



NATIONAL ENDOWMENT FOR THE HUMANITIES

OFFICE OF INSPECTOR GENERAL

October 19, 2020

via FedEx

Board of Directors
Georgia Humanities
50 Hurt Plaza, S.E., Suite 595
Atlanta, Georgia 30303
Attn: [REDACTED]

OIG Report Number: OIG-21-01 (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 Jones and Kolb (the "IPA"), which includes Federal assistance programs administered by Georgia Humanities Council, Inc. (the "Council") during the organization's fiscal year (FY) ended October 31, 2019. The independent auditors previously furnished a copy of their audit report dated April 21, 2020 to the Council. The Federal Audit Clearinghouse (FAC) accepted the single audit reporting package on April 24, 2020. 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 reporting package 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 of either **Pass**, **Pass with Deficiencies**, or **Fail**. Audit reports receiving a **Fail** rating require corrective action.

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.

We assigned a rating of **Fail** to the FY 2019 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. The IPA's Conclusion Concerning Compliance with Federal Financial Reporting Requirements is Misleading

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 200³ 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 Office of Management and Budget (OMB) Compliance Supplement⁴ (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 incurred during the period associated with the report, as well as cash status.

² The 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 200.514(d)

⁴ 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.⁵ 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.⁶

As part of our desk review, we inquired about the IPA's testing related to the Council's Federal financial reporting. In response to our inquiry, we were provided a copy of the IPA's workpapers that substantiate the firm's review of FFRs submitted by the Council for two NEH grant awards.⁷ The IPA's testing identified a material discrepancy in the Federal expenditures amount reported in the FFR associated with NEH grant award SO-263604-19.⁸ However, the IPA did not issue a written finding to address the material discrepancy and effect correction of the FFR as certified by the Council and submitted to the NEH on February 3, 2020. Federal reporting compliance requirements stipulate that 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. As submitted and certified to the NEH, the annual FFR for the year ended October 31, 2019 materially understates total Federal expenditures.

2. The Audited Financial Statements Do Not Consistently Reflect the Conditional Nature of Funding Associated with NEH General Support Grant Awards

The Financial Accounting Standards Board (FASB) provides accounting guidance to the nonprofit community.⁹ These standards prescribe two main approaches to recognizing revenue associated with Federal awards.

⁵ 2 CFR section 200.302(a)

⁶ U.S. Code, Title 18, Section 1001

⁷ The IPA reviewed the annual FFRs filed for NEH grant award SO-233927-16 for the years ended 10/31/2016, 10/31/2017, 10/31/2018, and 10/31/2019. The IPA also performed select procedures on the FFR for the year ended 10/31/2019, as filed by the Council for NEH grant award SO-263604-19.

⁸ According to the certified FFR, total Federal expenditures associated with the grant award, as of the year ended October 31, 2019, is \$540,220. According to the audited Schedule of Expenditures of Federal Awards (SEFA) for the year ended October 31, 2019, total expenditures associated with the grant award is \$715,482. The difference between the two representations of total Federal expenditures associated with NEH grant award SO-263604-19 during the year ended October 31, 2019 is \$175,262.

⁹ Topic 958 of the Accounting Standards Codification (ASC), issued by FASB, documents generally accepted accounting principles (GAAP) unique to the nonprofit sector.

- Exchange transactions (i.e. contracts) represent reciprocal transfers in which each party receives and sacrifices something of commensurate value. The most classic example is the purchase of goods or services. Under this approach, an entity recognizes revenue when the required goods or services are provided.
- Contributions (Non-exchange transactions) represent the voluntary, unconditional transfer of assets, as well as unconditional promises to give, to an entity. Their primary characteristic is that they are nonreciprocal - that is, one entity gives an asset or cancels a liability without directly receiving commensurate value in return. The recipient must classify the contribution as either unconditional or conditional based upon the existence of donor stipulations.¹⁰ Under this approach, an entity recognizes revenue in the appropriate net asset class (unconditional) or when the condition or conditions are met (conditional).

NEH general support grant awards incorporate donor-imposed conditions concerning the use of the funds.¹¹ Accordingly, the Council would recognize NEH grant revenue when the conditions are met, (i.e., as allowable expenditures are incurred). In prior years, the Council treated funding associated with NEH general support grant awards as “temporarily restricted” net assets and released the restriction based upon allowable expenditures. Although the FASB rules provide latitude concerning implementation of the contribution methodology, this approach effectively accounts for the conditional nature of funding associated with NEH general support grant awards. However, during FY 2019, the Council recorded revenue associated with the recently awarded general support grant award as being unconditional, based on funding notices received from the NEH, without a mechanism to distinguish the unearned/unexpended portion of the funding. The IPA questioned the Council about this practice of recognizing revenue based on the amounts included in notices of awards from NEH, and reminded Council management about the FASB update to Topic 958, which clarifies how nonprofits should recognize conditional grants.

The audited financial statements for the year ended October 31, 2019 reflect two different perspectives regarding the conditional nature of funding received through NEH general support grant awards. A restriction is released concerning funds associated with NEH grant award SO-233927-16 consistent with the expenditures incurred during FY 2019 related to the award. On the other hand, all funding authorized during FY 2019 for NEH grant award SO-263604-19 is treated as unconditional. As of October 31, 2019, total revenue associated with NEH grant award SO-263604-19 exceeds the related expenditures by \$462,292. Consequently, audited financial statements as of and for the

¹⁰ A donor stipulation represents a barrier that must be overcome before the recipient is entitled to the assets transferred or promised. Failure to overcome the barrier gives the contributor a right of return of the assets it has transferred or gives the promisor a right of release from its obligation to transfer its assets. A conditional transaction includes both a barrier that must be overcome and either a right of asset return or release of promise to give.

¹¹ In accepting a general support grant award and any related funding supplements, the Council assumes the legal responsibility for administering the award in accordance with the general terms and conditions applicable to the grant award and of complying fully with any special terms and conditions included in the award agreement. Failure to do so may result in the suspension or termination of the award and the NEH’s recovery of award funds.

year ended October 31, 2019 do not account for or disclose the conditional nature of the unexpended funds.

As the Council's oversight agency, the NEH-OIG will not accept the FY 2019 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.¹² Please notify the NEH-OIG when the revised FY 2019 reporting package has been submitted to the FAC.

Other Matter

During the course of our review, we identified one lower impact deficiency.


According to *Government Auditing Standards*, if auditors report separately on internal control over financial reporting and on compliance with provisions of laws, regulations, contracts, and grant agreements, they should state in the auditors' report on the financial statements that they are issuing those additional reports. The auditors should include a reference to the separate reports and also state that the reports on internal control over financial reporting and on compliance with provisions of laws, regulations, contracts, and grant agreements are an integral part of a GAGAS audit in considering the audited entity's internal control over financial reporting and compliance.¹³

The IPA's report on the financial statements indicates the issuance of a separate report on the firm's consideration of the Council's internal control over financial reporting and the firm's tests of the Council's compliance with certain provision of laws, regulations, contracts, and grant agreements and other matters; however, the separate report is not properly referenced. The report template used by the IPA provides for the insertion of the date of the separate report but this entry is missing.

Please be advised that we are sending a copy of this letter to the Shareholder at Jones and Kolb to inform him 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

¹² FAC support staff can be contacted at 800-253-0696 or govs.fac@census.gov.

¹³ GAS 4.22 (2011 Revision)

Distribution List:

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