



NATIONAL
ENDOWMENT
FOR THE
HUMANITIES

OFFICE OF INSPECTOR GENERAL

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WWW.NEH.GOV
HOTLINE 877-786-7598

October 13, 2010

RETURN RECEIPT REQUESTED

[REDACTED]
[REDACTED]
Christopher Newport University
1 University Place
Newport News, VA 23606-2998

OIG-11-01 (EA)

Dear [REDACTED]

The National Endowment for the Humanities (NEH) Office of Inspector General has completed a limited audit of documentation supporting gifts certified on Certification Report No.1 (dated July 29, 2009) for NEH grant [REDACTED] awarded to the Christopher Newport University Foundation (the "Foundation").

A copy of the report is enclosed, and in general, we believe the report to be self-explanatory. However, we wish to emphasize the need for the Foundation to 1) properly exclude unallowable fundraising/management expenses from NEH grant reporting and 2) enact new internal policy guidance to ensure the challenge grant gifts are properly classified between the temporarily restricted and permanently restricted net asset categories.

Please consider the recommendations in this report, and within thirty days, provide the OIG with a written response including any comments you have regarding the findings and recommendations and a proposed timeline for implementation of the recommendations. Office of Management and Budget (OMB) Circular A-50, *Audit Follow-up*, requires that all recommendations must be resolved within six months after a report is issued to a grantee. The thirty-day limit has been established for a first response due to the length of time frequently required by grantees and NEH personnel to communicate ideas, reach sound conclusions, and implement recommendations.

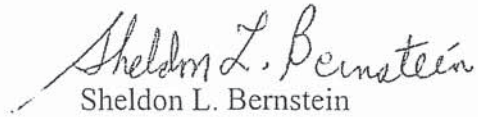
If available, documentation supporting the implementation of each recommendation should be included with your response. The response should be addressed to:

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

[REDACTED]
October 13, 2010
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If you have any questions concerning this audit report, please contact Mr. Steve Elsberg at (202) 606-8353 or via email at selsberg@neh.gov. We would like to express our appreciation for the cooperation and assistance extended to our auditor by your staff during the audit.

Sincerely,


Sheldon L. Bernstein
Inspector General

Enclosure

cc: [REDACTED]
Controller
Christopher Newport University Foundations
1 University Pl, BTC 201
Newport News, VA 23606



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LIMITED AUDIT REPORT

NATIONAL ENDOWMENT FOR THE HUMANITIES

CHALLENGE GRANT AWARD

TO THE

CHRISTOPHER NEWPORT UNIVERSITY

NEWPORT NEWS, VA

OIG-11-01 (EA)

A handwritten signature in cursive script that reads "Laura Davis".

Laura Davis, Deputy Inspector General

October 13, 2010

Date

LIMITED AUDIT REPORT
NATIONAL ENDOWMENT FOR THE HUMANITIES (NEH)
CHALLENGE GRANT AWARD
TO THE
CHRISTOPHER NEWPORT UNIVERSITY
NEWPORT NEWS, VA

I. INTRODUCTION

We have performed a limited audit of the Christopher Newport University Education Foundation (the "Foundation") records as they relate to the following NEH Challenge Grant.

<u>Grant Number</u>	<u>Grant Period</u>	<u>Amount Awarded</u>
██████████	9/1/2007 – 7/31/2013	\$ ██████████

Matching Gifts: Per Certification Report No. 1 (dated July 29, 2009), the Foundation certified that eligible gifts totaling \$██████████ were either pledged or received and used to meet the matching requirements stipulated by the above NEH challenge grant. The grantee conveyed in the certification report that all restricted gifts were made in response to the NEH challenge grant and that the gifts meet the criteria for eligibility established by NEH and would be expended for the intended grant purposes. The grantee further certified that documentation substantiating the sources, purposes, eligibility, and expenditure of the gifts will be retained for three years following the submission to NEH of the final financial and performance reports. Based upon the submission of Certification Report No. 1, \$██████████ in federal funds was released. As of the date of this report, a second certification report was submitted resulting in the cumulative release of federal funds totaling \$██████████.

Grant Expenditures: As noted below, \$██████████ of the total \$██████████ to be raised will act as bridge funding for the Center for American Studies and Civic Leadership (CASCL) during the challenge grant fundraising period. Based upon our review of general ledger detail, the organization spent approximately \$██████████ of NEH challenge grant funds as of December 31, 2009. The grantee conveyed that these expenditures conformed to the intended grant purpose(s), as stipulated in the NEH challenge grant award.

II. BACKGROUND

The Foundation was created in September 1980 to receive, administer, and distribute funds and property exclusively in furtherance of the educational activities and objectives of Christopher Newport University. The organization has been granted tax-exempt status under Section 501(c)(3) of the Internal Revenue Code.

NEH awarded this \$ [REDACTED] challenge grant to Christopher Newport University (as administered by the Foundation) in order to 1) create an endowment which will be used to support the newly established CASCL and 2) provide bridge funding during the related fundraising period. Endowment earnings will be used to support the CASCL's annual conference, engage guest speakers, conduct workshops, and hire research fellows. To meet the terms of the grant award, the Foundation must raise three times the federal offer in eligible non-federal matching funds (\$ [REDACTED]).

III. LIMITED AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

The principal objectives of this limited audit were to determine that 1) the gifts certified by the Foundation were eligible to release federal matching funds and 2) grant expenditures are made in accordance with applicable provisions of NEH's *General Terms and Conditions for Awards to Organizations* and the terms of the approved grant budget. 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 Foundation supporting a) the eligibility of gifts included in Certification Report No. 1, and b) the allowability of expenses incurred for this NEH challenge grant. We also reviewed the Foundation's accounting system as it pertains to the challenge grant donations and expenditures and gained an understanding of procedures implemented by management to oversee the organization's endowment and related investment portfolio.

IV. LIMITED AUDIT FINDINGS AND RECOMMENDATIONS

A. Unallowable Expenses Charged to Grant

In addition to the creation of an endowment, the approved challenge grant budget incorporates bridge funding to cover 1) course releases, 2) fellows, 3) an annual conference, and 4) guest speakers. As of December 31, 2009, the Foundation reported \$ [REDACTED] in related expenses for this grant. Of this total, we reviewed the supporting documentation for the one individual expenditure in excess of \$ [REDACTED] determining that the funds were properly used to cover speaker fees. However, the vast majority of the remaining transactions (per review of the general ledger detail) represent donor cultivation costs. According to the *NEH Challenge Grant Application Guidelines*, federal challenge grant funds may be used to support fundraising costs; however, this use must be identified in the challenge grant budget submitted to NEH for approval. Changes from an approved purpose to a new purpose, shifts in the scope of the humanities activities supported by the challenge grant, or alterations in the amounts to be expended for separate categories of grant activities must be approved in advance by the NEH Challenge Grants program staff (Section VII of the *Administration of NEH Challenge Grants* manual). Since the Foundation's approved budget does not include

fundraising related costs, these transactions, which approximate \$ [REDACTED], deemed unallowable.

Recommendation A

The Foundation must reclassify these unallowable expenses and pay for them using other non-matching gifts and/or unrestricted income.¹

B. Net Asset Classification – Challenge Grant Contributions

This challenge grant bifurcates the award into two components: a) a permanently restricted endowment (\$ [REDACTED] [REDACTED]) and b) purpose-restricted bridge funding (\$ [REDACTED]). The Foundation properly determined that the related contributions (both federal and non-federal matching gifts) come attached with restrictions and, accordingly, do not qualify for treatment as unrestricted gifts as defined by generally accepted accounting principles (GAAP). Hence, the revenue has been captured in either a temporarily restricted or a permanently restricted fund within the accounting records. However, there appears to be some internal confusion (as evidenced by certain inconsistencies noted) concerning the proper allocation methodology to be utilized, which is further exacerbated by the lack of a formal policy governing the allocation of funds associated with the NEH challenge grant between the temporarily restricted and permanently restricted accounts.

Recommendation B

We recommend that management develop and clarify internal guidelines concerning this matter, bearing in mind that the grant budget establishes a limit on the cumulative amount of temporarily restricted bridge funds allowable under this award. Of particular concern to NEH, sufficient funding must be linked to the CASCL endowment fund to ensure the long-term goals of the challenge grant are met into perpetuity.

VI. EXIT CONFERENCE

The results of our review were discussed with [REDACTED] on September 13, 2010. Foundation management agrees with the above recommendations and asserted that these issues will be addressed in a timely fashion.

¹ Prior to issuance of this report, we determined that management plans to adopt corrective action procedures in mid-September 2010. In particular, the accounting software will include a new sub-department to specifically capture the unallowable fundraising and management expenses. These expenses will be excluded from NEH challenge grant reporting and will be subsidized by the Foundation's other revenue streams to include general unrestricted gifts.