



NATIONAL ENDOWMENT FOR THE

Humanities

OFFICE OF INSPECTOR GENERAL

**LIMITED AUDIT REPORT**

**NEH GRANT AWARDS**

**TO THE**

**VIRGIN ISLANDS HUMANITIES COUNCIL**

**ST. THOMAS, USVI**

**OIG-13-01 (EA)**

*Laura Davis*

Laura Davis, Inspector General

August 27, 2013

Date

**LIMITED AUDIT REPORT**

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GRANT AWARDS  
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**ST. THOMAS, USVI**

**I. INTRODUCTION**

The Office of Inspector General (OIG) has performed a limited audit of the Virgin Islands Humanities Council (the "Council") records as they relate to the following NEH grant awards.

<u>Grant Number</u>	<u>Grant Period</u>	<u>Amount Awarded</u>
SO-50281-08	11/1/2007 - 10/31/2012	\$872,750
SO-50450-11	11/1/2010 - 10/31/2015	\$846,190 (to date)
BC-50507-09	10/1/2009 - 11/30/2010	\$62,710
BC-50565-10	1/1/2011 - 12/31/2012	\$72,710

The Council receives approximately 95 percent of its annual funding from the National Endowment for the Humanities (NEH) through the combination of *General Support* (SO) and *We The People* (WTP) awards. Due to various issues identified by the NEH Federal/State Partnership Office, the Council was recently placed on "high-risk" status. Upon being notified of fiscal anomalies involving the Council, the OIG initiated a limited scope audit of recent awards to 1) determine compliance with grant requirements and OMB Circulars; and 2) review the Council's accounting and internal controls for propriety. The audit team performed fieldwork at the Council's office in St. Thomas during the month of March 2013.

**II. BACKGROUND**

General Support Grants: The NEH Federal/State Partnership Office acts as the liaison between the Agency and the nonprofit network of 56 state and jurisdictional humanities councils. These state humanities councils represent nonprofit 501(c) (3) organizations governed by volunteer boards of directors. They operate in each of the fifty states as well as in the District of Columbia, Puerto Rico, the U.S. Virgin Islands, Guam, the Commonwealth of the Northern Mariana Islands, and Amerika Samoa. The councils were established to fulfill the requirement in the Agency's enabling legislation—National Foundation on the Arts and the Humanities Act of 1965, as amended—that NEH support humanities programs "in each of the several states." These awards span five years with funding appropriations made during each of the first three years of the award. Grant funds may be used to support the Council's operations and fund regrant awards to subrecipients. Furthermore, a legislatively-mandated cost-sharing requirement exists with this program [Catalog of Federal Domestic Assistance (CFDA) 45.129].

We The People Grants: The *We the People* (WTP) initiative represents an NEH program designed to encourage and enhance the teaching, study, and understanding of American history, culture, and democratic principles. *We the People* was launched on Constitution Day, September 17, 2002.

These awards, CFDA #45.168, provided additional funding<sup>1</sup> for the state humanities councils beyond the regularly appropriated general support grants. Awards were typically smaller in scale, funding a specific humanities-based program; approximately twelve to eighteen months in duration; and included both Outright and Treasury Match funding streams.

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<sup>1</sup> NEH discontinued the WTP program in 2012. Grant BC-50565-10 represented the Council's final WTP award.

### 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 General Support Grants to State Humanities Councils*, NEH's *Matching Guidelines for General Support Grants to State Humanities Councils*, NEH's *General Terms and Conditions for Awards (GTAC)*, and the terms of the approved grant awards; 2) the Council properly tracked and met the legislatively-mandated cost-sharing requirement; and 3) proper controls over the use of the Federal funds exist 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 supporting documentation associated with the expenses charged directly to the NEH grants; reviewed the Council's most recently audited financial statements (FY2011) and related management letter; examined the organization's accounting procedures manual and employee handbook; and gained an understanding of the applicable accounting systems and internal controls.

### IV. SUMMARY RESULTS OF LIMITED AUDIT

Our testing identified significant issues requiring immediate management attention, to include the following:

- The NEH *General Support* grants provide the bulk of the Council's annual funding. Continued funding is contingent on the Council meeting the legislatively-mandated cost-sharing provision. Specifically, for every dollar in Outright Federal funds provided to a humanities council by NEH, an equal amount of cash or in-kind contributions must be used to support budgeted Council activities<sup>2</sup>. We determined that the Council neither tracks nor reports this information. This represents a major compliance deficiency that must be addressed immediately.
- Grant testing identified questioned costs approximating \$40,000. Additionally, evidence of Board approval (required according to Council's policies and procedures) relating to another \$25,570 in regrant awards could not be located. The fact that almost 97 percent of the organization's total revenues in FY2011 are derived from NEH further complicates this matter calling into question the Council's ability to reimburse NEH with non-Federal funds.
- With all four grants tested, the *Requests for Advance or Reimbursement (SF-270s)* and the *Federal Financial Reports (SF-425s)* erroneously reported Federal expenditures to NEH. Rather than reporting actual project expenditures, the Council incorrectly based this reporting on the funds requested. We further noted certain limitations with the existing accounting structure that impacted the Council's ability to extract and summarize expenditure data by grant/funding source. As such, the Fiscal Officer could not generate "project" reports (out of QuickBooks) detailing individual transactions associated with two of the four Federal grants tested.
- Our testing identified multiple internal control and segregation of duties deficiencies, as documented in Finding D. In most cases, the Council failed to follow its own established policies/procedures. The breakdown of key internal controls and/or a lack of segregated duties over the accounting function heighten risk unnecessarily. Our report provides multiple recommendations for the Council's consideration.

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<sup>2</sup> The Economic Development of the Territories Act (Section 601b) provides the Virgin Islands Humanities Council with an annual \$200,000 exemption from the statutory cost-share requirement.

Our testing further identified several lower-priority matters for management's consideration.

- Our review of the audited financial statements identified a disturbing trend in which the percentage of organizational resources devoted to core programmatic activities (vs. G&A or Fundraising) continues to decline.<sup>3</sup> As previously noted, the Council's non-Federal revenue streams are almost non-existent. Before the organization can actively pursue alternative revenue sources, the aforementioned ratios need to be addressed. Most sophisticated granting organizations will typically penalize funding applications if the total resources devoted to programmatic resources fall below sixty-five percent<sup>4</sup>. This ratio measures how efficiently an organization utilizes resources; obviously, poor ratios raise red flags and further complicate a nonprofit's fundraising efforts.
- Multiple pages on the Council's website are out-of-date and require updating. As this represents one of the major avenues available to the organization for outreach, we strongly recommend specific employees be held responsible for keeping the site's content current.
- The Council may want to consider implementing several potential cost-saving measures to include:
  - The organization currently performs payroll in-house using the QuickBooks payroll module. As this represents a substantial administrative burden and involves significant risk exposure in the form of potential fines from the Internal Revenue Service (improper withholdings, late tax submissions, etc.), management may want to consider moving to a third-party payroll provider. The affiliated savings in labor costs and employee time should easily offset the fees associated with a payroll firm. Furthermore, the engagement of a firm specializing in this administratively complex function mitigates risk exposure for the Council.
  - The NEH Federal/State Partnership Office oversees a liability insurance program for all of the humanities councils. We noted that the Council currently pays approximately \$4,000 annually for separate liability coverage to a local, private insurance company (Kreke Corporation). We recommend the Council contact Agency staff and determine if cost savings can be achieved through the adoption of the NEH administered program.
  - The Council currently maintains four distinct bank accounts to track activity related to the various funding sources. The nonprofit industry has moved away from this approach. Current best practices utilize one main bank account (unless additional accounts are specifically required by donor) and segregate/track individual project activity through the use of a properly formatted chart of accounts. The Council has made recent strides in this area but work still remains. Once the accounting system is adequately structured (see Finding C), several of the existing bank accounts can be closed without impacting operations.

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<sup>3</sup> According to the audited *Statements of Activities*, the percentage of total expenses devoted to programmatic activities decreased from 64% to 49% during the three year period running from FY2009 - FY2011 (most recently completed audit). [FY2009 – 64%, FY2010 – 60%, and FY2011 – 49%.]

<sup>4</sup> As noted by Charity Navigator (major non-profit benchmarking service), ninety percent of charities devote at least 65 percent of their resources to program services. Moreover, the Charity Navigator's financial rating system further penalizes an organization when this ratio declines from year-to-year.

## V. LIMITED AUDIT FINDINGS AND RECOMMENDATIONS

### A. Cost-Share Tracking: General Support Grants (CFDA 45.129)

By law, the NEH cannot support more than fifty percent of the costs of a state humanities council's activities<sup>5</sup>. The balance of support may come from cash contributions to the council that are made from any source (including funds from other Federal agencies), program income the council has earned, the allowable costs that a subrecipient incurs in carrying out a council-funded project, and the value of in-kind contributions that are made by a third party. This information must be tracked and reported to the NEH Office of Grant Management through the use of annual and final Federal Financial Reports (SF-425).

Management could not affirm whether the Council was in compliance with the cost-share mandate. Furthermore, the cost-share section of the associated Financial Reports has traditionally been ignored and left blank.<sup>6</sup> Existing Council policy requires grantees to submit cost-share information on their final reports and addresses the documentation of Board time devoted to meetings, reading proposals, conference calls, and attendance at off-island conferences. However, Council staff was unable to provide evidence that such information is actually tracked. As this represents a legislatively-mandated requirement, the failure to track cost-share amounts from the various, allowable sources tentatively puts the Council's entire *General Support* revenue stream at risk.

#### Recommendation A

The Council must immediately implement new policies and procedures to ensure the organization 1) tracks all allowable forms of cost-share; and 2) meets the minimally required cost-share threshold required under this CFDA program. Based upon the limited amount of cash contributions received from sources outside of NEH, the only viable way for the Council to currently meet the cost-share requirement is through in-kind donations. In particular, our analysis revealed that the organization must maintain at least a 2-to-1 matching ratio from its grantees to be successful. As such, safeguards must be instituted to ensure grantee cost-share is properly documented and reported to the Council.

Management needs to enforce existing policy guidance and assign one employee (perhaps the program officer) the responsibility of tracking cumulative cost-share. Holding an individual accountable for this function will also assist the Council with addressing internal control lapses noted with the regrant process (see Finding D).

#### SUMMARY OF GRANTEE'S RESPONSE

The Council formally responded with a letter dated August 6, 2013 (see Appendix A). The grantee agrees with the finding and plans to engage a consultant to assess the Council's historical compliance with the mandatory cost-share provision associated with the NEH General Support Grants. The estimated completion date is scheduled for December 2013.

In addition to the plan of action noted above, the Council has taken several proactive steps to address this finding. First, Governance reviewed and updated the related internal policies and procedures. Second, the Council's institutional advancement committee plans to prepare a new strategic plan by November 2013 which will address the lack of non-Federal funding sources. Finally, the Council anticipates hiring a Program Officer in the near term who will be held responsible for collecting cost-share information from grantees in a timely fashion.

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<sup>5</sup> As stated previously, this requirement was modified for the four territorial councils covered under the Economic Development of Territories Act of 1984. See footnote 2 for details.

<sup>6</sup> Per our review of the Federal Financial Reports for the past three *General Support* grants (SO-50110-05, SO-50281-08, and SO-50450-11).

## B. Questioned Costs Identified

The Council's two major NEH grant programs incorporate key OMB Cost Circulars to include A-110: *Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations*, and A-122: *Cost Principles for Non-Profit Organizations*. These circulars, in conjunction with the individual grant awards and NEH-issued guidance, discuss the core components of "allowable costs". In general, an expenditure must be necessary, reasonable, and allocable to be regarded as an allowable charge to a Federal award.

The Council's current review and approval process failed to identify multiple transactions that were improperly charged to the NEH grants. As a result, we are questioning \$38,298 of expenditures charged to the various *General Support* (SO) and *We The People* (WTP) grants tested as follows:

### ***General Support Grants (SO-50281-08 & SO-50450-11):***

- ❖ Total legal fees associated with the ongoing wrongful discharge lawsuit related to ██████████ (\$12,088 – current through February 2013);
- ❖ Rental fees paid for a second office lease (Professional Building) that was never occupied by the Council (\$9,450);
- ❖ Late filing fees assessed by the Internal Revenue Service in conjunction with the Council's IRS Form 990 annual return (\$3,390)<sup>7</sup>;
- ❖ Credit card interest fees for late payment (\$110)<sup>7</sup>;
- ❖ With certain regrants, the Council failed to disburse the full amount of approved funding. Since the underlying NEH award (SO-50281-08) has expired, the unexpended funds must be returned (\$2,033);
  - Regrant breakdown is as follows:
    - J10-563-MP (\$450),
    - J10-564-PD (\$750),
    - S10-565-MP (\$350),
    - N09-545-MP (\$483).
- ❖ Regrant J10-564-PD (Funded by SO-50281-08): As disclosed in the *Final Expenditure Report*, the subrecipient failed to expend \$413.26 (of the funds received from the Council) in accordance with the grant guidelines; therefore the regrantee offered to return this money. However, the Council never acted to collect the funds.
- ❖ Regrant S10-565-MP (Funded by SO-50281-08): The project associated with this regrant failed to materialize. However, the recipient organization only returned \$2,400 of the \$3,150 advanced by the Council. Since the underlying grant award (SO-50281-08) has expired, the \$750 in uncollected funds deemed unsupported and therefore unallowable.

Total questioned costs charged to the *General Support Grants*: **\$28,234**

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<sup>7</sup> Unallowable per OMB Circular A-122, Attachment B, Paragraph 16

In addition to the questioned costs above, evidence documenting Board approval of multiple regrant awards was unavailable upon completion of OIG fieldwork. As a result, we could not conclude on the validity of these regrants. The total amount of \$25,570 represents unsupported expenses and may be treated as questioned costs if the VIHC cannot provide sufficient evidence of Board approval.

<u>Regrant Award</u>	<u>Regrant Amount</u>
J11-578-MP	\$10,000
N10-569-WS	\$7,870
N10-567-WS	\$4,200
S10-566-PD	<u>\$3,500</u>
	<u>\$25,570</u>

**We The People Grants (BC-50507-09 & BC-50565-10)**

- ❖ BC-50565-10: A gift was improperly made to the Board Chair’s sorority sister (\$50),
- ❖ BC-50565-10: A vendor was paid in two installments, checks 1528 & 1538, resulting in an overpayment of \$97,
- ❖ With both WTP grants, the Council requested and received the total grant award amount from NEH. However, the amount paid exceeded the actual expenses incurred;<sup>8</sup> therefore the unexpended funds must be returned as noted below.

Grant Number	Funds Disbursed by NEH	Actual Expenses (per G/L)	Overpayment Amount
BC-50507-09	\$62,710	\$54,317	\$8,393 <u>(\$1,500)<sup>9</sup></u> \$6,893
BC-50565-10	\$72,710	\$69,686	<u>\$3,024</u>
<b>Total</b>			<b>\$9,917</b>

Interestingly, the internal reports reflect a profit on these awards. Please be advised that the NEH awards represent cost-reimbursement grants that are intended to cover actual costs incurred by the organization. Accordingly, a profit should never be generated from this revenue stream.

Total questioned costs associated with the We The People grants: \$10,064

According to the general ledger, the Council maintained a cash balance of approximately \$16,000 in the WTP bank account (as of the end of January 2013).

<sup>8</sup> As evidenced by the QuickBooks project level detail provided by the VIHC Fiscal Officer.

<sup>9</sup> Check #1394 (\$1,500) was generated from the WTP bank account and represents a valid grant expenditure. However, the Fiscal Officer failed to link the transaction to the WTP project code in the accounting software; therefore it didn’t appear on the QuickBooks project report provided to us. Since our testing verified the validity of this outlay, we gave the Council credit for this miscoded WTP expenditure.

## Recommendation B

Due to recent turnover in both staff and Governance, we recommend that Council management familiarize themselves with the key OMB Costs Circulars impacting non-profit entities (A-110 and A-122); review all disbursements charged to Federal grants closely to ensure they represent allowable expenditures (i.e. necessary, reasonable, and allocable); and create new general ledger accounts in QuickBooks to capture unallowable expenses and ensure that such expenses are not charged to Federal awards.

Please note that Federal funds cannot be used to satisfy any refund due to the NEH as a result of the questioned costs. Fortunately, the Council retained the “profit” generated from the WTP awards therefore the organization should be in a position to return the overpayment directly from the WTP bank account.

### SUMMARY OF GRANTEE’S RESPONSE

The Council generally agrees with the finding and has not disputed any of the questioned costs at this juncture. However, management needs more time to perform a thorough evaluation anticipating an October 2013 completion date.

### **C. Improper Reporting of Federal Expenditures (SO and WTP Awards)**

NEH requires the filing of various financial reports throughout the life of a grant award to allow for proper monitoring. In the case of the Council, the two core financial reports consist of the *Request for Advance or Reimbursement* (SF-270) and the *Federal Financial Report* (SF-425). The SF-270 is filed each time the Council requests funds from NEH. Multi-year awards require the filing of annual SF-425 reports, with the final report due (for all grants) within 90 days of the grant expiration date. Both reports require the grantee to disclose the cash received from the Agency along with the actual Federal expenditures incurred to-date.

The Financial Management Standards of the GTAC address minimum requirements associated with financial reporting and related accounting records. Specifically, financial reporting must represent “accurate, current, and complete disclosure of all financial transactions related to federally sponsored projects” and accounting records must “adequately identify the source and application of the grant funds.”

With all four grants tested, the Federal expenditures were erroneously reported. Rather than reporting actual project expenditures, the Council incorrectly reported “expenditures” based on funds requested. This, in effect, distorts the Council’s true cash needs and prevents NEH staff from ascertaining actual grant expenditures. In fact, the “profit” margin issue identified in Finding B would have been apparent to Agency staff had the Council properly reflected Federal expenditures related to the WTP grants.

Based upon our testing, it appears that limitations with the current accounting structure may have partially led to the reporting issues noted above. Specifically, the Council could not produce a financial report that captured allowable grant expenditures for each of the *General Support* awards tested, which resulted in confusion and necessitated the development of additional audit procedures.<sup>10</sup>

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<sup>10</sup> The Council created unique g/l accounts to track the *We The People* awards, which allowed the Fiscal Officer (FO) to generate a detailed QuickBooks report of all transactions charged to these grants. However, this was not the case with the larger *General Support* awards. In fact, the IPA identified this issue during the FY2011 audit and recommended that the Council create new class codes in QuickBooks to better track grant activity. Unfortunately, the recommendation had not been fully implemented as of the date of our fieldwork; therefore the FO was unable to provide the OIG with a detailed accounting report for these NEH awards.



Additionally, the Council missed final reporting deadlines associated with two of the three expired grants tested,<sup>11</sup> submitted several reports with mathematical errors, and we noted data inconsistencies between related interim and final financial reports (reporting of program income for example).

### Recommendation C

Both Council and NEH management cannot perform their oversight duties properly without timely, reliable, and valid financial information. The Council must discontinue the current practice of using cash requests as the basis for reporting Federal expenditures on the Financial Reports.

To ensure accurate expenditure reporting moving forward, management needs to reassess the Council's existing accounting structure and revise, as necessary, to ensure a consistent and uniform approach is developed to track expenditures (by grant) within the accounting software. Ideally, a unique project code should be created to track the activity of each grant award administered by the Council; this can be readily accomplished using a combination of *customer/job* codes and *class* codes in QuickBooks. For example, the Council could assign NEH a unique customer id and then link a distinct job code to each individual NEH award. If desired, QuickBooks also allows the user to provide an additional level of detail with the *customer type* code. For example, the Council may want to establish multiple customer types to further segregate and track Government Grants, State Grants, and Private Grants.

A properly designed chart of accounts will allow the Fiscal Officer to generate a mini-financial statement for each Federal grant. These accounting reports could then be used to prepare the *Federal Financial Report* submissions, thus providing a clean audit trail. As previously discussed, "project" reports summarizing *General Support* grant activity could not be produced, therefore we were unable to fully reconcile expenditures associated with these two grants based on the accounting records. In fact, this represents a recurring issue identified in previous OIG reports. In prior audits, the Council was advised that financial information reported to NEH shall be accurate and that supporting/reconciling workpapers must be readily accessible, accurate, and traceable to the accounting books and records.

Finally, it should be noted that a Nonprofit version of QuickBooks is available for purchase that includes additional features such as a chart of accounts customized for nonprofits, forms and letters targeted to donors and pledges, the ability to generate a *Statement of Functional Expenses* (i.e. breakdown of expenses by program, management and general, and fundraising), and additional guidance and tips for nonprofit management. Management may want to consider upgrading to this version of QuickBooks.

### SUMMARY OF GRANTEE'S RESPONSE

The Council agrees with the finding and proactively addressed the matter. Specifically, the accounting infrastructure has been overhauled to include 1) the adoption of an upgraded version of QuickBooks; 2) engaging a consultant to design a new chart of accounts; 3) re-keying all FY2013 transactions into the new QuickBooks file; and 4) the hiring of a new Fiscal Officer. Additionally, the Council discontinued the improper practice of using cash requests as a basis for reporting Federal expenditures on the financial reports. We confirmed this through our review of the recently submitted reimbursement request ("*Request For Advance or Reimbursement*") related to the current NEH General Support grant SO-50450-11.

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<sup>11</sup> The final *Federal Financial Reports* are due within 90 days of the grant expiration date. Submissions related to both SO-50281-08 and BC-50561-10 missed this reporting deadline.

## D. Deficiencies in Internal Control and Segregation of Duties

Safeguarding an organization's assets necessitates both strong internal controls and a proper segregation of duties. The Council's *Accounting and Procedural Manual*, *Credit Card Usage Policy*, and the *VIHC Guide to Community Grants Programs* document the organization's key accounting/finance policies and procedures. Using these documents as a baseline, the OIG identified key controls and confirmed their existence when performing detailed testing of the individual transactions. Our audit tests, which spanned the past four fiscal years, identified several control breakdowns that require management's attention as follows:

- Due to the limited number of employees at the Council, properly segregating job duties associated with the accounting/finance function presents a challenge. As a rule, no single employee should perform all of the functions of an accounting cycle such as disbursements and expense recognition, payroll, or cash receipting and revenue recognition. Failure to adhere to this time-tested guidance significantly increases an organization's exposure to fraud and provides an unscrupulous employee with the means to conceal theft for an extended period of time.

In the case of the Council, the Fiscal Officer performs almost all of the accounting functions of the organization. Several key internal controls, as articulated in the Council's policy manuals, attempt to mitigate the associated risk. In particular, a) the Fiscal Officer is not an approved check signor and all check disbursements require two authorized signatures (typically Executive Director and member of Board); b) the Fiscal Officer has not been assigned a company credit card; c) monthly bank reconciliations are to be reviewed and approved by the Executive Director; d) almost all of the VIHC's funding (derived from NEH) is wired directly into the organization's bank account, bypassing any manual processing by Council staff; and e) internal financial statements are reviewed at Board meetings.

Our testing identified several breakdowns with these key controls:

1. We discovered that the bank reconciliations (which are prepared by the Fiscal Officer) have not been reviewed or approved by anyone for the past two years.
  2. In multiple cases, disbursement checks lacked a second signature as required by the Council's internal policies. As this represents one of the organization's strongest internal controls, we strongly recommend that this requirement be strictly enforced moving forward.
- Several issues related to regrants and subrecipient monitoring were identified. The breadth of errors makes it clear that management attention is required in this area. Specifically, the following deficiencies were noted:
    - Four regrants were either not recorded in QuickBooks or improperly recorded to include double-booking or incorrectly recording the award amount. Upon notification by the OIG, correcting entries were booked in March 2013.
    - Unexpended funds were not collected from grantees (see Finding B).
    - In several cases, the Council failed to properly monitor unexpended grant funds resulting in the forfeiture of the funds (see Finding B).
    - Evidence of Board approval for several regrants unavailable for our review (see Finding B).
    - Council failed to adequately track cost-share amounts reported by grantees (see Finding A).

- We observed five instances of delinquent final reports from the regrantee.
- We were advised that Data Universal Numbering System (DUNS) information has not been collected. DUNS information must be collected from approved regrant awardees prior to any disbursement of funds from the Council. (This requirement became effective October 1, 2010.)
- The use of a company issued credit card simplifies the purchasing process. However, this payment vehicle presents additional risks to an organization since the employee has immediate use of the card. The Council has developed a robust credit card policy that requires the cardholder to attach receipts supporting all monthly charges and a supervisory review. In the case of the Executive Director, approval must be obtained from the Board Chair or the Treasurer. This is critically important since the Executive Director is an approved check signor. Our testing identified cases in which a limited number of transactions appearing on the (previous) Executive Director's monthly credit card statements were not approved by a Board Member and the related disbursement check only included one signature. Although we satisfied ourselves that the related charges were not personal in nature, controls over the company credit cards need to be strictly enforced. Over the years, credit card fraud has been identified as a major, recurring issue throughout the nonprofit community.
- As previously discussed, financial reports associated with NEH grants contained multiple errors and several were submitted in arrears. Please be advised that officials authorized to submit financial reports to the NEH are also certifying that the information is true, complete, and accurate.

### **Recommendation D**

Safeguarding the Council's assets represents a core function for both management and Governance. Maintaining a strong internal control structure and ensuring proper segregation of duties is paramount to achieving this goal.

The Council should be commended on developing strong policies and procedures. However, the execution fell short primarily due to a combination of staff turnover, vacant positions, Board friction, and lack of oversight. We recommend that an emphasis be placed on internal controls and employees be made aware and held accountable for their roles in the Council's control structure. In terms of specific recommendations, we propose the following:

- a) Two signatures on checks: Governance (Board Treasurer) should review the cancelled check copies, included with the monthly bank statements, to verify all disbursements have two valid signatures. If discrepancies noted, action needs to be taken immediately to identify the root cause for the breakdown.
- b) Bank Reconciliations: We strongly recommend that the Council immediately enforce its own policy with either the Executive Director or a Board Member (Treasurer) reviewing the reconciliations for timely preparation and propriety. To further strengthen this control, the reviewer should be provided with read-only, on-line access to the bank statements or receive hard copies (unopened). This additional measure will allow the reviewer to identify any attempt by the preparer of the reconciliations to conceal fraudulent activity (i.e. manual modification of the original bank statements).
- c) Regrants: Since regrant management falls under the purview of the Program Officer, we recommend that the Council fill this vacant position in a prompt fashion. This individual should be held accountable to:
  - coordinate with the Fiscal Officer to ensure regrant expense is properly booked upon approval by the Board and the related funds are disbursed in accordance with Council policies;

- ensure any unused funds are promptly returned and reallocated to other regrants during the NEH award's period of performance;
- verify grantees file Final Reports in a timely fashion;
- track grantee compliance with cost-share requirements; and
- provide complete and accurate status reports to Governance.

Furthermore, to improve oversight and transparency over the regrant program the Council should reconstitute the use of a detailed regrant subsidiary ledger, as discussed in the NEH-OIG *Accounting Systems Manual* prescribed for State Councils and required in the Council's *Accounting and Procedural Manual* (i.e. quarterly regrant status reports). This would serve as a great template for reporting to Governance.

- d) Credit Cards: Management and Governance need to enforce the control structure as outlined in the Council's *Credit Card Usage Policy*. The Board Treasurer should spot check certain credit card statements throughout the course of the year and/or assign the outside auditor the responsibility of performing additional testing in this area in conjunction with the annual audit.
- e) Financial Reports: The Council must 1) develop a tickler file to ensure timely report submission to NEH; and 2) ensure reported expenditures are accurate, complete, and reconcile to the accounting records/supporting schedules.

#### SUMMARY OF GRANTEE'S RESPONSE

The Council concurs with the findings and is actively addressing them. In particular, the Board Treasurer is now responsible for reviewing the returned checks to ensure the required two signatures are present; the July 2013 bank reconciliations were prepared timely and properly reviewed by a supervisor; Council management currently reviewing regrant policies/procedures and plans to fill the Program Officer vacancy shortly; management recently closed several unnecessary VIHC credit card accounts; and the organization addressed financial reporting issues through the implementation of an updated financial management system and the hiring of a new Fiscal Officer.

#### **EXIT CONFERENCE**

On the final day of fieldwork, the preliminary results of our limited audit were shared with Council management (██████████ ~ Interim Executive Director). Later, in April 2013 a more comprehensive list of audit findings were shared with both ██████████ and ██████████ (Board Chair) through an email exchange. Grantee management continues to review the findings and generally concurs with the above recommendations.

# **APPENDIX A:**

## **GRANTEE RESPONSE TO OIG AUDIT REPORT**



VIRGIN ISLANDS HUMANITIES COUNCIL

No.1829 Kongens Gade ♦ ST. THOMAS, VI 00802-6746 ♦ TEL: (340)776-4044 ♦ FAX: (340)774-3972 ♦ URL: www.vihumanities.org ♦ E-mail: info@vihumanities.org

Preserving and Promoting Virgin Islands Culture

August 6, 2013

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

RE: Audit Report: OIG-13-01 (EA)
Virgin Islands Humanities Council- Limited Audit Performed by NEH-OIG March 2013

Dear Inspector General Davis:

In accordance with the above stated Audit Report, the Virgin Islands Humanities Council (VIHC) through its Board of Trustees has undertaken the review of the Audit and immediate planning and/or implementation of recommendations. We have been able to resolve certain issues and others will be address in accordance with the included plan of action.

All items identified as significant issues requiring immediate management attention are being addressed. Please refer to the attached matrix which outlines the following:

Finding - Required Action /Accept Recommendation -- Responsible Board Committee Member--Dates -- Comments

The process of preparing the Audit response was undertaken by an AdHoc Audit Response Committee of the Board of Trustees. Members of the Committee included [redacted], [redacted], [redacted] and the undersigned. Members of the Committee have dedicated a great deal of time and resources to address the issues raised in the audit and to recommend implementation of policies and procedures which will eliminate the identified failures, improve financial reporting and record keeping, and improve program management.

VIHC has designed a proper chart of accounts which will fully reconcile expenditures associated with grants. A new chart of accounts has been developed for the financial management of VIHC using Quick Books Pro- 2013.

Virgin Islands Humanities Council  
RE: Audit Report: OIG-13-01 (EA)

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It includes an Accountant's version which allows for the implementation of the non-profit grants management option as well as the full integration of grants management between the Program Officers and the Fiscal Officer. VIHC has contracted with a professional bookkeeper and has utilized the expertise of Board Member [REDACTED], Intuit ProAdvisor with over 20 years of experience in financial management systems.

The VIHC will be hiring Program Officers and an Executive Director with the necessary qualifications to carry out the mission of the VIHC and to implement the proper management systems as outlined in the audit.

The Virgin Islands Humanities Council is committed to the Mission and Goals of the organization: *to provide opportunities for the diverse population of the Virgin Islands to participate in humanities programs which promote a love of learning, encourage dialogue, enhance understanding, and broaden people's judgment.*

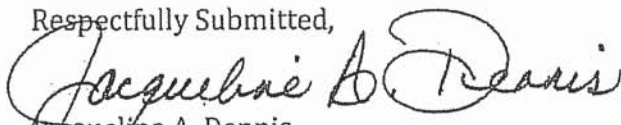
The VIHC is equally committed to our organizational goals as stated on our website:

- Strengthen the organizational structure of the VIHC;
- Engage in efforts of institutional collaboration; and
- Broaden the financial base of the VIHC by actively soliciting private support.

On behalf of the Board of Trustees and the staff of VIHC I pledge our continued commitment to rectifying all of the issues identified in the audit and to the implementation of procedures that will improve the record keeping, reporting and overall operations of the organization.

We look forward to working with the National Endowment for the Humanities as we correct all problems and pursue the mission and goals of the VIHC.

Respectfully Submitted,

  
Jacqueline A. Dennis  
Chair  
Board of Trustees

Cc: The Honorable John P. deJongh, Jr.,  
Governor of the Virgin Islands of the United States  
Board of Trustees

EXHIBITS