

**LIMITED AUDIT REPORT**

**NEH GRANT AWARDS**

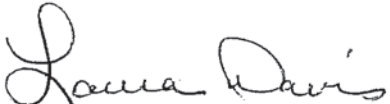
**TO THE**

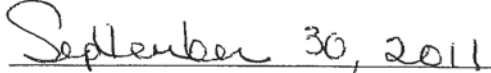
**MEDIEVAL ACADEMY OF AMERICA**

**CAMBRIDGE, MA**

**[FS-50176-08 and RQ-50325-08]**

**OIG-11-03 (EA)**

  
\_\_\_\_\_  
Laura Davis, Acting Inspector General

  
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Date

**LIMITED AUDIT REPORT**  
**NATIONAL ENDOWMENT FOR THE HUMANITIES (NEH)**  
**GRANT AWARDS**  
**TO THE**  
**MEDIEVAL ACADEMY OF AMERICA**  
**CAMBRIDGE, MA**

**I. INTRODUCTION**

We have performed a limited audit of the Medieval Academy of America’s (the “Academy”) records as they relate to the following NEH grant awards.

<u>Grant Number</u>	<u>Grant Period</u>	<u>Amount Awarded</u>
FS-50176-08	10/1/2008 – 9/30/2009	\$153,051
RQ-50325-08	7/1/2008 – 12/31/2011	\$120,000

Grant Expenditures: As noted below, the intent of the grant awards were to 1) support an overseas Summer Seminar (FS-50176-08) and 2) convert thirty-eight hard copy publications to a searchable, electronic format on the Academy’s website (RQ-50325-08). The grantee has conveyed that the related expenditures conform to the intended grant purpose, as stipulated in the individual NEH grant awards.

**II. BACKGROUND**

The Academy, founded in 1925, is the largest professional organization in the world devoted to medieval studies. Its goal is the support of research, publication, and teaching in medieval art, archaeology, history, law, literature, music, philosophy, religion, science, social and economic institutions, and all other aspects of the Middle Ages. The Academy, located in Cambridge, Massachusetts, has been granted tax-exempt status under Section 501(c)(3) of the Internal Revenue Code.

NEH awarded the Academy two separate awards over the past several years; one of which is still active. The first award (FS-50176-08), entitled “Dante’s Divine Comedy and Medieval World: Literature, History, Art”, funded a four week summer seminar for fifteen college and university teachers in Italy that focused on new ways of reading and examining Dante’s *Divine Comedy* by approaching the poem through interdisciplinary perspectives and by contextualizing it within various traditions of medieval culture and civilization. In addition to personnel costs, major line items within the grant budget included participant stipends, funding for several excursions, and classroom space. The goal of the second award (RQ-50325-08), entitled “Retrospective Digital Editions of Print Editions Published by the Medieval Academy of America, 1925 – 2001”, is to digitize thirty-eight hard copy editions previously published in the Academy’s main book series, Medieval Academy Books. All thirty-eight titles will be uploaded on the Academy’s website and made available to the general public free of charge. The grant budget covers publishing contractor costs (\$100,000), proofreading costs, and a small amount of direct salary costs. No fringe or indirect costs are funded by this award.

### III. PRIOR AUDIT COVERAGE

In 2009, the OIG assisted NEH management with the review of the Academy's initial indirect cost rate proposal which was based on the organization's audited expenses for the fiscal year ended December 31, 2007. Due to multiple concerns with this proposal, NEH management limited the Academy's approved indirect cost rate to one specific Federal award (FS-50176-08).

### IV. 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* and the terms of the approved grant awards; and 2) proper controls over the use of the Federal funds exist in accordance with minimum standards prescribed in OMB Circulars A-110 and A-122. 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 Academy supporting the allowability of expenses charged to the NEH grants and reviewed the Academy's related accounting system and internal controls.

### V. RESULTS OF LIMITED AUDIT

Overall, our audit concluded that the Academy needs to strengthen its policies and procedures and implement corrective actions to improve its management of Federal funds. Specifically, we found that the Academy did not:

- Maintain required personnel activity reports;
- Develop or implement written procurement procedures as required by the applicable Federal circulars. Additionally, the Academy neglected to obtain assurance that contractors were not suspended or debarred or otherwise excluded from conducting business with the Federal government;
- Have adequate internal controls in place.

#### Federal Compliance Issues:

##### A. Questioned Costs Due to Lack of Personnel Activity Reports

The Academy does not have policies and procedures that require the maintenance of personnel activity reports. Consequently, the Academy charged personnel expenses to the NEH grants based upon management budget estimates. Personnel costs (salary and fringe) charged to the two grants total \$27,975, broken down as follows:

1. FS-50176-08: Salary: \$15,500; Fringe: \$3,875
2. RQ-50325-08: Salary: \$8,600; Fringe: \$0

The individual NEH grant awards incorporate the uniform administrative requirements of OMB Circular A-122 (2 CFR, Part 230), Attachment B, Section 8m which defines the minimum compliance requirements concerning the support of salaries and wages. Charges to awards for salaries and wages, whether treated as direct costs or indirect costs, will be based on documented payrolls approved by a responsible official(s) of the organization. The distribution of salaries and wages to awards must be supported by

personnel activity reports (i.e. timesheets), except when a substitute system has been approved in writing by the cognizant agency. NEH, the cognizant agency, has not approved a substitute system.

Reports reflecting the distribution of activity of each employee must be maintained for all staff members (professionals and non-professionals) whose compensation is charged, in whole or in part, directly to awards. These reports must reflect an after-the-fact determination of the actual activity of each employee, must be submitted at least monthly, and must be signed by the individual employee or by a responsible supervisory official having first-hand knowledge of the activities performed by the employee. Budget estimates do not qualify as support for charges to awards.

### **Recommendation A**

Due to the above administrative requirements and fact that this reporting requirement was previously communicated to management as part of NEH's review of the Academy's indirect cost rate proposal, we are questioning the full amount of salary/fringe costs (\$27,975) charged by Academy personnel to the NEH grants. Moving forward, the Academy must modify current payroll procedures and incorporate the use of timesheets/formalized level-of-effort reporting for all individuals working on programs supported, in whole or in part, with Federal funds. Per our discussion with the Board Treasurer, it was communicated that the Academy desires more Federal grants to diversify revenue streams therefore the resolution of this issue is imperative.

### **Grantee Response**

Effective September 2011, the Academy began tracking staff time with the introduction of a Grant Activity Report. Furthermore, employees were interviewed and project files reviewed to recreate an estimate of actual hours worked on the two NEH grants. See Exhibit C for a full copy of the Academy's response and an example of the new Grant Activity Report template.

*\*OIG Note:* Although the Academy made a good faith effort and attempted to reconstruct staff time spent on the two NEH grants, this approach of calculating expenses after-the-fact does not conform with the existing Federal compliance requirements.

### **B. Mischarging of Indirect Costs**

The Academy's approved indirect cost rate states that the allocation base consists of "total direct costs exclusive of extraordinary or distorting items such as capital expenditures, participant support costs applicable to conferences, the portion of each individual subgrant or subcontract in excess of \$25,000, flow-thru funds, and stipends/fellowships."

We determined that the Academy incorrectly treated the project director associated with grant FS-50176-08 as an employee (reported on the salary and fringe lines) versus an independent contractor, [See Finding C]. Since the individual was paid \$30,056, the amount in excess of \$25,000 should have been excluded from the indirect cost base, (\$5,056). Additionally, the Academy charged indirect costs to the grant as reflected in the NEH-approved budget rather than calculating allocable indirect costs based on actual project direct costs, exclusive of extraordinary or distorting items.

Indirect costs allocable to NEH grant FS-50176-08 are computed as follows:

Total Direct Expenditures Recommended by NEH OIG	\$112,074
Less: Participant Stipends	(42,681)
Subcontracts in excess of \$25,000	(5,056)
Institutional Charges	(11,920)
Total IDC Allocation Base	\$ 52,417
NEH-Approved IDC Rate	@ 20%
Indirect Costs Allocable to Grant	\$ 10,483
Indirect Costs Charged by the Academy	15,802
Difference	<u>\$ 5,319</u>

### **Recommendation B**

The Academy must refund the \$5,319 representing indirect costs improperly charged to NEH grant FS-50176-08.

### **Grantee Response**

Management concurs with the finding and will refund the unallowable indirect costs. See Exhibit C for a full copy of the Academy's response.

### **C. Improper Classification of Contractor versus Employee**

As noted above, the Academy incorrectly classified the project director associated with grant FS-50176-08 as an employee. This individual, who does not work for the Academy, actually represents an independent contractor.<sup>1</sup> This is further supported by the fact that the Academy did not withhold social security or income taxes for this individual.

Ensuring proper classification is critical since an error directly impacts both the fringe and the indirect costs charged to the grant resulting in questioned costs.

### **Recommendation C**

We recommend the Academy adopt the use of a checklist (such as IRS form SS-8) when determining whether an individual working for the organization represents an employee or an independent contractor. Errors in classification can negatively impact the Academy resulting in the miscalculation of indirect costs allocable to Federal grants, fines from the IRS and/or Department of Labor, etc.

### **Grantee Response**

Management concurs with the finding. Effective September 2011, the Academy will adopt the use of a checklist and consult with the newly hired payroll firm if necessary (see Recommendation G below). See Exhibit C for a full copy of the Academy's response.

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<sup>1</sup> As defined by Internal Revenue Service (IRS) publication SS-8 - Determination of Worker Status for Purposes of Federal Employment Taxes and Income Tax Withholding.

#### **D. Lack of Formal Procurement Policies/Procedures**

The Academy has not implemented formal procurement policies/procedures as required by OMB Circular A-110 (2 CFR Part 215). Specifically, a written procurement procedures and policies manual does not exist. Consequently, formal contracts that include the specific provisions stipulated in OMB Circular A-110, Appendix A, were not executed with the two contractors paid over \$25,000 with Federal funds. In one instance, the Academy relied upon the bid submitted by the selected vendor to govern the contractual relationship with the vendor (NEH Grant RQ-50325-08). Likewise, payments to the independent contractor (Project Director) involved with NEH Grant FS-50176-08 were based upon the budget submitted with the NEH grant application. Furthermore, there is no evidence that the Academy gained the proper assurance that these two contractors were neither suspended nor debarred from conducting business with the Federal government.

The individual NEH grant awards incorporate OMB Circular A-110 (Section .40), "Uniform Administrative Requirements", and government-wide debarment and suspension guidelines (2 CFR Parts 180 and 3369) which define obligatory procurement standards associated with the management of Federal grants.

#### **Recommendation D**

We ultimately concluded that the rates charged by these contractors appear reasonable and neither of the contractors are currently suspended or debarred by the Federal government, based on our search of the Excluded Parties List System (EPLS). However, the acceptance of Federal funds requires the grantee to develop systems and procedures to ensure compliance with various Federal procurement standards. Accordingly, the Academy must draft a written procurement policy and procedures manual that adheres to Federal procurement standards; utilize formal contracts that incorporate all key provisions of OMB Circular A-110 to include Appendix A; and implement new procedures to verify that contractors and program participants are not suspended/debarred by the Federal government.

#### **Grantee Response**

Management concurs with the finding and therefore drafted a written procurement policies/procedures manual which will become effective October 2011. See Exhibit C for a full copy of the Academy's response and the related policy manual.

#### **Internal Control Findings:**

#### **E. Segregation of Duties**

Due to the small number of staff working at the Academy, the majority of the accounting functions are performed by one individual, the Assistant to the Executive Director. Two areas of interest were identified:

1. *Disbursements*: The Assistant to the Executive Director inputs all disbursement transactions into the accounting software, writes checks, acts as the primary check signor (note: only one signature required), and mails out the checks.
2. *Bank Reconciliations*: The Assistant to the Executive Director, who performs the bulk of the Academy's accounting duties, also performs the bank reconciliations.

## **Recommendation E**

In an effort to properly segregate accounting duties we recommend the following:

Disbursements: To reduce the risk of potential malfeasance, no one individual should perform all accounting procedures within a specific accounting cycle such as payroll or disbursements. In an effort to improve internal controls, we recommend that the current individual handling the disbursement accounting function be completely removed as a check signor with either of the current back-up signors assuming this role. Additionally, the organization may want to consider adding a second signature requirement for checks over a certain material dollar threshold.

Bank Reconciliations: Ideally, an individual independent of the day-to-day accounting functions (receipting and disbursements) should prepare the bank reconciliations since this procedure represents a critical internal control check. If the reassignment of duties is not feasible due to the small number of staff, we recommend that a member of Board governance (Treasurer or Finance Committee) start reviewing the bank reconciliations on a timely basis. As part of this process, the reviewer should begin receiving a set of unopened bank statements directly from the bank. Currently, the Executive Director performs the review function but this appears to be a weakly executed control as evidenced by Finding F below.

### **Grantee Response**

Management concurs with the finding. Concerning the disbursement process, the bookkeeper has been removed as a signatory on the bank account and all checks over \$250 now require two signatures. Moreover, effective immediately, bank reconciliations will now be prepared monthly (within 20 days of month-end) and reviewed by the Treasurer/Chair of the Finance Committee. See Exhibit C for a full copy of the Academy's response.

#### **F. Timely Bank Reconciliations**

As noted above, timely bank reconciliations represent a critical component of a strong internal control system. During our testing, we determined that the Academy only prepares bank reconciliations twice a year (June 30<sup>th</sup> & December 31<sup>st</sup>).

### **Recommendation F**

We recommend that the bank reconciliations be performed (and reviewed) monthly. Timely identification of reconciling items is critical to a strong internal control environment and acts as a fraud deterrent. Also see Recommendation E above.

### **Grantee Response**

Management concurs with the finding. See response to Recommendation E above for details.

#### **G. Payroll Processing**

As part of our limited audit, we learned that the Academy processes payroll in-house.

## Recommendation G

Although we did not identify any control deficiencies involved with the payroll process, we strongly suggest that this function be outsourced to a third party payroll service provider due to the frequent changes in the related laws/withholding rates, and the potential for non-compliance and associated fines. Additionally, these payroll experts can be consulted in unique cases such as the employee vs. contractor issue identified in Findings B and C above.

## Grantee Response

Management concurs with the finding. Beginning October 2011, the Academy will outsource the payroll function to ADP. See Exhibit C for a full copy of the Academy's response.

## Other Comments:

### H. Deficient Audit Report - Fiscal Year Ended December 31, 2009

The Academy's independent auditor (IPA) issued a clean (unqualified) audit opinion for the most recent year audited (December 31, 2009). However, as part of our review, we identified material departures from generally accepted accounting principles (GAAP) in these financial statements. In particular, several errors were identified with the statement of activities to include:

1. *Functional allocation of expenses*: Expenses related to more than one functional area (program, management & general, fundraising, etc.) should be allocated among the appropriate functions (see FASB ASC<sup>2</sup> 958-720 and the AICPA Audit and Accounting Guide-Not for Profit Entities, Chapter 13). We noted that salary and fringe expenses, which represent a material component of total expense and impact all facets of the Academy's operations, were entirely charged to the management and general functional category. The typical basis used to functionally allocate labor costs represents level of effort reporting (i.e. timesheets). Also see Finding A above.
2. *Restricted expenses*: All expenses reported on the statement of activities should be reported as decreases in unrestricted net assets (see FASB ASC 958-225-45). The 2009 audit report improperly treated expenses, in excess of \$206,000, as permanently restricted. To conform with GAAP, these costs should have been presented as unrestricted with an offsetting release amount reported in the revenue section (i.e. net assets released from restriction).
3. *NEH Grant Revenue*: Non-profit organizations must report revenues and net assets in one of three ways (unrestricted, temporarily restricted, or permanently restricted) based upon donor-imposed restrictions. In particular, temporarily restricted net assets include donor-imposed restrictions that either expire by passage of time or fulfillment of a purpose restriction. Permanently restricted net assets neither expire by passage of time or fulfillment of a specific purpose restriction (see FASB ASC 958-210).

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<sup>2</sup> FASB = Financial Accounting Standards Board; ASC=Accounting Standards Codification



Based upon the above guidance, the NEH grants represent temporarily restricted revenue streams since a specific purpose restriction applies to each award (conduct a summer seminar and digitize 38 hard-copy publications). However, the 2009 financial statements depict the NEH funds as permanently restricted net assets, as reported in the statement of activities and Footnote 4. Even more peculiar, a portion of this balance is “released” through the improper reporting of permanently restricted expenses (see Comment H2 above).

### **Recommendation H**

We recommend management address the above issues and ensure they are corrected during the upcoming audit. Furthermore, management may want to consider rotating auditors due to the technical deficiencies noted and the fact that the current IPA has been used for many years (i.e. “fresh set of eyes”).

### **Grantee Response**

Management concurs with the finding. The Academy plans to solicit bids and hire a new auditor for the 2011 audit. Furthermore, audit firms will be rotated on a periodic basis. Additionally, the Academy plans to update the current chart of accounts and implement new policies/procedures to ensure proper financial reporting. See Exhibit C for a full copy of the Academy’s response.

### **I. Approved Indirect Cost Rate (IDC)**

The Academy’s current indirect cost rate was issued by NEH, acting as the Federal cognizant agency, on August 17, 2009. Due to multiple issues encountered with the Academy’s IDC proposal, the rate ultimately approved has been restricted to one specific NEH grant award (FS-50176-08). Typically, an approved IDC rate would apply to all Federal awards.

### **Recommendation I**

We understand the Academy wishes to expand the number of Federal awards administered. Accordingly, the current IDC agreement will, most likely, need to be revisited. In order to receive an entity-wide rate, available for use on all Federal awards received by the Academy, a revised IDC cost proposal will need to be submitted to the Federal cognizant agency. The expense classification issues identified in Finding H above must be resolved prior to preparing a revised indirect cost proposal.

### **Grantee Response**

Once management resolves the issues discussed in Recommendation H, a new entity-wide IDC proposal will be submitted (anticipate a date in early 2012). See Exhibit C for a full copy of the Academy’s response.

## VI. STATUS OF NEH AWARDS

### NEH Grant FS-50176-08

The Academy submitted a Final Financial Report to NEH dated December 18, 2009 which reflects total Federal expenditures of \$147,261.64. Our limited audit disclosed questioned costs totaling \$24,694, (See Exhibit A). The Academy has received \$152,615. We recommend that the Academy return \$30,047 to the NEH as follows:

Questioned due to the limited audit	\$24,694
Unexpended Federal funds <sup>3</sup>	<u>5,353**</u>
Total	<u>\$30,047</u>

\*\*Calculated as follows: Total NEH receipts (\$152,615) less actual outlays (\$147,262).

### NEH Grant RQ-50325-08

This grant period ends December 31, 2011. As of the date of fieldwork testing (December 17, 2010), the Academy expended \$28,556 related to the grant. Of the total expended, our limited audit disclosed questioned costs totaling \$8,600 (See Exhibit B).

## VII. AUDIT WRAP-UP

The preliminary results of the audit were discussed with the Academy's Treasurer on February 2, 2011. Subsequent to this date, the limited scope audit report was produced, communicated to the Academy's management (August 5, 2011), and officially issued (August 9, 2011). The Academy subsequently submitted a formal response to the NEH Office of Inspector General on September 22, 2011.

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<sup>3</sup> Per Mr. Paul Szarmach (Executive Director), the unspent funds of \$5,353 were returned to NEH on July 25, 2011.

## EXHIBIT A

Medieval Academy of America  
Cambridge, MA  
Schedule of Questioned Costs - NEH Grant FS-50176-08

Budget/Cost Line Item	Per NEH-Approved Budget	Actuals Per General Ledger	Recommended By NEH OIG	Questioned	Reference
Participant Stipends	\$ 48,000	\$ 42,681	\$ 42,681	\$ 0	
Salaries and Wages	39,545	39,545	-	39,545 *	Findings A and C
Fringe Benefits	9,886	9,886	-	9,886	Findings A and C
Supplies and Materials	2,000	1,194	1,194	-	
Services, including website construction for publicity	3,000	2,250	2,250	-	
Selection Committee	500	500	500	-	
Consultant Fees and Honoraria	2,650	2,650	32,706	(30,056) *	Finding C
Project Assistant in Prato	3,000	3,000	3,000	-	
Professional Travel and Subsistence	9,436	11,011	11,011	-	
Field Trips	8,992	6,813	6,813	-	
Institutional Charges	10,240	11,920	11,920	-	
Total Direct Expenditures	<u>\$ 137,249</u>	<u>\$ 131,450</u>	<u>\$ 112,074</u>	<u>\$ 19,375</u>	
Indirect Costs	15,802	15,802	10,483	5,319	Finding B
Total Expenditures	<u>\$ 153,051</u>	<u>\$ 147,252</u>	<u>\$ 122,558</u>	<u>\$ 24,694</u>	
Plus: Opening Cash Balance		10			
Total Federal Expenditures Reported		<u>\$ 147,262</u>			

\* Mr. Kleinhenz was determined to be a consultant, not an employee therefore the related costs were reclassified from salaries (\$24,045) and fringe benefits (\$6,011) to the consultant fees budget line item above.

Medieval Academy of America  
Cambridge, MA

Schedule of Questioned Costs - NEH Grant RQ-50325-08

<u>Budget/Cost Line Item</u>	<u>Per NEH-Approved Budget*</u>	<u>Actuals Per General Ledger**</u>	<u>Recommended By NEH OIG</u>	<u>Questioned</u>	<u>Reference</u>
Salaries and Wages	\$ 8,600	\$ 8,600	\$ -	\$ 8,600	Finding A
Consultant Fees	7,200	4,000	4,000	-	
Travel	3,130	628	628	-	
Services	100,000	15,328	15,328	-	
Miscellaneous*	1,070	-	-	-	
Total Direct Expenditures	<u>\$ 120,000</u>	<u>\$ 28,556</u>	<u>\$ 19,956</u>	<u>\$ 8,600</u>	
Indirect Costs	-	-	-	-	
Total Expenditures	<u><u>\$ 120,000</u></u>	<u><u>\$ 28,556</u></u>	<u><u>\$ 19,956</u></u>	<u><u>\$ 8,600</u></u>	

\* Submitted budgeted totaled \$118,930, yet the NEH awarded \$120,000 therefore the Miscellaneous line item was added.

\*\* Represents cumulative actual expenditures as of December 17, 2010.

# Exhibit C

## **The Academy's Response to the OIG Audit Report**

# THE MEDIEVAL ACADEMY OF AMERICA

104 Mount Auburn Street, 5<sup>th</sup> Floor, Cambridge, MA 02138

Tel: 617-491-1622 Fax: 617-492-3303

info@themedievalacademy.org

Thursday, September 22, 2011

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

RE: Audit Report OIG-11-03 (EA)

Pursuant to your letter and report of August 9, 2011, and a subsequent extension allowing us 15 additional days to respond, we are writing to express our appreciation, first of all, for your guidance, particularly the guidance of Steve Elsberg, and our appreciation for the opportunity to respond to your audit and to revise the practices that have been followed at the Medieval Academy.

We assumed the role jointly on September 1, 2011 of the Executive Directors of the Academy, and it is indeed the intention of this organization to continue to pursue grants, including federal grants, to allow us to continue to carry out our work in the Humanities on behalf of our members, grantees, and the public good.

As a consequence, we had engaged a CPA to help us review your audit and provide us with guidelines for complying with your recommendations. We are attaching a copy of his report here.

We are pleased to let you know that we have accepted all of his recommendations, and specifically:

- Recommendation A: As of September 1, 2011, we are instituting the use of a monthly Grant Activity Report, as per the attached document from our accountant (Appendix A), for all work allocated to grant activity. In addition, after a review of the files for Grants NEH FS-50176-08 and RQ-50325-08, where respectively \$19,375 and \$8,600 were charged to salaries and benefits (total = \$27,975), we attach a summary (Appendix C) of the work performed by the staff on these projects.
- Recommendation B: We will refund the \$5319 of mischarged direct costs. In fact, in July 2011 we sent a check \$5353.
- Recommendation C: We will adopt the use of a checklist (such as SS-8 forms) for all individuals being paid by the grant funds, effective September 1, 2011.

## THE MEDIEVAL ACADEMY OF AMERICA

- Recommendation D: We have drafted a written procurement policy and procedure manual based on OMB Circular A-110 (Appendix B) and will adopt procurement policies and procedures as outlined therein as of October 1, 2011.

- Recommendation E: On August 24<sup>th</sup> 2011, the Bookkeeper was removed as a signatory on the bank accounts, and the current signatories are now any one of the two Executive Directors or the Associate Director. At the same time we changed our bank accounts to require two signatures on all checks over \$250.

Recommendation F: Effective immediately the bank reconciliations will be completed with 20 days of the end of the banking statement and we will forward the reconciliation statement to the Treasurer/Chair of the Finance Committee to review.

- Recommendation G: As of the October pay periods ADP will take over responsibility for the payroll of the Medieval Academy.

- Recommendation H: We will hire a new auditor at the end of the year, based on competitive bids from three firms, for the 2011 audit. With the 2012 audit, we will institute a system of rotating auditors on a regular basis. Our accountant has already begun — as of September 11<sup>th</sup> — to revamp the accounting structure and procedures. We expect this work to be completed by September 30<sup>th</sup>.

- Recommendation I: We discussed with Steve Elsberg structuring the IDC proposal. Our accountant will work with us to revise the current one once the issue of the expense allocation is resolved. We anticipate that in early 2012 we will be in a position to submit an IDC proposal to the appropriate Federal agency.

We hope that you will contact us directly if you have any questions regarding our response. We look forward to resolving all outstanding issues as soon as possible and to working with the NEH in the future.

Sincerely,



Eileen Gardiner, Ph.D.  
Executive Director



Ronald G. Musto, Ph.D.  
Executive Director

September 20, 2011

The Medieval Academy of America  
104 Mount Auburn St, 5<sup>th</sup> Floor  
Cambridge, MA 02138

Re: Replying to the Recommendations of the NEH Audit

This report contains an evaluation of the audit conducted by the National Endowment for the Humanities (NEH). The audit report contains nine recommendations that the Academy should deal with for ongoing and future grants.

For each recommendation in the audit, I have quoted the sentences that highlight the issue followed by my recommendation on how to best correct these deficiencies.

Overall, the issues stem from a lack of bookkeeping and record-keeping procedures and poor attention to grant provisions.

Prepared by [REDACTED], CPA



### Recommendation A

“...the Academy must modify current payroll procedures and incorporate the use of timesheets/formalized level-of-effort reporting for all individuals working on programs supported, in whole or in part, with Federal funds.”

To comply, I have attached Appendix A – Grant Activity Report. I recommend that any employee working on a granted project document work done through the attached spreadsheet. A percentage of salary and benefits can then be applied to the grant by the bookkeeper. It should be filled out on a monthly basis, submitted to the bookkeeper by the 10<sup>th</sup> of the following month. The bookkeeper will only apply an allocation to the grant after receiving the timesheet.

### Recommendation B

“The Academy must refund the \$5,319 representing indirect cost improperly charged to NEH grant FS-50176-08.” This amount reflects the allocation of indirect costs, calculated by the NEH by using actual project costs. The audit states that “...the Academy charged indirect costs to the grant as reflected in the NEH-approved budget, rather than calculating allocable indirect costs based on actual project direct costs.”

The audit found that certain costs allocated to the grant are not allowed. Firstly, a contractor was listed as an employee. That contractor was paid \$30,056 related to the project, yet the grant allows a maximum of \$25,000 for “support costs applicable to conferences.” This finding is valid.

The other part of this finding is that there were no timesheets submitted by the then executive director. The amount allocated to the project was \$19,375 (\$9,489 in Wages and \$9,886 in Fringe Benefits). The Academy should attempt to get a narrative from the former executive director about his work on this grant. If accepted in full, this would reduce the amount owed by \$3,875 ( $\$19,375 \times 20\%$ ), bring the charge to \$1,444.

### Recommendation C

“We recommend the Academy adopt the use of a checklist (such as IRS form SS-8) when determining whether an individual working for the organization represents an employee or independent contractor.”

The Academy correctly paid the contractor in question as a contractor. The problem arose when his fees were listed as an employee cost when reporting grant expenditures. Going forward, the Academy should consult with ADP (the new outsourced payroll provider) when there is a question on whether an individual is an employee or a contractor. Documentation of this evaluation should be retained.

#### Recommendation D

“...the Academy must draft a written procurement policy and procedures manual that adheres to Federal procurement standards; utilize formal contracts that incorporate all key provision on OMB Circular A-110 to include Appendix A; and implement new procedures to verify that contractors and program participants are not suspended/debarred by the Federal government.”

The Academy should adopt the procurement policies and procedures outlined in Appendix B, which includes utilizing formal contracts and checking the EPLS site ([www.epls.gov](http://www.epls.gov)) to ensure that the person or organization is not debarred or suspended by the Federal government.

#### Recommendation E

“In an effort to properly segregate accounting duties we recommend the following:

Disbursements: ...the current individual handling the disbursement accounting function be completely removed as a check signor with either of the current back-up signors assuming this role. Additionally the organization may want to consider adding a second signature requirement for checks over a certain material dollar threshold.”

The Academy has already removed the bookkeeper as a check signor. The new signors are the two Executive Directors and the Associate Director. Two signatures are required for any check over \$250. This threshold will be evaluated and raised if appropriate.

Bank Reconciliations: ...we recommend that a member of the Board governance (Treasurer or Finance Committee) start reviewing the bank reconciliations on a timely basis.”

I recommend the Treasurer and/or the Finance Committee to review the bank reconciliations on a monthly basis.

#### Recommendation F

“We recommend that the bank reconciliations be performed (and reviewed) monthly.”

I recommend that the bookkeeper perform the bank reconciliations within 20 days of the ending date of the bank statement and forward the statement and reconciliation report to the Treasurer and/or Finance Committee for review.

#### Recommendation G

“...we strongly suggest that this function {the payroll process} be outsourced to a third party payroll service provider due to the frequent changes in the related laws/withholding rates, and the potential for non-compliance and associated fines.”

Starting on October 1, 2011, the Academy will outsource its payroll to ADP. The bookkeeper will run the payroll, and the reports will be sent to both the bookkeeper and the executive directors for review.

#### Recommendation H

“We recommend management address the above issues {listed below} and ensure they are corrected during the upcoming audit. Furthermore, management may want to consider rotating auditors due to the technical deficiencies noted and the fact that the current IPA has been used for many years (i.e. ‘fresh set of eyes’).

1. Functional allocation of expenses: Expenses related to more than one functional area (program, management & general, fundraising, etc.) should be allocated among the appropriate functions...

2. Restricted expenses: All expenses reported on the statement of activities should be reported as decreases in unrestricted net assets...

3. NEH Grant Revenue: ...the NEH grants represent temporarily restricted revenue streams since a specific purpose restriction applies to each award (conduct a summer seminar and digitize 38 hard-copy publications). However, the 2009 financial statements depict the NEH funds as permanently restricted net assets, as reported in the statement of activities and Footnote 4. Even more peculiar, a portion of this balance is “released” through the improper reporting of permanently restricted expenses...”

The issues identified in this section are particularly troubling. First, I would recommend that the Academy seek out a new auditor. But the problems start with the accounting system. I am in the process revamping the accounting structure and setting up proper procedures. This will involve documenting new policies and procedures to ensure proper classification.

#### Recommendation I

“In order to receive entity-wide rate, available for use on all Federal awards received by the Academy, a revised IDC cost proposal will need to be submitted to the Federal cognizant agency. The expense classification issues identified in Finding H above must be resolved prior to preparing a revised indirect cost proposal.”

As stated, the indirect cost agreement cannot be revised until the expense allocation issue is resolved.



## APPENDIX B – PROCUREMENT POLICIES AND PROCEDURES

The following policies and procedures will be followed at all times when the Medieval Academy of America is using federal funds to purchase supplies, property, equipment and services from an external source:

### **I. General Contract Award Management Policy**

(1) No Medieval Academy officer, employee, and/or agent will participate in the selection, award, and/or administration of any contract for equipment, materials, and supplies or consulting or professional services if a real or apparent conflict of interest would be involved. Such a conflict will arise when:

- a. the employee, officer, or agent;
- b. any member of his/her immediate family;
- c. his/her partner; or
- d. an organization which employs or is about to employ, any of the above

has a financial or other interest in the firm or individual selected for award.

(2) The Medieval Academy's officers, employees, and/or agents shall neither solicit nor accept gratuities, favors, or anything of monetary value from contractors, potential contractors, or parties to sub-agreements.

(3) The Medieval Academy will conduct a cost or price analysis and document such analysis in the procurement files in conjunction with every procurement action.

(4) If a contract is competitively bid, the Medieval Academy will enter into a contract with the winning bidder that specifies the services to be completed and payment terms.

(5) At a minimum, to adequately evaluate contractor, consultant, and supplier performance, the Medieval Academy will evaluate each respective provider of goods and services performance at the completion of each contract. This evaluation will be utilized when making award decisions for future contracts. Evaluations may be conducted on a more frequent basis if deemed necessary.

(6) Procurement records and files will include the basis for contractor selection, justification for the lack of competition when competitive bids or offers are not obtained, and basis for award.

### **II. Acquisition Policy for Goods and Services**

The following procurement procedure applies to all purchases of goods and services, including equipment, materials, supplies and professional and consulting services.

Employees will conduct all procurement transactions in a manner that maximizes

free and open competition. Awards should be made to the bidder or offeror whose bid or offer is responsive to the solicitation and is most advantageous to the recipient, price, quality and other factors considered. The Medieval Academy reserves the right to reject any and all bids or offers, if deemed to be in its best interest.

The Medieval Academy may select from numerous methods of procurement, depending on the amount of the purchase and other considerations. Following are a few examples of possible procurement procedures that the Medieval Academy may choose to use:

(1) Open Market Inquiry. The Executive Director, or other qualified individuals delegated by the Executive Director, may inquire in the open market to ensure that the price and quality is the most advantageous to the Medieval Academy.

(2) Request Competitive Oral Quotes. The Executive Director or his/her designee may request competitive quotes orally. A file shall be kept with an abstract of invitations made and offers received.

(3) Request Written Quotes from at Least three Different Sources. For purchases and contracts involving a single project or activity, the Executive Director or his/her designee may request and receive written quotations from at least three independent sources. A file shall be kept with an abstract of invitations made, offers received, and the criteria for selection.

(4) Request Written Competitive Responses through a Formal Request for Proposal Procedure. For large purchases and contracts, the Executive Director or his/her designee may solicit competitive responses through a formal written request for proposal procedure. Bids will remain sealed until the opening time designated in the request for proposals. All requests for proposals shall contain the phrase "Equal Opportunity Employer."

For the largest purchases the Medieval Academy makes, after reviewing the bids received, the Executive Director or his/her designee shall make a recommendation to the Medieval Academy Executive Committee regarding which bid to accept. A majority of the committee must accept the bid via formal vote before a contract is executed for the service.

A file shall be kept with a copy of the request for proposal, a list of individuals/organizations solicited for bids, and a bid sheet that lists the bids received by individual/organization and their respective bid price. In all instances in which the lowest bid is not awarded the contract, justification documentation, such as a memo outlining the selection criteria, shall be placed in the file.

### **III. Property/Equipment Standards**

When purchasing property (both real property and equipment), the following procedures will be followed:

- (1) Title to all property purchased with federal funds will vest with the Medieval Academy.
- (2) Property records will be kept showing the general name of the property, identification number, original cost, and depreciated value. These records will be reviewed and necessary revisions made on an annual basis at the end of the Medieval Academy's fiscal year.
- (3) The Medieval Academy will provide the equivalent insurance coverage for real property and equipment regardless of how the property was acquired by the organization.
- (4) Equipment purchased, with a purchase price in excess of \$5,000, with federal funds is generally considered the property of the federal government and must be disposed of through a set procedure. When disposing of equipment with an acquisition cost in excess of \$5,000, the Medieval Academy will follow the respective funding program's disposal regulations.

### **V. Federal Debarment Standard**

A. When purchasing goods and services through the utilization of federal funding, the Medieval Academy will ensure that the contract awardee is not debarred or suspended from doing business with the federal government nor delinquent in a debt to the United States as defined in OMB Circular A 1-29. Before a contract is awarded, staff from the Medieval Academy will consult the Federal Government's General Services Administration ("GSA")'s "List of Parties Excluded from Federal Procurement or Non-procurement Programs."

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September 20, 2011

## Appendix C

### Report on Staff Activities for NEH Grants

#### RQ-50325-08

The amount charged to staff salary for this grant is comprised entirely of the work of [REDACTED], Associate Director of the Medieval Academy. It represents 168 hours of her time, during which she worked on the digitization of 38 books. Based on interviews with [REDACTED] and [REDACTED] (Assistant to the Executive Directors), and a review of the project files, her time would be allocated as below. This allocation is also verified against our previous experience as the Directors of ACLS Humanities E-Book (<http://www.humanitiesesebook.org>), which since 2002 has digitized and published over 3,300 books online, following a similar production process, which we developed, including multiple layers of quality control, both pre- and post-scanning.

Quality control of books sent to vendor for digitization (page-by-page review of physical book for scanability)	12 hours
Review of scanned files received from vendor for clarity and completeness	38 hours
Relaying issues to the vendor for revisions	7 hours
Review resubmitted scanned files from vendor	5 hours
Preparing guidelines for specialist reviewers	10 hours
Submitting files to, and corresponding with, specialist reviewers	18 hours
Reviewing comments of specialist reviewers	38 hours
Reporting to vendor on required revisions	8 hours
Final review of corrected files	30 hours
Submitting payment requests for specialist reviewers	<u>2 hours</u>
TOTAL	168 hours



# THE MEDIEVAL ACADEMY OF AMERICA

**FS-50176-08**

The amount charged to staff salary for this grant is comprised entirely of the work of [REDACTED], former Executive Director of the Medieval Academy (2006–2011). It represents 168 hours of his time, during which he worked as project coordinator for a 4-week Summer Seminar in Italy on Dante's *Divine Comedy*. Based on interviews with [REDACTED] (Associate Director) and [REDACTED] (Assistant to the Executive Directors), and a review of the project files, it is estimated that his time would be allocated as follows.

Pre-Seminar:

- Meet with NEH (October 2008) 8 hours
- Prepare promotional materials 10 hours
- Prescreen approximately 75 applications 34 hours
- Coordinate hosting arrangements with Monash University's Center in Prato, Italy 12 hours

Seminar (The Executive Director/project coordinator was present for the entire four-week seminar.)

- Coordinated the logistics and activities on site in Italy, including site and museum visits for 15 students, 4 lecturers and the seminar director 92 hours

Post-Seminar

- Solicited and reviewed reports of the project director on the seminar 12 hours

TOTAL 168 hours