

**Audit of NARA's Oversight of Selected Grantees' Use  
of Grant Funds**

**OIG Audit Report No. 11-03**

**February 16, 2011**

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## Executive Summary

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The Office of Inspector General (OIG) completed an audit of the National Archives and Records Administration's (NARA's) grant management program. The National Historical Publications and Records Commission (NHPRC) is NARA's grant making affiliate charged with providing grant funds to preserve, publish, and facilitate the use of historical records.

The objective of our audit was to determine whether management controls are adequate to ensure (1) grants are properly administered, (2) grant goals and objectives are met, and (3) grant funds are adequately accounted for and appropriately used. Audit procedures focused on evaluating the system of management controls over grant oversight and included an evaluation of whether NHPRC grantees used grant funds in accordance with federal regulations. As part of our audit, we selected and reviewed four grants<sup>1</sup> and reviewed fifteen NHPRC grant files<sup>2</sup>. One of the four grants selected, the Historical Society of Washington, DC, was reviewed at the request of NHPRC because they suspected the grant was not being properly managed.

While we found NHPRC has established adequate management controls to ensure grant goals and objectives are identified and met, opportunities exist to improve controls over the financial monitoring of grants and reduce program risks. Specifically NHPRC does not employ a formal structured or systematic risk management approach to monitoring grants. As a result NHPRC cannot adequately: (1) determine whether a grantee has the ability to administer, monitor and account for grant funds prior to the award of a grant; (2) determine how frequent to perform a grant review, how comprehensive a grant review should be and identify potential troubled grants, and (3) mitigate risk and request appropriate refunds associated with grantees not meeting their cost share<sup>3</sup> obligations.

As a result, NHPRC's grant program is at risk of waste and abuse. Our review of the active and closed grants assessed during this audit resulted in questioned costs of \$789,479<sup>4</sup>, and funds to better use of \$434,589<sup>5</sup>. In addition, the audit identified grantees were not always following grant regulations, the intent of the grant contract and did not always use grant funds as intended. A risk-based approach to financial monitoring of grants is critical to ensuring grantees appropriately account for, and use grant funds for their intended purpose.

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<sup>1</sup> See Appendix A: Summary of Findings Associated with OIG Grant Recipient Audits.

<sup>2</sup> See Appendix B: Listing of Audit Site Visits and Grant Files Reviewed.

<sup>3</sup> Cost sharing is the financial contribution the applicant pledges to the cost of a project. Cost sharing expenditures can include both direct and indirect expenses, in-kind contributions, and any income earned directly by the project.

<sup>4</sup> See Appendix A: Summary of Findings Associated with OIG Grant Recipient Audits.

<sup>5</sup> See Table 1: Analysis of Closed Grant Projects Regarding Obligatory Cost Share

We are encouraged by NHPRC's stated dedication to improving its grant monitoring practices and by their receptiveness to our audit recommendations for additional financial monitoring. Specifically, during the course of our review, NHPRC took action to develop and implement enhanced pre-award certification<sup>6</sup> procedures which will aid their ability to assess a grantee's financial capability prior to the award of the grant.

This report contains four recommendations for action necessary to address the findings identified, and to assist management in improving program stewardship.

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<sup>6</sup> NHPRC developed an enhanced pre-award certification requiring the grantee to acknowledge their ability to meet federal financial accounting requirements. Specifically, the pre-award certification addresses whether the grantee has: (1) an appropriate accounting system; (2) timekeeping procedures for project personnel; and (3) written procedures for salaries, travel, and procurement.

## Background

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The National Historical Publications and Records Commission (NHPRC) is the grant making affiliate of the National Archives and Records Administration (NARA). NHPRC provides grant funds to preserve, publish, and facilitate the use of historical records. The Commission is a 15-member body, chaired by the Archivist of the United States, and administered by the NHPRC Executive Director and staff. Each year the NHPRC receives a Congressional appropriation from which it awards grants; for fiscal year 2010 NHPRC awarded \$9.9 million in grants. NHPRC estimates, on average, they award 125 grants each year. The NHPRC has prioritized funding levels into two broad areas; half the funds going to publishing projects; and half to archives, state programs, electronic records, digitization, and professional development.

The NHPRC staff implements NHPRC grant program policies and guidelines, provides assistance and advice to potential applicants, advises the Commission on grant proposals, and monitors each grant awarded by the Commission. To monitor grants awarded, NHPRC staff ensures the grantee submits (1) annual financial status and bi-annual narrative progress performance reports and (2) a final financial and narrative performance report.

The Office of Management and Budget (OMB) has promulgated the following government-wide policies to ensure proper stewardship of federal grants:

- OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, sets forth standards for obtaining consistency and uniformity among Federal agencies in the administration of grants. The standards in OMB Circular A-110 apply to all Federal agencies and contain the specific requirements and responsibilities that must be followed when awarding and administering grants.
- OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, establishes the cost principles applicable to grants, contracts, and other agreements with non-profit organizations.
- OMB Circular A-21, *Cost Principles for Educational Institutions*, establishes the cost principles applicable to grants, contracts, and other agreements with educational institutions.
- OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, was issued pursuant to the Single Audit Act of 1984, Public Law 98-502, and the Single Audit Act Amendments of 1996, Public Law 104-156. This circular sets forth consistency and uniformity among federal agencies for the audit of states, local governments, and non-profit organizations expending federal funds.

## Objectives, Scope, Methodology

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The objective of our audit was to determine whether NHPRC has adequate management controls to ensure (1) grants are properly administered, (2) grant goals and objectives are adequately met, and (3) grant funds are adequately accounted for and appropriately used by grantees.

To accomplish our objective we:

- Reviewed NARA and OMB guidance pertaining to applying for, awarding, and grants administration including: OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*; OMB Circular A-122, *Cost Principles for Non-Profit Organizations*; OMB Circular A-21, *Cost Principles for Educational Institutions*; and OMB Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*.
- Conducted four grant reviews including:
  1. American Institute of Physics located in College Park, Maryland
  2. George Washington University located in Washington, D.C.
  3. Historical Society of the Supreme Court located in Washington, D.C.
  4. Historical Society of Washington, D.C. located in Washington, D.C.
- Reviewed NHPRC grant file documentation for fifteen grant projects with an award value of \$3,179,225. The grant file documentation reviewed included the: (1) application, proposal and grant program budget submitted by the grantee, (2) peer review documentation, (3) award notification, (4) narrative and financial reports, (5) reimbursement or advance requests, (6) communication documentation between NHPRC and the grantee, and (7) close-out evaluations.
- Reviewed available grantee financial and payroll records to substantiate grant expenditures.
- Interviewed appropriate NHPRC and grantee staff.

Our work was performed at Archives I and at the grantee locations identified above between June 2009 and September 2010. We conducted this performance audit in accordance with generally accepted government auditing standards. Those 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.

## Audit Results

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### Structured Risk Management Activities Need to be Applied to Financial Grant Monitoring

NHPRC does not employ a formal structured or systematic risk management approach to monitoring grants; therefore, NHPRC cannot adequately: (1) determine whether a grantee has the administrative and financial capability<sup>7</sup> to account for grant funds prior to the award of a grant; (2) determine how frequent to perform a grant review, how comprehensive a grant review should be, and identify potential troubled grants, and (3) mitigate risk and request appropriate refunds associated with grantees not meeting their cost share obligations. NHPRC officials stated they did not have a comprehensive risk assessment process for determining whether a grantee has the administrative and financial capability to manage a grant, nor had they developed a risk based process for monitoring and determining which grants to review whereby relevant risk factors such as age of program, program size, or experience of the grantee are considered. Further, NHPRC has not established clear policies concerning the grantees obligation to meet cost share. According to the General Accountability Office (GAO), *Standards for Internal Control in the Federal Government*, risk assessment requires identifying and analyzing relevant risks associated with achieving an organization's objectives and determining how risks should be managed. Without a more structured process for determining and assessing risk, NHPRC cannot provide adequate assurance that risks associated with its grant program are properly addressed and mitigated.

Our review of active and closed grants resulted in questioned costs of \$789,479, funds to better use of \$434,589<sup>8</sup> and identified grantees were not always following grant regulations, the intent of the grant contract, and did not always use grant funds as intended. By developing a comprehensive risk-based financial monitoring program based on a combination of desk reviews, on-site visits and pre-award capability assessment, NHPRC can better direct and identify needed resources to provide adequate financial oversight. Effective financial monitoring assists in identifying and reducing fiscal program risks as early as possible, thus protecting federal funds and ensuring grant funds are properly accounted for and used for their intended purpose.

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<sup>7</sup> Administrative and financial capability refers to the grantee's ability to administer, monitor and account for grant funds. Key indicators that a grantee has administrative and financial capability includes whether a grantee has: (1) experience and/or training in managing grant funds; (2) an understanding of grant regulations; and (3) an appropriate accounting system in accordance with generally accepted accounting standards or agency directives. An appropriate accounting system has the ability to segregate federal grant program costs, can relate actual costs to budgeted costs, and includes an adequate system for documenting grant expenditures including an appropriate timekeeping system.

<sup>8</sup> See Table 1: Analysis of Closed Grant Projects Regarding Obligatory Cost Share

### NHPRC Does Not Assess Grantees' Financial Capability Prior to Award of Grant

NHPRC was not performing any preliminary assessment of the applicant's administrative and financial capability, including the applicant's accounting system and operations prior to the award of the grant, to determine whether the grantee had the ability to properly manage and account for federal grant funds. Organizations receiving grant funds need adequate administrative and financial management systems in place to ensure grant funds are used for their intended purpose, and in accordance with regulations. OMB Circulars A-122, A-21 and A-110 establish cost principles and standards for grantee financial systems. A capability assessment process will enable NHPRC to determine whether a potential grantee has adequate financial systems before awarding the grant, and can be used to determine the amount of grantee oversight needed.

Of the four grants we audited, the Historical Society of Washington, D.C. (HSW) and the Supreme Court Historical Society (SCHS) did not have a timekeeping system in place to document grant expenditures, which resulted in the \$789,479<sup>9</sup> in questioned costs. Additionally, we found HSW misused grant funds and did not have the administrative or financial capability to manage grant funds. Both HSW and SCHS had little or no prior experience managing grant funds, and stated they were unaware of the federal requirement to document labor expenditures. A pre-award capability assessment questionnaire would have alerted NHPRC to these deficiencies and could have prevented the questioned costs and misuse of grant funds.

The NHPRC Director stated NHPRC relies on the grantee certification to provide assurance the grantee is capable of managing a federal grant. We found NHPRC required the grantee to sign a generic Standard Form 424B<sup>10</sup> prescribed by OMB entitled, *Assurances-Non-Construction Program*. By signing this form the grantee, in addition to other areas of assurance, attests to their institutional, managerial, and financial capability to ensure proper planning, management and completion of the project described in their application. In its White Paper entitled *A Guide to Grant Oversight and Best Practices for Combating Grant Fraud* the Grant Fraud Committee<sup>11</sup> reported the use of signed certifications by grantees as among the most effective tool for educating the grantee on the terms and conditions of the grants, but warned of the use of generic certifications. The Committee stated in their report that "agencies too often rely solely on generic certifications, which are of limited usefulness" in educating the grantee of its obligations to comply with grant requirements. NHPRC's reliance on the generic Standard Form 424B is not effective while the use of an assessment questionnaire would enable NHPRC to determine whether a grantee had the financial and administrative capability to manage a federal grant.

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<sup>9</sup> See Appendix A: Summary of Findings Associated with OIG Grant Recipient Audits.

<sup>10</sup> See Appendix C: Standard Form 424B entitled *Assurances Non-Construction Programs*.

<sup>11</sup> The Grant Fraud Committee is chaired by the Inspector General for the Department of Justice and has active members from 16 agencies.



The *Guide to Opportunities for Improving Grant Accountability*, (dated October 2005) prepared by members of the Grant Accountability Project<sup>12</sup>, states preliminary administrative and financial capability assessments are essential to reducing the Government's risk when awarding grants and a capability assessment ensures an applicant has adequate financial systems to properly manage the grant. The guide highlights four federal agencies (Environmental Protection Agency, National Science Foundation, Department of Education, and Department of Energy) with promising pre-award risk assessment practices. Two of the agencies use a financial management systems questionnaire in which the grantee applicant is asked for accounting, timekeeping, and funds management information (See Appendix D-Example Accounting System and Financial Capability Questionnaire). Noted weaknesses are addressed either by requiring the applicant to take corrective action, applying additional conditions to the grant agreement, or by not making the grant award—depending on severity of the identified problem. The other two agencies requested additional grant program funding to conduct pre-award audits of the grant applicants. These pre-award audits identify grantees with limited administrative capabilities prior to the award of federal funds.

In another best practice example, the Texas Commission of the Arts was applauded for its procedure of scoring the grantees' financial and administrative capability as part of the award process. Applicants must show measureable evidence of organizational support and exhibit the financial ability needed to complete the grant. The financial and administrative capability of the grantee is scored as 20 percent of the total possible points. Competition promotes fairness and openness in the selection of grantees. Evaluation criteria, including sound financial management practices, can direct focus on factors indicative of a successful grant project.

### **Recommendation 1**

We recommend the Director of NHPRC assess a grant applicant's administrative and financial capability prior to awarding a grant by use of an assessment questionnaire or pre-award audit process as deemed appropriate.

### **Management Response**

Management concurred with recommendation.

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<sup>12</sup> The Grant Accountability Project was initiated by the Domestic Working Group chaired by the Comptroller General of the United States and consists of 19 federal, state, and local audit organizations. The Inspector General of the U.S. Environmental Agency heads this project.

### NHPRC Needs to Increase its Post Award Financial Monitoring

NHPRC does not perform an appropriate level of financial monitoring and oversight whereby risk factors such as age of program, program size, or experience of the grantee are considered. NHPRC could significantly improve the adequacy and effectiveness of its financial monitoring program by developing a comprehensive risk-based post award grantee financial monitoring program that includes: (1) an increased number of on-site reviews; (2) development of a financial desk review program; (3) enhanced monitoring of requests for grant advances; and (4) more frequent performance and financial reports where appropriate. Specifically we found:

- NHPRC has only completed ten on-site grant reviews since their on-site monitoring program began in February 2004 (averaging two site visits per fiscal year) and has not completed a grant review since August 2008. Of these ten site visits, two were not formally documented-- NHPRC does not have a report to verify these two visits. On average NHPRC awards 125 grants per fiscal year; thus, the percentage of on-site grant monitoring is not sufficient, and cannot be relied upon as a significant contribution to NHPRC's financial monitoring program. We reviewed five on-site monitoring reports prepared by NHPRC and found three reports identified several financial and accounting issues requiring corrective action including: (1) revisions to the grantee's project budget and final financial report to reflect expenses actually incurred during the grant period; (2) lack of timekeeping documentation supporting cost share; (3) inability of the accounting system to track actual (vs. budgeted) grant expenditures; and (4) the inability of the accounting system to compare actual cost to budgeted cost. The findings documented by the OIG and the on-site visits conducted by NHPRC exemplify the need for an expanded on-site monitoring program to ensure all grant funds are managed and accounted for according to federal regulations.

The *Guide to Opportunities for Improving Grant Accountability* cites the Environmental Protection Agency (EPA) for its best practice whereby EPA requires grant staff to perform desk or on-site reviews on 10 percent of all grantees each year. These reviews include an analysis of grantee financial systems, including timekeeping and drawdown procedures, and an examination of whether the grantee is meeting its matching requirements. If the review is performed on-site, the staff performs transaction testing. An appropriate level of on-site grantee visits will provide assurance the grantee has an adequate financial system and is properly using federal funds.

- NHPRC has not adequately addressed the risk associated with their multi-year, long-term grant projects by establishing a financial monitoring program that recognizes the risk associated with long-term grant projects. Continuing grant projects have an inherent risk of fund misuse or noncompliance with federal regulations because of the amount of time involved and the inclusion of more

federal funds. Additionally, there is a greater risk of grant fraud or misuse of funds when a grantee becomes aware they are not closely monitored<sup>13</sup>.

We questioned the entire federal grant award of \$762,320<sup>14</sup> provided to the Supreme Court Historical Society (SCHS) due to lack of documentation (timesheets) supporting labor cost for their most recent multi-year grant for the period January 1, 2004 to December 31, 2006. Key SCHS personnel, including the Executive Director, Assistant Director, and Project Director, have been involved with the grant project since its inception 29 years ago. SCHS officials stated they were unaware timesheets were required to document labor charges. SCHS officials explained that because NHPRC (1) never requested additional documentation beyond the routine financial reports submitted or (2) never conducted a site visit to review their financial records, SCHS believed they had managed grant funds appropriately. Had NHPRC established a policy to periodically conduct site-visit reviews for multi-year grant projects, on a cyclical basis such as every three years, this situation could have been corrected.

NHPRC has approximately thirty ongoing grant projects with funding programs greater than five years—most have not been reviewed by NHPRC. Some of these long-term projects have been in existence over 25 years and at least one project is 60 years old. With limited staff resources available for monitoring activity, NHPRC needs to prioritize resources to grant projects with greater risk indicators, such as the age of the program.

- NHPRC has not developed a desk audit monitoring program to supplement its financial monitoring program, which currently consists of (1) review of annual financial reports submitted by the grantee and (2) an insufficient number of on-site visits. Desk audits can be used to assess the general financial management environment of a grantee, review selected accounting and financial management policies (such as whether a grantee has an appropriate timekeeping system) and verify financial information submitted by the grantee. A desk audit should be designed to develop reasonable assurance the grantee has adequate policies, processes and systems to properly manage federal awards. The focus of the desk audit should be on grant administration and accounting practices, rather than technical or programmatic achievement and can be used more frequently and with fewer resources than an on-site visit.
- NHPRC does not have monitoring procedures to ensure advanced federal funds<sup>15</sup> are in compliance with federal cash management requirements<sup>16</sup> and that grantees have not requested excessive funds. NHPRC was unsure how many

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<sup>13</sup> We reviewed four long-term projects, (ranging from eight years to forty-six years) and identified these projects had the same project director for the life of the project.

<sup>14</sup> See Appendix A: Summary of Findings Associated with OIG Grant Recipient Audits.

<sup>15</sup> Advance means a payment made by Treasury check or other appropriate payment mechanism to a recipient upon request either before outlays are made by the recipient or through the use of predetermined

grantees have requested fund advancements versus reimbursement. However, our review of grants found one grantee, HSW, did not manage advanced federal funds in compliance with federal regulations and had excess funds at their disposal with no corresponding appropriate expenditure.

- NHPRC does not consider risk factors in establishing the frequency a grantee is required to submit financial statements. NHPRC requires all grantees to submit an annual financial statement; and adequately reviews, documents, and ensures these reports are submitted timely from the grantee. However, grantees with risk indicators such as age of program, program size, or experience of the grantee are not required to submit financial reports more frequently.
- NHPRC does not have procedures to monitor indirect overhead cost rates<sup>17</sup> used to fulfill the grantee's cost sharing obligation. In our review of grant files, we found two grantees with approved budgets that used expired indirect cost rates. NHPRC was not aware the cost rates were expired and relied on the grantee's certification the approved rates were appropriate.

We are encouraged by action taken by NHPRC during the course of this audit. Specifically, NHPRC took action to develop enhanced pre-award certification procedures which specifically identifies whether a grantee meets federal requirements in the following areas: (1) an appropriate accounting system, (2) timekeeping procedures for project personnel, and (3) written procedures for salaries, travel, and procurement.

However a significant limitation on the level of monitoring performed relates to the lack of personnel resources NHPRC is able to dedicate to monitoring efforts. The Director of NHPRC stated over the past five years her staff has worked over-time hours to accommodate work associated with significant increases in the number of grant applications received and subsequently awarded. Since fiscal year 2006, the number of applications NHPRC staff review has more than doubled and the number of awards given has significantly increased. Additionally, NHPRC officials stated they were unsure how comfortable NHPRC staff were with monitoring financial topics and have considered contracting or hiring personnel with specialized experience reviewing financial data.

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payment schedules. NHPRC allows grant recipients to request three months of projected outlays in advance.

<sup>16</sup> OMB regulations require grant recipients requesting federal fund advancements (vs. reimbursements) to minimize the time elapsing between the transfer of funds and the disbursement by the recipient as evidenced by written accounting procedures and adequate financial management systems. Further, requests for cash advances are to be limited to the minimum amounts needed.

<sup>17</sup> Indirect costs are those incurred for common or joint objectives and cannot be readily identified with a particular cost objective. Typical examples of indirect cost may include depreciation of operating and maintaining facilities, general administration and general expenses, such as the salaries and expenses of executive officers, personnel administration, and accounting.

**Recommendation 2**

We recommend the Director of NHPRC develops a comprehensive risk-based financial monitoring program including attributes such as: (1) an appropriate level of on-site visits and/or desk audits, (2) the frequency of on-site visits and/or desk audits for their long-term grant projects; (3) additional monitoring procedures for federal advances; (4) more frequent submittal of financial reports for grantees with certain risk factors; and (5) procedures for monitoring whether a grantee is using a valid pre-approved indirect cost rate.

**Management Response**

Management concurred with recommendation.

**Recommendation 3**

We recommend the Director of NHPRC request additional resources as appropriate to accommodate the increased financial monitoring.

**Management Response**

Management concurred with recommendation

**NHPRC has Not Established Clear Policies Concerning the Grantees Obligation to Meet Cost Share**

NHPRC does not have a well-defined policy to ensure grantee cost share obligations established in the grant agreement are met<sup>18</sup>. Specifically, NHPRC's cost share policy does not identify (1) when a cost share agreement is enforceable, (2) what enforcement action is appropriate, (3) what specific circumstances are accepted to forgive an unfulfilled cost share commitment, and (4) procedures to formally document review and close-out of the grantees' cost share obligation. *GAO Standards for Internal Control in the Federal Government*, states federal managers are "responsible for developing the detailed policies, procedures, and practices to fit their agency's operations" necessary to achieve the desired results that support effective stewardship of public resources. Without a well-defined, formal written policy to address NHPRC's grantee cost share program NHPRC may miss opportunities to obtain a refund of grant funds when the grantee fails to meet their cost share commitment. When promised cost sharing is not realized, the grantee has not fulfilled their obligation and should refund a portion of the federal funds they have received.

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<sup>18</sup> Cost sharing is the financial contribution the applicant pledges to the total cost of a project. NHPRC may specify a minimum cost share requirement in the grant announcement. The cost share reflected in the grant agreement is the cost share the grantee states in its proposed budget and may be more than NHPRC had required in the grant announcement. Cost sharing expenditures can include both direct and indirect expenses, in-kind contributions, and any income earned directly by the project.

The NHPRC Director stated, in general, NHPRC requires the grantee to provide cost sharing in an amount equal to the amount of the federal grant award and any exceptions to the one-to-one cost sharing requirement are communicated in the grant opportunity announcement. Thus, if a grantee requested \$100k in grant funds, the grantee would be required to minimally pledge \$100k in cost share prior to award of the grant. However, NHPRC's policy for monitoring and closing out cost share conflicts with their one-to-one cost sharing requirement for awarding the grant. Grant projects achieving 80 percent of their cost sharing obligation are closed without any additional review or intent to recover funds from the grantee<sup>19</sup>. NHPRC does not have established procedures to describe an appropriate enforcement action when the grantee has not met its cost share obligation--as reflected in the approved grant budget/award notice. We found that other federal agencies have identified (1) possible termination of the grant, (2) disallowance of grant costs and/or (3) refund of grant funds, as enforcement actions imposed on grantees not fulfilling their cost share obligations.

We reviewed grant file documentation for eleven closed grant projects and found seven grantees did not meet their cost share obligations. Had NHPRC enforced the seven cost share agreements, NHPRC could have requested \$434,589 in grant refunds (See Table 1 below) and NARA could have put these funds to better use. Of the seven files that did not meet the promised cost share: (1) four met 80 percent of their contracted cost share obligation; (2) two did not meet 80 percent of their contracted cost share obligation and provided an explanation for not meeting cost share; and (3) one did not meet the 80 percent of its contracted cost share obligation and did not provide an explanation for the difference.

NHPRC's blanket indemnity for any grantee meeting only 80 percent of their required cost share, combined with the lack of a well-defined cost sharing policy, leaves the NHPRC open to the risk of grantees not fulfilling their grant obligations. Further, NHPRC has not recognized the grantee's cost share commitment as a condition of the award, and as such is subject to audit and is enforceable. It is our opinion NHPRC should clearly communicate to the grantee that (1) once the cost share promise has been accepted and included in the grant agreement it becomes legally binding and subject to audit and (2) failure to provide the level of cost sharing reflected in the grant agreement could result in a refund of grant funds.

Finally, identification of when forgiveness of the grantees' cost share obligation would be appropriate should be recognized as an occasional necessity based on a case by case evaluation, and should not be automatically forgiven after only meeting a percentage benchmark. Cost sharing is an important contribution from the grantee and when it is not met, NHPRC program objectives may not be met—or at least not as efficiently as possible.

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<sup>19</sup> NHPRC's published regulations, 36 CFR Part 1206.82, entitled, "*What is the format and content of the financial report?*" states "if cost-sharing figures are less than 80 percent of the amount anticipated in the project budget, you must explain the reason for the difference."

**Recommendation 4**

We recommend the Director of NHPRC develop a formal cost share policy addressing: (1) when a cost share agreement is enforceable taking into consideration what cost sharing is required to accomplish the objectives of the award, (2) an appropriate enforcement schedule, (3) specific circumstances that would warrant cost share forgiveness, and (4) development of procedures to formally document review and close-out of the grantees' cost share obligation.

Management Response

Management concurred with recommendation.

**TABLE 1: ANALYSIS OF CLOSED GRANT PROJECTS REGARDING OBLIGATORY COST SHARE**

<b>Grantee</b>	<b>Cost Share of Grantee per Grant Agreement</b>	<b>Actual Cost Share Borne by Grantee</b>	<b>Total Project Cost<sup>20</sup></b>	<b>Funds to Better Use<sup>21</sup></b>
<b>American Institute of Physics</b> Grant No. RA-05207-03	51%	60%	194,111	0
<b>Supreme Court Historical Society</b> Grant No. 2004-026	42%	29%	1,069,611	139,049
<b>George Washington University</b> Grant No. NAR06-081 (E. Roosevelt)	66%	71%	644,958	0
<b>George Washington University</b> Grant No. PH-10024-07 (E. Roosevelt)	74%	63%	614,222	67,564
<b>George Washington University</b> Grant No. PH-10056-08 (E. Roosevelt)	66%	51%	529,469	79,420
<b>George Washington University</b> Grant No. NAR06-033 (First Federal Congress)	57%	42%	321,497	48,225
<b>George Washington University</b> Grant No. PA-05695-07 (First Federal Congress)	59%	49%	353,665	35,367
<b>University of the State of New York</b> Grant No. NAR04-002 (SHRAB)	52%	44%	483,309	38,665
<b>Ulysses S. Grant Association</b> Grant No. NAR06-040	76%	64%	219,159	26,299
<b>Ulysses S. Grant Association</b> Grant No. PH-10018-08 <sup>22</sup>	57%	56%	187,954	0
<b>Massachusetts State Historical Records Advisory Board</b> Grant No. NAR04-021	63%	64%	264,270	0
<b>Total</b>				<b>\$434,589</b>

<sup>20</sup> Total project costs were determined from the grantee's final financial report and includes the actual amount contributed by the federal grant and the actual amount of the grantee's cost share.

<sup>21</sup> Funds to Better Use were calculated as follows: (total project cost \* grantees' actual cost share) less (total project cost \* cost share per agreement).

<sup>22</sup> We did not include this grant as one that did not meet its cost share obligation because the refund amount was less than \$3,000.



## Appendix A – Summary of Findings Associated with OIG Audits

We selected four grants for audit: American Institute of Physics (AIP), George Washington University (GWU), Supreme Court Historical Society (SCHS), and the Historical Society of Washington, D. C. (HSW).

Regarding the grant audits, we found AIP and GWU adequately accounted for and appropriately used the grant funds they were provided. However, we questioned \$789,479 in federal funds provided to the SCHS and HSW due to a lack of supporting documentation. Further, we recommended NHPRC either terminate or temporarily suspend the HSW grant. We found HSW misused federal funds and lacked appropriate administrative capability to account for grant funds. As a result of our findings, we issued management two reports identifying our findings and requested written response regarding actions planned to address the questioned costs and status of the HSW grant.

**Table 2: Summary of Findings from Grantee Audits**

<b>Grantee</b>	<b>Grant Award</b>	<b>Questioned Costs</b>	<b>Other Grantee Related Issues</b>	<b>Action Taken by Management</b>
AIP	78,200	None	None	N/A
GWU	1,475,662	None	None	N/A
SCHS	762,320	762,320	Lack of documentation	No action taken
HSW	155,500	27,159 <sup>23</sup>	Misuse of grant funds/administrative deficiencies/lack of documentation	Grant terminated; decision on questioned costs is still pending
<b>TOTALS</b>	<b>\$2,471,682</b>	<b>\$789,479</b>		

Management was issued Report No. 10-01, *National Historical Publications and Records Commission Grant No. 2004-026 Supreme Court Historical Society* dated October 26, 2009. In this report management was asked to provide written response to actions planned regarding the questioned costs. The questioned costs were based on our finding that SCHS was unable to provide adequate documentation (timesheets) supporting grant funds given them. Management decided to not pursue recovery of grant funds questioned, based on the fact that the grant objectives were met and that the product received by SCHS was of unquestioned high quality. NHPRC issued their written response on January 21, 2010.

<sup>23</sup> HSW was advanced \$47,568, but had only expended \$27,159 at the time of the audit.

Management was issued Report No. 10-15, *Audit of the National Historical Publications and Records Commission Grant No. RB-50061-09 Historical Society of Washington, D.C.* dated June 23, 2010. In this report management was asked to provide written response to our recommendations:

1. Either (a) terminate this grant or (b) temporarily withhold cash payments on this grant until all accounting/grant management deficiencies identified in our report are corrected and HSW is placed on Special Conditions status for the remainder of the grant project
2. Decide whether any grant funds expended (\$27,159) should be disallowed based on lack of documentation (timesheets), general lack of grant management, and misuse of grant funds.

Our recommendations were based on our findings that HSW used federal funds advanced to them for organizational expenditures not associated with the grant program while allowing legitimate grant fund expenditures go delinquent. Management decided to terminate the grant and is waiting a final report from HSW before making a decision regarding the questioned cost. NPRC issued their written response on August 6, 2010.

## Appendix B – Listing of OIG Audits and Grant Files Reviewed

<b>TABLE 3: Listing of OIG Audit Sites and Grant Files Reviewed</b>				
<b>Grantee</b>	<b>Grant Award Amount</b>	<b>Type of Review</b>	<b>Grant Project Status</b>	<b>Date of Site Audit</b>
<b>American Institute of Physics</b> 1. Grant No. RA-05207-03	78,200	Audit #1	Closed	June 2009
<b>Supreme Court Historical Society</b> 2. Grant No. 2004-026	762,320	Audit #2	Closed	August 2009
<b>George Washington University</b> 3. Grant No. NAR06-081 (E. Roosevelt)	189,180	Audit #3	Closed	November 2009
4. Grant No. PH-10024-07 (E. Roosevelt)	227,016	Audit #3	Closed	November 2009
5. Grant No. PH-10056-08 (E. Roosevelt)	260,896	Audit #3	Closed	November 2009
6. Grant No. NAR06-033 (First Federal Congress)	185,261	Audit #3	Closed	November 2009
7. Grant No. PA-05695-07 (First Federal Congress)	179,703	Audit #3	Closed	November 2009
8. Grant No. PA-10007-08 (First Federal Congress)	223,098	Audit #3	Active	November 2009
9. Grant No. PA-10009-09 (First Federal Congress)	210,508	Audit #3	Active	November 2009
<b>Historical Society of Washington D.C.</b> 10. Grant No. RB-50061-09	155,500	Audit #4	Active	March 2010
<b>University of the State of New York</b> 11. Grant No. NAR04-002 (SHRAB)	289,613	File review only	Closed	Not applicable.
<b>Ulysses S. Grant Association</b> 12. Grant No. NAR06-040	79,764	File review only	Closed	Not applicable.
13. Grant No. PH-10018-08	95,717	File review only	Closed	Not applicable.
<b>Massachusetts State Historical Records Advisory Board</b> 14. Grant No. NAR04-021	100,000	File review only	Closed	Not applicable.
<b>Philadelphia Museum of Art</b> 15. Grant No. RA-10035-07	142,449	File review only	Active	Not applicable.
<b>Total</b>	<b>3,179,225</b>			

# Appendix C – Standard Form 424B Entitled *Assurances* – *Non-Construction Programs*

OMB Approval No. 0348-0040

## ASSURANCES - NON-CONSTRUCTION PROGRAMS

Public reporting burden for this collection of information is estimated to average 15 minutes per response, including time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding the burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to the Office of Management and Budget, Paperwork Reduction Project (0348-0040), Washington, DC 20503.

**PLEASE DO NOT RETURN YOUR COMPLETED FORM TO THE OFFICE OF MANAGEMENT AND BUDGET.  
SEND IT TO THE ADDRESS PROVIDED BY THE SPONSORING AGENCY.**

**NOTE:** Certain of these assurances may not be applicable to your project or program. If you have questions, please contact the awarding agency. Further, certain Federal awarding agencies may require applicants to certify to additional assurances. If such is the case, you will be notified.

As the duly authorized representative of the applicant, I certify that the applicant:

1. Has the legal authority to apply for Federal assistance and the institutional, managerial and financial capability (including funds sufficient to pay the non-Federal share of project cost) to ensure proper planning, management and completion of the project described in this application.
2. Will give the awarding agency, the Comptroller General of the United States and, if appropriate, the State, through any authorized representative, access to and the right to examine all records, books, papers, or documents related to the award; and will establish a proper accounting system in accordance with generally accepted accounting standards or agency directives.
3. Will establish safeguards to prohibit employees from using their positions for a purpose that constitutes or presents the appearance of personal or organizational conflict of interest, or personal gain.
4. Will initiate and complete the work within the applicable time frame after receipt of approval of the awarding agency.
5. Will comply with the Intergovernmental Personnel Act of 1970 (42 U.S.C. §§4728-4763) relating to prescribed standards for merit systems for programs funded under one of the 19 statutes or regulations specified in Appendix A of OPM's Standards for a Merit System of Personnel Administration (5 C.F.R. 900, Subpart F).
6. Will comply with all Federal statutes relating to nondiscrimination. These include but are not limited to: (a) Title VI of the Civil Rights Act of 1964 (P.L. 88-352) which prohibits discrimination on the basis of race, color or national origin; (b) Title IX of the Education Amendments of 1972, as amended (20 U.S.C. §§1681-1683, and 1685-1686), which prohibits discrimination on the basis of sex; (c) Section 504 of the Rehabilitation Act of 1973, as amended (29 U.S.C. §794), which prohibits discrimination on the basis of handicaps; (d) the Age Discrimination Act of 1975, as amended (42 U.S.C. §§6101-6107), which prohibits discrimination on the basis of age; (e) the Drug Abuse Office and Treatment Act of 1972 (P.L. 92-255), as amended, relating to nondiscrimination on the basis of drug abuse; (f) the Comprehensive Alcohol Abuse and Alcoholism Prevention, Treatment and Rehabilitation Act of 1970 (P.L. 91-618), as amended, relating to nondiscrimination on the basis of alcohol abuse or alcoholism; (g) §§523 and 527 of the Public Health Service Act of 1912 (42 U.S.C. §§290 dd-3 and 290 ee-3), as amended, relating to confidentiality of alcohol and drug abuse patient records; (h) Title VIII of the Civil Rights Act of 1968 (42 U.S.C. §§3601 et seq.), as amended, relating to nondiscrimination in the sale, rental or financing of housing; (i) any other nondiscrimination provisions in the specific statute(s) under which application for Federal assistance is being made; and, (j) the requirements of any other nondiscrimination statute(s) which may apply to the application.
7. Will comply, or has already complied, with the requirements of Titles II and III of the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 (P.L. 91-646) which provide for fair and equitable treatment of persons displaced or whose property is acquired as a result of Federal or federally-assisted programs. These requirements apply to all interests in real property acquired for project purposes regardless of Federal participation in purchases.
8. Will comply, as applicable, with provisions of the Hatch Act (5 U.S.C. §§1501-1508 and 7324-7328) which limit the political activities of employees whose principal employment activities are funded in whole or in part with Federal funds.

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## Appendix C – Standard Form 424B Entitled *Assurances* – *Non-Construction Programs* (cont.)

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| <p>9. Will comply, as applicable, with the provisions of the Davis-Bacon Act (40 U.S.C. §§276a to 276a-7), the Copeland Act (40 U.S.C. §276c and 18 U.S.C. §874), and the Contract Work Hours and Safety Standards Act (40 U.S.C. §§327-333), regarding labor standards for federally-assisted construction subagreements.</p> <p>10. Will comply, if applicable, with flood insurance purchase requirements of Section 102(a) of the Flood Disaster Protection Act of 1973 (P.L. 93-234) which requires recipients in a special flood hazard area to participate in the program and to purchase flood insurance if the total cost of insurable construction and acquisition is \$10,000 or more.</p> <p>11. Will comply with environmental standards which may be prescribed pursuant to the following: (a) institution of environmental quality control measures under the National Environmental Policy Act of 1969 (P.L. 91-190) and Executive Order (EO) 11514; (b) notification of violating facilities pursuant to EO 11738; (c) protection of wetlands pursuant to EO 11990; (d) evaluation of flood hazards in floodplains in accordance with EO 11988; (e) assurance of project consistency with the approved State management program developed under the Coastal Zone Management Act of 1972 (16 U.S.C. §§1451 et seq.); (f) conformity of Federal actions to State (Clean Air) Implementation Plans under Section 176(c) of the Clean Air Act of 1955, as amended (42 U.S.C. §§7401 et seq.); (g) protection of underground sources of drinking water under the Safe Drinking Water Act of 1974, as amended (P.L. 93-523); and, (h) protection of endangered species under the Endangered Species Act of 1973, as amended (P.L. 93-205).</p> | <p>12. Will comply with the Wild and Scenic Rivers Act of 1968 (16 U.S.C. §§1271 et seq.) related to protecting components or potential components of the national wild and scenic rivers system.</p> <p>13. Will assist the awarding agency in assuring compliance with Section 106 of the National Historic Preservation Act of 1966, as amended (16 U.S.C. §470), EO 11593 (identification and protection of historic properties), and the Archaeological and Historic Preservation Act of 1974 (16 U.S.C. §§460a-1 et seq.).</p> <p>14. Will comply with P.L. 93-348 regarding the protection of human subjects involved in research, development, and related activities supported by this award of assistance.</p> <p>15. Will comply with the Laboratory Animal Welfare Act of 1966 (P.L. 89-544, as amended, 7 U.S.C. §§2131 et seq.) pertaining to the care, handling, and treatment of warm blooded animals held for research, teaching, or other activities supported by this award of assistance.</p> <p>16. Will comply with the Lead-Based Paint Poisoning Prevention Act (42 U.S.C. §§4801 et seq.) which prohibits the use of lead-based paint in construction or rehabilitation of residence structures.</p> <p>17. Will cause to be performed the required financial and compliance audits in accordance with the Single Audit Act Amendments of 1996 and OMB Circular No. A-133, "Audits of States, Local Governments, and Non-Profit Organizations."</p> <p>18. Will comply with all applicable requirements of all other Federal laws, executive orders, regulations, and policies governing this program.</p> |
|---|---|

SIGNATURE OF AUTHORIZED CERTIFYING OFFICIAL	TITLE
APPLICANT ORGANIZATION	DATE SUBMITTED

Standard Form 424B (Rev. 7-97) Back

# Appendix D – Example Accounting System and Financial Capability Questionnaire

Approved: OMB No. 1121-0021

 <p><b>U.S. DEPARTMENT OF JUSTICE OFFICE OF JUSTICE PROGRAMS ACCOUNTING SYSTEM AND FINANCIAL CAPABILITY QUESTIONNAIRE</b></p>	
<b>SECTION A: PURPOSE</b>	
<p>The financial responsibility of grantees must be such that the grantee can properly discharge the public trust which accompanies the authority to expend public funds. Adequate accounting systems should meet the following criteria as outlined in the OJP Financial Guide.</p> <p>(1) Accounting records should provide information needed to adequately identify the receipt of funds under each grant awarded and the expenditure of funds for each grant.</p> <p>(2) Entries in accounting records should refer to subsidiary records and/or documentation which support the entry and which can be readily located.</p> <p>(3) The accounting system should provide accurate and current financial reporting information.</p> <p>(4) The accounting system should be integrated with an adequate system of internal controls to safeguard the funds and assets covered, check the accuracy and reliability of accounting data, promote operational efficiency, and encourage adherence to prescribed management policies.</p>	
<b>SECTION B: GENERAL</b>	
<p>1. If your firm publishes a general information pamphlet setting forth the history, purpose and organizational structure of your business, please provide this office with a copy, otherwise, complete the following items:</p>	
<p>a. When was the organization founded/incorporated (month, day, year)</p>	<p>b. Principle officers <span style="float: right;">Titles</span></p> <p>_____</p> <p>_____</p>
<p>c. Employer Identification Number:</p>	_____
<p>d. Number of Employees Full Time:      Part Time:</p>	_____
<p>2. Is the firm affiliated with any other firm: <input type="checkbox"/> Yes <input type="checkbox"/> No If "yes", provide details:</p>	
<p>3. Total Sales/Revenues in most recent accounting period. (12 months) \$</p>	
<b>SECTION C: ACCOUNTING SYSTEM</b>	
<p>1. Has any Government Agency rendered an official written opinion concerning the adequacy of the accounting system for the collection, identification and allocation of costs under Federal contracts/grants? <input type="checkbox"/> Yes <input type="checkbox"/> No</p>	
<p>a. If yes, provide name, and address of Agency performing review:</p>	<p>b. Attach a copy of the latest review and any subsequent correspondence, clearance documents, etc.</p> <p style="text-align: center; font-size: small;">Note: If review occurred within the past three years, omit questions 2-8 of this Section and Section D.</p>
<p>2. Which of the following best describes the accounting system: <input type="checkbox"/> Manual <input type="checkbox"/> Automated <input type="checkbox"/> Combination</p>	
<p>3. Does the accounting system identify the receipt and expenditure of program funds separately for each contract/grant? <span style="float: right;"><input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Not Sure</span></p>	
<p>4. Does the accounting system provide for the recording of expenditures for each grant/contract by the component project and budget cost categories shown in the approved budget? <span style="float: right;"><input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Not Sure</span></p>	
<p>5. Are time distribution records maintained for an employee when his/her effort can be specifically identified to a particular cost objective? <span style="float: right;"><input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Not Sure</span></p>	
<p>6. If the organization proposes an overhead rate, does the accounting system provide for the segregation of direct and indirect expenses? <span style="float: right;"><input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Not Sure</span></p>	
<p>7. Does the accounting/financial system include budgetary controls to preclude incurring obligations in excess of:</p> <p style="margin-left: 20px;">a. Total funds available for a grant? <span style="float: right;"><input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Not Sure</span></p> <p style="margin-left: 20px;">b. Total funds available for a budget cost category (e.g. Personnel, Travel, etc)? <span style="float: right;"><input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Not Sure</span></p>	
<p>8. Is the firm generally familiar with the existing regulation and guidelines containing the cost principles and procedures for the determination and allowance of costs in connection with Federal contracts/grants? <span style="float: right;"><input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Not Sure</span></p>	

OJP FORM 71291 (2/82)

(continued on reverse)

## Appendix D – Example Accounting System and Financial Capability Questionnaire (cont.)

<b>SECTION D: FUNDS CONTROL</b>	
1. If Federal grant/contract funds are commingled with organization funds, can the Federal grant funds and related costs and expenses be readily identified?	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Not Sure
<b>SECTION E: FINANCIAL STATEMENTS</b>	
1. Did an independent certified public accountant (CPA) ever examine the financial statements?	<input type="checkbox"/> Yes <input type="checkbox"/> No
2. If an independent CPA review was performed please provide this office with a copy of their latest report and any management letters issued.	<input type="checkbox"/> Enclosed <input type="checkbox"/> N / A
3. If an independent CPA was engaged to perform a review and no report was issued, please provide details and an explanation below:	
<b>SECTION F: ADDITIONAL INFORMATION</b>	
1. Use this space for any additional information (Indicate section and item numbers if a continuation)	
<b>SECTION G: APPLICANT CERTIFICATION</b>	
I certify that the above information is complete and correct to the best of my knowledge.	
1. Signature	b. Firm Name, Address, and Telephone Number
a. Title	
<b>SECTION H: CPA CERTIFICATION</b>	
The purpose of the CPA certification is to assure the Federal agency that the recipient can establish fiscal controls and accounting procedures which assure that Federal and State/local funds available for the conduct of the grant programs and projects are disbursed and accounted for properly. <b>If the audit report requested in Section E 2 above is not enclosed, then completion of this section is required.</b>	
1. Signature	b. Firm Name, Address, and Telephone Number
a. Title	

PUBLIC REPORTING BURDEN FOR THIS COLLECTION OF INFORMATION IS ESTIMATED TO AVERAGE 4 HOURS (OR MINUTES) PER RESPONSE, INCLUDING THE TIME FOR REVIEWING INSTRUCTIONS, SEARCHING EXISTING DATA SOURCES, GATHERING AND MAINTAINING THE DATA NEEDED, AND COMPLETING AND REVIEWING THE COLLECTION OF INFORMATION. SEND COMMENTS REGARDING THIS BURDEN ESTIMATE OR ANY OTHER ASPECTS OF THIS COLLECTION OF INFORMATION, INCLUDING SUGGESTIONS FOR REDUCING THIS BURDEN, TO OFFICE OF JUSTICE PROGRAMS, OFFICE OF THE COMPTROLLER, 810-7<sup>TH</sup> STREET, NW, WASHINGTON, DC 20531; AND TO THE PUBLIC USE REPORTS PROJECT, 1121-7120, OFFICE OF INFORMATION AND REGULATORY AFFAIRS, OFFICE OF MANAGEMENT AND BUDGET, WASHINGTON, DC 20503.

CJP FORM 71201 (2002)

## Appendix E – Acronyms and Abbreviations

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AIP	American Institute of Physics
EPA	Environmental Protection Agency
GAO	General Accountability Office
GWU	George Washington University
HSW	Historical Society of Washington, D.C.
NARA	National Archives and Records Administration
NHPRC	National Historical Publications and Records Commission
OIG	Office of Inspector General
OMB	Office of Management and Budget
SCHS	Supreme Court Historical Society



## Appendix F – Management’s Response to the Report

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10 February 2011

To: Paul Brachfeld, Inspector General  
From: David S. Ferriero, Archivist of the United States  
Subject: OIG Report 11-03, Audit of NARA’s Oversight  
of Selected Grantees’ Use of Grant Funds

Thank you for the opportunity to review and comment on this draft report.

We appreciate the additional time to respond needed because of the holidays and unforeseen circumstances. We concur with all four recommendations.

If you have questions about these comments, please contact Mary Drak at [mary.drak@nara.gov](mailto:mary.drak@nara.gov) or by phone at 301-837-1668.

David S. Ferriero  
Archivist of the United States

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