

CORPORATION

FOR NATIONAL

 SERVICE

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

OFFICE OF THE INSPECTOR GENERAL

INITIAL YEAR REVIEW

Magic Me, Inc.

Baltimore, Maryland

Grant Agreement No. 94ADNMD020

This report is issued to the Corporation's Management Official. The reported findings do not necessarily represent the final resolution of the issue presented or the amount of disallowed costs. As required by OMB Circular A-50, *Audit Followup*, the Corporation must make a final management decision within 180 days of the report.

The Office of the Inspector General must approve any request for public release of the report.

Corporation For National and Community Service
Office of Inspector General
Initial Year Review
Grant Agreement No. 94ADNMD020
Awarded to Magic Me, Inc.

We reviewed Magic Me, Inc.'s financial reporting and accounting systems to assess Magic Me's ability to comply with Federal fiscal accounting and reporting requirements and to safeguard related funds.

Results

Our limited review revealed that Magic Me's accounting system and systems of internal control appear to be adequate to report grant expenditures in accordance with Federal requirements and safeguard Federal funds. However, the review revealed one condition that requires resolution by Magic Me and CNS.

Background

Magic Me is a national nonprofit organization founded in Baltimore in 1980 and dedicated to the power of service-learning. The AmeriCorps grant, in the amount of \$750,000¹, is intended to raise the level of self-esteem and academic motivation of at-risk middle school students by involving young people in curriculum-based service-learning with isolated elderly. Magic Me has agreed to provide non-Federal funds in the amount of \$416,188 to supplement the Federal portion of the grant award. The budgeted period of performance for this grant extends from June 24, 1994 through September 30, 1995.

The project will support a total of 29 full-time AmeriCorps members who, upon completion of their work, will each be eligible to receive an educational award of up to \$4,725. All AmeriCorps members are administratively supported by the Magic Me national office in Baltimore, Maryland. These members are nationally divided among three separate subrecipient projects: Baltimore, Maryland, Boston, Massachusetts, and San Joaquin County, California. Budgeted dollars and member distribution are summarized by project site as follows:

<u>Site Location</u>	<u>Approved Budget</u>	<u>AmeriCorps Members</u>
National	\$ 139,880	0
Maryland	282,545	14
Massachusetts	105,305	5
California	<u>222,270</u>	<u>10</u>
Total	<u>\$ 750,000</u>	<u>29</u>

¹ From the Corporation's total Federal funding of \$750,000, the approved budget has set aside \$15,600 for child care costs of member dependents.

Scope and Methodology

We performed our review at Magic Me's national office in Baltimore, Maryland during the period January 26 through March 9, 1995. Although we reviewed Magic Me's oversight of all subrecipient operations and resultant reports, the review did not include site visits to the Massachusetts or California locations.

We conducted our review in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. Our procedures to test Magic Me's accounting and reporting systems included;

- * documenting and testing key management controls,
- * review and small judgmental samples of financial transactions, and
- * interviews with key staff

We provided a draft report to Magic Me and CNS management officials for their response. These responses are summarized in the body of the report and presented in their entirety as attachments to the report.

Finding:

We found that Magic Me has established separate subrecipient agreements with each of its three project sites. These agreements provide for each subrecipient to pay Magic Me's national office an "Affiliate fee" for training and other support services provided to members.

Magic Me officials stated that this is a longstanding organizational policy. However, we determined that until Magic Me received the AmeriCorps grant, no such fee was ever actually billed to any affiliate. Further, the "Affiliate fee" is unusual in its basis for computation and its collection. Each agreement computed the fee as ten percent of the subrecipient's Federal share of budgeted support costs although the monies paid to the national office must originate from non-Federal sources

Although Magic Me told us that, as of February 1995, none of the subrecipients has paid the fee, the arrangement would result in \$34,878 transferred to the national office for support services. In light of the fact that the AmeriCorps grant provided \$139,880 for administration, we recommend that the Corporation consider the propriety of the fee arrangement.

The CNS Division of Grants and Contracts agrees with our recommendation and stated that "the finding regarding 'Affiliate fees' paid to Magic Me from its grantees requires further negotiation with Magic Me."

Magic Me disagrees with our comment that " Affiliate fees" were never previously billed by the grantee. Magic Me argues the statement is untrue. Magic Me cites three examples where it billed past affiliates for support services. We believe that these examples represent reimbursement for actual costs incurred and are not compatible--in both purpose and method of recovery--to the "fee" in question.

Magic Me also describes the computation as "merely an effort to estimate the costs of National and was not motivated by a desire to "profit" from the Federal grant." We recognize that these costs were estimates but still believe that they are provided for in the grant's approved federal budget.

CNS Director of Grants & Contracts Response

Division of Grants and Contracts

To: Luise Jordan, Inspector General
From: Michael Kenefick, Director of Grants & Contracts *MK*
Date: May 15, 1995
Subject: Response to Draft Audit of Magic Me

I reviewed the draft audit dated April 3, 1995 and believe that the finding regarding "Affiliate Fees" paid to Magic Me from its grantees requires further negotiation with Magic Me.

Specifically, I am concerned that these fees appear to be contingent fees as they are based on the Corporation award amount and are included in Magic Me's contracts with our subgrantees. I will have Michael Arthur of my staff initiate discussions about Magic Me's inclusion of the affiliate fees in their contracts with our subgrantees and about the basis on which the affiliate fee was charged.

Thank you very much for bringing this draft audit to my attention.

MAGIC ME, Inc.'s Response



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Learning to serve... Serving to learn

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Alfred de la Cuesta

May 4, 1995

Ms. Luise S. Jordan
Inspector General
Corporation for National and Community Service
1201 New York Avenue
Washington, DC 20525

Dear Ms. Jordan:

We are writing in response to the draft report of the Office of the Inspector General of the Corporation for National and Community Service dated April 3, 1995 ("Draft Report"). The Draft Report recommends that the Corporation for National and Community Service ("Corporation") consider the propriety of the "Affiliate fee" to be paid to MAGIC ME[®]'s national office ("Magic Me National") by the Maryland, Massachusetts and California subrecipients ("Subrecipients") for support services provided to AmeriCorps members. In considering the propriety of the fee arrangement, we request that the Office of the Inspector General consider the following:

Organization Policy

The Board of Directors of Magic Me, Inc. in Baltimore, MD, undertook a strategic planning process in the Fall of 1992 prompted by increased popularity and overwhelming demand for the program. The purpose was to determine the future direction of Magic Me as it grows from a local to an international organization dedicated to youth service learning. As a result of this process, a strategic business plan was developed setting forth an infrastructure for Magic Me in September 1993. Among the recommendations in the strategic business plan was a proposed organizational support fees structure. Attached hereto are pages 7 through 12 of the strategic business plan dated September 1993 which describes membership levels and proposed organizational support fees. We believe the affiliate fees to be paid by the Subrecipients are consistent with the proposed fees in the strategic business plan.

MAGIC ME, Inc.'s Response Continued

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Billing of Fees in Prior Periods

The draft report states "... we determined that until Magic Me received the AmeriCorps grant, no such fee was ever actually billed to any affiliate." We believe that statement to be untrue. Magic Me National has received compensation for training and other support services from affiliates in prior periods.

- o California has paid Magic Me National for training costs and \$500 annually.
- o Massachusetts paid Magic Me National \$5,000 in fiscal year 1993.
- o Other affiliates have paid \$500 annually.

We would be happy to provide you documentation to support the receipt of the foregoing fees.

Calculation of Affiliate Fees

The draft report states "...the 'Affiliate fee' is unusual in its basis for its computation and collection: Each agreement computed the fee as ten percent of the subrecipient's *Federal share of budget support costs* although the monies paid to the national office must originate from non-federal sources." In preparing the strategic business plan the Strategic Planning Committee of the Board of Directors estimated that costs of training and other support services would approximate 10% of program expenditures of the affiliates. In determining the amount of fees to be paid by the Subrecipients, we endeavored to estimate what our actual costs would be to provide the services and to link the compensation received by Magic Me National to the efforts expended by Magic Me National. We estimated that the costs of Magic Me National would approximate 10% of the Subrecipient program costs funded by the Federal grant (not including AmeriCorps member living stipends) because the National staff would be directly involved in assisting the Subrecipients in managing the Federal grant. The method of calculation chosen was merely an effort to estimate the costs of National and was not motivated by a desire to "profit" from the Federal grant. As noted in the Draft Report, the funds for payment of the affiliate fees must originate from non-Federal sources. No Federal funds will be used to pay affiliate fees.

The draft report states "...the AmeriCorps grant provided \$139,880 for administration." We respectfully point out that of the \$139,880, only \$22,500 is for administration (please see our grant application for budget detail). The remaining \$117,380 is for other costs such as evaluation, training and travel.

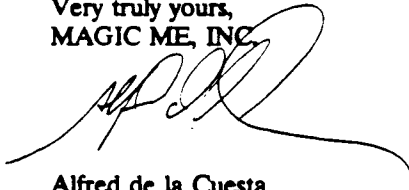
MAGIC ME, Inc.'s Response Continued

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We believe that \$57,378 (the affiliate fees of \$34,878 plus the \$22,500 provided in the grant for administration) is a reasonable amount for National's support of the Subrecipients (6.5% of the total Subrecipients' Federal and non-federal budget of \$876,046). We also note that at 6.5%, the affiliate fee is less than the 10% recommended in the strategic business plan.

We were pleased that the Draft Report noted that "Magic Me's accounting system and systems of internal control appear to be adequate to report grant expenditures in accordance with Federal requirements and safeguard Federal funds." The Board of Directors and staff of Magic Me are committed to complying with the terms of our AmeriCorps grant and want to work with you to resolve this matter as quickly as possible. Please contact me at 410-243-9066 if you have any questions or comments regarding this response to the Draft Report.

Very truly yours,
MAGIC ME, INC.



Alfred de la Cuesta
Executive Director

MAGIC ME, Inc.'s Response Continued

- Funding at the federal level will be abundant; next year, \$300 million (National Commission on Community Service) will go to youth service, especially to organizations in "multiplier" positions (those who can replicate models.) Magic Me National is such a "multiplier", making it a logical recipient for funding.
- It is likely that Magic Me will fare well in corporate foundation funding; there are many corporations for whom an affiliation with Magic Me would be attractive.
- Magic Me National is uniquely positioned in the service learning arena, and has a proven track record of training and capacity building.

MAGIC ME MEMBERSHIP MODEL

The Premise

As Magic Me National's most effective role is one of building capacity for youth service learning among middle school students within the local community, nurturing growth of existing programs, and expanding the Magic Me concept, the question becomes, "What is the best structure for Magic Me National and local entities to carry out the Magic Me mission?"

The ideal system will ensure programs of the highest quality, while permitting the autonomy and motivation needed for the local entity to thrive and expand within a community.

How does Magic Me National establish local entities that provide the broadest reach and greatest impact for the populations served, and return the greatest investment for the local community and for Magic Me National?

The Structure

After exploring existing models of national/local relationships among successful organizations, the Strategic Planning Committee determined that the most effective future path for Magic Me is one which encourages creativity and self-sufficiency at the local level, while preserving the integrity of the Magic Me concept.

A non-profit "franchising" model offers an approach to accomplish Magic Me National's objectives. This model allows for performance standards as Magic Me is replicated at the local level. Not unlike corporate franchising, this model licenses a local organization to use the Magic Me name and to provide Magic Me programs within the standards of quality set forth by Magic Me National.

MAGIC ME, Inc. 's Response Continued

According to a recent article in a not-for-profit trade publication, "The ability to innovate is one of the key strengths of the not-for-profit sector - - and franchising could be a fast track to the dissemination and wider implementation of good practice." (*Association Management, July, 1993*)

In addition to the benefits associated with the Magic Me history and reputation, Magic Me National is ideally positioned to offer the expertise, support, training, and materials needed to ensure a local Magic Me's success.

To enable Magic Me to touch as many lives as possible...through serving, learning, teaching and giving, and to ensure a solid future, the Strategic Planning Committee determined that the organization's efforts should be targeted to developing local Magic Me Affiliates - - free standing 501(c)(3) not-for-profit organizations.

However, in recognition of the fact that not all individuals or groups wanting to start a Magic Me will have the budget and other resources to create a self-sustaining organization, the Committee endorsed a three "tiered" approach for membership - - "Affiliate", "Program" and "Project." The implication is that Project and Program members will progress, with the help of Magic Me National, to the Affiliate level within three to five years of their inception.

As the experience of other national organizations, and Magic Me's experience have borne out, more than 80% of staff time and resources are consumed at the lower end of the membership level where the impact in terms of people served is lowest.

In any given year, Magic Me National will accept a limited number of Project and Program members with the understanding that they participate in a growth plan that leads to becoming an Affiliate. While the Strategic Planning Committee has endorsed the position that Magic Me National must devote the majority of its resources to "growing" Affiliates - in strength, size, and number, there may be cases in which the Program level is the best method for Magic Me to deliver its service.

Membership Levels

The following definitions are intended to illustrate the levels of membership in Magic Me National. Detail on fees and membership benefits appear on the chart that follows.

MAGIC ME, Inc.'s Response Continued

AFFILIATE:

A Magic Me "Affiliate" is an independent 501(c)(3) not-for-profit organization with a volunteer board of directors, by-laws, volunteer or paid staff, a self-sustaining budget, and a charter from the state in which it operates. The Affiliate has a formal agreement with Magic Me National and becomes licensed to use the Magic Me name and program within a specified geographic area.

The Affiliate pays an initial licensing and certification fee, and an annual amount to Magic Me National for organizational support. This amount is based on a percentage of the Affiliate's revenues. The Affiliate receives full membership benefits, including training, on-going support in fundraising and management assistance, materials, and discounted products.

The Affiliate runs multiple Magic Me groups (six or more), serving more than 180 people, and can expand this number by using volunteers, or with financial support from local fundraising initiatives. The Affiliate can also adopt additional programs that may form in the area. If certified to train Group Leaders, the Affiliate may generate additional revenues by providing training to other Magic Me programs in the area.

The Affiliate model is ideally suited to creating partnerships in a community. An example of such a partnership can be found at a recent national Magic Me training seminar. Three participants from a community in California joined forces to create a Magic Me - - representing a major corporation, General Mills, the office of Parole and Probation, and an alternative school for "at-risk" youth. This example exemplifies Magic Me National's philosophy of a community working together to serve.

PROGRAM:

A Magic Me "Program" is housed under the wing of a public or private not-for-profit agency. The "parent" agency has a formal agreement with Magic Me National granting it the right to use the Magic Me name and program. One or more agency staff and budget are devoted to the Program. The agency pays an initial licensing and certification fee and an annual base amount or percentage of revenues raised for the Magic Me Program (or of the budget allotted to the Program.)

The agency also pledges to support a growth plan for the Program, with the expectation that the Program will eventually spin off to become an Affiliate.

The Program receives membership benefits including training, on-going fundraising support, and a base number of hours of technical assistance and consultation. Additional consultation, training and products can be purchased.

MAGIC ME, Inc.'s Response Continued

The Program runs three to five Magic Me groups, serving a population of 90 to 150, and may expand its reach by the use of volunteers. Additional funding for the Program may be generated from local government, corporations and foundations. However, the "parent" agency has discretion over these funds.

PROJECT:

A Magic Me "Project" is defined as a school, nursing home, or other facility in which a teacher, community volunteer or professional has a personal interest in Magic Me. In contrast to the Program and Affiliate levels, a Project is typically tied more to an individual than an organization.

Once this individual (usually a teacher) initiates the Project, he or she recruits the support of the school to enter into a formal agreement with Magic Me National, certifying it to use the Magic Me name and program within that institution only. The Project member pays an initial certification fee, an annual base amount of organizational support to Magic Me National, and agrees to a growth plan. In some cases, the annual fee may be adjusted on a sliding scale in exchange for in-kind support by the Project member, such as developing program curriculum for use by Magic Me National.

The Project receives training and materials, and assistance from Magic Me National in the form of fundraising assistance and collaboration with other community groups to help the program grow.

The Project member runs one to two Magic Me groups, and reaches 30 to 70 people. At the Project level, the individual running the program usually has limited resources and objectives, making it unlikely that the program will expand to other groups. Further, because the commitment lies with a teacher, and has no real organizational structure, there is little assurance of continuation if the individual leaves the position.

The goal of the growth plan is to "institutionalize" Magic Me. The program's continuation beyond the Project stage is particularly important as the Magic Me program is designed as a three-year involvement for adolescents.

The Current Scenario

It is important to note that, at present there are 27 local Magic Me members, 22 of whom would fall into the "Project" member category of this model; they are run primarily by teachers, have minimal budgets and fundraising efforts, and contribute nominally to Magic Me, Inc. (Ten pay annual dues.)

MAGIC ME, Inc.'s Response Continued

Of the current members, two would be classified under the "Program" member category - - Flint, Michigan, which operates under the YWCA, and Burlington, Vermont, in which Magic Me is housed within the Mayor's office.

Three of the current members - - Baltimore, Boston, and London - - closely resemble the Affiliate level of membership described above, and are poised to become full-fledged Affiliates.

Assumptions for the Future

The following additional assumptions were made as part of the Strategic Planning Committee's deliberations on the issue of membership structure and relationships.

- As Magic Me's greatest impact will occur at an organization-wide, or community-wide level, the goal in expansion is to target "fertile" communities, and to work with funders, corporations, government and volunteer organizations to launch Magic Me Affiliates.
- At all levels, there will be an annual dollar amount submitted to Magic Me National for "organizational support". This amount will be a percentage of revenues or a flat fee, depending on the membership level. Products and services will be available at an additional cost.
- At all levels, members will be accountable to Magic Me National's guidelines, including standards of excellence, graphic standards, and other policies essential to the Magic Me concept.
- Current members, many of whom do not pay dues, and many of whom impact a small audience, may be "grandfathered" in or granted a grace period, as determined by the Board.

MAGIC ME, Inc.'s Response Continued

MAGIC ME NATIONAL Proposed Levels of Membership			
TYPE OF MEMBER	Project	Program	Affiliate
Description	Teacher, community volunteer or professional who wants MM Training and/or initiates program on a limited scale.	MM housed "under the wing" of 501(c)(3), i.e. YWCA; at least 1 p.t. or full-time staff devoted to program.	MM is independent 501(c)(3) w/volunteer board, by-laws and charter.
Annual Budget	Minimal, \$200 - \$1,500, rely on donations of service and supplies and gifts from local clubs and civic groups.	\$25K - \$70K, usually subsidized by "parent" agency, ability to raise funds from local sources, through "parent" agency.	\$100K +, self-supporting, influence of board to help in fundraising, able to appeal to foundations, corporations as self-sustaining agency.
Total # Served	30 - 70	90 - 150	180 +
Organizational Support Fees	Certification & Training - \$3,000 (one-time fee) Annual fee - \$250	Certification & Training - \$7,500 (one-time fee, 2 people) Annual fee - 10% of gross revenues or budget (minimum \$750)	Certification & Training - \$10,000 (one-time fee, 2-3 people) Annual fee - 10% of gross revenues (net of direct fundraising expenses)
Basic Membership Benefits	Fundraising/mktg. assistance, MMN support in growth plan, 15 hrs. / month management assistance at no cost, newsletter.	Fundraising/mktg. assistance, 20 hrs./month management assistance at no cost, newsletter, discounts on training, products, etc.	Unlimited management & fundraising/mktg. assistance, proceeds from joint fundraising w/MMN, workplace campaigns geographic exclusivity, rights to training, starting new programs, newsletter, discounts on training, products, etc., rep on MMN Board through Affiliates Council
Member Responsibilities	Abide by terms of agreement, quality standards, participate in growth plan (may develop training module for MMN.)	Abide by terms of agreement, quality standards, participate in growth plan & joint projects w/other groups.	Abide by terms of agreement, quality standards, participate in joint fundraising initiatives with MMN.
Duration of Agreement	3 year commitment, renewable based on progress toward growth objectives.	3 year commitment, renewable based on progress toward growth plan objectives.	5 year commitment, or as negotiated.