



NATIONAL  
ENDOWMENT  
FOR THE  
HUMANITIES

OFFICE OF INSPECTOR GENERAL

1100 PENNSYLVANIA AVE., NW  
ROOM 419  
WASHINGTON, D.C. 20506  
(202) 606-8350 (PHONE)  
(202) 606-8329 (FAX)

November 06, 2008

**MEMORANDUM**

**TO:** Bruce Cole  
Thomas Lindsay  
Jeff Thomas  
Adam Wolfson  
Steve Ross  
Susan Daisey

**FROM:** Sheldon Bernstein 

**SUBJECT:** Limited Audit Report on the Challenge Grant to the Newport  
Historical Society  
OIG-09-01 (EA)

Attached is a copy of the subject report and a copy of the transmittal letter regarding the audit findings. We will withhold issuance of both for 10 working days to allow for receipt of comment, if any.

We concentrated our efforts on eligibility of the donations certified by the Society and whether income from the endowment was used in accordance with the revised grant budget. We are questioning the eligibility of [REDACTED] in certified donations. Included in the ineligible donations was \$ [REDACTED] from the [REDACTED] which lacks a donor transmittal letter (see Finding A and Exhibit B).

At the time the NEH grant was awarded the Society had an existing \$ [REDACTED] endowment. A revised budget indicated the NEH challenge grant would be added to the Society's existing endowment to create a \$ [REDACTED] endowment that would earn an estimated \$ [REDACTED] per year. However, during the grant period the Society 1) established a sub-account for the NEH supported endowment, and 2) due to financial problems they expended a considerable amount of their original endowment. During the business year that ended June 30, 2007 the Society reported that \$ [REDACTED] was earned and used for staff salaries and humanities programming (see Finding B).

We also found that the Society did not have the required OMB Circular A-133 audit performed for the years ended June 30, 2005 or June 30, 2006 (see Finding C). We have made recommendations to the Society that they request their independent accountants provide an explanation on the type of financial statement audit performed and why an A-133 single audit was not performed for business year ended June 30, 2005.

The Society's revised budget approved by NEH, showed estimated income and expenses relating to the NEH challenge grant [REDACTED] based on the consolidation of a total endowment of \$ [REDACTED] dollars. This included \$ [REDACTED] from NEH and \$ [REDACTED] of nonfederal matching funds raised by the Society, plus \$ [REDACTED] from an endowment the Society had on its books. While we have not come across similar situations previously, we recommend that in the future if the Office of Challenge Grants allows grantees to combine any other organizations' endowments with the NEH budget, it have the grantee specifically use a three column budget. This would allow the grantee to separate the NEH challenge grant and the estimated income and expenses from other endowments the grantee may have on their books and records. This would provide transparency and accountability for the grantee and for auditors.

If you have questions please call Charles Garfinkel.



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November 25, 2008

**RETURN RECEIPT  
REQUEST**

██████████  
██████████  
Newport Historical Society  
63 Rhode Island Ave.  
Newport, RI 02840

OIG-09-01 (EA)

Dear ██████████

As you know, Charles Garfinkel and Gary McGough, auditors from the National Endowment for the Humanities (NEH) Office of Inspector General (OIG), conducted a limited audit of the documentation supporting nonfederal funds certified for NEH challenge grant ██████████ awarded to the Newport Historical Society.

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 Society to 1) provide NEH with a written explanation as to why the entire amount received from the ██████████ was not certified on the NEH Certification report dated July 11, 2003, and to obtain the donor transmittal letters and payment documentation to support eligibility of the questioned certified donations (Finding A); and 2) have the independent accountant provide the OIG with an explanation of why they did not perform the A-133 audit for the business year ended June 30, 2005 (Finding C).

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. Office of Management and Budget 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 because of the length of time frequently required by grantees and NEH personnel to communicate ideas, reach sound conclusions, and implement recommendations.

Documentation supporting the implementation for each recommendation should be included with your response. The response should be addressed to Audit Resolution Section, National Endowment for the Humanities, Office of Inspector

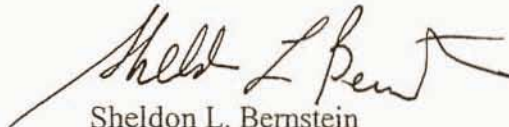
Letter to [REDACTED]

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General, Room 419, 1100 Pennsylvania Avenue, N.W., Washington, DC 20506.  
If you have questions regarding the findings and recommendations or need  
accounting assistance, please call Charles Garfinkel at 202/606-8350 or Fax  
202/606-8329.

We would like to express our appreciation for the cooperation and assistance  
extended to our auditors by your staff during the audit.

Sincerely,



Sheldon L. Bernstein  
Inspector General

Enclosure

[REDACTED]  
[REDACTED]  
Newport Historical Society  
82 Touro St.  
Newport, RI 02840



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**LIMITED AUDIT REPORT OIG-09-01 (EA)**

**ON**

**NATIONAL ENDOWMENT FOR THE HUMANITIES**

**CHALLENGE GRANT**

**TO THE**

**NEWPORT HISTORICAL SOCIETY**

**NEWPORT, RI**

  
Sheldon L. Bernstein, Inspector General

11/25/08  
Date

**LIMITED AUDIT REPORT  
ON  
NATIONAL ENDOWMENT FOR THE HUMANITIES  
CHALLENGE GRANT TO THE  
NEWPORT HISTORICAL SOCIETY  
NEWPORT, RHODE ISLAND**

**I. INTRODUCTION**

As requested by the Office of Challenge Grants, we performed a limited audit of the records of the Newport Historical Society (Society) as they relate to the following grant.

<u>Grant Number</u>	<u>Grant Period</u>	<u>Amount Awarded</u>
██████████	12/01/2000 – 10/31/2006	\$ ██████████

**II. PRIOR AUDIT REPORTS**

We previously conducted a pre-award telephone survey in 2002 to determine if the Society's accounting, financial and administrative controls were adequate to control the challenge grant. At that time we obtained written assurance from the former executive director, former bookkeeper, and the Society's former treasurer that the Society would follow the guidance in the NEH pronouncements. The OIG also recommended that the Society remain on the Office of Grant Management's Ineligible Grantee List since "the assurance provided by that survey was only for the challenge grant." Other NEH grants awarded to the Society are shown in Exhibit A.

The Society was originally placed on the Ineligible List as a result of the OIG's findings from two prior limited scope reviews, one conducted in 1999 and the second in 2000. At that time the OIG determined that the Society was not in compliance with the requirements of Office of Management and Budgets (OMB) and the NEH General Terms and Conditions for Awards to Organizations [formerly the General Grant Provisions] and recommended that before any future awards are made to the Society that a pre-award survey be conducted.

**III. BACKGROUND**

Chartered in 1854, under the applicable laws of the State of Rhode Island, "the Society is a resource center for the preservation, study and appreciation of the history of Newport County." The Society has been granted tax-exempt status under Section 501 (c) (3) of the Internal Revenue Code.

The Society was awarded this \$ ██████████ challenge grant for the purpose of building an "endowment for humanities staff positions: Director of Education, Curator of Historic Sites, and Library Director; and humanities programming." To complete the challenge

grant, the Society was required to raise three times the federal offer or \$ [REDACTED] of eligible nonfederal funds.

#### IV. LIMITED AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

The principal objectives of the limited audit were to determine 1) if the amounts claimed on the challenge grant certification statements met the eligibility criteria of the challenge grant, and 2) whether the Society's accounting records support disbursement of income in accordance with the grant budget. Our review was conducted in accordance with *Government Auditing Standards* as promulgated by the Comptroller General of the United States.

We reviewed the Society's accounting system as it pertained to the challenge grant donations and expenditures. We examined the Society's documentation supporting the eligibility of gifts certified for the NEH Challenge Grant. We also reviewed selected monthly reports from the Society's brokerage firm for deposits, earnings and disbursements related to the subaccount for the NEH supported endowment.

#### V. LIMITED AUDIT FINDINGS AND RECOMMENDATIONS

##### A. Challenge Grant Certifications

In the final certification dated January 30, 2007, the Society reported \$ [REDACTED] as eligible donations to release matching funds under the challenge grant. We have questioned \$ [REDACTED] of the donations certified, (see Exhibit B). Of this amount, [REDACTED] donations questioned amounted to \$ [REDACTED], while [REDACTED] others amounted to \$ [REDACTED]. A donation from the [REDACTED] amounting to \$ [REDACTED] was not supported by the required donor transmittal letter – see details in the following paragraph. In addition, we questioned [REDACTED] \$ [REDACTED] (\$ [REDACTED]) from the [REDACTED] which were supported by donor letters, except NEH was not specifically acknowledged as required.

[REDACTED]

A \$ [REDACTED] donation from the [REDACTED] included in the final certification report dated January 30, 2007, was not supported by a donor transmittal letter. In support of the initial certification from the [REDACTED] dated July 2003, a donor transmittal letter dated February 18, 2003 from the [REDACTED] – Trust Department (Trustee) was on file. The letter identified a distribution from the [REDACTED] for \$ [REDACTED] in support of the Society's NEH challenge grant [REDACTED]. The letter acknowledged that the distribution would be used to match and would be expended for the approved purposes of the challenge grant. The Society received its full distribution of [REDACTED] in one check from the [REDACTED] dated May 6, 2003. The Society included \$ [REDACTED] a partial distribution, from the Trust in the certification report to NEH dated July 11, 2003; this agreed with the Trust letter.

In May 2003, the Society deposited \$ [REDACTED] of the \$ [REDACTED] it received from the Trust in the investment account established for the NEH challenge grant funds and matching contributions. We found no documentation nor have we been provided an explanation as to why the additional \$ [REDACTED] from the [REDACTED] was deposited in the account. The remaining balance of the distribution, (\$ [REDACTED]) was deposited in the Society's master investment account (original endowment). At the time of our site-visit, the Society had not transferred the \$ [REDACTED] (\$ [REDACTED] less \$ [REDACTED]) to the account for the NEH challenge grant.

#### **Recommendation No. A - 1**

We recommend that the Society provide NEH with a written explanation as to the reason that the \$ [REDACTED] was not included in the certification report dated July 11, 2003. If this explanation is acceptable to NEH, then the Society may request that the [REDACTED] provide documentation (internal Trust minutes or other data that states that the \$ [REDACTED] donation was made in support of the NEH challenge grant. during the grant period). If the Society received the supporting documentation it can transfer the remaining balance of \$ [REDACTED] to the sub-account for the NEH supporting endowment.

#### **Recommendation No. A - 2**

We recommend that the Society:

- 1) Obtain acknowledgement from the [REDACTED] that the two \$ [REDACTED] donations were to support the NEH challenge grant. The acknowledgement should provide a short explanation why the [REDACTED] did not originally mention the NEH, and
- 2) Obtain transmittal letters and payment documentation supporting eligibility of the certified donations shown in Exhibit B. (If the Society cannot provide adequate documentation for the questioned donations, they should use other donations that meet the NEH allowable criteria).

**Reference:** NEH Administration of NEH Challenge Grants, Section III Eligibility of Matching Gifts

#### **B. Endowment Funds**

Our review of the Society's records for the year ended June 30, 2007 showed that income from the NEH supported endowment and the existing endowment was used to support its humanities programming. During the fiscal year ended June 30, 2007, the Society expended \$ [REDACTED] in earnings from its two endowments. This was \$ [REDACTED] less than the estimated amount in the approved grant budget.



The revised grant budget approved by NEH combined the Society's existing endowment (\$ [REDACTED]) with the \$ [REDACTED] endowment (\$ [REDACTED] nonfederal funds and \$ [REDACTED] Federal funds) to be realized as a result of the NEH challenge grant. The revised budget reflected income and expense estimates based on a total endowment of \$ [REDACTED] million dollars. However, due to financial challenges, the Society began using a considerable amount of principal from the original endowment. As of June 30, 2007 the Society had about \$ [REDACTED] of principal in its original endowment. Since the principal of the original endowment was reduced, we find that the budget as approved by NEH is no longer applicable. The Society should have advised NEH about the reduction in estimated income and submitted a new budget with revised income and expense estimates for support of staff salaries and humanities programming.

Since the NEH grant period has ended, the OIG is not making a recommendation. Had the grant been open we would have recommend that the Society assess the future earnings of the NEH supported endowment and provide NEH with an estimate of future support for its humanities programming.

### C. Compliance Audit

As of June 30, 2005, the Society had received from NEH and invested \$ [REDACTED] for the purpose of an endowment to support its humanities staff positions and humanities programs. However, the Society did not have an audit in accordance with the requirements of OMB Circular A-133 for the year ended June 30, 2005. The independent accountant (IPA) performed a financial statement audit in accordance with *Government Auditing Standards*. At the time of our site-visit, an audit of fiscal year ended June 30, 2006 had not been performed.

OMB Circular A-133, Section 205(e) states that the cumulative balance of Federal awards for endowment funds which are federally restricted are considered awards expended in each year in which the funds are still restricted. Therefore, the investment of the \$ [REDACTED] received from the NEH challenge grant is considered an expenditure for audit purposes.

Since the Society has deposited the full \$ [REDACTED] of Federal funds in the investment account, the threshold for audit exists for fiscal year ended June 30, 2005 and beyond. The OIG reviewed the eligibility of all certified donations during our site-visit. The Society's IPA should determine that 1) disbursements from the endowment for the years ended June 30, 2005 and 2006 are in accordance with the budget as approved by NEH; and 2) the endowment remains intact.

Also, we noted in the Statement of Financial Position as of June 30, 2005, a liability line item ~ *Refundable Advance* ~ in the amount of \$ [REDACTED]. The explanation in the notes to the financial statements states, "As of June 30, 2005, the Society has received \$ [REDACTED] from the NEH and has received pledges towards the challenge grant of \$ [REDACTED]. The Society needs to raise an additional \$ [REDACTED] by August 31, 2006 to

meet the matching requirements. Funds received from the NEH in advance of the conditions of the grant being met are recorded as a returnable advance and totaled \$ [REDACTED] at June 30, 2005. When the conditions are met contribution revenue will be recognized.” However, financial statements for years prior to fiscal year 2005 did not disclose a similar designation of the NEH advances.

### **Recommendation No. C**

We recommend that the Society request their IPA provide an explanation why:

- 1) They performed an audit in accordance with *Government Auditing Standards* and did not perform the OMB Circular A-133 audit , and
- 2) The financial statements prior to 2005 did not include a similar Note on Refundable Advance.

**Reference:** OMB Circular A-133 Audits of State, Local Governments, and Non-Profit Organizations

## **VI. EXIT CONFERENCE**

An exit conference was held on November 16, 2007 with [REDACTED]  
[REDACTED]. We provided the executive director with a list of donations requiring supporting documentation in order to determine eligibility for matching the challenge grant.

EXHIBIT A

NEWPORT HISTORICAL SOCIETY

Schedule of Other NEH Grants Awarded

<u>Grant Number</u>	<u>Grant Period</u>	<u>Amount Awarded</u>
██████████	07/01/1980 – 06/30/1981	\$ ██████████
██████████	07/01/1984 - 10/31/1985	██████████
██████████	07/01/1992 – 06/30/1997	██████████
	Total	\$ ██████████

National Endowment for the Humanities  
 Newport Historical Society  
 Audit of Challenge Grant # [REDACTED]

<u>Description</u>	<u>No Supporting Documentation</u> <u>1</u>	<u>Donor Letter</u> <sup>2</sup>	<u>No NEH Acknowledgement</u> <sup>3</sup>	<u>Prior To Grant</u> <sup>4</sup>	<u>Amount</u>
[REDACTED]		X	X		\$ [REDACTED]
[REDACTED]			X		\$ [REDACTED]
Subtotal					\$ [REDACTED]
[REDACTED]	X				\$ [REDACTED]
[REDACTED]				X	[REDACTED]
[REDACTED]	X				[REDACTED]
[REDACTED]		X		X	[REDACTED]
[REDACTED]	X				[REDACTED]
[REDACTED]	X				[REDACTED]
[REDACTED]	X				[REDACTED]
[REDACTED]				X	[REDACTED]
[REDACTED]		X			[REDACTED]
[REDACTED]		X			[REDACTED]
[REDACTED]	X				[REDACTED]
[REDACTED]	X	X			[REDACTED]
[REDACTED]		X			[REDACTED]
[REDACTED]	X	X			[REDACTED]
Subtotal					\$ [REDACTED]
Total Gifts Questioned					\$ 163,747

<sup>1</sup> Supporting documentation means photo copy of checks and/or credit card receipts.

<sup>2</sup> There was no donor letter/post card or the donor letter/post card was not signed.

<sup>3</sup> There was no acknowledgement that the donation was made in support of the NEH Challenge grant.

<sup>4</sup> Donation made prior to the December 1, 2000 beginning date for the NEH challenge grant period.

<sup>5</sup> [REDACTED] stands for the [REDACTED]