



NATIONAL ENDOWMENT FOR THE HUMANITIES

OFFICE OF INSPECTOR GENERAL

February 26, 2020

RETURN RECEIPT REQUESTED

Council Trustees
North Carolina Humanities Council
320 East 9th Street, Suite 414
Charlotte, NC 28202
Attn: [REDACTED], Chair

OIG Report Number: OIG-20-04 (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 Bernard Robinson & Company, LLP (the "IPA"), which includes Federal assistance programs administered by the North Carolina Humanities Council (the "Council") during the organization's fiscal year (FY) ended October 31, 2018. The independent auditors previously furnished a copy of their audit report dated May 22, 2019, to the Council. The Federal Audit Clearinghouse (FAC) accepted the single audit reporting package on May 31, 2019. 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, 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

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.

a rating to the IPA's reporting package of either **Pass**, **Pass with Deficiencies**, or **Fail**. Audit reports receiving a **Fail** rating require corrective action.

We assigned a rating of **Fail** to the FY 2018 reporting package due to key deficiencies that affect the reliability of the report. Accordingly, the audit report and the related data collection form (Form SF-SAC)² must be revised and resubmitted to the FAC. We noted the following deficiencies during our desk review:

1. Information Reflected in the Audited Schedule of Expenditures of Federal Awards Concerning Subrecipient Awards is Inconsistent with the Audited Financial Statements

Subpart F of 2 CFR Part 200 requires the Council (as the auditee) to prepare a schedule of expenditures of Federal awards (SEFA) for the period covered by the Council's financial statements, which must include the total Federal awards expended.³ The schedule must also include the total amount provided to subrecipients from each Federal program. In the notes to the audited FY 2018 SEFA, the Council discloses that NEH funds, in the amount of \$242,919, were obligated for subrecipient awards (regrants) during the year. This amount is inconsistent with the amount reported in the audited *Statement of Activities and Changes in Net Assets* for the year ended October 31, 2018, as regrant expenses associated with NEH funding.⁴

In response to our inquiry regarding this discrepancy, the Council explained that the correct amount of NEH-funded subrecipient awards (regrants) is \$151,612. The amount reported on the *Schedule of Expenditures of Federal Awards* is incorrect because it includes \$91,307 of NEH program-related (non-regrant) expenses.

The audited *Schedule of Expenditures of Federal Awards* must be revised to accurately identify Federal funds provided to subrecipients, and must be materially consistent with the audited financial statements.

2. The Data Collection Form Submitted to the FAC Includes Erroneous Information Concerning Federal Awards Passed Through to Subrecipients

The *Data Collection Form* (Form SF-SAC) submitted as part of the Council's FY 2018 single audit reporting package indicates that no Federal awards were passed through to subrecipients. This statement is inconsistent with the audited FY 2018 SEFA. As discussed above, the Council discloses in the notes to the audited FY 2018 SEFA that NEH funds were obligated for subrecipient awards (regrants) during the year in the amount of \$242,919. The Council also reports the use of NEH funding for subrecipient

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 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 200.510(b)

⁴ The audited *Statement of Activities and Changes in Net Assets* for the year ended October 31, 2018, includes an expense line item, "Re-grants – NEH funds" in the amount of \$151,612.

awards (regrants) in the audited *Statement of Activities and Changes in Net Assets* for the year ended October 31, 2018.

The *Data Collection Form* must be revised to accurately reflect Federal funds provided to subrecipients, consistent with the disclosure in the audited *Schedule of Expenditures of Federal Awards*.

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 200 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.⁵ Compliance testing must include tests of transactions and other auditing procedures necessary to support the IPA's opinion on compliance.

According to the Office of Management and Budget (OMB) Compliance Supplement⁶ (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 or performance records; and (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 the Federal award, as well as cash status.

⁵ 2 CFR section 200.514(d)

⁶ 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.

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.⁷ 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.⁸

As part of our desk review, we inquired about the IPA's audit testing related to the Council's Federal financial reporting. In response to our inquiry, the IPA provided documentation to substantiate the firm's assessment to ensure that the reporting compliance requirements have been met by the Council. Based on the procedures performed, the IPA concluded that the Council is in compliance with OMB requirements. We are unable to fully determine the extent of the IPA's testing, based on review of the workpapers provided; however, it is clearly documented that the FFR for the reporting period ended October 31, 2018 was only reviewed for timeliness.⁹ We deem this testing approach as insufficient to support an assessment of the Council's compliance with Federal financial reporting requirements, as the design of the audit procedure does not address the audit objectives related to 'Federal Reporting', as specified in the Compliance Supplement.

We recommend that the IPA design and implement audit procedures to determine whether the financial reports submitted to the NEH during the fiscal year ended October 31, 2018 include all activity of the respective reporting period, 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 2018 single audit reporting package until the deficiencies identified above are addressed and the single audit reporting package is revised as necessary. The Council should contact FAC support staff for assistance with the resubmission process since there are special procedures that must be followed.¹⁰ Please notify the NEH-OIG when the revised FY 2018 reporting package has been submitted to the FAC.

Please be advised that we are sending a copy of this letter to the Partner at Bernard Robinson & Company, LLP to inform him of the results of our review.

⁷ 2 CFR section 200.302(a)

⁸ U.S. Code, Title 18, Section 1001

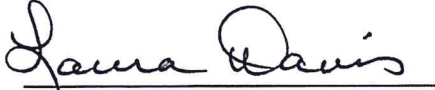
⁹ The IPA examined the FFR submitted online by the Council for the period 11/1/2017 – 10/31/2018 and noted that the form was submitted on 1/28/2019, which was before the deadline of 1/31/2019. The IPA also ascertained from the Council that the current year report would be submitted by the next deadline. The IPA deemed that further audit procedures were not necessary.

¹⁰ FAC support staff can be contacted at 800-253-0696 or govs.fac@census.gov.

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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

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