



NATIONAL ENDOWMENT FOR THE HUMANITIES

OFFICE OF INSPECTOR GENERAL

March 31, 2022

via FedEx

Board of Directors
Maine Humanities Council
674 Brighton Avenue
Portland, ME 04102
Attn: [REDACTED] Board Chair

OIG Report Number: OIG-22-03 (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 Runyon Kersteen Ouellette, P.A. (the "IPA"), which includes Federal assistance programs administered by the Maine Humanities Council (the "Council") during the organization's fiscal year (FY) ended October 31, 2020. The independent auditors previously furnished a copy of their audit report dated February 19, 2021 to the Council. 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. The Federal Audit Clearinghouse (FAC) accepted the single audit reporting package on March 31, 2021.

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

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.

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 2020 reporting package due to a key deficiency that affects the reliability of the submission. Accordingly, the audit report and the related data collection form (Form SF-SAC) must be revised and resubmitted to the FAC. We noted the following deficiency during our desk review:

1. The Audited Schedule of Expenditures of Federal Awards Does Not Properly Present CARES Act Award Expenditures

According to 2 CFR Part 200, the auditee must prepare a schedule of expenditures of Federal awards (SEFA) for the period covered by the organization's financial statements which must include the total Federal awards expended.² At a minimum, the schedule must:

1. List individual Federal programs by Federal agency.
2. Include the name of the pass-through entity and identifying number assigned by the pass-through entity for Federal awards received as a subrecipient.
3. Provide total Federal awards expended for each individual Federal program and the Assistance Listings Number (ALN) or other identifying number when the ALN is not available.
4. Include the total amount provided to subrecipients from each Federal program.
5. Identify in the notes to the schedule, the balances outstanding at the end of the audit period for loan or loan guarantee programs.
6. Include notes that describe the significant accounting policies used in preparing the schedule, and state if the auditee elected to use the 10 percent de minimis cost rate.

To maximize the transparency and accountability of COVID-19 related award expenditures, SEFA guidance has been augmented to require recipients and subrecipients of COVID-19 Emergency Acts funding to separately identify the related expenditures on the SEFA and Form SF-SAC.³

In April 2020 and July 2020, the NEH awarded supplemental funding to the Council under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act).⁴ These awards were administratively made through general operating support grant SO-263458-19 (i.e., CFDA 45.129). However, the Council was advised in the related Official Notices of Action that the funds could only be used to support subawards to eligible entities for humanities projects and general operating support – the funds must not be used for the Council's general operating support or council-conducted projects. The

² 2 CFR section 200.510(b)

³ Office of Management and Budget (OMB) Compliance Supplement dated August 2020 ~ Appendix VII, *Other Audit Advisories*, Paragraph I – Novel Coronavirus (COVID-19)

⁴ The NEH issued an Official Notice of Action dated April 10, 2020, alerting the Council of the amendment to Grant SO-263458-19 providing supplemental funding under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) in the amount of \$423,400.

The NEH issued an Official Notice of Action dated July 23, 2020, alerting the Council of the amendment to Grant SO-263458-19 providing an equal distribution of supplemental CARES Act funds withheld from another council in the amount of \$8,467.

Council was also advised that the CARES Act funding could be used for reasonable costs associated with issuing and administering related subawards. Consistent with Congress' intent in enacting the CARES Act, which was to immediately mitigate the impact of the coronavirus at the state and jurisdictional level, the NEH requested that the Council subaward the emergency CARES Act funding no later than October 31, 2020.

During our desk review, we noted the reporting of regrant expenditures in the *Statement of Functional Expenses* for the fiscal year ended October 31, 2020 and inquired of Council management about the nature of the support for those expenditures. The IPA responded to our inquiry, asserting that the regrants were made using non-Federal funds and a supplemental award provided for by the "Coronavirus Relief Fund"⁵. The IPA further asserted that recipients of the regrants supported by the "Coronavirus Relief Fund" are considered beneficiaries and not subrecipients, citing guidance from the U.S. Department of the Treasury Office of Inspector General, (the Federal entity which the IPA acknowledges as being responsible for the monitoring and oversight of the "Coronavirus Relief Fund"). Accordingly, the regrants were not listed on the SEFA as funds passed through to subrecipients. The IPA also concluded that the audit requirements stipulated by the Single Audit Act and 2 CFR Part 200, Subpart F do not apply to beneficiaries.

Distributions from the "Coronavirus Relief Fund" may be subject to the oversight and monitoring of the U.S. Department of the Treasury Office of Inspector General; however, supplemental funding received and accepted by the Council from the NEH pursuant to CARES Act legislation is subject to NEH administrative requirements, as conveyed to the Council through the respective Official Notices of Action and other subsequent communications. Eligible entities, to which the Council subawards CARES Act funds consistent with the use restrictions established by the NEH, are considered "subrecipients" not "beneficiaries".

The Council has reported to the NEH that subawards using CARES Act funds were made during the fiscal year ended October 31, 2020.⁶ However, associated expenditure activity is not presented in the audited SEFA consistent with 2 CFR Part 200 and OMB guidance pertaining to COVID-19 related funding.

⁵ The CARES Act established the Coronavirus Relief Fund (Fund) and appropriated \$150 billion to the Fund. Under the law, the Fund is to be used to make payments for specified uses to States and certain local governments; the District of Columbia and U.S. Territories (consisting of the Commonwealth of Puerto Rico, the United States Virgin Islands, Guam, American Samoa, and the Commonwealth of the Northern Mariana Islands); and Tribal governments. The CARES Act provides that payments from the Fund may only be used to cover costs that –

1. Are necessary expenditures incurred due to the public health emergency with respect to COVID-19;
2. Were not accounted for in the budget most recently approved as of March 27, 2020 (the date of enactment of the CARES Act) for the State or government; and
3. Were incurred during the period that begins on March 1, 2020 and ends on December 30, 2020.

⁶ On November 30, 2020, the Council submitted a CARES Act Semi-Annual PPR to the NEH, in which the Council reported that the entire amount of CARES Relief funds received from the NEH (\$432,700) had been distributed to eligible organizations facing financial hardship with losses or unforeseen expenses due to the coronavirus incurred between March 16 and June 15, 2020.

Other Matter:

During the course of our desk review, we identified another matter that must be addressed in future audit reporting packages, as noted below.

1. Implementation of Disclosure Requirements Applicable to Conditional Contributions and Promises To Give

In June 2018, the Financial Accounting Standards Board⁷ issued Accounting Standards Update (ASU) 2018-08, Not-for-Profit Entities (Topic 958), *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU provides a framework for determining whether a contribution is conditional or unconditional, which affects the timing of revenue recognition. An unconditional contribution is recognized immediately whereas a conditional contribution cannot be recorded until the conditions have been met. The guidance further requires conditional contributions to be disclosed in the footnotes of the financial statements.⁸ The amendments in ASU 2018-08 are effective as of the Council's fiscal year ending October 31, 2021.

NEH general support grant awards incorporate donor-imposed conditions concerning the use of the funds.⁹ Accordingly, the Council would recognize NEH grant revenue when the conditions are met, (i.e., as allowable expenditures are incurred). Beginning with the Council's FY 2021, NEH grant award funding that has been authorized but not expended

⁷ The Financial Accounting Standards Board (FASB) provides accounting guidance to the nonprofit community. These standards prescribe two main approaches to recognizing revenue associated with Federal awards.

- 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. 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.

⁸ FASB Accounting Standards Codification (ASC) Paragraph 958-310-50-4 requires the following disclosures about conditional promises to give:

- The total of amounts promised.
- A description and amount for each group of promises having similar characteristics. For example, separate groups having similar characteristics might include those promises conditioned on establishing new programs, on completing a new building, or on raising matching gifts by a specified date.

⁹ 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.

by the Council as of the end of the fiscal year should be disclosed in the footnotes of the financial statements consistent with the disclosure requirements applicable to conditional contributions.

As the Council's oversight agency, the NEH-OIG will not accept the FY 2020 single audit reporting package until the deficiency identified herein is 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 2020 reporting package has been submitted to the FAC.

Please be advised that we are sending a copy of this letter to the Principal at Runyon Kersteen Ouellette, P.A. to inform the firm 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

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