



NATIONAL ENDOWMENT FOR THE
Humanities

OFFICE OF INSPECTOR GENERAL

August 6, 2018

RETURN RECEIPT REQUESTED

Board of Directors
Connecticut Humanities
100 Riverview Center, Suite 270
Middletown, CT 06457
Attn: [REDACTED], Chair

OIG Report Number: OIG-18-06 (DR)

Dear Board Members:

The National Endowment for the Humanities (NEH) Office of Inspector General (OIG) has completed a desk review of the single audit report prepared by Fiondella, Milone & Lasaracina, LLP (the "IPA"), which includes Federal assistance programs administered by Connecticut Humanities Council (the "Council") during the organization's fiscal year (FY) ended June 30, 2017. The independent auditors previously furnished a copy of their audit report dated January 19, 2018 to the Council. The Federal Audit Clearinghouse (FAC) accepted the single audit reporting package on February 21, 2018. The IPA issued unmodified opinions¹ regarding the financial statements and compliance with Federal requirements. Furthermore, the IPA issued no written findings in conjunction with the single audit.

Our review was limited to an examination of the single audit reporting package, email exchanges with the Executive Director of the Council, email exchanges with the IPA, a limited review of select IPA workpapers, and review of applicable NEH grant files and accounting records. We did not perform a comprehensive examination of the underlying audit documentation to evaluate the adequacy of the audit work performed; rather, we used the *Guide For Desk Reviews of Single Audit Reports (2016 Edition)*, as issued by the Council of Inspectors General on Integrity and Efficiency (CIGIE), to determine whether the audit report meets the core reporting requirements stipulated by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (2 CFR Part 200). Based on our review, we can assign a rating to the IPA's reporting package of either a **Pass**, **Pass with Deficiencies**, or **Fail**. Audit reports receiving a **Fail** rating require corrective action.

We assigned a rating of **Fail** to the FY 2017 reporting package due to key deficiencies that affect the reliability of the report. Accordingly, the audit report and the related data collection form²

¹ **Unmodified opinion.** The opinion expressed by the IPA upon concluding that the financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework. An unmodified opinion represents the highest level of assurance the IPA can provide that the Council's financial statements as a whole are free from material misstatement, whether due to fraud or error.

² The Form SF-SAC (i.e., Data Collection Form) is submitted to the Federal Audit Clearinghouse with the single audit reporting package. This form provides information about the auditee and its Federal programs, and

(Form SF-SAC) must be revised and resubmitted to the FAC. We noted the following deficiencies during our desk review:

1. The Reporting Package Improperly Reflects the Council as a Low-Risk Auditee

Subpart F of 2 CFR Part 200 establishes criteria for determining whether an auditee is low risk³. An entity that meets certain conditions for each of the preceding two audit periods qualifies for low-risk auditee status and is eligible for reduced audit coverage.⁴ The IPA states in the *Schedule of Findings and Questioned Costs* that the Council qualified as a low-risk auditee for the fiscal year ended June 30, 2017. This determination is likewise documented in the data collection form submitted to the FAC.

One of the low-risk criteria stipulates that an entity must have single audits performed on an annual basis in accordance with the provisions of 2 CFR Part 200 Subpart F, including submitting the data collection form and the reporting package to the FAC within the specified timeframe. The Office of Management and Budget (OMB) Compliance Supplement⁵ (the "Compliance Supplement") further advises, if an entity was below the \$750,000 (or \$500,000 for audits required under OMB Circular A-133) threshold in either of the prior two audit periods, and an audit was not required under the OMB Uniform Guidance/OMB Circular A-133, the entity does not qualify as a low-risk auditee.

Based upon this guidance, we conclude that the Council does not qualify for low-risk auditee status for fiscal year ended June 30, 2017 since the organization did not expend more than \$750,000 in Federal awards during its fiscal year ended June 30, 2016, and an audit was not required under the OMB Uniform Guidance.

The Council had a program-specific audit for the fiscal year ended June 30, 2016, which was conducted in accordance with the terms and conditions of NEH award SO-233923-16. However, the NEH does not intend the scope of this program-specific audit requirement to satisfy the annual audit requirement outlined in Subpart F of 2 CFR Part 200.⁶

Fortunately, total Federal awards expended during fiscal year ended June 30, 2017 are associated with one major program. Therefore, additional testing will not be required to support the IPA's opinion concerning Federal programs.

summarizes the results of the audit. The information in this form must agree with information presented in the single audit reporting package.

³ 2 CFR section 200.520

⁴ Normally, the IPA must test total Federal awards expended in the major programs that, in the aggregate, encompass at least forty percent of the total Federal awards expended. However, when an entity meets the low-risk criteria, the testing requirement is reduced from forty to twenty percent.

⁵ The OMB Compliance Supplement serves to identify existing important compliance requirements that the Federal government expects to be considered as part of a Single Audit. The Compliance Supplement provides a source of information for auditors to understand a Federal program's objectives, procedures, and compliance requirements relevant to the audit as well as audit objectives and suggested audit procedures for determining compliance with these requirements.

⁶ 2 CFR section 200.501

2. The Note to the Schedule of Expenditures of Federal Awards Regarding the Council's Use of the 10% De Minimis Cost Rate is Misleading

According to Subpart F of 2 CFR Part 200, the Council must prepare a schedule of expenditures of Federal awards (SEFA) for the period covered by the organization's financial statements, which must include a note that states whether or not the Council elected to use the 10% de minimis cost rate covered in the regulations.⁷ The note accompanying the audited SEFA for fiscal year ended June 30, 2017 indicates that the Council elected to use the 10% de minimis cost rate.

The NEH program administered by the Council during the fiscal year ended June 30, 2017 [Federal/State Partnership (CFDA No. 45.129)] provides funding for the general operating expenses of the Council.⁸ According to the audited *Statements of Activities*, "General and Administrative" expenditures during the fiscal year ended June 30, 2017 totaled \$229,916. Use of the 10% de minimis cost rate to compute the reimbursement of indirect costs allocable to the NEH program would be duplicative and would effect inconsistent treatment of general operating expenses.

Council management acknowledges that the NEH general support grant covers most of the organization's general operating expenses and explained that the assertion reflected in the SEFA note was made based on the understanding that it represents standard language to be used if an organization has not obtained an indirect audit to support a different administrative/indirect rate. However, Council management clarified that the organization has not elected to use the 10% de minimis rate to compute indirect costs allocable to the Federal/State Partnership program.

3. The IPA's Conclusion Concerning Compliance with Federal Financial Reporting Requirements Is Not Sufficiently Substantiated

In addition to determining whether the Council's financial statements are presented fairly in all material respects in accordance with generally accepted accounting principles, Subpart F of 2 CFR Part 200⁹ also requires the IPA to determine whether the Council has complied with Federal statutes, regulations, and the terms and conditions of Federal awards that may have a direct and material effect on each of its major programs. Compliance testing must include tests of transactions and other auditing procedures necessary to support the IPA's opinion on compliance.

According to the Compliance Supplement, Federal grant recipients must establish and implement internal controls sufficient to provide reasonable assurance that reports of Federal awards submitted to the Federal awarding agency or pass-through entity (1) include all activity for the reporting period; (2) are supported by underlying accounting performance records; and

⁷ In accordance with 2 CFR section 200.414(f) _Indirect (F&A) costs, any non-Federal entity that has never received a negotiated indirect cost rate may elect to charge a de minimis rate of 10% of modified total direct costs, which may be used indefinitely. However, costs must be consistently charged as either indirect or direct costs, but may not be double-charged or inconsistently charged as both. Upon election, this methodology must be used consistently for all Federal awards until the entity chooses to negotiate for a rate, which the entity may do at any time.

⁸ The approved budget for NEH general support grant SO-233923-16 includes an allocation for "General Management" expenditures in the amount of \$273,284 for the fiscal year ending June 30, 2017.

⁹ 2 CFR section 200.514(d)

(3) are fairly presented in accordance with program requirements. Recipients must use the standard financial reporting forms, or such other forms as may be authorized by OMB, to report program outlays and program income on a cash or accrual basis, as prescribed by the Federal awarding agency. The Compliance Supplement specifies the following audit objectives related to 'Federal Reporting':

- 1) Obtain an understanding of internal control, assess risk, and test internal control as required by 2 CFR section 200.514 (c).
- 2) Determine whether required reports for Federal awards include all activity of the reporting period, are supported by applicable accounting or performance records, and are fairly presented in accordance with governing requirements.

NEH General Terms and Conditions for General Support Grants to State Humanities Councils require councils to submit a Federal Financial Report (FFR) within 90 days after the completion date of the annual reporting period for each general support grant award. Councils use the FFR as a standardized format to report expenditures under Federal awards, as well as cash status. 2 CFR Part 200 stipulates that the Council's financial management system, including records documenting compliance with Federal statutes, regulations, and the terms and conditions of the Federal award, must be sufficient to permit the preparation of required financial reports; and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the terms and conditions of the Federal award.¹⁰ By signing and submitting the FFR to the NEH, Council management certifies to the best of their knowledge and belief that the report is true, complete, and accurate, and the expenditures, disbursements and cash receipts are for the purposes and intent set forth in the award documents. Council management further attests to being aware that any false, fictitious, or fraudulent information may subject the Council to criminal, civil, or administrative penalties.¹¹

During our desk review, we inquired about the IPA's audit testing related to the Council's FFR submissions. In response to our inquiry, the IPA asserted that the FFRs were only reviewed for timeliness. We deem this testing approach as insufficient to support the IPA's assessment of the Council's compliance with Federal financial reporting requirements, as the design of the audit procedure does not address the audit objectives specified in the Compliance Supplement.

We recommend that the IPA design and implement audit procedures to determine whether the Federal financial reports submitted to the NEH during the fiscal year ended June 30, 2017 include all activity of the respective reporting period(s), are supported by applicable accounting records, and are fairly presented in accordance with governing requirements, as prescribed by the Compliance Supplement.

As the Council's oversight agency, the NEH-OIG will not accept the FY 2017 single audit reporting package until the discrepancies discussed above are addressed and corrective action taken to include resubmission of the reporting package to the FAC, (as revised to correct the deficiencies identified by this desk review). Please contact FAC support staff for assistance with the resubmission process since special procedures must be followed, (800-253-0696 or

¹⁰ 2 CFR section 200.302(a)

¹¹ U.S. Code, Title 18, Section 1001

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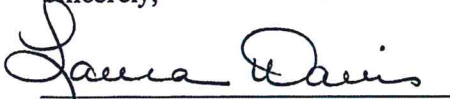
govs.fac@census.gov). Please notify the NEH-OIG when the revised reporting package has been submitted to the FAC.

The deficiencies noted during our desk review are troubling. Accordingly, we expect the IPA to strengthen their audit testing procedures to ensure that all elements of the Council's single audit reporting package comply with Federal audit requirements.

Please be advised that we are sending a copy of this letter to the Senior Manager at Fiondella, Milone & Lasaracina LLP, to inform her of the results of our review.

If you have any questions concerning this letter or need accounting assistance, please contact Mr. Daniel M. Gelfand at (202) 606-8353 or via email at dgelfand@neh.gov.


Sincerely,



Laura Davis
Inspector General

Distribution List:

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