



NATIONAL ENDOWMENT FOR THE
Humanities

OFFICE OF INSPECTOR GENERAL

LIMITED AUDIT REPORT

NEH GRANT AWARD

TO

FUNDACIÓN PUERTORRIQUEÑA DE

LAS HUMANIDADES

(BC-50554-10)

OIG-15-02 (EA)

Laura Davis

Laura Davis, Inspector General

September 17, 2015

Date

NATIONAL ENDOWMENT FOR THE HUMANITIES (NEH)
GRANT AWARD TO
FUNDACIÓN PUERTORRIQUEÑA DE
LAS HUMANIDADES

I. INTRODUCTION

The Office of Inspector General (OIG) has completed a limited audit of *We the People* grant BC-50554-10 awarded to the Fundación Puertorriqueña de las Humanidades (“the Council”).

Amount Awarded: \$108,380

Grant Period: November 11, 2010 – October 31, 2013

The Council has submitted a final financial report to the NEH and certified that the related expenditures conform to the intended purpose of the NEH grant award.

II. BACKGROUND

We the People was an NEH initiative designed to encourage and enhance the teaching, study, and understanding of American history, culture, and democratic principles. Through this program, state humanities councils received funding beyond the General Operating Support grants in order to support specific projects related to the *We the People* initiative.

NEH grant BC-50554-10 was awarded to support the Council’s *We the People* project entitled, *The Trails of Borinquen*. The main objective of the project was to develop and publish a bilingual (Spanish-English) cultural and educational resource that aims to provide information about Puerto Rico’s municipalities while emphasizing their unique characteristics in terms of their cultural, historical, ecological, geographical, architectural, and culinary traits. The resource would be published as a CD-ROM and included in the Puerto Rico Online Encyclopedia (PROE)¹.

Funding for the project was intended to support the following activities:

1. Coordination of Project Activities: A Project Coordinator or Production Manager to ascertain that all intellectual and physical tasks are completed to produce the CD-ROM.

¹ The PROE is an educational project of the Fundación Puertorriqueña de las Humanidades. This electronic bilingual publication fulfills the Council’s purpose to meld the humanistic tradition with technology. The PROE also functions as a means for disseminating the resources and projects related to the study of Puerto Rican reality sponsored by the Council.

2. Development of Text Content: Production of content by a team of researchers, content specialists, a translator, and editors.
3. Development of Graphic Design: A graphic artist for the design, graphics, and assembly of the digital tool, and a photographer for specific images.
4. Production of the CD-ROM: Production of content in CD-ROM format with PDF files.
5. Evaluation of Project Activities: An informed evaluation of project activities and of the final project by an external source.

III. LIMITED AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

The principle objectives of this limited audit were to determine whether (1) grant expenditures were made in accordance with applicable provisions of NEH's *General Terms and Conditions for Awards*, and the terms of the approved grant award; and (2) proper controls over the use of Federal funds existed in accordance with minimum standards prescribed in OMB Circulars A-110, *Administrative Requirements for Non-Profit Organizations* (2 CFR Part 215) and A-122, *Cost Principals for Non-Profit Organizations* (2 CFR Part 230).

To accomplish the objectives, we reconciled the final Federal Financial Report (FFR), as submitted by the Council, with the General Ledger for the grant project. We haphazardly selected twenty-four (24) expenditure transactions for testing, totaling \$49,105 (approximately 45 percent of the total grant award). We reviewed supporting documentation for the selected transactions to determine whether the expenditures (1) conformed with OMB Circular A-122, NEH *General Terms and Conditions for Awards*, and the terms of the grant award; and (2) were consistent with activities identified in performance reports submitted by the Council, related to the grant project.

We conducted this limited audit in accordance with *Generally Accepted Government Auditing Standards (GAGAS)* as promulgated by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Fieldwork for this limited audit was performed from June 2014 through July 2014.

IV. RESULTS OF LIMITED AUDIT

According to the final Performance Report submitted by the Council, the proposed objective of *The Trails of Borinquen* project was accomplished and resulted in the production of a CD-ROM with information about the local history and culture of Puerto Rico's municipalities. The Council certified total Federal expenditures related to the project in the amount of \$108,380. Our limited audit identified questioned costs totaling \$6,810, as discussed below.

A. Questioned Costs

The Inspector General Act defines questioned costs as:

- Costs that are questioned because of an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or document governing expenditure of funds;
- A finding that, at the time of the audit, such cost is not supported by adequate documentation; or
- A finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable.

During the course of our testing, we noted expenditures charged to the NEH grant that do not directly support and/or relate to the purpose of the award. According to OMB Circular A-122, to be allowable under an award, costs must be reasonable for the performance of the award and be allocable thereto². A cost is allocable to a Federal award if it (1) is incurred specifically for the award; (2) benefits both the award and other work and can be distributed in reasonable proportion to the benefits received; or (3) is necessary to the overall operation of the organization, although a direct relationship to any particular cost objective cannot be shown³. OMB Circular A-122 further defines direct costs as those that can be identified specifically with a particular final cost objective, i.e., a particular award, project, service, or other direct activity of an organization. Costs identified specifically with other final cost objectives of the organization are direct costs of those cost objectives and are not to be assigned to other awards directly or indirectly⁴.

We question expenditures associated with the following transactions as allowable charges to NEH grant BC-50554-10.

1. Planesia. (\$5,421). We selected two transactions involving the vendor, Planesia, for testing. Each transaction amounted to \$1,807. As support for the selected transactions, the Council provided two invoices from Planesia – each invoice reflecting charges totaling \$904. No additional documentation was provided by the Council to fully support each transaction. According to the invoices, the charges represent monthly webhosting and webmaster fees, particularly for the months of July 2013 and December 2013. We further noted that the ‘Check Requisition’ provided as support for one of the transactions, identifies the transaction as a charge to the internal account assigned by the Council to track expenditure activity related to the PROE, (Account ID 85100). We specifically tested expenditures representing four (4) months of webhosting and webmaster fees, however the Council ultimately charged six (6) months of fees to the NEH award, totaling \$5,421.

Based on our testing, we concluded that the nature of this expenditure is not consistent with the purpose of the *We the People* project, as supported by NEH grant BC-50554-10.

² OMB Circular A-122; Attachment A; Paragraph A.2.a.

³ OMB Circular A-122; Attachment A; Paragraph A.4.a (1).

⁴ OMB Circular A-122; Attachment A; Paragraph B.1.

2. [REDACTED] (\$706). This transaction represents charges for translations of the Council's newsletter and translation of PROE material from Spanish to English. There is no evidence of the relevance of the activities represented by this transaction to the *Trails of Borinquen* project. The titles noted in the vendor's invoice are identical to titles published in the April – June 2013 issue of the Council's newsletter, *FPH Informa*. Additionally, the 'Check Requisition' provided as support for this transaction identifies it as a charge to internal Account ID "85800". The Council tracked expenditure activity related to the NEH grant award using Account ID "79970".

Based on our testing, we concluded that charges for the activities covered by this transaction were not incurred specifically for the *Trails of Borinquen* project and therefore are not allocable to the NEH grant award.

3. [REDACTED] (\$683). According to the invoice provided by the Council, this transaction represents charges for the translation and upload of an article, *Afro-Caribbean Religions in Puerto Rico* to the PROE. This activity appears to be associated with a stand-alone contribution to the PROE, independent of the *Trails of Borinquen* project. No other supporting documentation was provided for this transaction.

Based on our testing, we concluded that this activity does not directly support the purpose of the NEH grant award.

Recommendation A

We recommend that the Council return questioned costs of \$6,810 to the NEH.

SUMMARY OF GRANTEE'S RESPONSE (RECOMMENDATION A)

The Council has investigated the circumstances giving rise to the finding and is proceeding with corrective actions. Management will update written procedures and instruct staff on required compliance between general award and specific grants, as well as regularly monitor grants to ensure compliance. Additionally, the Council will return the questioned costs of \$6,810 to the NEH.

B. Erroneous Reporting of Cost-Share

The Council submitted a final Federal Financial Report (FFR) for NEH grant BC-50554-10 dated March 27, 2014, wherein the Council certified "Recipient Share of Expenditures" in the amount of \$108,380. During our testing, we found that the Council did not specifically track cost-share activity related to the *We the People* award. Instead, third-party contributions in support of the Council's activities (cash and in-kind) are tracked and a portion of the total contributions recognized during the period of the *We the People* award was allocated to the award commensurate with the award amount. The Council explained

that the final FFR was prepared consistent with requirements applicable to the Council's NEH general operating support grant⁵.

According to the NEH *General Terms and Conditions for Awards*⁶, recipients are expected to share the costs of project expenses at the level indicated in the approved project budget. Recipients must also maintain auditable records of all project costs whether they are charged to NEH award funds or supported by cost-sharing contributions. We noted that the NEH-approved budget for the *Trails of Borinquen* project does not reflect anticipated cost-sharing.

Recommendation B

We recommend that the Council re-evaluate "Recipient Share of Expenditures" specifically related to the *Trails of Borinquen* project and correct (as necessary) and resubmit the final FFR for grant BC-50554-10 to the NEH.

SUMMARY OF GRANTEE'S RESPONSE (RECOMMENDATION B)

The Council will update, correct, and resubmit the Final Financial Report (FFR) for the award⁷.

C. Late Report Submissions

We found that the final financial and performance reports were submitted past the respective due dates. A final FFR was submitted on March 26, 2014 and June 13, 2014 (due January 31, 2104) and the final performance report was submitted May 28, 2014 (due January 31, 2014).

According to the NEH *General Terms and Conditions for Awards*, a final performance report and a final FFR shall be submitted to the NEH Office of Grant Management within 90 days after the completion date of the award period.

Recommendation C

We recommend that the Council assess current project close-out procedures and implement measures to avoid late submission of required Federal reports.

⁵ Councils must cost-share 'outright funds' received through general support grants on a dollar-for-dollar basis.

⁶ We the People project grants for State Humanities Councils are distinct from NEH Federal/State Partnership's general support grants for the councils. *We the People* grants must be administered in accordance with the *General Terms and Conditions for Awards* and not the *General Terms and Conditions for General Support Grants to State Humanities Councils*.

⁷ The Council submitted the revised and corrected FFR to the NEH-OIG on September 16, 2015.

SUMMARY OF GRANTEE'S RESPONSE (RECOMMENDATION C)

The Council has reassessed project closeout procedures. The project experienced several events that delayed the submission of the report; however, the Council will revise its procedures and instruct staff to ensure the required compliance.

V. EXIT CONFERENCE

Preliminary results were shared with [REDACTED] (the former Executive Director), [REDACTED] (Fiscal Agent), and [REDACTED] (Accountant) on June 30, 2014 and updated on August 12, 2015. At the time of the exit conference, the Council acknowledged that the FFR reporting format for the grant is incorrect and will recompile cost-share information for grant BC-50554-10.

We issued our limited audit report to the Council on August 27, 2015. The Council provided the OIG with a formal response to the report on September 15, 2015. A complete copy of this correspondence is attached.

GRANTEE RESPONSE TO AUDIT REPORT

September 15, 2015

Ms. Laura Davis
Inspector General
Audit Resolution Section
National Endowment for the Humanities
400 7th Street
Washington, DC 20506

Dear Ms. Davis:

Thank you and your staff for the recommendations regarding the limited Audit Report of BC-50554-10 *We the People "Trails of Borinquen" Project* dated August 27, 2015. The exit conference on your limited Audit was held on June 30, 2014 with an updated communication on August 12, 2015.

Our Council is very grateful for the support of the NEH in this project, which has helped us enhance and consolidate our commitment to the history of Puerto Rico. The following is our response to the findings and the corrective actions taken by the Council. Needless to say, we have discussed and implemented the corrective actions immediately in our regular staff meetings in order to accomplish our duties as a Council.

**RE: Limited Audit Report NEH Grant Award BC-50554-10
OIG-15-02 (EA) We the People Project "Trails of Borinquen"**

Finding 1:

The NEH noted that \$6,810 of the expenditures charged to the NEH grant BC-50554-10 do not directly support and/or relate to the purpose of the award.

Requirements:

According to the OMB Circular A-122, to be allowable under an award, costs must be reasonable for the performance of the award and be allocable thereto. A cost is allowable to be a Federal award if it is (1) incurred specially for the award; (2) benefits both the award and the other work and can be distributed in reasonable proportions to the benefits received; (3) is necessary to the overall operation of the organization, although a direct relationship to any particular cost objective cannot be shown. OMB Circular A-122 further defines direct costs as those that can be identified specially and with a particular final cost objective, i.e., a particular award, project, service or other direct activity of an organization. Costs identified specially with other final cost objectives of the organization are direct costs of those cost objectives and are not to be assigned to the other awards directly or indirectly.

Questioned Costs:

\$6,810

Systemic or Isolated:

This instance of noncompliance is isolated.

Effect of Finding:

The costs referred to above, amounting to \$6,810, were charged to the Grant BC-50554-10, however, they are related with programs or activities, duly approved by the Institution, but to be financed with the General Award Grant.

Recommendation:

NEH recommends the council return the referred cost amounting to \$6,810.

Corrective Action Plan:

The Fundación has investigated the circumstances that gave rise to this finding and is proceeding with the required corrective action. Accordingly, it will update its written procedures and instruct the appropriate staff on required compliance. Management will monitor this issue regularly to ensure compliance. Special attention will be given to the differences in rules and procedures between general award grants and specific awards.

After the submission of this response by management to the result of the NEH limited audit of Grant BC-50554-10, the Fundación will return the referred cost of \$6,810, as recommended. We await instructions on the reimbursement procedures to be followed.

Finding 2:

The Council submitted a Final Financial Report (FFR) for the NEH grant BC-50554-10, wherein the Council certified "Recipient Share of Expenditures" in the amount of \$108,380. The audit reflects that the Council did not specifically track cost-share activity related to the We the People Award.

Requirements:

According to the NEH General Terms and Conditions for Awards, this approved budget of We the People "Trails of Borinquen" does not reflect anticipated cost-sharing.

Questioned Costs:

None

Systemic or Isolated:

This instance of noncompliance is isolated.

Effect of Finding:

The approved budget of "Trails of Borinquen" does not require "Recipient Cost Share" and the Final Financial Report reports that "Recipient Share of Expenditures" reflects cost-shares that belong to the General Grant Award.

Recommendations:

NEH recommends that the council re-evaluate "Recipient Share of Expenditures" specifically related to the Trails of Borinquen Project and correct and resubmit the Final Financial Report (FFR) for grant BC-50554-10 to the NEH.

Corrective Action Plan:

The Fundación will update, correct and resubmit the Final Financial Report (FFR) for grant BC-50554-10 to the NEH by September 15, 2015. The Fundación will also revise its procedures and instruct appropriate staff accordingly to ensure compliance. Special attention will be given to the differences in rules and procedures between general award grants and specific awards.

Finding 3:

NEH found that the final financial and performance reports were submitted past the respective due dates. A final FFR was submitted on March 26, 2014 and June 13, 2014 (due January 31, 2014) and the final performance report was submitted May 28, 2014 (due January 31, 2014).

Requirements:

According to NEH General Terms and Conditions for Awards, a final performance report and a Final Financial Report (FFR) shall be submitted to the NEH Office of Grant Management within 90 days after the completion date of the award period.

Questioned Costs:

None

Systemic or Isolated:

This instance of noncompliance is isolated.

Effect of Finding:

The delays observed in the filing of the subject reports prevented the Fundación from attaining full compliance with a relevant requirement of the award.

Recommendation:

NEH recommends that the council assess current project close-out procedures and implement measures to avoid late submission of required Federal reports.

Corrective Action Plan:

The Management of the Fundación has reassessed project close out procedures, as recommend. In this case, it should be noted, the project experienced several unusual events that delayed the submission of the report. Nonetheless, the Fundación will revise its procedures and instruct the appropriate staff to ensure the required compliance. Special attention will be given to the differences in rules and procedures between general award grants and specific awards. Management will monitor this issue regularly to ensure compliance.

We will summarize your observations and your final action plan in an internal memorandum. The subject memorandum will be discussed with our staff in a formal meeting to reinforce our commitment to comply with all the applicable requirements and to identify other appropriate measures we can implement to ensure full compliance with applicable rules and regulations.

Cordially,



Executive Director