



NATIONAL ENDOWMENT FOR THE HUMANITIES

OFFICE OF INSPECTOR GENERAL

LIMITED AUDIT REPORT

NEH GRANT AWARD

TO

MERCYHURST UNIVERSITY

(AH-274926-20)

OIG-23-01 (EA)

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Laura Davis, Inspector General

A handwritten signature in cursive script that reads "August 2, 2023".

Date

LIMITED AUDIT REPORT

NATIONAL ENDOWMENT FOR THE HUMANITIES (NEH)

GRANT AWARD TO

Mercyhurst University

I. INTRODUCTION

The Office of Inspector General (OIG) has performed a limited audit of records maintained by Mercyhurst University (the "University") related to the following NEH grant award.

<u>Grant Number</u>	<u>Grant Period</u>	<u>Amount Awarded</u>
AH-274926-20	06/15/2020 – 12/31/2020	\$100,000

Grant Expenditures: As noted below, the intent of the grant award was to support the creation of four six-month post-doctoral/part-time instructor positions to address major issues created by the coronavirus pandemic. The University has submitted the final financial report to the NEH, which conveys that the related expenditures, disbursements, and cash receipts conform to the objectives set forth in the terms and conditions of the grant award.

II. BACKGROUND

The disciplines within the Hafenmaier College of Humanities, Arts, and Social Sciences are crucial to the mission and cultural life of the University and the surrounding community. Specifically, the University's mission identifies the beauty and power of the liberal arts as foundational and aims to combine that tradition with an appreciation for the dignity of work and commitment to serving others. The Hafenmaier College supports that mission in tangible ways. Most significantly, the humanities programs comprise the heart of the University's core curriculum and serve every single student at the school multiple times. For example, each student takes at least one course in English, Philosophy, Religious Studies, and History, and many complete coursework or pursue a major/minor in a world language such as Arabic, Russian, Spanish, or French.

NEH awarded the University a grant to support the creation of four six-month post-doctoral/part-time instructor positions to address major issues created by the coronavirus pandemic. The purpose and intent of these positions would be to (1) develop a total of eight online general education courses in Russian, Arabic, English, and Catholic Studies to meet the enrollment demands of the incoming Class of 2024; (2) provide the candidates with intensive training and/or experience in developing excellent online instruction; (3) support the delivery of excellent online instruction to University students and accommodate continued challenges created by the pandemic; and (4) create four temporary jobs for recent doctoral graduates/instructors and provide them with training in online course development and experience. The positions would all be remote, allowing the candidates to gain experience and earn income without uprooting their lives for a temporary position. The courses that the candidates design and deliver will support the University's mission to foster intellectual creativity in both the students and faculty.

III. LIMITED AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

The primary objectives of this limited audit were to determine whether (1) grant expenditures were made in accordance with applicable provisions of NEH's *General Terms and Conditions for Awards* and the specific terms of the grant award; and (2) the University implemented proper controls over administration of the Federal award in accordance with minimum standards prescribed in 2 CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (2 CFR Part 200).

To accomplish the limited audit objectives, we reconciled the Federal Financial Report (SF-425), as submitted by the University on September 30, 2021, to the General Ledger (G/L) detail for the grant project. We reviewed documentation that supports 100 percent of the expenditure transactions charged to the NEH grant award to determine whether the expenditures are allowable, allocable, and reasonable, as prescribed by 2 CFR Part 200. We also gained an understanding of relevant accounting procedures and internal controls.

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

IV. RESULTS OF LIMITED AUDIT

According to the final Performance Report submitted by the University, the project supported by NEH grant AH-274926-20 was completed in December 2020 with the successful employment and training of four online instructors for the Fall 2020 semester. The online courses developed by the instructors were filled with first-year students and completed with the four faculty members successfully using proven remote instruction techniques and pedagogy to engage the students. The online courses in Russian, Arabic, English, and Catholic Studies will be available for remote teaching and learning in the future. The flexibility will be advantageous to students and faculty members as these courses may be offered to allow students or faculty who cannot come to campus to continue to expand their knowledge in these diverse areas.

The University certified total Federal expenditures related to the project in the amount of \$100,000. Based on the results of our limited audit, we deem \$81,562 as allowable expenditures. Accordingly, we question the allowability and allocability of NEH grant award expenditures totaling \$18,438, which includes personnel, fringe, equipment-related, and indirect costs, (see **Exhibit A** below).

Cost Category	Total Charges to NEH Grant Award	NEH-OIG Adjustments	NEH-OIG Adjusted
	(a)	(b)	[(a) - (b)]
Personnel	\$ 64,000	\$ 6,000	\$ 58,000
Fringe Benefits	25,600	21,174	4,426
Permanent Equipment	3,331	51	3,280
Indirect Costs	7,069	(8,787)	15,856
Total	<u>\$ 100,000</u>	<u>\$ 18,438</u>	<u>\$ 81,562</u>

() denotes an upward adjustment

A. Questioned Costs

The Inspector General Act defines “questioned cost” as a cost that is questioned because of –

- An alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or document governing expenditure of funds;
- A finding that, at the time of the audit, such cost is not supported by adequate documentation; or
- A finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable.¹

During our audit testing, we identified questioned costs as follows:

1. **Personnel Costs, (\$6,000).** We identified two instances where mentor compensation charges to the NEH grant award exceed the amount computed based on the University’s compensation plan for the mentors. According to the University, each fellow/instructor was paired with an in-house mentor with experience and expertise in teaching and course development. Since this represented work outside of the individual’s contracted and assigned duties for the university, each mentor was compensated \$2,000 for each course they helped the new professionals design and deliver. Curriculum design expertise for asynchronous delivery of material was compensated \$1,000 for each course.

A post-doctoral/part-time instructor was hired to design and deliver two (2) Russian courses. Personnel costs charged to the NEH grant award related to the instructor are consistent with the design and delivery of two (2) unique courses. However, personnel costs charged to the NEH grant award related to the assigned mentor exceeds the amount computed based on

¹ 5 U.S. Code section 405(a)(4)

application of the University's compensation plan for the mentors by \$3,000.² We further noted that total compensation charges related to the mentor exceeds the amount reflected in the supporting *Personnel Action Form*³.

A post-doctoral/part-time instructor was hired to design and deliver two sections of one (1) course in Catholic Studies. Personnel costs charged to the NEH grant award related to the instructor are consistent with the design of two sections of one (1) unique course. However, personnel costs charged to the NEH grant award related to the assigned mentor exceeds the amount computed based on application of the University's compensation plan for the mentors by \$3,000.⁴ We further noted that total compensation charges related to the mentor exceeds the amount reflected in the supporting *Personnel Action Form*⁵.

We take exception to the allocability of compensation charges in excess of the amount determined based on the University's rationale for mentor compensation.

2. **Fringe Benefits, (\$21,174).** Fringe benefit charges to the NEH grant award include direct fringe costs (i.e., employer payroll taxes) and indirect fringe benefit costs⁶ (i.e., allocation determined based on the University's average full-time fringe benefit rate of 40 percent). The full-time fringe benefit rate was applied to all personnel costs charged to the NEH grant award, (part-time/temporary instructors and full-time mentors).

The University does not have a federally-negotiated fringe benefit rate. According to the University's negotiated Indirect Cost Rate Agreement in effect for the period covered by the NEH grant award, fringe benefits are specifically identified to each employee and are charged individually as direct costs.⁷

Since the University's full-time fringe benefit rate has not been sanctioned by the Federal indirect cost rate negotiation process, we take exception to the allocability and allowability of indirect fringe benefit costs to the NEH grant award, (\$20,715).

² The University charged \$7,000 to the NEH grant award as personnel costs related to the mentor assigned to the Russian Studies post-doctoral/part-time instructor.

³ The *Personnel Action Form* is used by the University to document approval to fill/create a position, modify/promote, or make supplemental payments/stipends. According to a cautionary note on the form, no person will be paid for work undertaken before the appointment form is completed, and the person is officially processed in the Human Resources Department. Total compensation charges related to this mentor exceed the "Stipend/One Time" amount approved for this mentor by \$6,000, based on the supporting *Personnel Action Form* which reflects evidence of approval by the Department Supervisor.

⁴ The University charged \$5,000 to the NEH grant award as personnel costs related to the mentor assigned to the Catholic Studies post-doctoral/part-time instructor.

⁵ The *Personnel Action Form* is used by the University to document approval to fill/create a position, modify/promote, or make supplemental payments/stipends. According to a cautionary note on the form, no person will be paid for work undertaken before the appointment form is completed, and the person is officially processed in the Human Resources Department. Total compensation charges related to this mentor exceed the amount approved for this mentor by \$4,000, based on the supporting *Personnel Action Form* which reflects evidence of approval by the Department Supervisor.

⁶ The indirect fringe benefits allocated to the NEH award include medical, dental, and life insurance, employer retirement contributions, worker's compensation, and unemployment taxes.

⁷ Indirect Cost Rate Agreement dated January 15, 2020.

We also take exception to direct fringe benefit charges related to the questioned personnel costs discussed above, (\$459).⁸

3. **Equipment, (\$51).** The University purchased one laptop computer with NEH grant funds. Upon completion of the online purchase, the University official expressed intent to claim an exemption for sales taxes applicable to the purchase.⁹ We take exception to the allocability of the sales taxes applicable to the laptop purchase to the NEH grant award since the University expected to receive a credit for the charge, (\$51).
4. **Indirect Costs.** Total project expenditures certified by the University include indirect costs in the amount of \$7,069.¹⁰ This amount represents the difference between the total grant award amount (\$100,000) and total direct expenditures charged to the NEH grant award (\$92,931).

We determined that the University has a federally-negotiated “Off-Campus” Facilities and Administrative (F&A) cost rate¹¹. Since the grant project was completed remotely, we computed indirect costs based on the University’s federally-negotiated Predetermined “Off-Campus” F&A cost rate of 25.4 percent, (see **Exhibit B** below).

			Exhibit B
OIG-Adjusted Personnel Costs	\$ 58,000		
OIG-Adjusted Fringe Benefit Costs	4,426		
Total F&A Cost Allocation Base	<u>\$ 62,426</u>	(a)	
Off-Campus F&A Cost Rate	25.4%	(b)	
OIG-Adjusted Indirect Costs	<u>\$ 15,856</u>	[(a)*(b)]	

Recommendation

We recommend that Mercyhurst University return \$18,438 to the NEH.

⁸ \$6,000 (Questioned Personnel Costs) * .0765 (Employer Payroll Tax Rate) = \$459

⁹ The NEH-OIG was provided a copy of the “Chat Session Log”, which documents an exchange between the Mercyhurst official and the Customer Service Agent concerning the online purchase of the laptop computer. During the exchange, the Mercyhurst official was assured that the University would receive a credit for the sales tax upon submitting a properly supported claim for tax exemption.

¹⁰ The University did not include indirect costs in the budget submitted with the application for funding.

¹¹ Facilities and Administrative (F&A) costs are synonymous with “indirect” costs. According to the University’s Indirect Cost Rate Agreement dated January 15, 2020, the F&A allocation base is direct salaries and wages, including all fringe benefits. The fringe benefits are specifically identified to each employee and are charged individually as direct costs.

SUMMARY OF THE UNIVERSITY'S RESPONSE

On July 28, 2023, the University transmitted a formal response to the NEH-OIG limited audit report. The University concurs with the NEH-OIG findings and recommendation that \$18,438 be returned to the NEH to account for the error in determining expenditures that were not eligible for NEH grant funding. The University is implementing safeguards to ensure past mistakes do not occur in the future. A copy of this correspondence is attached.

V. EXIT CONFERENCE

The results of our limited audit were discussed with the following University officials on June 14, 2023 – [REDACTED], Director of Foundation and Public Agency Grants; [REDACTED], Dean of Humanities, Arts, and Social Sciences; [REDACTED], Vice President for Advancement; and [REDACTED], Vice President for Academic Affairs.



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July 28, 2023

National Endowment for the Humanities
Office of Inspector General
400 7th Street, SW
Washington, DC 20024
Attn: Audit Resolution

Re: Audit Report OIG-23-01 (EA)

To Whom It May Concern:

Mercyhurst University concurs with the NEH-OIG findings that the university should refund \$18,438 to the NEH to account for the error in determining what fringe benefits and sales tax on one piece of equipment that were not eligible for NEH grant funding for NEH grant AH-274926-20.

Through this process, Mercyhurst has identified our error with the allocation of fringe benefits, Mercyhurst is preparing to address this issue by collecting and processing information for submission to renegotiate our indirect rate with HHS. This information is due to their office in November 2023 so the timing of the completion of this audit was fortuitous.

We appreciate the professionalism and kindness shown by Ms. Laura Davis as she proceeded through this process. Safeguards are being put into place to ensure past mistakes cannot occur in the future.

Sincerely,

A handwritten signature in blue ink, appearing to be 'D. Davis', written over a blacked-out redaction bar.

Vice President for Advancement and External Relations