events such as customer graduation ceremonies, celebrations of individual staff members' organizational anniversaries and other occasions as appropriate, as stated in the MSG staff handbook, under Section II. Benefits:

"MSG may provide employees with morale incentives based on management discretion, which include but are not limited to employee gatherings and tokens of appreciation for work effort and anniversaries with the Organization." MSG's original handbook dated 4-5-2011, p11.

After the audit fieldwork, MSG provided to the Mayor's Fund additional documentation of the individuals who participated in the relevant meals, and the purpose of those events. We will provide this documentation to CNCS during the audit resolution process.

Finding 9: Subgrantees claimed unallocable expenses that benefited other programs.

The subgrantees do not contest the finding that three expenses allocated to the SIF project (totaling \$3,034) should have been allocated to other programs.

- a. Henry Street charged the SIF grant for 100 percent of the cost of a billboard advertisement. The Subgrantee concurs that this cost should have been split across the SIF project and one other program and that only \$1,433 should have been billed to SIF.
- b. Henry Street concurs that the \$1,503 in costs associated with Young Adult Internship Program (YAIP) should not have been billed to SIF.
- c. CAS concurs that \$98 in electricity costs should not have been allocated to SIF.

Corrective Action: The Mayor's Fund currently has procedures in place on federal grants to monitor the requirement to appropriately use and document allocation methodologies. We also provide guidance to subgrantees regarding Uniform Guidance regarding allowability, allocability and reasonability.

Finding 10: One subgrantee claimed expenses not authorized by the approved budget.

We and MSG do not concur with this finding and disagree with the questioned cost because the cost was allowable within the approved budget and the Subgrantee maintained sufficient documentation to support the costs in accord with A-122. MSG claimed \$252 in expenses for program-related t-shirts, which were authorized and approved in MSG's detailed financial reports as SIF-related costs and adequately documented within the Subgrantee's records.

MSG purchased t-shirts for Transportation Connections SIF WorkAdvance program participants, customers and staff members to promote WorkAdvance as part of National Manufacturing Day. MSG distributed t-shirts to participants and graduates of the SIF WorkAdvance welding training or CNC machining training.

MSG charged the t-shirts to the line item for Participant and Program Support. The Mayor's Fund and MSG determined that t-shirts were in line with the description of Participant and Program Support costs in the detailed budget narrative. Per their subgrant agreement with the Mayor's Fund, MSG only needed to request advance approval if spending on a given line item exceeded 10 percent or more of the line item. This cost did not result in line item spending that amounted to a 10 percent change from the approved budget. Thus, MSG had the authority to spend funds within the approved budget line without requesting pre-approval for a budget modification. Therefore, MSG was within its authorized scope to include these costs. They also tracked to whom they distributed the t-shirts.

After the audit fieldwork, MSG provided to the Mayor's Fund additional supporting documentation related to the logged distribution of the t-shirts. We will provide this documentation to CNCS during the audit resolution process.

APPENDIX B

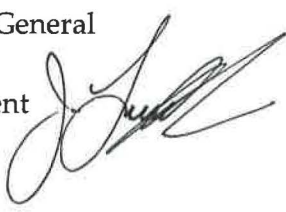
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE RESPONSE TO DRAFT REPORT

Corporation for National and Community Service

NationalService.gov



To: Stuart Axenfeld, Assistant Inspector General for Audit, Office of Inspector General

From: Joseph Liciardello, Acting Chief Grants Officer, Office of Grants Management 

Date: November 14, 2017

Subject: Response to OIG Draft of Audit of Corporation for National and Community Service Grants Awarded to Mayor's Fund to Advance New York City

Thank you for the opportunity to review the draft report of the Audit of Corporation for National and Community Service Grants Awarded to Mayor's Fund to Advance New York City. We will respond with our management decision after we receive the final report and have reviewed the auditor's working papers and the Mayor's Fund's corrective action plan. We will work with the Mayor's Fund's representatives to ensure its corrective action adequately addresses all audit findings and recommendations.

Cc: Jeffrey Page, Chief Operating Officer
Lois Nembhard, Acting Director of Social Innovation Fund
Tim Noelker, General Counsel
Lori Giblin, Chief Risk Officer

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