



NATIONAL ENDOWMENT FOR THE

Humanities

OFFICE OF INSPECTOR GENERAL

April 1, 2019

**RETURN RECEIPT REQUESTED**

Board of Directors  
Alabama Humanities Foundation  
1100 Ireland Way, Suite 202  
Birmingham, AL 35205  
Attn: [REDACTED], Chair

OIG Report Number: OIG-19-03 (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 Kassouf & Co., P.C. (the “IPA”), which includes Federal assistance programs administered by Alabama Humanities Foundation (the “Council”) during the organization’s fiscal year (FY) ended December 31, 2017. The independent auditors previously furnished a copy of their audit report dated July 23, 2018, to the Council. The Federal Audit Clearinghouse (FAC) accepted the single audit reporting package on August 27, 2018. The IPA issued unmodified opinions<sup>1</sup> 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 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 2017 reporting package due to key deficiencies that affect the reliability of the report. Accordingly, the audit report and the related data collection form

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<sup>1</sup> **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.

(Form SF-SAC) must be revised and resubmitted to the FAC.<sup>2</sup> 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 risk<sup>3</sup>. 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.<sup>4</sup> 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 December 31, 2017.<sup>5</sup> 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 Supplement<sup>6</sup> (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 FYE December 31, 2017 since the organization did not expend more than \$750,000 in Federal awards during its fiscal year ended December 31, 2015, and an audit was not required under the OMB Uniform Guidance.

Fortunately, total Federal awards expended during fiscal year ended December 31, 2017 are associated with one major program. Therefore, additional testing will not be required to support the IPA’s opinion concerning Federal programs.

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<sup>2</sup> 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 Council 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.

<sup>3</sup> 2 CFR section 200.520

<sup>4</sup> 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.

<sup>5</sup> The IPA determined that the Council qualified as a low-risk auditee for the fiscal year ended December 31, 2017 based upon their completion of a worksheet designed to assist auditors in determining if a Federal program can be considered low-risk for purposes of an audit performed in accordance with Subpart F of 2 CFR Part 200. There is a separate practice aid specifically designed to assist auditors in determining “low-risk auditee status”.

<sup>6</sup> 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. The Data Collection Form Submitted to the FAC Includes Erroneous Information**

The amount reported in the Data Collection Form as “Federal Award Passed Through to Subrecipients” (\$341,589) does not agree with the amount identified in the notes to the audited *Schedule of Expenditures of Federal Awards* (SEFA) as Federal funds provided to subrecipients (\$165,831). The amount reported in the Data Collection Form appears to represent total expenditures associated with the Council’s “Regrant” program, as reflected in the audited *Statement of Activities and Changes in Net Assets* (Regrants program management).<sup>7</sup>

The Data Collection Form must be corrected to reflect Federal funds provided to subrecipients, consistent with the disclosure in the audited SEFA.

## **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<sup>8</sup> 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 (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

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<sup>7</sup> Based on information provided in the Council’s audited financial statements, we determined that the amount reported in the Data Collection Form (\$341,589) includes \$165,831 (Federal funds provided to subrecipients); \$36,747 (non-Federal funds provided to subrecipients); and \$139,011 (management costs associated with the Council’s “Regrants” program).

<sup>8</sup> 2 CFR section 200.514(d)

as a standardized format to report expenditures under the Federal award, 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.<sup>9</sup> 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.<sup>10</sup>

During our desk review, we inquired about the IPA's testing procedures related to the Council's Federal financial reporting. In response to our inquiry, we were provided documentation to substantiate the IPA's review of the Council's FFR filing for October 31, 2017 related to NEH grant award SO-253118-17. The audit procedures acknowledged by the IPA as being executed during their review, are consistent with suggested audit procedures provided in the OMB Compliance Supplement. The IPA did not document whether any discrepancies were identified during their review.

We reviewed the FFR that the IPA selected for testing, and we noted an error concerning the preparation of the report. Specifically, information provided in the "Federal Cash" section<sup>11</sup> of the FFR varies from NEH records. The Council reported cumulative "Cash Receipts" (Line "a" of the FFR) in the amount of \$505,000. However, according to NEH accounting records, total cumulative disbursements to the Council related to the grant award, as of October 31, 2017, was \$480,000 -- a discrepancy of \$25,000.

Based on the results of our limited testing of the FFR for NEH grant award SO-253118-17, we conclude that the scope of the IPA's review of this FFR filing was insufficient to substantiate an assessment of the Council's compliance with Federal financial reporting requirements. We recommend that the IPA implement audit procedures to accurately assess whether the Federal financial reports submitted to the NEH during the fiscal year ended December 31, 2017 include all activity of the respective reporting period, are supported by applicable accounting records, and are fairly presented in accordance with Federal reporting requirements and the NEH *General Terms and Conditions for General Support Grants to State Humanities Councils*.

### **Other Matters:**

During the course of our desk review, we identified two matters that we wish to bring to the attention of the Council.

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<sup>9</sup> 2 CFR section 200.302(a)

<sup>10</sup> U.S. Code, Title 18, Section 1001

<sup>11</sup> The "Federal Cash" section tracks and facilitates the reporting of Federal cash status concerning the grant award, as of the end of the reporting period. This section includes the cumulative amount of actual cash received from the Federal agency, cumulative amount of Federal fund disbursements by the awardee (such as cash or checks), and cash on hand (which represents the immediate cash needs of the awardee).



## 1) Regrant Funding Levels

The NEH *General Terms and Conditions for General Support Grants to State Humanities Councils* advises that Federal regrant funds must be expended according to the summary budget for the funding period and any amendments, as approved by the NEH. Any transfers from the “Regrant” category require written permission from the NEH.<sup>12</sup> This advisory is also included in the Compliance Supplement as a compliance requirement specifically applicable to the NEH *Promotion of the Humanities – Federal/State Partnership* program [CFDA 45.129], (**Activities Allowed or Unallowed**).

According to the summary budget for grant award SO-253118-17, the Council anticipated Federal regrant expenditures in the amount of \$180,600 during the funding period, November 1, 2016 through October 31, 2017. According to the audited SEFA, the Council provided Federal funds in the amount of \$165,831 to subrecipients during the fiscal year ending December 31, 2017.

The Council must implement controls to ensure that budgetary commitments concerning the expenditure of Federal regrant funds are appropriately satisfied.

## 2) De Minimis Indirect Cost Rate Election

The Council indicates in a required note to the SEFA that the organization has elected to not use the 10 percent de minimis indirect cost rate. However, in application documents related to NEH grant award ES-256862-17, the Council asserts that indirect cost charges to the grant award will not exceed the government-wide rate of up to 10 percent of direct costs, less distorting items.

According to 2 CFR Part 200<sup>13</sup>, any non-Federal entity that has never received a negotiated indirect cost rate may elect to charge a de minimis rate of 10 percent of modified total direct costs, which may be used indefinitely. Once this methodology is elected, it must be used consistently for all Federal awards until such time as the entity chooses to negotiate for a rate, which the entity may apply to do at any time. However, costs must be consistently charged as either indirect or direct costs, but may not be double-charged or inconsistently charged as both.

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). The Council should contact FAC support staff for

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<sup>12</sup> Budgets for state humanities councils include the anticipated expenditures of NEH general operating support award funds and cost-sharing contributions, (i.e., Summary Budget for the Funding Period). With the exception of funds allocated for subawards, councils have the authority to shift funds among budget line items without NEH approval. However, once the summary budget for the respective funding period has been approved by the NEH, funds may not be transferred from the subaward (“Regrant”) category without NEH’s written approval. (NEH *General Terms and Conditions for General Support Grants to State Humanities Councils*, Paragraph 12 – **Budget Revisions**).

<sup>13</sup> 2 CFR section 200.414(f)

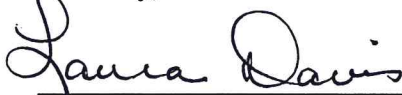
assistance with the resubmission process since there are special procedures that must be followed.<sup>14</sup> Please notify the NEH-OIG when the revised FY 2017 reporting package has been submitted to the FAC.

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 Director at Kassouf & Co., P.C. 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](mailto:dgelfand@neh.gov).

Sincerely,



\_\_\_\_\_  
Laura Davis  
Inspector General

**Distribution List:**

Auditor:

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<sup>14</sup> FAC support staff can be contacted at 800-253-0696 or [govs.fac@census.gov](mailto:govs.fac@census.gov).