

LIMITED AUDIT REPORT

NEH GRANT AWARD

TO THE

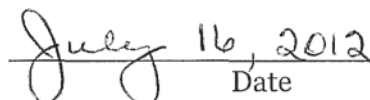
**SOUTHEASTERN LIBRARY NETWORK (SOLINET)
AND LYRISIS**

[PE-50012-08]

OIG-12-02 (EA)



Laura Davis, Acting Inspector General



Date

LIMITED AUDIT REPORT
NATIONAL ENDOWMENT FOR THE HUMANITIES (NEH)
GRANT AWARD
TO THE
SOUTHEASTERN LIBRARY NETWORK (SOLINET) AND LYRASIS

I. INTRODUCTION

The Office of Inspector General (OIG) has performed a limited audit of the Southeastern Library Network and Lyrasis (the “Entity”) records as they relate to the following NEH grant award.

<u>Grant Number</u>	<u>Grant Period</u>	<u>Amount Awarded</u>
PE-50012-08	7/1/2008 – 6/30/2010	\$512,000

Grant Expenditures: The intent of the grant award was to provide regional preservation field services to libraries, archives, and other cultural repositories throughout the southeastern United States. The grantee has submitted the final financial report to the NEH and conveyed that the related expenditures and cost-share conform to the intended grant purpose, as stipulated in the individual NEH grant award.

II. BACKGROUND

NEH awarded the Entity a Preservation and Access grant, totaling \$512,000, entitled “*Regional Preservation Field Services for the Southeast*”. This award (in conjunction with grantee cost-share) funded preservation surveys, workshops, and educational materials for libraries, archives, and historical organizations.

The Southeastern Library Network (SOLINET), a not-for-profit membership cooperative, provided bibliographic, educational, and digital library services to its member organizations in ten southeastern states, Puerto Rico, and the U.S. Virgin Islands. Over the years, SOLINET received multiple regional preservation field service program grants from the NEH. During the grant period, a merger between SOLINET and another organization resulted in the creation of a new entity, Lyrasis. Accordingly, NEH transferred the remaining grant award balance (\$319,337) from SOLINET to this newly created entity in May 2009.

III. LIMITED AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

The principal objectives of this limited audit were to determine that 1) grant expenditures were made in accordance with applicable provisions of NEH’s *General Terms and Conditions for Awards to Organizations*, NEH’s *Preservation and Access Education and Training* guidelines, and the terms of the approved grant award; 2) the Entity properly tracked and met the anticipated cost-sharing; and 3) proper controls over the use of the Federal funds existed in accordance with minimum standards prescribed in OMB Circulars A-110 (2 CFR Part 215) and A-122 (2 CFR Part 230). Our review was conducted in accordance with *Generally Accepted Government Auditing Standards (GAGAS)* as promulgated by the Comptroller General of the United States.

We examined documentation provided by the Entity supporting the allowability of expenses charged to the NEH grant or treated as cost-share; reviewed the Entity's audited financial statements for fiscal years 2008 through 2010; and gained an understanding of the applicable accounting systems and internal controls.

IV. SUMMARY RESULTS OF LIMITED AUDIT

Overall, the Entity provided the expected regional preservation field services to libraries, archives, and other cultural repositories throughout the southeastern United States. However, we identified three compliance findings during our testing as follows:

- Payroll costs charged to the grant were based upon the approved budget rather than an actual "after-the-fact" determination, which is in direct violation of the salary/wage substantiation rules articulated in OMB Circular A-122 (*Cost Principles for Non-Profit Organizations*). Total salary and fringe costs submitted to NEH for reimbursement approximated \$446,000, representing the bulk of the \$512,000 award.
- The Entity's record retention guidelines associated with the [REDACTED] procurement card program (p-cards) do not fully comply with Federal administrative requirements.
- The Entity neglected to report program income earned during the award period on the final Financial Status Report submitted to NEH.

V. LIMITED AUDIT FINDINGS AND RECOMMENDATIONS

A. Payroll and Fringe Costs Based Upon Budgeted Expenditures

During the course of the two-year award, several employees within the Digital and Preservation Services department charged labor costs to the grant. Even though the related timesheets include an assertion that the reporting represents an after-the-fact determination, it is apparent that the allocations are actually based upon budget estimates. Specifically, our detailed testing of timesheets and payroll registers related to the NEH grant revealed that:

- The timesheets did not identify actual hours worked by project or functional area (in most cases, the only items tracked in detail represented annual and sick leave);
- Each employee reported a uniform allocation rate (that never changed) for each and every pay period tested; and
- These effort allocations represent the exact percentages approved in the NEH grant budget.

Furthermore, the above percentages were used as a basis to allocate the associated fringe costs, thereby calling into question the accuracy of this grant expense line item as well.

According to Federal cost principles concerning support for salaries and wages charged to Federal awards¹, the "distribution of salaries and wages to awards must be supported by personnel activity reports...that must reflect an after-the-fact determination of the actual activity of each employee. Budget estimates (i.e. estimates determined before the services are performed) do not qualify as support for charges to awards."

¹ OMB Circular A-122 (*Cost Principles for Non-Profit Organizations*), Appendix B, Paragraph 8m

Recommendation A

Our testing noted that the infrastructure necessary to meet this requirement already exists; namely, employees working on Federal grants currently complete Excel timesheets. To comply with current Federal standards, management must promptly implement revised procedures requiring employees to track and report actual hours spent on Federal awards each pay period. Using these timesheets, the accounting department will be in a position to record a monthly journal entry reconciling the budgeted amount (which is currently posted in the general ledger based upon pre-loaded rates established for each employee) to the actual level of effort. The actual rate should also be used as a basis to allocate the employee's fringe costs.

Based upon our understanding of circumstances related to this award, we satisfied ourselves that the predominant portion of the salary/fringe costs charged to the NEH is reasonable². However, management must fully implement corrective measures prior to the start date of the newest NEH regional preservation award (July 1, 2012). If corrective measures are not enacted, 1) access to the pending grant award funds may be restricted; and 2) the OIG may expand the scope of testing to include an audit of the active NEH award (PE-50038-10).

SUMMARY OF GRANTEE'S RESPONSE

Management agrees with this finding. To ensure "after-the-fact" reporting, the Entity implemented a new payroll system during the month of May 2012. All employees working on Federal grants must now track actual hours worked each pay period. This timesheet data is now downloaded and used as the basis to allocate salary and fringe expense in the general ledger.

B. P-card Record Retention Policy

The Entity issues company credit cards (p-cards) to certain employees within the organization utilizing [REDACTED] (ESP) to capture and approve these expenses. Ultimately, an electronic version of the credit card bill along with the employee's description of the expense and the associated supervisor's approval are retained by this software. However, the underlying supporting documentation (receipt, invoice, etc.) does not become part of the ESP record and is only maintained for a limited period of time³. This policy violates existing Federal record retention requirements.

OMB Circular A-110 and the NEH *General Terms and Conditions for Awards to Organizations* (Section 21 - Record Retention) define record retention guidelines to be used with Federal grants. These guidelines state that "financial records, supporting documentation, statistical records, and all other records pertinent to the award shall be retained by the recipient for three years from the date of submission of the final Financial Status Report."

Recommendation B

We recommend that the Entity retain supporting documentation related to p-card purchases associated with Federal grants (either hard copy or scan) for the required timeframe. Without this

² All Entity employees charging time to the NEH grant worked for the preservation department specifically created to support this recurring award and the majority of these individuals represented that they worked on NEH-funded activities full-time.

³ According to the Entity's existing *Accounting Policies and Procedures*, original receipts related to p-card purchases must be maintained by the employee for three months. Upon further OIG inquiry, management stated that actual procedures vary somewhat from the written policy; specifically, management requires supporting documentation be retained through the completion of the organization's annual financial statement audit.

documentation, the grantee may not be in a position to properly substantiate Federal expenditures made with p-cards.

SUMMARY OF GRANTEE'S RESPONSE

Management agrees with this finding. The Entity revised the p-card policy and will now retain actual receipts for three years following the submission of the final financial report associated with each Federal grant.

C. Reporting of Program Income

Program income represents money earned or received by a recipient or a subrecipient from activities supported by award funds or from products resulting from award activities. The Entity generated approximately \$ [REDACTED] in program income primarily from consulting work and courses offered. This income was used to offset direct, non-Federal expenses of approximately \$ [REDACTED] and to fund other humanities-based programs administered by the grantee. The final Financial Status Report, submitted in September 2010, disclosed the non-Federal cost-sharing but omitted the program income.

According to the NEH *General Terms & Conditions for Awards to Organizations* (Section 16-Program Income), the Federal share of program income earned during the award period shall be retained by the recipient and "may be used to support other projects in the humanities or to finance the non-Federal share of the project" among other options. Furthermore, a report of program income earned during the award period must be submitted with the final Financial Status Report whenever program income is earned during the award period or when the terms and conditions of the award specifically require such a report. The report shall indicate the total amount of program income earned and how it was used.

Recommendation C

Although the Entity utilized the program income in an approved fashion, the reporting of this revenue stream never transpired. Moving forward, management must implement new procedures/controls to ensure all program income generated from activities supported by NEH awards is properly disclosed in the appropriate section of the final Financial Status Report. NEH management needs access to this information to ensure proper oversight of the program.

SUMMARY OF GRANTEE'S RESPONSE

Management agrees with this finding. The Entity revisited the related procedures and commits to reporting program income in all future final Financial Status Reports.

VI. EXIT CONFERENCE

Through a conference call, the results of our limited audit were shared with Lyrasis management ([REDACTED], ~ Grant Manager and [REDACTED], Chief Financial Officer) in early April 2012. Grantee management concurred with the above internal control recommendations.

A formal response, dated May 30, 2012, was received from the Entity's Chief Financial Officer. In this letter, management asserted that a new payroll system was implemented in May 2012 and various other policy changes were made to address our recommendations. On July 5, 2012, a demo of the new payroll system was conducted for the NEH-OIG. After viewing the software and related reports, we concur with management's assertion that the organization now tracks payroll on an after-the-fact basis as required by OMB Circular A-122.

**GRANTEE RESPONSE
TO AUDIT REPORT**

LYRASIS

Advancing Libraries Together

May 30, 2012

National Endowment for the Humanities
Office of Inspector General
1100 Pennsylvania Avenue NW, Room 419
Washington, DC 20506
ATTN: Audit Resolution Section

RE: LYRASIS response to audit report OIG-12-02 (EA)

Dear Inspector General:

This letter comprises LYRASIS' initial response to the National Endowment for the Humanities (NEH) limited audit of the preservation and access grant PE-50012-08 entitled "Regional Preservation Field Services for the Southeast." We are in agreement with the conclusions and have taken the following steps to address the findings.

A. Payroll and Fringe Costs

In May 2012, LYRASIS implemented a new payroll system through Paycom. Employees funded wholly or in part by federal grants will now record actual hours worked on grant and other activities within Paycom based on timesheets corresponding to semi-monthly pay periods. Rules have been defined within the Paycom system to ensure after-the-fact reporting and to record date and time of employee submission and supervisor approval of each timesheet. At the end of each month, timesheet data will be downloaded and used as the basis to allocate payroll and fringe benefits in the general ledger to grants and other activities (departments). All staff currently working on NEH grant PE-50038-10 and planned to work on PE-50072-12 are exempt, salaried positions. Allocations will be based on the percent of total time reported for the pay period worked on the grant. May 2012 will provide the first full month report for federal grant funded employees. We will provide a demonstration of the new payroll procedures in June based on the May results.

B. Purchasing Card Record Retention

LYRASIS has revised its policy to retain actual receipts for charges to LYRASIS purchasing cards through federal grant activities for three years following the final report submission for each grant. Receipts will be maintained in physical or electronic form in files linked to the monthly purchasing card statement. A staff member in the department receiving grant support will reconcile the monthly purchasing card statements to receipts received from staff to ensure completeness and accuracy. A copy of the policy and procedure is attached. This new policy was communicated to staff on May 29, 2012, and is now in effect.

C. Program Income Reporting

LYRASIS commits to reporting program income in all future final financial reports for federal grants. We have procedures and controls in place to track income generated from grant activities, and NEH shall have access to such information as and when needed.

If you need additional information at this time, please let us know.

Sincerely,



██████████ Chief Financial Officer

cc: ██████████ Executive Director, LYRASIS
██████████ Grants Officer, LYRASIS

LYRASIS

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