



NATIONAL ENDOWMENT FOR THE
Humanities

OFFICE OF INSPECTOR GENERAL

LIMITED AUDIT REPORT

NEH CHALLENGE GRANT AWARD

TO

**HARVARD UNIVERSITY - CENTER FOR
AMERICAN POLITICAL STUDIES (CAPS)**

(CZ-50178-08)

OIG-16-01 (EA)

Laura Davis
Laura Davis, Inspector General

February 22, 2016
Date

**LIMITED AUDIT REPORT
NATIONAL ENDOWMENT FOR THE HUMANITIES (NEH)
GRANT AWARD
TO
HARVARD UNIVERSITY**

I. INTRODUCTION

We have performed a limited audit of Harvard University's (the "University") records as they relate to the following NEH challenge grant award.

<u>Grant Number</u>	<u>Grant Period</u>	<u>Amount Offered</u>
CZ-50178-08	9/1/2006 - 7/31/2014	\$875,000

Matching Gifts: As documented in Certification Report No. 5 (dated February 20, 2015), the University certified that eligible gifts totaling \$967,754 were received and used to meet the 3-to-1 matching requirement. This signed document also asserts that all restricted gifts were made in response to the NEH challenge grant; the gifts meet the criteria for eligibility, as established by NEH; and the associated funds were expended for the intended grant purposes. Furthermore, the University confirmed that documentation substantiating the source, purpose, eligibility, and expenditure of the individual gifts exists and has been retained. Based upon the submission of certification reports, NEH released \$375,000 in Federal matching funds.

Grant Expenditures: As noted below, the award was intended to provide bridging funds for the first three years of the University's American Republic Initiative and support the creation of a permanent endowment. In February 2015, the University submitted a final financial report to the NEH and certified Federal expenditures in the amount of \$316,992. The University conveyed that these expenditures conformed to the intended grant purpose(s), as stipulated in the approved budget for the NEH challenge grant award.

II. BACKGROUND

Governed by an interdisciplinary group of political scientists, sociologists, historians, and economists within the Faculty of Arts and Sciences at Harvard University, the Center for American Political Studies (CAPS) fosters discussion, research, public outreach, and pedagogy about all aspects of U.S. politics.

The CAPS grant application entitled, *The American Republic Initiative at Harvard University*, resulted in a capacity-building challenge grant award anticipated to raise a total of \$3,500,000.¹ The grantee was to invest \$3,125,000 in a permanent endowment, which is expected to permanently support three core initiatives:

- the American Republic Initiative's Visiting Professorship in American Political Thought and Institutions (\$75,000/year);

¹ The NEH challenge grant offer of \$875,000, included a matching requirement. To receive the full Federal offer, the University was required to raise \$2,625,000 in non-Federal gifts (i.e. 3-to-1 matching requirement). The cumulative value of the Federal and non-Federal match totals \$3,500,000.

- graduate student fellowships/stipends for the Study of the American Republic (\$40,000/year); and
- ongoing Summer Institutes for local secondary teachers, (\$10,000/year).

The remaining \$375,000 was earmarked to cover the cost of these programs during the initiative's first three years (i.e. "bridge" funds).

According to the University's final performance and financial reports, the entity failed to satisfy the challenge grant matching requirement of \$2,625,000 due to challenges posed by the downturn in the US economy. As a result, the University is not entitled to the full \$875,000 in Federal matching funds offered. In aggregate, \$316,992 of the NEH funds received were ultimately expended as bridging funds or invested in the related endowment fund managed by the Harvard Management Company (HMC).

III. PRIOR AUDIT COVERAGE

The University has not been subject to an NEH-OIG audit during the past fifteen years.

IV. LIMITED AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

The principal objectives of this limited audit were to determine whether (1) the matching gifts certified by the University meet the challenge grant eligibility requirements; and (2) grant expenditures comply with the applicable NEH grant management publications²; guidelines issued by the NEH Office of Challenge Grants; and the terms of the approved grant budget.

We examined underlying supporting documentation maintained by the grantee; reviewed the University's accounting system, focusing on the key internal controls associated with the challenge grant; and gained an understanding of procedures implemented by management to safeguard the challenge grant endowment and related investment portfolio.

We conducted our limited audit in accordance with *Generally Accepted Government Auditing Standards (GAGAS)*, as promulgated by the Comptroller General of the United States. These 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.

Our examination was conducted during the months of February 2015 and March 2015.

² The primary publications applicable to this challenge grant include the *Administration of NEH Challenge Grants* and *General Terms and Conditions for Awards to Organizations*.

V. RESULTS OF LIMITED AUDIT

As discussed in the *Introduction* section above, the grantee encountered fundraising difficulties which prevented the University from successfully fulfilling the challenge grant's matching requirement. This forced the CAPS to suspend funding of the proposed visiting professorship position. On a positive note, sufficient funds were raised to build an endowment of approximately \$1 million and the University launched the proposed graduate student fellowship program and conducted multiple summer institute sessions.

Overall, our limited audit did not identify any material issues such as ineligible matching gifts, unallowable expenditures, or significant internal control deficiencies. However, we noted the following items that warrant discussion and resolution:

- A portion of the Federal matching funds advanced to the University must be returned;
- NEH currently requires grantees to utilize an external review committee when assessing fellowship applications. We noted that the University did not always follow this practice.

A. Need to Return Advanced Federal Matching Funds

Although the challenge grant program imposes a strict 3-to-1 matching requirement, the match and release schedule associated with challenge grant award CZ-50178-08 was designed to advance Federal matching funds during the early years of the award cycle, (upon certification of the prescribed level of non-Federal contributions). As a result, the University received \$375,000 in Federal matching funds.

We determined that the University properly certified that eligible gifts totaling \$967,754 were raised during the challenge grant period, which substantiates the release of Federal matching funds in the amount of \$322,585³. Federal matching funds advanced to the University in excess of \$322,585 are unsubstantiated and represent questioned costs, due to the fundraising shortfall, (see calculation below).

Total Federal Matching Funds Advanced	\$375,000
Less: Federal Matching Funds substantiated by Eligible Gifts	<u>322,585</u>
Excess Federal Matching Funds Advanced	\$ <u>52,415</u>

Further, due to capital campaign fundraising struggles and suspension of the visiting professorship program, total Federal expenditures documented on the University's Final Financial Report (and tested by the OIG) only amounted to \$316,992. According to NEH guidance⁴, all Federal and non-Federal challenge grant funds must be expended during the grant period. Therefore, unexpended Federal challenge grant funds (properly

³ Federal Matching Funds substantiated by eligible gifts totals \$322,585 (\$967,754/3).

⁴ NEH Office of Grant Management publication entitled, *Administration of NEH Challenge Grants*; Section 1. "Basic Principles"

substantiated) in the amount of \$5,593 also represent questioned costs, (see calculation below).

Federal Matching Funds Substantiated by Eligible Gifts	\$322,585
Less: Total Federal Challenge Grant Funds Expended	<u>316,992</u>
Unexpended Challenge Grant Funds	\$ <u>5,593</u>

Recommendation A

We recommend that the University return advanced, unexpended challenge grant funds in the amount of \$58,008, (\$52,415 + \$5,593).

SUMMARY OF GRANTEE'S RESPONSE (RECOMMENDATION A)

The University has initiated refunding the advance, unexpended challenge grant funds in the amount of \$58,008⁵, (see attached e-mail dated February 17, 2016).

B. Fellowship Review Committee

As documented in the “*Challenge Grant Guidelines*” applicable to the Challenge Grant program’s May 5, 2015 deadline, applicants proposing to fund fellowships with a challenge grant must ensure the fair and informed selection of fellowship recipients by relying on the recommendations of an external committee composed of qualified humanities scholars drawn from outside the institution’s staff and governing bodies. The committee should meet in person, and all members should be replaced each year. NEH recommends a committee of five; three is the minimum. CAPS generally adhered to this practice; however, our testing determined that the University failed to utilize a review committee during the 2011-2012 academic year. Rather, one individual within the department vetted and approved the applications.

Since the NEH Office of Challenge Grants enacted the fellowship review committee requirement subsequent to the University receiving award CZ-50178-08, we are not questioning the related fellowship costs. Rather, the University should ensure that all future fellowship applications associated with this challenge grant award, are vetted by an external review committee, as prescribed by current challenge grant guidelines. Please be advised that this challenge grant represents an endowment award that continues into perpetuity.

Recommendation B

We recommend that the CAPS develop or modify existing written policy concerning fellowship awards to ensure procedures conform to the prescribed challenge grant guidelines (see Appendix A).

⁵ The NEH Accounting Office received the refund check on February 19, 2016.

SUMMARY OF GRANTEE'S RESPONSE (RECOMMENDATION B)

The CAPS NEH Fellowship Program has modified their existing written procedures regarding the NEH Challenge Grant Fellowship selection committee to ensure conformity with prescribed challenge grant guidelines, (see attached e-mail dated February 17, 2016).

VI. EXIT CONFERENCE

The results of our limited audit were discussed with [REDACTED], Associate Director of Training and Compliance within Harvard's Office of Sponsored Programs on March 27, 2015. Grantee management agrees with the above audit results. [REDACTED] asserted that unspent grant funds will be returned and any required fellowship related reforms will be made promptly.

APPENDIX A - CHALLENGE GRANT FELLOWSHIP GUIDELINES (EXCERPT)

Activities supported

Challenge grant funds (both federal and nonfederal together) must enhance the humanities in the long term. Challenge grant funds should not merely replace funds already being expended on the humanities, but instead should reflect careful strategic planning to strengthen and enrich an institution's humanities activities and commitment to the advancement of knowledge and understanding of the humanities.

Institutions may use challenge grant funds to meet both ongoing and one-time humanities-related costs, provided that the long-term benefit of the expenditure can be demonstrated. Award recipients might use federal challenge grant funds, as well as funds raised for matching, for purposes such as the following:

Through the income from endowments or spend-down funds (which are defined beneath the "Mode of expenditure" heading below), grantees could use challenge grant funds to support

- salaries and benefits for humanities faculty and staff;
- acquisitions for collections;
- faculty, teacher, and staff development;
- research fellowships;¹
- lecture or exhibition series;
- visiting scholars or consultants;
- publishing subventions;
- programs for preserving and conserving collections; and
- plans to strengthen the technological infrastructure of humanities institutions, thereby enhancing the applicant institution's ability to use new technologies in research, education, preservation, and public programming in the humanities. (Through income from a technology endowment an institution can enhance its technological capacity by supporting maintenance and upgrades of equipment, software, and data; licensing fees; salaries of technical staff; faculty and staff training in uses of digital technology; and other ongoing expenses associated with using digital technology in the humanities.)

¹ Applicants proposing to fund fellowships with a challenge grant must ensure the fair and informed selection of fellowship recipients by relying on the recommendations of an external committee composed of qualified humanities scholars drawn from outside the institution's staff and governing bodies. The committee should meet in person, and all members should be replaced each year. NEH recommends a committee of five; three is the minimum.

Grantee institutions are responsible for avoiding real or perceived conflicts of interest in the composition of the selection committee and its deliberations. Staff, officers, board members, and trustees of the institution may not serve as voting members on committees that review applications for fellowship awards funded by NEH Challenge Grants. The same restrictions apply to staff, officers, and trustees of parent organizations.

ATTACHMENT

**GRANTEE'S RESPONSE
TO AUDIT REPORT**

Davis, Laura

From: [REDACTED]
Sent: Wednesday, February 17, 2016 4:23 PM
To: Davis, Laura
Subject: NEH OIG-16-01 (EA) Response: NEH Award # CZ-5017-08
Attachments: NEH-AuditReport_Final.pdf; 138003 NEH refund documentation 2-16-2016.png; RE: NEH Challenge Grant Audit

Dear Ms. Davis,

I am writing to respond to the attached NEH OIG audit report dated, 1/19/16, related to NEH Award # CZ-5017-08, entitled *The American Republic Initiative at Harvard University*. Please see our responses to your recommendations below:

- a. Recommendation A:**
 - i. The University has initiated refunding the advance, unexpended challenge grant funds in the amount of \$58,008. (see attached)
- b. Recommendation B:**
 - i. The CAPS NEH Fellowship Program has modified their existing written procedures regarding the NEH Challenge Grant Fellowship selection committee. CAPS will convene a committee of 3-5 qualified humanities scholars members from outside the University virtually. These committee members will rotate every year. Our fellowship selection committee will meet every year virtually in an effort to contain travel costs to ensure that fellowship funds are used primarily for awards to fellows based on conversations with the Director of the NEH, Katja Zelljadt , on 2/9/16 and 2/11/16 (see email attached).

Please let me know if you have any questions or require additional information.

Best,
[REDACTED]

[REDACTED]
Associate Director, Training & Compliance



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