Office of Inspector General Corporation for National and Community Service

AGREED-UPON PROCEDURES FOR
CORPORATION FOR NATIONAL AND
COMMUNITY SERVICE
GRANTS AWARDED TO
EDNA McCONNELL CLARK FOUNDATION

OIG REPORT 13-06



Prepared by:

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This report was issued to Corporation management on June 6, 2013. Under the laws and regulations governing audit follow-up, the Corporation is to make final management decisions on the report's findings and recommendations no later than December 6, 2013 and complete its corrective actions by June 6, 2014. Consequently, the reported findings do not necessarily represent the final resolution of the issues presented.



June 6, 2013

TO: Lois Nembhard

Deputy Director of Operations, SIF

Margaret Rosenberry

Director, Office of Grants Management

FROM: Stuart Axenfeld /s/

Assistant Inspector General for Audit

SUBJECT: OIG Report 13-06, Agreed-Upon Procedures for Corporation for National and

Community Service Grants Awarded to Edna McConnell Clark Foundation

(EMCF)

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

Under the Corporation's audit resolution policy, a final management decision on the findings in this report is due by December 6, 2013. Notice of final action is due by June 6, 2013.

If you have questions pertaining to this report, please call me at (202) 606-9360, or Rick Samson, Audit Manager, at (202) 606-9380.

Attachment

cc: Ralph Stefano, Chief Financial & Administrative Officer, EMCF William Moon, Controller, EMCF Shivangi Shah, Finance Senior Associate, EMCF

David Rebich, Chief Financial Officer, CNCS

Claire Moreno, Audit Liaison, CNCS

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AGREED-UPON PROCEDURES FOR CORPORATION GRANTS AWARDED TO EDNA McConnell Clark Foundation

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EXECUTIVE SUMMARY

The Office of Inspector General (OIG), Corporation for National and Community Service (Corporation), contracted with CliftonLarsonAllen LLP, an independent certified public accounting firm, to perform agreed-upon procedures (AUP) on grant costs incurred by the Edna McConnell Clark Foundation (EMCF) and three of its subgrantees. EMCF is an intermediary grantee under the Corporation's Social Innovation Fund (SIF). This review also tested EMCF's compliance with Corporation policies and applicable regulations for Corporation-funded Federal assistance. In addition to reviewing EMCF's SIF grant administration, we selected the following EMCF subgrantees for detailed testing:

- The SEED Foundation (SEED)
- Building Educated Leaders for Life (BELL)
- Center for Employment Opportunities (CEO)

These subgrantees were judgmentally selected based on an assessment of overall risk to EMCF and the Corporation. The assessment included consideration of several factors, namely the amount of costs claimed by each subgrantee, the results of subgrantee monitoring reports, and findings, if any, contained in Circular A-133 single audit reports for each entity. Our procedures resulted in total questioned grant costs of \$647,535, consisting of \$348,413 in Federal share, EMCF match costs of \$83,270, and subgrantee match costs of \$215,852. We also identified six instances of noncompliance with the United States Code of Federal Regulations, the Corporation's grant requirements, and the subgrantees' own policies and procedures.

One significant internal control weakness involves CEO's failure to remove two of its employees, who were known by CEO management to have criminal histories that made them ineligible, from working on the SIF grant. Federal statutes prohibit such individuals from serving in this capacity. CEO attributed this situation to a lack of communication between members of its staff.

We found that the three subgrantees are generally free of major financial weaknesses. The questioned costs shown above, although material, are related primarily to deficiencies in the procedures used to conduct criminal history and sex offender background checks, a pervasive compliance finding affecting each of the subgrantees. Of the \$647,535 amount, SEED's questioned Federal costs of \$290,251 and match costs of \$70,489 (SEED) and \$34,455 (EMCF) represent nearly 61 percent of the total. Further details on each subgrantee's claimed and questioned costs are at Schedules B, C, and D. Compliance findings and recommendations are discussed in the Detailed Findings section of this report beginning at page 12.

EMCF and subgrantee match represents a significant amount of the questioned costs. As of September 30, 2012, EMCF was \$2,132,373 short of meeting its match requirements; however Grant 10SIHNY003 is still an active grant and the grantee has until the end of the grant term (July 31, 2015) to fulfill its match obligation.

EMCF has contracted with a New York City-based independent audit firm to perform subgrantee monitoring through periodic site visits and desk audits. These activities, which may account for the financial stability of the three subgrantees, include reviews of payroll expenses, indirect costs, travel, and supplies expenses.

INTRODUCTION

The SIF grant program was inaugurated by the Corporation in 2010 as part of the Edward M. Kennedy Serve America Act, enacted in 2009. The purpose of the program is to mobilize public and private resources to assist in the growth of community-based nonprofit organizations. The Corporation's SIF grant awards are between \$1 million and \$10 million per year, for up to five consecutive years, to intermediary grantees that conduct competitions to make subawards to deserving nonprofits which have implemented program models consistent with the SIF mission objectives. Since 2010, the program has awarded grants to 20 intermediaries, which in turn have selected 201 subgrantees based in 34 States and the District of Columbia. In the aggregate, the Corporation has awarded SIF grants totaling \$137 million in the first three years of the program's existence, which have generated approximately \$350 million in matching commitments from private sector entities.

EMCF was one of the first awardees in the 2010 inaugural group. Funds received by EMCF have been subawarded to nine non-profits that provide services to economically disadvantaged youths ranging in age from 9 to 24 years. EMCF channels its SIF funding toward improving academic skills and achievement, preparing youth for employment opportunities, and avoiding high-risk behaviors, such as criminal activity and teen pregnancy. The subawards include both Federal funding and EMCF-provided funding that matches dollar-for-dollar the amount of Federal funding in each award. Subgrantees are required to provide match funding equal to the total amount of the subawards they receive from EMCF.

SUMMARY OF RESULTS

The results of our agreed-upon procedures are summarized in the Consolidated Schedule of Claimed and Questioned Costs (Schedule A).

EMCF claimed total Federal costs of \$9,560,710 and total match costs of \$17,951,648 from August 1, 2010, through September 30, 2012, for SIF grant number 10SIHNY003. Based on testing a judgmentally selected sample of transactions, we questioned claimed costs as detailed following table:

Type of Questioned Costs ¹	Federal	EMCF Match	Subgrantee Match	Totals
National Sex Offender Public Registry				
(NSOPR) search was conducted after the	****	*40.000	* • • • • • •	**************************************
employee started working on the grant	\$267,739	\$16,029	\$ 33,528	\$317,296
Designated State criminal history				
repositories were not used to conduct				
State criminal registry searches	62,467	56,397	122,731	241,595
State criminal registry search was not				
conducted for the State in which the				
employee resided	17,823	-	34,352	52,175
Incorrect rate was used for employee				
fringe benefits charged to the grant	384	1	-	384
Subgrantee did not account for all				
employee hours worked in calculating the				
cost charged to the grant	-	3,569	7,247	10,816
Supervisor approved the employee's time				
sheet before the end of the pay period	-	3,393	-	3,393
Ineligible individuals labor costs		3,882	17,994	21,876
Totals	\$348,413	\$83,270	\$215,852	\$647,535

For each program year, grant expenditures were applied to the Federal funds first until they were exhausted, then the expenditures were normally applied at a two to one ratio against the subgrantee and EMCF match funding respectively. EMCF did not provide additional Federal funding for the following program year until the subgrantees met their match funding requirements for the prior program year.

We compared EMCF's inception-to-date drawdown amounts with the amounts reported in its last Federal Financial Report (FFR)² for the period tested and noted no discrepancies.

Details of the questioned costs, grant awards, non-compliance with grant provisions, and applicable laws and regulations are presented in the section of this report entitled, *Detailed Findings* (see page 12) that follows the results of our agreed-upon procedures, which are summarized below by category.

National Service Criminal History Checks

- Written authorization from the employee was not obtained prior to conducting State criminal registry searches;
- The Corporation's designated State criminal history repositories were not used to conduct the State criminal registry search;
- ➤ No State criminal registry search was conducted for the State in which the employee resided at the time the employee applied for the position;
- Employees were determined to be ineligible to work on the grant, but were allowed to continue working on the grant;
- > NSOPR search was conducted after the employee started working on the grant;

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¹ A questioned cost is an alleged violation or non-compliance with grant terms and/or provisions of laws and regulations governing the expenditures of funds; or a finding that, at the time of testing, adequate documentation supporting a cost item was not readily available.

² The FFR is a standardized, consolidated report of Federal grant awards and associated Federal share and match costs claimed which are required to be reported by grantees to the Corporation on a semi-annual basis.

- NSOPR checks did not include searches based on both the employee's married and maiden names;
- ➤ No documentation that the subgrantee considered the results of the National Service Criminal History Check before selecting the individual for employment;
- ➤ The I-9 Form, *Employment Eligibility Verification*, used to document the verification of the employee's identity was completed after the employee started working.
- ➤ The I-9 Form was not updated after the employee was rehired within three years from the date the form was originally completed; and
- ➤ The I-9 Form was missing the date of employment or date that the verification was completed.

Labor Cost/Payroll

- Supervisor approved the employee's time sheet before the end of the pay period;
- > Date that the supervisor approved, or the employee signed the timesheet, was missing;
- Employees were paid before time sheets were signed by the employee and/or supervisor; and
- > Subgrantee did not account for all employee hours worked when calculating the cost charged to the grant.

Fringe Benefits

➤ An incorrect rate was used for employee fringe benefits charged to program year 2013 by a subgrantee.

Reporting

Subgrantee quarterly financial reports were submitted late to EMCF.



INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

Office of Inspector General Corporation for National and Community Service

We have performed the procedures, detailed in the "Draft Agreed-Upon Procedures for Social Innovation Fund Awards to Grantees (including Subgrantees) dated August 2012," not included herein. These procedures were agreed to by the Corporation for National and Community Service (Corporation) Office of Inspector General (OIG) solely to assist you in evaluating certain information reported by Edna McConnell Clark Foundation (EMCF) in accordance with its Corporation grant terms and provisions, and applicable laws and regulations, for the period from August 1, 2010, through September 30, 2012.

Grantees' Responsibility

EMCF and its subgrantees are responsible for the accuracy and completeness of the reported information. In addition, they are also responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud or illegal acts affecting their entities involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud or illegal acts could have a material effect on the CNCS grants. Their responsibilities include informing us of their knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, grantors, regulators, or others. They are also responsible for identifying and ensuring that their entities comply with applicable laws, regulations, contracts, and grant agreements, and for taking timely and appropriate steps to remedy any fraud, illegal acts, violations of contracts or grant agreements, or abuse that we may report.

Auditor's Responsibility

We conducted the agreed-upon procedure engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for agreed-upon procedures contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The sufficiency of the procedures, described in the "Draft Agreed-Upon Procedures for Social Innovation Fund Awards to Grantees (including Subgrantees) dated August 2012," not included herein, is solely the responsibility of the Corporation's OIG. Consequently, we make no representation regarding the sufficiency of the procedures either for the purpose for which this report has been requested, or for any other purpose.

The results of our procedures are described in the Detailed Findings section of this report.

The agreed-upon procedures listed in the "Draft Agreed-Upon Procedures for Social Innovation Fund Awards to Grantees (including Subgrantees) dated August 2012," not included herein do not constitute an examination or review, the objective of which would be the expression of an opinion on EMCF's reported grant information. Accordingly, we do not express such an opinion or limited assurance on the amount of Federal assistance expended by EMCF. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the OIG, the Corporation, and EMCF, and should not be used by anyone other than these specified parties.

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Calverton, Maryland March 26, 2013

Schedule A

Corporation for National and Community Service Edna McConnell Clark Foundation Consolidated Schedule of Claimed and Questioned Costs For Period August 1, 2010 through September 30, 2012 Award 10SIHNY003

			Q	uestioned C	osts	
Program	Approved Budget ³	Claimed Federal Costs	Federal Costs (a)	EMCF Match Costs(b)	Subgrantee Match Costs (c)	Schedule
EMCF	\$5,000,000	\$72,270	\$ -	\$ -	\$ -	В
SEED Foundation (SEED)	1,750,000	1,000,000	290,251	34,455	70,489	С
Building Educated Leaders for Life (BELL)	2,500,000	1,488,440	40,339	41,540	93,017	D
Center for Employment Opportunities (CEO)	3,000,000	1,223,332	17,823	7,275	52,346	E
Other Subgrantee Programs Not Selected for Testing	13,750,000	5,776,668				
Totals	<u>\$26,000,000</u>	<u>\$9,560,710</u>	<u>\$348,413</u>	<u>\$83,270</u>	<u>\$215,852</u>	
Total Q	uestioned Cost	ts (a + b + c)		<u>\$647,535</u>		

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The total for the Approved Budget does not reflect the total Federal amount awarded to EMCF because \$4 million of the grant has not yet been awarded to subgrantees.

Schedule B

Schedule of Award and Claimed Costs For Period August 1, 2010 through September 30, 2012 Edna McConnell Clark Foundation – 10SIHNY003

		Reference
Authorized Budget (Corporation Funds)	\$30,000,000	Note 1
Claimed Federal Costs	9,560,710	Note 2
Authorized Match Budget	80,000,000	Note 3
Claimed Match Costs	17,951,648	Note 4
Questioned Federal Costs:	-	
Total Questioned Federal Costs	<u>\$</u>	
Questioned EMCF Match Costs:	-	
Total Questioned EMCF Match Costs	<u>\$</u>	

<u>Notes</u>

- 1. The authorized budget amount represents the funding to EMCF according to the Notice of Grant Award.
- 2. Claimed costs represent EMCF's reported Federal expenditures for the period August 1, 2010, through September 30, 2012. The Federal cost that EMCF incurred directly was \$72,270.
- 3. The authorized match budget represents the funding to EMCF in accordance with the Notice of Grant Award.
- 4. Claimed match costs represent EMCF's reported match expenditures for the period August 1, 2010, through September 30, 2012. The match cost represents the amount incurred by the subgrantees using EMCF funding provided as part of the award and its privately generated funds from non-Federal sources.

Schedule of Award and Claimed Costs: SEED Foundation – 10SIHNY003 AUP Period August 1, 2010 through September 30, 2012

			Reference
Authorized Budget (Federal Funds)		\$1,750,000	Note 1
Authorized Match Budget (EMCF Funds)		1,750,000	Note 2
Authorized Match Budget (SEED Funds)		3,500,000	Note 3
Questioned Federal Costs:			
NSOPR search was conducted after employee started working on the grant	\$267,739		Note 4
Designated State criminal history repositories were not used	Ψ201,100		11010 1
to conduct State criminal registry searches	22,512		Note 5
Total Questioned Federal Costs	, -	<u>\$290,251</u>	
Questioned EMCF Match Costs:			
NSOPR search was conducted after employee started			
working on the grant	\$16,029		Note 4
Designated State criminal history repositories were not used	+ -,-		
to conduct State criminal registry searches	14,857		Note 5
SEED did not account for all employee hours worked in calculating the cost charged to the grant	3,569		Note 6
Total Questioned EMCF Match Costs		<u>\$34,455</u>	
Questioned SEED Match Costs:			
NSOPR search was conducted after employee started			
working on the grant	\$33,528		Note 4
Designated State criminal history repositories were not used			
to conduct State criminal registry searches	29,714		Note 5
SEED did not account for all employee hours worked in			
calculating the cost charged to the grant	7,247	4	Note 6
Total Questioned SEED Match Costs		<u>\$70,489</u>	

Notes

- 1. The authorized budget amount represents the Federal funding to SEED in accordance with the subgrant agreement.
- 2. The authorized match budget represents EMCF funding that was provided to SEED in accordance with the subgrant agreement.
- 3. The authorized match budget represents the funding that SEED will provide in accordance with the subgrant agreement.
- 4. Federal costs of \$267,739, EMCF match costs of \$16,029 and SEED match costs of \$33,528 were questioned due to the NSOPR search being conducted after the employee started working on the grant (See Finding 1).
- 5. Federal costs of \$22,512, EMCF match costs of \$14,857 and SEED match costs of \$29,714 were questioned due to Corporation designated State criminal history repositories not being used to conduct the State criminal registry search (See Finding 2).
- 6. EMCF match costs of \$3,569 and SEED match costs of \$7,247 were questioned due to SEED not taking into account all employee hours worked in calculating the cost charged to the grant (See Finding 4).

Schedule of Award and Claimed Costs: Building Educated Leaders for Life – 10SIHNY003 AUP Period August 1, 2010 through September 30, 2012

			Reference
Authorized Budget (Federal Funds)		\$2,500,000	Note 1
Authorized Match Budget (EMCF Funds)		2,500,000	Note 2
Authorized Match Budget (BELL Funds)		5,000,000	Note 3
Questioned Federal Costs:			
Designated State criminal history repositories were			
not used to conduct State criminal registry searches	\$39,955		Note 4
Incorrect rate was used for fringe benefits charged			
to the grant	384		Note 5
Total Questioned Federal Costs		<u>\$40,339</u>	
Questioned EMCF Match Costs:			
Designated State criminal history repositories were			
not used to conduct State criminal registry search	\$41,540		Note 4
Total Questioned EMCF Match Costs		<u>\$41,540</u>	
Questioned BELL Match Costs:			
Designated State criminal history repositories were			
not used to conduct State criminal registry search	\$93,017		Note 4
Total Questioned BELL Match Costs		<u>\$93,017</u>	

Notes

- 1. The authorized budget amount represents the Federal funding to BELL in accordance with the subgrant agreement.
- 2. The authorized match budget represents EMCF funding that was provided to BELL in accordance with the subgrant agreement.
- 3. The authorized match budget represents the funding that BELL will provide in accordance with the subgrant agreement.
- 4. Federal costs of \$39,955, EMCF match costs of \$41,540 and BELL match costs of \$93,017 were questioned due to Corporation designated State criminal history repositories not being used to conduct the State criminal registry searches (See Finding 2).
- 5. Federal costs of \$384 were questioned due to the use of an incorrect rate for employee fringe benefits charged to the grant (See Finding 5). The rate used was 9.75 percent; the correct rate is 9.66 percent.

Schedule of Award and Claimed Costs: Center for Employment Opportunities – 10SIHNY003 AUP Period August 1, 2010 through September 30, 2012

			Reference
Authorized Budget (Federal Funds)		\$3,000,000	Note 1
Authorized Match Budget (EMCF Funds)		3,000,000	Note 2
Authorized Match Budget (CEO Funds)		9,000,000	Note 3
Questioned Federal Costs:			
State criminal registry search was not conducted for the State in which the employee resided	\$17,823		Note 4
Total Questioned Federal Costs		<u>\$17,823</u>	
Questioned EMCF Match Costs:			
Supervisor approved the employee's time sheet before the			
end of the pay period	3,393		Note 5
Ineligible individuals labor costs	3,882		Note 6
Total Questioned EMCF Match Costs		<u>\$7,275</u>	
Questioned CEO Match Costs:			
State criminal registry search was not conducted for the			
State in which the employee resided	34,352		Note 4
Ineligible individuals labor costs	\$17,994		Note 6
Total Questioned CEO Match Costs	_	<u>\$52,346</u>	

Notes

- 1. The authorized budget amount represents the Federal funding to CEO in accordance with the subgrant agreement.
- 2. The authorized match budget represents EMCF funding that was provided to CEO in accordance with the subgrant agreement.
- 3. The authorized match budget amount represents the funding that CEO will provide in accordance with the subgrant agreement.
- 4. Federal costs of \$17,823 and CEO match costs of \$34,352 were questioned due to the State criminal registry search not being conducted for the State in which the employee resided when the employee applied for the position (See Finding 2).
- 5. The questioned \$3,393 in EMCF match costs was due to the supervisor approving the employee's time sheet before the end of the pay period (See Finding 4).
- 6. The questioned \$3,882 in EMCF match costs and \$17,994 in CEO match costs was caused by two ineligible staff employees charging the grant for labor costs (See Finding 2).

DETAILED FINDINGS

Finding 1 – National Sex Offender Public Registry Searches

We reviewed various samples of subgrantee employee files to verify that the National Sex Offender Public Registry (NSOPR) search was conducted and documented before the employees started working on the grant, resulting in the following exceptions:

a. National Sex Offender Public Registry Search Was Conducted After The Employee Started Working On The Grant

For 14 of the 16 employee files tested, SEED conducted the NSOPR search after the employee started working on the grant. SEED believed that its criminal background check process was sufficient without verifying that it met the Federal regulations. By not completing the NSOPR check before the employee started working on the grant, SEED placed itself, EMCF, the Corporation and the population that it serves at risk. SEED indicated that the vendor conducting the registry searches was not aware that it had to use the National Sex Offender Public Website to perform the searches, but performed searches on all but three of the employees using an alternative source. EMCF disallowed the costs incurred for those three employees until the date that the NSOPR search was conducted.

Although the sex offender searches conducted by the vendor may have mitigated some of the risk, those searches were not from the source required by 45 Code of Federal Regulations (CFR) §2540.202. We are questioning costs from the date the employee started working on the grant until the NSOPR search was completed. The total costs for two employees were already questioned under finding 2.c. EMCF disallowed a portion of these costs in February 2013, which reduced our questioned costs to \$267,739 in Federal, \$16,029 in EMCF match, and \$33,528 in SEED match costs.

b. National Sex Offender Public Registry Searches Were Not Conducted For Both The Employee's Maiden And Former Married Names

For 10 of the 55 employee files tested, the subgrantees' (BELL and SEED) NSOPR searches did not include both the employees' maiden or former married names. The subgrantees only conducted the searches based on the name provided to them by the employees and confirmed against government identification. Although the additional searches are not specifically required, the Corporation's Frequently Asked Questions (FAQ) for this subject on its public website suggests that such searches are prudent as a best practice from a risk management perspective. However, it appears the suggestion has not been heeded because none of the subgrantees have implemented the practice. By not conducting a complete NSOPR search to include maiden and married names, subgrantees potentially run the risk of failing to detect a registered sex offender. The subgrantees subsequently conducted and provided the additional NSOPR searches and found no issues that would disqualify the employees from working on the grant. We did not question the cost because the NSOPR searches were conducted with negative results using the aliases.

Criteria

45 Code of Federal Regulations (C.F.R.) (October 2010 and 2011) §2540.202 states:

Unless the Corporation approves an alternative screening protocol, in determining an individual's suitability to serve in a covered position, you are responsible for conducting and documenting a National Service Criminal History Check, which consists of the following two search components: a) State criminal registry search. A search (by name or fingerprint) of the State criminal registry for the State in which your program operates and the State in which the individual resides at the time of application; and b) National Sex Offender Public Registry. A name-based search of the Department of Justice (DOJ) National Sex Offender Public Registry (NSOPR).

45 C.F.R. 2540.201(a) (October 2010 and 2011) states:

An individual is ineligible to serve in a covered position if the individual is registered, or required to be registered, on a State sex offender registry or the National Sex Offender Registry.

The Corporation's National Service Criminal History Check Frequently Asked Questions, dated May 10, 2012, Question 4.5 states:

Do I need to check all names that the person has ever gone by, for example, a maiden name? No, you are only required to check an individual's current legal name, as shown on their government identification. Of course, as a risk management practice, it is prudent to also check any other names that the individual has used.

Recommendations:

We recommend that the Corporation:

- 1a. Resolve and recover the questioned Federal costs of \$267,739, EMCF match costs of \$16,029 and SEED match costs of \$33,528.
- 1b. Ensure that EMCF strengthens the monitoring of its subgrantees to make certain that subgrantees are performing and documenting the NSOPR search prior to the employee starting to work on the grant.
- 1c. Revise the *Frequently Asked Questions for National Service Criminal History Checks* to require searches to be conducted for employees with maiden, married or former married names.

EMCF Response:

EMCF concurs with finding 1a, but not with finding 1b because the search for maiden and former married names is not currently a requirement of the National Sex Offender Criminal History check.

Auditor's Comments:

The Corporation should follow-up with EMCF during audit resolution to ensure that the corrective action implemented by EMCF is effective and resolve the questioned costs. Recommendation 1c was specifically made to the Corporation and will be addressed by the Corporation directly.

Finding 2 – State Criminal Registry Searches Were Improperly Conducted

We reviewed samples of employee files that were charged to the grant during the AUP period to verify that the State criminal registry search was conducted and documented in accordance with Federal regulations, with the following results:

a. State Criminal Registry Search Was Not Authorized By The Employee

For 16 of the 37 employee files tested, BELL and SEED did not obtain signed and dated authorizations from the employees to perform the State criminal registry searches, or the completed authorization forms were provided after the employees began working on the grant. BELL and SEED informed us that they either forgot to issue the request for authorization to the employee to conduct a State criminal history search, or did not ensure that they received the signed and dated authorization from the employee prior to conducting the State criminal registry search. The subgrantee placed itself, EMCF and the Corporation at risk of potential legal action by performing a State criminal registry search prior to receiving the employee's authorization.

b. State Criminal Registry Search Was Not Conducted On The State In Which The Employee Resided At The Time Of Applying For Employment

For 1 of the 18 employee files tested, CEO did not conduct a State criminal registry search on the State in which the employee resided at the time the employee applied for the position. CEO staff assumed that the person applying for the position resided in the same State where the position was located. By not ensuring that proper State criminal registry searches were performed in accordance with Federal regulations, CEO placed itself, EMCF, the Corporation and the population it serves at risk. We are questioning \$17,823 in Federal costs and \$34,352 in CEO match costs.

c. State Criminal Registry Searches Were Not Conducted Using The Corporation's Designated State Criminal History Repositories

For 6 of the 37 employee files tested, BELL and SEED did not use the designated State criminal history repositories in conducting their State criminal registry searches. The subgrantees believed that their criminal background check process was sufficient without verifying that it met the requirements of the Corporation. By not ensuring that proper State criminal registry searches are performed, the subgrantees place themselves, EMCF, the Corporation and the population it serves at risk. We are questioning \$62,467 in Federal costs, \$56,397 in EMCF match, \$93,017 in BELL match and \$29,714 in SEED match costs.

d. There Was No Documentation That State Criminal Registry Search Results Were Considered In Determining Whether An Employee Was Eligible To Work On The Grant

For 1 of the 16 employee files tested, there was no documentation that SEED considered the results of the State criminal registry search in determining whether to allow the employee to work on the grant. SEED management stated that it considered the results of the search, but was not aware of the Federal requirement to document its consideration of those results. As a result, SEED could have inadvertently selected an employee to work on the grant that was not eligible or may not have been appropriate for the grant program.

e. Ineligible Employees Were Allowed To Work On The Grant

For 2 of the 18 employee files tested, CEO documented that the employees were ineligible to work on the SIF grant because both had criminal histories. Specifically, the criminal history search for one employee disclosed a second degree murder charge. The second employee voluntarily disclosed on his application that he had previously been charged with "Unlawful Surveillance," a sex-related crime. However, CEO management allowed both employees to continue working on the grant. CEO staff did not communicate to its Director of Compliance that the employees were ineligible to perform any further work on the grant. CEO removed the employees from working on the grant on January 11, 2013, just prior to our site visit. CEO's failure to promptly remove both employees from working on the SIF grant may have placed EMCF, CEO and the Corporation at risk. As a result, we are questioning \$3,882 in EMCF match and \$17,994 in CEO match costs because of these ineligible employees. On February 12, 2013, EMCF disallowed \$3,882 in EMCF match cost and \$18,057 in CEO match costs. The \$63 difference was due to a miscalculation of indirect cost for the cost incurred in program year 2013.

Criteria

45 C.F.R. 2540.204(b) (October 2010 and 2011) states:

Obtain prior, written authorization for the State criminal registry check and the appropriate sharing of the results of that check within the program from the individual.

45 C.F.R. 2540.202 (October 2010) states:

Unless the Corporation approves an alternative screening protocol, in determining an individual's suitability to serve in a covered position, you are responsible for conducting and documenting a National Service Criminal History Check, which consists of the following two search components: (a) State criminal registry search. A search (by name or fingerprint) of the State criminal registry for the State in which your program operates and the State in which the individual resides at the time of application; and (b) National Sex Offender Public Registry. A name-based search of the Department of Justice (DOJ) National Sex Offender Public Registry (NSOPR)." 45 C.F.R. 2540.205(b) states, "Maintain the results of the National Service Criminal History check (unless precluded by State law) and document in writing that you considered the results in selecting the individual.

The Corporation's National Service Criminal History Check Frequently Asked Questions, dated May 10, 2012, Question 5.1 states:

How do I find out what statewide criminal record repository/repositories to check? CNCS has designated specific registries in each State and most territories. While many States have more than one source of criminal history information, using any source other than those designated by CNCS requires approval of an alternative search procedure (ASP) from the Office of Grants Management Director.

Please visit [http://www.nationalserviceresources.org/files/table-of-designated-state-repositories-and-alternatives-11-29-11.pdf] for a list of CNCS-designated State repositories and the alternative State sources we have approved.

The Corporation's Frequently Asked Questions on National Service Criminal History Check, dated July 16, 2010, Question 3.1 states:

How do I find out what statewide criminal records to check? All states, including the District of Columbia, Guam, Puerto Rico, and the Virgin Islands have statewide criminal registries. The Corporation has designated specific registries in each state that can be found on pages 108112 in the Staff Screening Tool Kit (along with addresses and phone numbers); contact www.nationalservice.gov/screeningtoolkit. While many states have more than one registry, the use of any source other than those designated by the Corporation requires approval of an alternate search protocol (ASP) from the Director, Office of Grants Management. The Corporation is in the process of reviewing those other registries to determine if they provide equivalent information. See attached Table 1, Designated Statewide Criminal History Repositories for a consolidated list of the Corporation designated state registries and our determinations to date of alternative state registries which provide equivalent data.

45 C.F.R. 2540.201 (October 2011) states:

An individual is ineligible to serve in a covered position if the individual: (a) Is registered, or required to be registered, on a State sex offender registry or the National Sex Offender Registry; or (b) Has been convicted of murder, as defined in section 1111 of title 18, United States Code.

Recommendations:

We recommend that the Corporation:

- 2a. Resolve the questioned Federal costs of \$80,290, EMCF match costs of \$56,397, BELL match of \$93,017, CEO match of \$34,352 and SEED match costs of \$29,714.
- 2b. Ensure that EMCF identifies the cost incurred against the grant by the ineligible employees at CEO from October 1, 2012, through January 11, 2013, and resolve those questioned costs.
- 2c. Ensure that EMCF strengthens its monitoring to make certain that subgrantees are performing State criminal registry searches in accordance with Federal regulations and grant provisions so that:
 - Written authorization is obtained from the employee prior to conducting the State criminal registry search;

- State criminal registry searches are conducted for the State in which the employee applicant resides;
- Subgrantees and their vendors are utilizing the Corporation's designated statewide criminal history repositories in conducting their State criminal registry searches;
- Subgrantees document in writing that they considered the results of the State criminal registry searches in determining whether employees can work on the Corporation's grant(s); and
- Subgrantees make a determination on the employees' eligibility to work on a grant prior to beginning work, and remove an ineligible employee on the same day that determination is made.

EMCF Response:

EMCF concurs with all the findings and addresses its corrective actions in its written response in Appendix A.

Auditor's Comments:

The Corporation should follow-up with EMCF during audit resolution to ensure that the corrective action implemented by EMCF is effective and resolve the questioned costs.

Finding 3 – Employment Eligibility Was Not Verified

We selected employee file samples of 20 percent (21 for BELL, 18 for CEO, and 16 for SEED) of the employees who were charged to the grant during the AUP period to verify that subgrantees documented their verification of the employees' identity in accordance with Federal regulations. The subgrantees' process for documenting the verification of the employee's identity was to complete the I-9 Form, *Employment Eligibility Verification*. We noted the following exceptions:

a. I-9 Form Was Completed After Employee Started Working On The Grant

For 3 of the 21 employee files tested, the I-9 Form used to document the verification of the employee's identity was performed after the employee had begun employment. Bell staff overlooked the requirement to document the verification of the employee's identity on the I-9 Form within three business days of the employment date. By not verifying the employee's identity prior to working on the grant, BELL could delay the National Service Criminal History Check by not having the verified information in hand to initiate the NSOPR and State criminal registry searches. Such a delay would place BELL, EMCF, the Corporation and the population it serves at risk.

b. I-9 Form Was Not Updated After Employee Was Rehired Within Three Years From The Date The Form Was Originally Completed

For 3 of the 21 employee files tested, the I-9 Form was not updated to reflect the rehiring of the individual within three years from the date the form was originally completed. These were term employees whose terms had ended, but were rehired by BELL to continue working on the grant. BELL staff had overlooked the requirement to update the I-9 Form when they rehire an employee. The employee may have had a name change or a change in

employment authorization status. The information on the I-9 Form is to be used by employers as a record of their basis for determining eligibility of an employee to work in the United States.

c. I-9 Form Was Missing Date Of Employment Or The Date Verification Was Conducted

For 2 of the 18 employee files tested, there was no date on the I-9 Form used to document the verification of the employee's identity to indicate when employment began. In one of the two cases, there was also no date as to when the verification was conducted by CEO. CEO staff indicated the date omissions were due to a clerical error. The information on the I-9 Form is to be used by employers as a record of their basis for determining the eligibility of an employee to work in the United States. An individual may not begin employment unless this form is completed. Employers may be subject to civil or criminal penalties if they do not comply with the Immigration Reform and Control Act of 1986.

Criteria

45 C.F.R. 2540.205 (October 2011) states:

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 of the National Service Criminal History check (unless precluded by State law) and document in writing that you considered the results in selecting the individual.

The I-9 Form instructions require the following:

- Employers must complete Section 2 by examining evidence of identity and employment authorization within three business days of the date employment begins.
- The I-9 Form must be updated if an employee is rehired within 3 years of the date that this form was originally completed and the employee is still authorized to be employed on the same basis as previously indicated on the form.
- Section 2 must be completed at the time employment begins. Employers must record: 1) document title; 2) issuing authority; 3) document number, 4) expiration date, if any; and 5) the date employment begins. Employers must sign and date the certification.
 - Submission of the information required in this form is voluntary. However, an individual may not begin employment unless this form is completed as employers are subject to civil or criminal penalties if they do not comply with the Immigration Reform and Control Act of 1986, the legislation which contains the I-9 Form requirement.

Recommendation:

3. We recommend that the Corporation ensure that EMCF strengthens the monitoring of its subgrantees to make certain the verification of the employee's identity is properly documented in accordance with Federal regulations.

EMCF Response:

EMCF concurs with all the findings and addresses its corrective actions in its written response in Appendix A.

Auditor's Comments:

The Corporation should follow-up with EMCF during audit resolution to ensure that the corrective action implemented by EMCF is effective.

Finding 4 – Subgrantee Employee Time Sheets Had Deficiencies

We selected two pay periods for each of the three subgrantees and reviewed employee time sheets to verify hours and costs charged to the SIF grant. We noted the following exceptions:

a. Time Sheet Was Approved Before End Of Pay Period

For 1 of the 78 time sheets tested for CEO, the supervisor approved the time sheet before the end of the pay period. The time sheet covered the period April 7 - 20, 2012, but was signed by the supervisor in advance on April 6, 2012. According to CEO, its staff failed to notice that the time sheet was signed in advance. As a result, we are questioning \$3,393 in EMCF match costs.

b. Missing Date The Supervisor or Employee Signed the Time Sheet

For 3 of the 78 time sheets tested for CEO, the date that the supervisor approved or the employee signed the time sheet was missing. According to CEO, this was an oversight by its staff in reviewing employee time sheets. CEO was not in compliance with its personnel policies and procedures. We cannot confirm that all of the hours were properly approved.

c. Employees Were Paid Before Time Sheets Were Signed By The Employee and/or Supervisor

For 15 of the 22 time sheets tested for SEED, the employee and/or supervisor signed and dated employees' time sheets after the employees were paid. According to SEED, this was a clerical oversight by its staff. SEED was not in compliance with its policies and procedures.

d. Subgrantee Did Not Account For All Employee Hours Worked In Calculating Costs Charged To The Grant

For 2 of the 22 time sheets tested, SEED did not account for all of the hours the employee worked in calculating the payroll costs charged to the grant. This allocation of labor costs is performed because some employees do not work exclusively on Corporation funded projects.

In the first case, SEED did not take into account the full 80 hours of the pay period for the employee, which was short by 6.75 hours. The salary cost was originally applied against 73.25 hours for an hourly rate of \$21.47. The hourly rate based on the full 80 hours worked was \$19.66, or a difference of \$1.81 per hour. The Federal share of the grant was charged

for 9.25 hours, which equates to a salary difference of \$16.74. After applying the fringe benefits rate of 16 percent, the total questioned Federal payroll cost is \$19.42.

In the second case, the payroll cost was applied to 9.5 hours the employee worked on the grant, rather than the full 81.5 hours the employee actually worked in that pay period, resulting in a salary difference of \$9,344. After applying the fringe benefit rate of 16 percent, the total questioned payroll cost is \$10,816, of which \$3,569 is EMCF match (33 percent) and \$7,247 is SEED match costs (67 percent). In reviewing employee timesheets, SEED staff failed to ensure that the full amount of work hours was accounted for in calculating the payroll costs charged to the grant. By not accounting for all of the hours worked by the employee in calculating the payroll cost, SEED has overcharged the grant. The unallowable cost of \$19 in Federal share has already been questioned under finding 1a. However, we are questioning \$3,569 in EMCF match and \$7,247 in SEED match costs.

Criteria

The CEO Personnel Manual dated June 2011 states:

Employee time sheets must show all hours worked on CEO business, regardless of where they are worked (for example, office, field, business conference). They must show the actual time you start work and your departure from work. It is vital that actual hours worked and leave time taken are recorded accurately.

The CEO Fiscal Policies and Procedures Manual (revised September 13, 2010) states:

All regular CEO employees complete time sheets on a biweekly basis. Time sheets are reviewed and approved by the immediate supervisor. Time sheets are maintained electronically in the Time Sheet Module. Employees have access to their own time sheets and may enter time worked and leave taken on a daily to biweekly basis. After completion, the employee releases the time sheet for supervisory approval. After reviewing and approving employee time sheets, the supervisor releases the timesheets for payroll processing.

At the end of each pay period, the Payroll Manager runs an exception report for missing timesheets, resolves discrepancies with the supervisor, reviews information for accuracy and prepares export data for ADP.

The SEED Foundation financial policies and procedures for Federal grants, Section 4.1, Labor Allocation (page 4) states:

Employees are required to submit timesheets on a semi-monthly basis which account for all time worked and paid time off claimed during the pay period. The employee must designate by day the time (in 15 minute increments) worked for each SIF and non-SIF project or activity and any time claimed as paid time off. The time sheets become the basis for an excel spreadsheet which allocates the labor costs to the relevant grant or non-grant related program or activity and paid time off accounts. The excel spreadsheet, prepared by the staff accountant and reviewed by the Chief Financial Officer, is the source document for a journal entry to record the cost allocations into the Great Plains accounting software. For exempt employees an effective labor rate [for purposes of cost allocation] is computed. The effective rate is calculated by dividing the employee's salary for the semi-monthly

period by the total number of hours worked and claimed as paid time off. The effective labor rate is multiplied by the total hours worked on each direct and indirect activity or claimed as paid time off during a given pay period.

Recommendations:

We recommend that the Corporation:

- 4a. Resolve the questioned costs of \$6,962 (\$3,393 + \$3,569) in EMCF match and \$7,247 in SEED match.
- 4b. Ensure that EMCF strengthens its monitoring of subgrantees to make certain that internal controls over the payroll reporting and reconciliation process are properly implemented so that:
 - Time sheets are properly signed, reviewed and dated by employees and their supervisors consistent with the subgrantees' policies and procedures; and
 - Payroll costs charged to the Corporation grant are calculated based on the full amount of the hours worked by the employee.

EMCF Response:

EMCF concurs with all the findings and addresses its corrective actions in its written response in Appendix A.

Auditor's Comments:

The Corporation should follow-up with EMCF during audit resolution to ensure that the corrective action implemented by EMCF is effective and resolve the questioned costs.

Finding 5 – Incorrect Fringe Benefit Rate Was Used To Calculate Employee Fringe Benefits Charged To The Grant

We reviewed BELL's program year (PY) 2012 and 2013 employee fringe benefit rates to ensure that the rates were determined in accordance with the benefit rate methodology approved by EMCF. We verified how the fringe benefit rates were derived and noted that BELL's approved PY 2013 fringe benefit rate was incorrectly calculated. The payroll tax rate, which is part of the benefit rate, was calculated based on the payroll tax cost incurred in the prior fiscal year divided by total payroll salary cost. The benefit rate for PY 2012 was properly calculated and documented.

BELL staff mistakenly used an unaudited number (total employee benefits) in the calculation of its PY 2013 fringe benefit rate instead of the payroll tax amount from BELL's fiscal year 2011 audited financial statements. As a result, the payroll tax rate used was 9.75 percent, but should have been 9.66 percent. This error resulted in overcharging the grant for the payroll tax portion of the benefits by \$384 in Federal costs for the months of July through September 2012, which we are questioning.

Criteria

BELL's Indirect Cost Rate and Methodology/Benefit Rate and Methodology indicates that BELL calculates a tax and benefit rate which applies to all full time employees, and a tax rate which applies to all part time and seasonal employees. The payroll tax rate is calculated by dividing the fiscal year's total payroll tax for 2011 by the total payroll salaries from the same year. The fringe benefit rate portion was calculated by dividing the fiscal year's total benefits for 2011 by the total full time salaries from the same year. For example, a hypothetical calculation is displayed below.

	Payroll Tax		Benefits	
Total Payroll	\$15,000,000	Α		
Fulltime Staff Payroll			\$10,000,000	D
Payroll Tax	\$1,300,000	В		
Benefits			\$750,000	Е
Payroll Tax Rate	8.67%	C=B/A		
Benefits Rate			7.50%	F=E/D
Combined Rate	16.17%	C+F		

Recommendations:

We recommend that the Corporation:

- 5a. Resolve the \$384 in questioned Federal costs.
- 5b. Ensure that EMCF strengthens its review, approval and monitoring of subgrantee benefit rates to make certain that the rates are properly supported and calculated in accordance with approved procedures.
- 5c. Ensure that EMCF verifies that the correct fringe benefit rate is applied for the remainder of PY 2013.

EMCF Response:

EMCF concurs with the finding and addresses its corrective action in its written response in Appendix A.

Auditor's Comments:

The Corporation should follow-up with EMCF during audit resolution to ensure that the corrective action implemented by EMCF is effective and resolve the questioned costs.

Finding 6 - Quarterly Financial Reports Were Submitted Late To EMCF

We determined that five quarterly financial reports were submitted late by the subgrantees to EMCF, as follows:

BELL submitted one report to EMCF eight days late.

- CEO submitted one report to EMCF six days late and two others eight days late.
- SEED submitted one report to EMCF sixteen days late and another seven days late.

EMCF has not established a policy prescribing the action it will take when a subgrantee is late in submitting its quarterly financial reports. The subgrantees are not in compliance with their subgrant agreement with EMCF. A delay in reporting could result in an understatement of expenses.

Criteria

The subgrant agreement between EMCF and the subgrantees states:

For the duration of the grant term, the subgrantee will report the following through EMCF's Grantee Reporting Portal: ...2) Quarterly overall financial results for periods ending March 31, June 30, September 30, and December 31. These reports are due 30 days after the respective reporting period.

Recommendation:

6. We recommend that the Corporation ensure that EMCF strengthens internal controls over the financial reporting process by establishing and implementing a policy as to the follow-up action it will take when a subgrantee submits its quarterly reports late.

EMCF Response:

EMCF concurs with the finding and addresses its corrective action in its written response in Appendix A.

Auditor's Comments:

The Corporation should follow-up with EMCF during audit resolution to ensure that the corrective action implemented by EMCF is effective.

BACKGROUND

EMCF was formed in 1969 in New York City by Edna McConnell Clark and her husband, Van Alan Clark, with the aim of maintaining the Clark family philanthropy. Initially, the Foundation made grants for the poor, children, the elderly, and the developing world. In 1999, the Foundation changed strategy and began focusing its resources on economically disadvantaged young people and the organizations that serve them. Through present, the Foundation has focused exclusively on investments in youth-serving organizations and helping the most vulnerable young people make a successful transition to independent adulthood. Since inception, the Foundation has awarded more than \$678 million in grants.

EMCF currently has only one SIF grant covering an award period of August 1, 2010, through July 31, 2015. The grant was amended four times during the period we reviewed, August 1, 2010, through September 30, 2012. The total amount awarded under this grant is \$30 million. The purpose of the grant is to assist EMCF in expanding the pool of organizations with established programs that can help ever-increasing numbers of low-income young peoplethose at greatest risk of failing or dropping out of school, of not finding work, of becoming

involved in the foster care or juvenile justice system--make the transition to productive adulthood.

EMCF provided grants to nine subgrantees during the period covered by this report. The subgrantees use the funds to support their operations and maintain supporting documentation for the claimed costs. Subgrantees are required to provide monthly and quarterly financial reports to EMCF through a web portal provided by EMCF. EMCF prepares the aggregate FFR for the grant by accumulating the expenses reported by the subgrantees through the web portal and submits its FFR through the Corporation's online eGrants system.

EMCF also monitors its subgrantees by reviewing the National Service Criminal History Check performed on grant funded employees and reimbursement requests, performing site visits and desk reviews, and through other direct means of communication.

EMCF only charged cost against the grant to evaluate the programs of the subgrantees. No EMCF employees were charged to the grant. During the scope of our review, BELL had 104 employees, CEO had 88 and SEED had 15 that were charged to the grant.

AGREED-UPON PROCEDURES SCOPE

We applied the agreed-upon procedures to the period August 1, 2010, through September 30, 2012. The procedures covered the allowability, allocability, and reasonableness of the financial transactions reported for SIF grant number 10SIHNY003 during that period.

The auditors also performed tests to determine EMCF's and its selected subgrantees' compliance with certain grant terms and provisions. The procedures were based on the OIG's "Draft Agreed-Upon Procedures for Social Innovation Fund Awards to Grantees (including Subgrantees) dated August 2012." We focused on EMCF and three of its subgrantees: BELL, CEO and SEED. We tested EMCF transactions totaling \$72,270. We also tested subgrantee transactions totaling \$315,378 for BELL, \$106,179 for CEO, and \$153,022 for SEED.

EXIT CONFERENCE

We provided a summary of the findings to be included in the draft report and discussed its contents with officials of the Corporation, EMCF, and applicable subgrantees at an exit conference on March 26, 2013. Responsive comments to the draft report from EMCF and its subgrantees are included in Appendix A. The Corporation's response is included in Appendix B; the Corporation states it will work with EMCF representatives to ensure its corrective action adequately addresses all findings and recommendations. However the Corporation does not respond to findings and recommendations that are directed to the Corporation.

APPENDIX A
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EDNA MCCONNELL CLARK FOUNDATION RESPONSE TO DRAFT REPORT
RESPONSE TO DRAFT REPORT



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May 20, 2013

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

RE: EMCF Response to OIG Draft Audit Report received on April 19, 2013

Dear Mr. Axenfeld:

The Edna McConnell Clark Foundation (EMCF) thanks you for the opportunity to respond to the Corporation for National & Community Service (hereinafter, CNCS or the Corporation) Office of Inspector General's (OIG's) draft report submitted to EMCF on April 19, 2013. EMCF understands the importance of complying with federal regulations and effectively ensuring that subrecipients are in full compliance with federal and CNCS requirements. EMCF has leveraged this process as an opportunity to improve its existing submonitoring procedures.

EMCF is reassured that the agreed upon procedures carried out by the CliftonLarsonAllen LLP (CLA) were able to confirm many of the findings that EMCF had identified in the process of carrying out its subrecipient monitoring. EMCF concurs with most of the findings and looks forward to resolving all outstanding issues with CNCS in a mutually satisfactory manner. The only finding we do not concur with is Finding 1(b), as explained below.

As stated in the report by CLA, EMCF utilizes a nationally recognized CPA firm to assist us with implementing rigorous and comprehensive submonitoring of our subrecipients. EMCF uses a risk-based approach for its submonitoring, assessing the subrecipients and attributing a risk score which determines whether a subrecipient is a high, medium or low risk with respect to compliance. While all of our subrecipients undergo rigorous submonitoring, the number of site visits and desk audits a subrecipient receives and their scope of coverage is determined by their assessed risk category.

EMCF meets with the CPA firm that assists EMCF with the submonitoring on a weekly basis to discuss the status of the overall submonitoring plan and open items from the prior week. On a quarterly basis, we review our assumptions for future site visits and desk audits and discuss any high level compliance matters. Based on our current program, we have identified many similar findings to those identified in this OIG report and have disallowed over \$1 million of expenses. The majority of those disallowances resulted from untimely national sex offender checks. For subrecipient site visits, we have instructed our CPA firm to test the entire population of grantee staff charged to the grant and related criminal history check documentation.

If findings result from a desk audit or site visit, we require subrecipients to develop corrective action plans, and to update those plans on a quarterly basis. In addition, as part of the site visit and desk audit procedures, we require the CPA firm to comment on compliance with corrective action plans through the firm's testing program.

As part of EMCF's own corrective actions, we have refined our submonitoring test procedures to mirror the procedures conducted by CLA. In addition, EMCF has asked the CPA firm to expand its testing and monitoring procedures around payroll processing, I-9 documentation, and recalculation of fringe benefit rates.

EMCF continues to take various steps to strengthen its monitoring process related to criminal history checks, payroll, and reporting, as well as the compliance of its subrecipients. In March 2013, the Foundation hosted a mandatory refresher training on criminal history checks and payroll processing. All subrecipients and the CPA firm sent staff members to attend the session. At the training, we distributed the following materials to update and remind subrecipients of their compliance obligations:

- Corporation FAQ on Criminal History Checks 11-30-12
- Corporation current table of designated state repositories 01-02-13
- Corporation Fact sheet on Vendors 09-13-12
- Obtaining FBI fingerprint check 01-14-13
- ASP request guidance and form 03-01-13
- · PowerPoint file of the presentation which included
 - Results and findings of the OIG audit process
 - Detailed review of the Criminal History Check process
 - o Payroll Processing and Time Sheet Documentation
 - o Reporting

We will continue to review and refine our submonitoring processes and procedures, and our future improvements will take into consideration the findings in this report.

Please see below for our response to the findings in the format requested:

Finding 1 - National Sex Offender Public Registry Searches

- National Sex Offender Public Registry Search Was Conducted After The Employee Started Working On The Grant
- National Sex Offender Public Registry Searches Were Not Conducted For Both The Employee's Maiden and Former Married Names

EMCF agrees with Finding 1(a) above. However, as stated in the criteria provided in the report, with respect to Finding 1(b), the search for maiden and former married names is not currently a requirement of the National Sex Offender Criminal History check, and the Corporation has not indicated or provided additional guidance that would make the search for maiden and former married names a required element for the criminal history check process. EMCF follows and instructs subrecipients to follow current Corporation guidance. EMCF agrees with this as a best practice recommendation but disagrees that this should be a finding.

Recommendations:

- 1a) EMCF submitted a waiver request in February 2013 to the Corporation which, if approved, would eliminate the questioned costs cited in this report. A similar request was made with respect to a non-audited subrecipient, and this request was approved. Items that EMCF previously discovered through its submmonitoring process for which we determined that a waiver should not be sought were disallowed by EMCF. We are prepared to fully disallow all costs if the waiver is not approved.
- 1b) As we stated in our opening comments, we have taken steps to refine and improve our submonitoring procedures. We look forward to implementing any further recommendations that the Corporation will make in the course of this process.
- 1c) EMCF does not take a position on this recommendation since it is strictly a recommendation being made to Corporation. It does, however, highlight the fact that the Corporation's FAQs currently do not require searches to be conducted with maiden, married or formed married names. EMCF is nonetheless ready to implement any change in guidance related to the criminal history process that the Corporation sees fit to promulgate.

Finding 2 - State Criminal Registry Searches Were Improperly Conducted

- a) State Criminal Registry Search Was Not Authorized By The Employee
- b) State Criminal Registry Search Was Not Conducted On The State In Which The Employee Resided At The Time Of Applying For Employment
- State Criminal Registry Searches Were Not Conducted Using The Corporation's Designated State Criminal History Repositories

- d) There Was No Documentation That State Criminal Registry Search Results Were Considered In Determining Whether An Employee Was Eligible To Work On The Grant
- e) Ineligible Employees Were Allowed To Work On The Grant

EMCF agrees with all of the above findings. Please see corrective actions taken by EMCF described in our opening comments that address these findings, including mirroring the procedures conducted by CLA.

Recommendations:

- 2a) EMCF looks forward to working with the CNCS to resolve these questioned costs. For BELL's and SEED's questioned costs, EMCF submitted ASPs and waiver requests to the CNCS in October 2012 and February 2013 respectively, which, if approved, would eliminate the questioned costs in this report. For CEO, we look forward to further guidance from the CNCS to determine whether these questioned costs should be disallowed.
- 2b) EMCF has confirmed with CEO that no further costs were charged to the grant for the ineligible employees and that the employees were removed from the programs funded by the grant.
- 2c) As stated in our opening comments, EMCF has taken the necessary steps to refine and improve our submonitoring procedures. EMCF looks forward to implementing any further recommendations that the Corporation will make in the course of this process.

Finding 3 - Employment Eligibility Was Not Verified

- a) I-9 Form Was Completed After Employee Started Working On The Grant
- b) I-9 Form Was Not Updated After Employee Was Rehired Within Three Years From The Date The Form Was Originally Completed
- c) I-9 Form Was Missing Date Of Employment Or The Date Verification Was Conducted

EMCF agrees with all of the above findings. Please see corrective actions that have been implemented to address these findings as described in our opening comments.

Recommendations:

As stated in our opening comments, EMCF has taken steps to refine and improve its submonitoring procedures. EMCF looks forward to implementing any further recommendations that CNCS will make in the course of this process.

Finding 4 - Subrecipient Employee Time Sheets Had Deficiencies

- a) Time Sheet Was Approved Before End Of Pay Period
- b) Missing Date The Supervisor or Employee Signed the Time Sheet
- Employees Were Paid Before Time Sheets Were Signed By the Employee and/or Supervisor
- d) Subrecipient Did Not Account For All Employee Hours Worked In Calculating Costs Charged To The Grant

EMCF agrees with all of the above findings. Please see corrective actions that have been implemented to address these findings as described in our opening comments.

Recommendations:

- 4a) EMCF looks forward to working with CNCS to resolve these questioned costs in future discussions.
- 4b) As stated on page 1, EMCF has taken steps to refine and improve its submonitoring procedures. EMCF looks forward to implementing any further recommendations that CNCS will make in the course of this process.

Finding 5 – Incorrect Fringe Benefit Rate Was Used To Calculate Employee Fringe Benefits Charged To The Grant

EMCF agrees with the above finding. EMCF has ensured that BELL self-corrected the \$384 questioned cost by deducting that amount from its January report and that BELL is using the correct fringe rate going forward.

Recommendations:

- 5a) EMCF has resolved the costs as stated above.
- 5b) As stated on page 1, EMCF has taken steps to refine and improve its submonitoring procedures. EMCF looks forward to implementing any further recommendations that CNCS will make in the course of this process.
- 5c) EMCF has resolved the fringe benefit issue as stated above.

Finding 6 - Quarterly Financial Reports Were Submitted Late To EMCF

EMCF agrees with the finding. Please see corrective actions that have been implemented to address these findings as described in our opening comments.

In addition, EMCF has developed an internal mechanism that will remind subrecipients of their reporting deadlines one day before the applicable due date, with appropriate follow up in the form of emails or phone calls when the reports have not been received by the beginning of the business day after the due date. EMCF believes that such processes will help ensure timely submission of reporting in the future.

Again, EMCF was encouraged that the findings within this report were consistent with those found in EMCF's submonitoring process. We appreciate the open and efficient manner in which CLA operated and we look forward to working with CNCS in resolving open items.

Respectfully yours,

Nancy Roob President

APPENDIX B
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE RESPONSE TO DRAFT REPORT
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To: Stuart Axenfeld, Assistant Inspector General for Audit

From: Margaret Rosenberry, Director of Grants Management

Date: May 20, 2013

Subject: Response to OIG Draft of Agreed-Upon Procedures for Corporation

For National and Community Service Grants Awarded to the Edna

McConnell Clark Foundation

Thank you for the opportunity to review the draft Agreed-Upon Procedures report of CNCS's grants awarded to the Edna McConnell Clark Foundation (EMCF). We will respond with our management decision after we receive the final report and have reviewed the auditor's working papers and EMCF's corrective action plan. We will work with EMCF representatives to ensure its corrective action adequately addresses all audit findings and recommendations.

Cc: David Rebich, Chief Financial Officer
Lois Nembhard, Deputy Director of Operations, Social Innovation Fund
Valerie Green, General Counsel
Doug Hilton, Director, Office of Accountability and Oversight