



November 18, 2015

TO: Jeffrey Page
Chief Operating Officer and Acting Chief Financial Officer

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

SUBJECT: Management Alert: Weaknesses in Financial Monitoring of Social Innovation Fund (SIF) Grants

Background

Established by the Edward M. Kennedy Serve America Act, the Social Innovation Fund (SIF) makes awards to grant-making institutions and partnerships (known as intermediaries), which in turn make subawards. To date, the SIF has awarded \$241 million. Currently, there are 34 active SIF intermediaries with 306 subawardees.

SIF grants are subject to certain unique statutory requirements. An intermediary grantee must:

- Pass through at least 80 percent of the funds it receives from CNCS to sub-grantees;
- Match 50 percent of the funds;
- Ensure that the sub-grantees match at least 50 percent of the awarded amounts; and
- Ensure that all match is funded by non-Federal sources.

Current SIF grants range from \$1 million to \$10 million per year, making them among the largest grants issued by the Corporation.

As CNCS recognizes in its policy *Oversight and Monitoring Activities*, the Corporation “has a responsibility and a requirement to ensure Federal funds are properly managed and expended in accordance with Federal statutes, regulations, and guidance and to ensure recipients meet performance objectives.” In the course of planning an audit of a five-year \$28.5 million SIF grant awarded to the Mayor’s Fund to Advance New York City (Mayor’s Fund), the Office of Inspector General (OIG) developed certain observations and concerns regarding the challenges presented by that grant and the manner in which CNCS monitors it. Because the weaknesses that we observed may be present in other SIF grants (and perhaps even in certain AmeriCorps grants), OIG has prepared this Management Alert to highlight shortcomings that we have identified. By providing this information before substantial audit work has begun, we hope to provide the Corporation with an early warning and an opportunity to move quickly to assess and strengthen its monitoring of SIF grants.¹

¹ Accordingly, this work was conducted pursuant to the Inspector General Act of 1978, as amended, but was not conducted in according to generally accepted government auditing standards (GAGAS). The

Observations

The SIF model relies heavily on intermediaries to make appropriate subgrants and to monitor their programmatic and financial implementation. However, the Mayor's Fund, listed as the prime grantee/intermediary in the Corporation's records, currently has only four full-time employees, one of whom was paid with Federal funds, but awarded 18 subgrants. Effectively, the Mayor's Fund has outsourced most of its operational and oversight functions to MDRC, a nonprofit, nonpartisan education and social policy research organization. MDRC performs due diligence for sub-grantee selection, conducts program evaluations, and undertakes programmatic and financial oversight of the sub-grantees. Although Mayor's Fund employees reserve authority over final decisions, MDRC discharges most of the intermediary's duties. The CNCS records that we have reviewed to date indicate that the principal actions of the Mayor's Fund are to collect and examine MDRC's financial reviews, and prepare an internal memorandum to track subgrantees' expenditures by budget line item.

1. CNCS conducted no review of outsourced oversight on this \$28 million grant.

The Corporation's oversight of this grant was flawed from the outset because it did not take into account the outsourcing of key intermediary functions, including financial monitoring. Unlike AmeriCorps, in which the prime grantee (often a State Commission) is expected to actively oversee the subawards, the multi-tiered structure of this SIF grant meant that monitoring the Mayor's Fund alone yielded no information about the quality of MDRC's oversight of the subgrantees. If, as we understand, MDRC's contemplated oversight role was described to CNCS in the grant application, OGM's monitoring program should have included MDRC; without that, CNCS had no information about whether the subgrants were being properly overseen, whether the subgrantees practiced appropriate financial management and whether financial risks were identified and addressed. The financial problems encountered by two of the subgrantees, which led to the termination and reassignment of those awards, illustrate the importance of financial oversight.² By ignoring the relationship between the Mayor's Fund and MDRC, CNCS effectively blinded itself to the oversight taking place.³

2. CNCS monitors SIF grants like AmeriCorps grants, despite SIF's unique risks.

Five factors differentiate SIF awards from AmeriCorps State & National grants: (a) the large amounts awarded; (b) the higher match requirements; (c) the requirement that 80 percent of the funding be devoted to subawards; (d) the unfamiliarity with the grantees and their partners; and (e) that intermediaries may be composed of multiple parties and organizations. These features mean that SIF grants carry unique risks, some of which are clearly greater than the risks associated with AmeriCorps grants.⁴

Despite these differences, CNCS applies the same monitoring procedures to SIF grants that it uses for AmeriCorps, even using the same monitoring tool. That tool includes 11 general areas

audit report to be issued at the conclusion of our review of the Mayor's Fund will be conducted to GAGAS standards.

² Seedco was investigated by NYC Department of Investigation (DOI) for fraudulent claims on a contract that was unrelated to the SIF subgrant. FECS filed a Chapter 11 petition in March, 2015, which included a motion for authorization to reassign the SIF subgrant. The Mayor's Fund action in both cases was to assign the programs to other subgrantees.

³ CNCS-OIG has not yet reached a judgment about the quality of MDRC's oversight.

⁴ The newness of the SIF program is another such risk factor.

under the heading of financial management, many of which are check-the-box type issues: whether the grantee/intermediary has a chart of accounts, policies and procedures and segregation of duties. The tool also provides a space to confirm that the grantee is on track to meet its match requirements by the end of the project period, but there is no subsequent review to confirm that the requirements were in fact met. Nor is there any review of whether the subgrantees will meet or have met their match requirements. Completing the monitoring tool is the responsibility of the SIF Program Officer (PO).

Although the monitoring tool worksheet states that it “does not represent a comprehensive monitoring assessment,” POs are given no guidance about what other financial information they should include or other problems to which they should be sensitive. This is problematic because the Grant Officers (GOs), the staff with the deepest knowledge of financial management issues, rely on the PO to advise them of any significant anomalies and undertake little if any independent analysis.

As with AmeriCorps, OGM’s involvement consists of verifying that the twice-yearly Federal Financial Reports (FFRs) were timely submitted and complete; comparing actual vs. planned expenditures; determining whether the amount drawn down by the grantee is within 20 percent of the expenditures shown on the FFR; and confirming that the SIF grantee, but not the subgrantees, has met the match requirement. OGM does not validate any financial data reported by SIF grantees on their FFRs, including the sub-grantee match requirements.

Although this is the fifth year of this SIF grant to the Mayor’s Fund, no Grant Officer has ever conducted a financial monitoring site visit.⁵ During the only site visit conducted by a SIF Program Officer, that individual failed to complete four of the financial management areas/questions⁶ listed on the monitoring tool, and no one in OGM seems to have noticed or followed up.

Since the grant’s inception, there has been absolutely no review of the completeness or effectiveness of MDRC’s financial monitoring of the subgrantees. The Agency has no assurance that their practices are sound or that they are meeting match requirements. The Agency likewise has no corroboration regarding the financial information submitted by subgrantees, which account for 80 percent of the awarded funds.

The lack of attention to this grant is particularly striking given that two subgrants were terminated for financial reasons, including one that declared bankruptcy. The former GO told us that he performed no review of the financial activities that led to the bankruptcy, or the bankruptcy proceedings themselves; no information concerning the bankruptcy appears in eGrants. According to OGM, no one in OGM reviewed the requirements for or implications of terminating the subgrants, including whether CNCS was entitled to return of any funds. Nothing in eGrants suggests that the PO inquired whether there were early warnings of the subgrantees’ financial difficulties, or whether these adverse outcomes indicated that the selection of these subgrantees was flawed or should otherwise inform future funding decisions.

⁵ The only on-site compliance visit conducted by OGM occurred in fiscal year (FY) 2011, to resolve the recommendations from OIG’s 2010 pre-award accounting inspection.

⁶ These four financial management areas/questions are: #3 FFR Review; #8 Separation of Duties; #9 Inventory and Equipment; #10 Cost and General Ledger Review.

3. OGM Staffing Limitations Contribute to Inadequate Financial Oversight.

Currently, the entire SIF grant portfolio of \$241 million is managed by a single Senior Grant Officer, who has many other supervisory responsibilities. CNCS has never devoted more than two GOs part-time to oversight of the SIF, as follows:

<u>GO</u>	<u>SIF Grants</u>	<u>State Commissions</u>	<u>Other Grants</u>	<u>Total</u>
GO # 1	21	4	28	53
GO # 2	13	9	10	32

As noted above, these GOs had little guidance as to the SIF's risks and appear to have devoted limited time to this new program, which had no track record and should therefore have been recognized to carry high risk. Moreover, the responsible GO, either lacked awareness of MDRC's financial oversight responsibilities or simply ignored it, notwithstanding its importance.

Awarding a total of \$241 million through the SIF without a detailed understanding of the risks involved and a customized monitoring strategy seems imprudent in the extreme.

Recommendations

Based on our observations, we have the following specific recommendations for the Corporation to increase the effectiveness of its SIF financial monitoring:

- Perform a comprehensive risk assessment of the SIF program by identifying and developing risk indicators in accordance with the specific requirements of SIF grants, distinguishing between financial risk and programmatic risk. The risk assessment should include an analysis of intermediaries and sub-grantees, and result in the development of an integrated plan to better financially monitor SIF programs, including the following:
 - Establish risk criteria for SIF sub-grantees, considering, among other factors, the amount of the sub-grants, their financial resources, stability and capabilities, fundraising history, prior Federal grant history, and the level of uncertainty regarding sub-grantees' ability to meet financial objectives, including whether and how intermediaries evaluate the financial capabilities of potential sub-grantees ;
 - Establish risk criteria for SIF intermediaries, considering, among other factors, the role of the intermediaries, the allocation of responsibility when an intermediary outsources or shares its responsibilities among multiple parties, the dollar amount of sub-grants, and their prior Federal grant activity;
 - Modify or impose special conditions on underperforming or at-risk intermediaries and/or sub-grantees.
 - Develop a plan to determine the necessity and extent of reviews of source documentation supporting the FFRs;
 - Develop a detailed plan to schedule on-site visits that must include steps to review the intermediary grantees' and sub-grantees' financial management practices.

- Develop a monitoring plan that includes steps to prioritize site visits based on risks. The plan should identify the intermediary and sub-grants that warrant visits.
- Develop a SIF-specific financial monitoring tool to address SIF-specific risks. The tool should include steps to review drawdown and match requirements (both at the grantee and sub-grantee levels).
- Reduce GO portfolio size by hiring additional staff.
- Develop procedures for monitoring sub-grantees that are identified as high-risk and include those that are at risk of being terminated. OGM should require immediate notification from intermediaries when it intends to terminate sub-grantees, and perform drawdown reviews and conduct other financial analyses to ensure that sub-grantees spend funds in accordance with Federal laws and grant terms.
- Perform the financial scans and FMS⁷ reviews on the intermediaries and/or third-parties that are expected to play a significant role in managing the grants, including those with sub-grantee oversight responsibilities.

If you have questions pertaining to this letter, 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.

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⁷ OGM was unable to provide OIG with the financial management survey (FMS) for the Mayor's Fund.