



NATIONAL
ENDOWMENT
FOR THE
HUMANITIES

OFFICE OF INSPECTOR GENERAL

1100 PENNSYLVANIA AVE., NW
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WASHINGTON, D.C. 20506
(202) 606-8350 (PHONE)
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WWW.NEH.GOV
HOTLINE 877-786-7598

April 5, 2010

RETURN RECEIPT REQUESTED

[REDACTED]
[REDACTED]

Princeton Public Library Foundation
65 Witherspoon Street
Princeton, NJ 08542

OIG-10-02 (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 January 17, 2008) and Certification Report No. 2 (dated July 27, 2009) for NEH grant CH-50522-08 awarded to the Princeton Public Library 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) revise and resubmit the most recent Certification Report to a) properly state the total amount of unrestricted contributions used to fulfill the challenge grant matching requirement and to b) remove the matching gifts deemed unallowable; 2) implement the use of timesheets/formalized level of effort reporting for all individuals working on programs funded, in whole or in part, with federal funds; 3) develop and implement revised accounting procedures to specifically identify NEH challenge grant funds, matching gifts, and related expenditures in the general ledger in accordance with generally accepted accounting principles (GAAP); and 4) ensure investment activity is recorded in a timely fashion, specifically identifying and allocating the proper portion of investment earnings to the Foundation's various programs to include the purpose-restricted NEH challenge grant.

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.

Letter to [REDACTED]
April 5, 2010
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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

If you have any questions concerning the findings and recommendations or need accounting assistance, please call Mr. Steve Elsberg at (202) 606-8353. 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]
[REDACTED]
Princeton Public Library
65 Witherspoon Street
Sands Library Building
Princeton, NJ 08540



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LIMITED AUDIT REPORT

NATIONAL ENDOWMENT FOR THE HUMANITIES

CHALLENGE GRANT AWARD

TO THE

PRINCETON PUBLIC LIBRARY FOUNDATION

PRINCETON, NJ

OIG-10-02 (EA)

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

Laura Davis, Deputy Inspector General

April 5, 2010
Date

LIMITED AUDIT REPORT

NATIONAL ENDOWMENT FOR THE HUMANITIES (NEH) CHALLENGE GRANT AWARD TO THE PRINCETON PUBLIC LIBRARY FOUNDATION PRINCETON, NJ

I. INTRODUCTION

We have performed a limited audit of the Princeton Public Library 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>
██████████	12/1/06 – 7/31/2012	\$500,000

Matching Gifts: Per Certification Reports No. 1 (dated January 17, 2008) and No. 2 (dated July 27, 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 reports that all restricted gifts were made in response to the NEH challenge grant; that the gifts meet the criteria for eligibility established by NEH and would be expended for the intended grant purposes; and that the total of any unrestricted gifts certified does not exceed the federal portion of the challenge grant. The grantee further certified that documentation that substantiates the sources, purposes, eligibility, and expenditure of the gifts would be retained for three years following the submission to NEH of the final financial and performance reports. Based upon the submission of these two Certification Reports, the full \$██████████ in federal funds were released as a result of the non-federal matching gifts reported to NEH.

Grant Expenditures: As noted below, \$██████████ of the total \$██████████ to be raised has been budgeted to help underwrite fundraising costs and support humanities programming while the related endowment fund is raised. As of late 2009, the Foundation spent approximately \$██████████ of the NEH grant funds. 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 incorporated in 1995 under the laws of the New Jersey Nonprofit Corporation Act, Title 15A. The primary purpose of the Foundation is to provide support and conduct activities which benefit the Joint Free Public Library of Princeton. The Foundation has been granted tax-exempt status under Section 501(c)(3) of the Internal Revenue Code.

The Foundation was awarded this \$ [REDACTED] challenge grant in order to develop, enhance and sustain Princeton Public Library's (PPL) public humanities programming, collections and technology resources. The Foundation will create an Endowment for the Humanities that will ensure the community has access – in perpetuity – to the humanities despite increasingly limited municipal budget funding sources. To meet the terms of the grant award, the Foundation must raise three times the federal offer in eligible non-federal matching funds. Of the total \$ [REDACTED] to be raised (\$ [REDACTED] NEH, \$ [REDACTED] non-federal), \$ [REDACTED] will be used to help underwrite campaign fundraising costs and as bridge funds to support the PPL humanities programming while the endowment is being raised. The remaining \$ [REDACTED] will be invested as an endowment that will yield annual support for a new PPL Humanities Fellowship and for ongoing public humanities programs.

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 were made in accordance with applicable provisions of NEH's *General Terms and Conditions for Awards to Organizations* and the terms of the budget approved by NEH and any amendments. 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 Reports No. 1 and 2, and b) the allowability of expenses incurred for this NEH challenge grant. We also reviewed the Foundation's accounting system as it pertained to the challenge grant donations and expenditures and gained an understanding of procedures implemented by management to oversee the Foundation's endowment and related investment portfolio.

IV. LIMITED AUDIT FINDINGS AND RECOMMENDATIONS

A. Certification of Ineligible Matching Gifts and Improper Reporting of Unrestricted Matching Gifts

Based upon our testing, we identified two deficiencies that require corrective action by the grantee as follows:

- Certification Report No. 1 (dated January 17, 2008) included two ineligible matching gifts totaling \$ [REDACTED]. The first gift from the [REDACTED] ([REDACTED] (\$ [REDACTED])) was actually used to support an unrelated Foundation program (free afterschool tutoring program) therefore it's ineligible for use as a matching gift against the NEH challenge grant. The

second gift from the Estate of [REDACTED] (\$ [REDACTED]) was restricted for the purchase of books relating to alternative medicine and holistic health which is outside the scope of the NEH challenge grant.

- The most recent Certification Report (Cert #2 dated July 27, 2009) included three unrestricted matching gifts totaling \$ [REDACTED] that were not properly identified as such.

Per NEH's challenge grant administration manual (see www.neh.gov/manage/challenge_admin.html), restricted matching gifts must be in response to or in anticipation of the challenge grant and must be used to support the purposes outlined in the approved challenge grant application/budget. Additionally, unrestricted matching gifts may be certified only up to the amount of the federal portion of the challenge grant award. The cumulative amount of any unrestricted matching gifts must be tracked and properly reported on the Certification Reports submitted to NEH.

Recommendation A

The Foundation must revise and resubmit the most recent Certification Report to reflect 1) the removal of the unallowable matching gifts (\$ [REDACTED]) and 2) identify the total amount of unrestricted gifts (\$ [REDACTED]) used for matching purposes. The unallowable funds will need to be replaced with new matching gifts, as stipulated under the challenge grant guidelines, prior to the conclusion of the grant period. Additionally, all future unrestricted gifts used for matching purposes must be properly identified and reported on the Certification Reports submitted to NEH to ensure the matching limit on unrestricted gifts is not violated.

B. Personnel Expense Tracking

Per our testing and discussions with staff, we determined that the Foundation's personnel expenses charged to the NEH challenge grant were based upon management's estimated number of hours worked.

According to NEH's challenge grant administration manual (Appendix 3), 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.

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. Budget estimates do not qualify as support for charges to awards.

Recommendation B

Due to the above administrative requirements, the Foundation needs to modify current payroll procedures and incorporate the use of timesheets/formalized level of effort reporting for all individuals working on programs funded, in whole or in part, with federal funds.

C. Proper Classification of NEH Matching Gifts – Restricted Net Assets

Due to the timing of the challenge grant award letter (Dec 2007), several 2007 gifts that were ultimately used to fulfill the matching requirement under the challenge grant (PPLF went back to donors and had them sign matching intent letters after-the-fact in 2008) were improperly reported as unrestricted revenue in the audited financial statements. These funds represent “restricted” matching gifts since donors requested that their donations be used to build an endowment fund with the express purpose of supporting the humanities as defined in the challenge grant budget. We also noted that the Foundation’s independent auditor reported a significant deficiency finding concerning the proper classification of net assets in conjunction with the calendar year 2008 audit.

In accordance with the Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standard (SFAS) 116, *Accounting for Contributions Received and Contributions Made*, contributions should be recorded in the accounting system upon receipt as unrestricted, temporarily restricted, or permanently restricted support dependent upon the absence or existence and nature of donor-imposed restrictions.

Recommendation C

Management must implement necessary procedures/controls to ensure all matching gifts affiliated with the NEH challenge grant are properly reported as “restricted” or “board designated”¹ contributions in the Foundation’s accounting records and, ultimately, the audited financial statements to ensure a) compliance with generally accepted accounting principles (GAAP) and b) proper allocation of related endowment investment earnings to the various programs administered by the Foundation to include the challenge grant (see Recommendations D and E below).

D. Chart of Accounts Used to Track Challenge Grant Activity

Currently, the Foundation uses a handful of expense accounts (account descriptions include NEH in the title) to track NEH challenge grant disbursement activity in the general ledger. Additionally, the NEH challenge grant revenues are not specifically identifiable in the general ledger since they are commingled with other donations. Rather, the detailed tracking of NEH challenge grant revenues is performed in the

fundraising database (Donor Perfect) which is then reconciled, in aggregate, to the accounting records approximately once a quarter.

Recommendation D

Although this approach meets the minimum requirements stipulated under generally accepting accounting principles (GAAP) and the challenge grant administrative guidelines, we strongly recommend that management take advantage of Quickbook's functionality and create a unique class code (i.e. project/department) in the accounting software to exclusively track NEH challenge grant activity. Moving towards this approach will a) allow for the creation of separate mini-financial statements that capture the financial results (both revenues and expenses) of the NEH challenge grant and b) reduce the potential for errors (see recommendations A, C and E) since all of the various natural accounts (printing, salaries, contributions, investment income, etc) will be linked directly to the NEH challenge grant class code thereby simplifying reconciliation procedures.²

E. Allocation of Endowment Earnings

The Foundation has not yet implemented the necessary accounting controls/procedures to properly track and allocate investment earnings (affiliated with the endowment fund) to the various programs and restriction classes administered by the organization. Currently, all Foundation endowment funds (of which NEH challenge grant funds represent approximately twenty percent of the total) are included in a pooled investment fund in which a) the investment earnings are not recorded in the accounting records timely [outside auditors issued a finding on this subject as part of the 2008 financial statement audit] and b) all investment earnings are improperly treated as unrestricted revenues.

Recommendation E

Although the Foundation has taken the necessary first steps developing a formalized investment policy that includes defined endowment fund spending policy limits, additional work is required. In particular, the Foundation must develop and implement accounting procedures to a) record investment activity in a timely fashion and b) specifically identify and allocate the proper portion of the annual investment earnings to the Foundation's various programs to include the purpose-restricted NEH challenge grant. Also see Recommendations C and D above.

V. EXIT CONFERENCE

The results of our review were discussed with Mr. [REDACTED] ([REDACTED]), Ms. [REDACTED] ([REDACTED]), and Ms. [REDACTED] ([REDACTED]) and [REDACTED] on January 21, 2010.

Foundation management agrees with the above recommendations and has asserted that these issues will be addressed in a timely fashion.

¹ NEH challenge grant awards made subsequent to May 2005 allow grantees to use unrestricted gifts for matching purposes up to the value of the federal portion of the award. To ensure proper tracking of these funds and to adhere to SFAS 116, we recommend management adopt necessary procedures and classify these unrestricted funds, which have been internally restricted for use with the NEH challenge grant, as board designated net assets within the unrestricted net assets category.

² During our close-out meeting with management we were informed that the Foundation created a new part-time Controller position and hired an employee in January 2010. Additionally, new class codes were just established in Quickbooks to track Foundation grants and projects as recommended in this audit report.