



NATIONAL ENDOWMENT FOR THE HUMANITIES

OFFICE OF INSPECTOR GENERAL

September 29, 2022

via FedEx

Board of Directors
Delaware Humanities
100 West 10th Street, Suite 509
Wilmington, DE 19801
Attn: [REDACTED] Chair

OIG Report Number: OIG-22-05 (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 Whisman Giordano & Associates, LLC (the "IPA"), which includes Federal assistance programs administered by Delaware Humanities Council, Inc. (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 May 6, 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 October 28, 2021.

Our review was limited to an examination of the single audit reporting package, email exchanges with the Executive Director of the Council and the IPA, a limited review of select IPA workpapers, and review of applicable NEH grant 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 (2021 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

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 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 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 Audited Schedule of Expenditures of Federal Awards Does Not Properly Present CARES³ 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.⁴ 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 Listing Number⁵ (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 whether or not 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.⁶ This may be accomplished by identifying COVID-19 expenditures on:

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 Coronavirus Aid, Relief, and Economic Security (CARES)

⁴ 2 CFR section 200.510(b)

⁵ Formerly known as the Catalog of Federal Domestic Assistance (CFDA) Number

⁶ Office of Management and Budget (OMB) Compliance Supplement dated August 2020 ~ Appendix VII, *Other Audit Advisories*, Paragraph I – Novel Coronavirus (COVID-19)

- A separate line by ALN with “COVID-19” as a prefix to the program name. (SEFA presentation)
- A separate row by ALN with “COVID-19” as the first characters in Part II, Item 1c, Additional Award Identification. (Form SF-SAC presentation)

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).⁷ These awards were administratively made through general operating support grant award SO-263602-19 (i.e., ALN 45.129). The Council was advised in the related official notices of action that the CARES Act funding could only be used to support subawards to eligible entities for humanities projects and general operating support – the funds could not be used for the Council’s general operating support or council-conducted projects. The 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 determined that CARES Act expenditure activity (including CARES Act funding passed through to subrecipients) is not separately presented in the audited SEFA consistent with 2 CFR Part 200 and Office of Management and Budget (OMB) guidance pertaining to COVID-19 related funding. CARES Act award expenditures are commingled in the audited SEFA with expenditures associated with general operating support award SO-263602-19⁸, and subawards made with CARES Act funding are presented in the note to the SEFA wherein all subawards made during the fiscal year are listed.

2. 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 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.

⁷ The NEH issued an “Official Notice of Action” dated April 10, 2020, advising the Council of the amendment to grant award SO-263602-19 providing supplemental funding under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) in the amount of \$406,800.

The NEH issued an “Official Notice of Action” dated July 23, 2020, advising the Council of the amendment to grant award SO-263602-19 providing an equal distribution of supplemental CARES Act funds withheld from another council in the amount of \$8,467.

⁸ The NEH general operating support award is misrepresented in the audited SEFA, (i.e., SO-233924-19). The correct award identifier is SO-263602-19. This misrepresentation is also reflected in the data collection form.

⁹ 2 CFR section 200.514(d)

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

According to the OMB Compliance Supplement¹⁰ (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* requires 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.

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.¹¹ 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.¹²

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 document the audit procedures designed to facilitate the firm's

¹⁰ 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 is 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.

¹¹ 2 CFR section 200.302(a)

¹² U.S. Code, Title 18, Section 1001

determination concerning the Council's compliance with Federal reporting requirements. The IPA selected the annual FFR for grant award SO-263602-19¹³ and executed procedures to verify the accuracy and completeness of the report, as submitted to the NEH. The IPA's testing identified material discrepancies in amounts reported in the FFR. However, the IPA did not issue a written finding to address the discrepancies and effect correction of the FFR, as certified by the Council and submitted to the NEH on January 31, 2021. 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, 2020 materially misstates non-CARES Act financial activity related to grant award SO-263602-19 for the period covered by the FFR.

We reviewed the FFR that was included in the IPA's testing and identified several discrepancies and errors in the report. We noted the following conditions, which collectively raise doubt as to the accuracy and completeness of the FFR tested by the IPA.

- The Council reports cumulative "Cash receipts" [Line 10.a. of the FFR] in the amount of \$1,234,633. According to NEH accounting records related to grant award SO-263602-19, a total of \$1,007,234 (non-CARES Act funds) was disbursed to the Council during the period covered by the FFR (November 1, 2018 – October 31, 2020).
- The Council reports cumulative "Total Federal funds authorized" [Line 10.d. of the FFR] in the amount of \$1,349,588. According to NEH records related to grant award SO-263602-19, total non-CARES Act funding authorized as of October 31, 2020 is \$1,488,540.
- Federal expenditure activity reflected in the FFR is inconsistent with expenditure activity reflected in the audited SEFA. The Council effectively reports \$232,314 as total Federal share of expenditures during the reporting period ending October 31, 2020 [Line 10.g. of the FFR].¹⁴ This amount is inconsistent with the Council's reporting of non-CARES Act expenditures in the audited SEFA for the fiscal year ended October 31, 2020, (\$490,376).

Based on the results of our limited testing, we believe that the IPA's conclusion concerning the Council's compliance with Federal reporting requirements, as evidenced by the absence of any reported findings or instances of noncompliance in the FY 2020 single audit reporting package, is misleading.¹⁵

¹³ This FFR, dated January 31, 2021, represents the Council's reporting on non-CARES Act activity supported by grant award SO-263602-19 during the period November 1, 2019 through October 31, 2020. The Council submitted a separate FFR, dated November 24, 2020, to report on CARES Act activity during the period November 1, 2019 through October 31, 2020.

¹⁴ The Federal share of expenditures amount shown in the FFR dated January 31, 2021 represents cumulative expenditures as of October 31, 2020. The annual amount is determined by subtracting total Federal share of expenditures reported as of October 31, 2019 (\$1,002,319) from cumulative expenditures reported as of October 31, 2020 (\$1,234,633). [\$1,234,633 - \$1,002,319 = \$232,314]

¹⁵ The IPA opined that the Council complied in all material respects, with the compliance requirements that could have a direct and material effect on the National Endowment for the Humanities Promotion of the Humanities – Federal/State Partnership program for the year ended October 31, 2020. The 'Reporting' compliance requirement is deemed to be direct and material concerning the NEH program.

3. Recognition of NEH Grant Revenue in the Audited Financial Statements is Inconsistent with Related Expenditure Reporting in the Audited SEFA

Subpart F of 2 CFR Part 200 provides that the IPA shall determine whether the financial statements are presented fairly, in all material respect, in conformity with generally accepted accounting principles (GAAP). The IPA must also determine whether the SEFA is stated fairly in all material respects in relation to the financial statements as a whole.¹⁶

The IPA issued an unmodified audit opinion, assuring that the Council's financial statements for the fiscal year ended October 31, 2020 are presented, in all material respects, in accordance with GAAP. The IPA further opined that the SEFA is fairly stated in all material respects, in accordance with accounting principles generally accepted in the United States of America.

The Council discloses in the notes to the audited financial statements that revenues are recognized in the period when earned and expenses are recorded when a liability is incurred. The Council further discloses that net assets and revenues, expenses, gains and losses are classified based on the existence of, or the absence of, donor-imposed restrictions¹⁷. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restriction and reported in the statement of activities as net assets released from restriction.

During our desk review, we identified a \$12,228 discrepancy between NEH grant revenue recognized, which is reflected in the audited *Statement of Activities* as "Net assets – satisfaction of program restrictions", and total NEH expenditures presented in the SEFA. The basis for the discrepancy is not clearly substantiated by GAAP nor is it explained in the notes to the financial statements.

4. The Audited SEFA Does Not Include a Note on the De Minimis Cost Rate

2 CFR Part 200 stipulates that the SEFA must include notes that describe the significant accounting policies used in preparing the schedule and a note that addresses whether or not the entity elected to use the 10 percent de minimis cost rate as described in 2 CFR section 200.414, *Indirect (F&A) costs*.¹⁸

¹⁶ 2 CFR section 200.514(b)

¹⁷ A donor-imposed restriction is defined as a donor stipulation that specifies a use for a contributed asset that is more specific than broad limits resulting from the following:

- (a) The nature of the not-for-profit entity (NFP).
- (b) The environment in which it operates.
- (c) The purposes specified in its articles of incorporation or bylaws or comparable documents for an unincorporated association.

Donors may also impose restrictions that are temporary in nature, (e.g., stipulating that the resources be used after a specified date, for particular programs or services, or to acquire buildings or equipment).

¹⁸ 2 CFR section 200.510(b)(6)

The audited SEFA for the fiscal year ended October 31, 2020 does not include a note concerning the Council's election to use the 10 percent de minimis cost rate. This disclosure is also not captured in the related data collection form submitted to the FAC.

5. The Single Audit 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.¹⁹ 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.²⁰ 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 October 31, 2020. 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 Compliance Supplement further advises, if an entity was below the \$750,000 threshold in either of the prior two audit periods, and an audit was not required under the uniform guidance, the entity does not qualify as a low-risk auditee.²¹

Based upon this guidance, we conclude that the Council does not qualify for low-risk auditee status for fiscal year ended October 31, 2020 since the organization did not expend more than \$750,000 in Federal awards during its fiscal years ended October 31, 2019 and October 31, 2018, and an audit was not required in accordance with the provisions of 2 CFR Part 200 Subpart F.

The Council had a program-specific audit for the fiscal years ended October 31, 2019 and October 31, 2018, pursuant to the requirements stipulated in the terms and conditions of NEH awards SO-263602-19 and SO-233924-16. However, the scope of the NEH program-specific audit requirement is not intended to satisfy the annual audit requirement outlined in 2 CFR Part 200 Subpart F.²²

Fortunately, total Federal awards expended during fiscal year ended October 31, 2020 are associated with one major program. Therefore, additional testing will not be required to support the IPA's opinion concerning Federal programs. However, the reporting of the Council's low-risk auditee status must be corrected in both the FY 2020 single audit reporting package and the related data collection form.

¹⁹ 2 CFR section 200.520

²⁰ 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.

²¹ Office of Management and Budget (OMB) Compliance Supplement dated August 2020 ~ Appendix VII, *Other Audit Advisories*, Paragraph III – Due Date for Submission of Audit Reports and Low Risk Auditee Criteria

²² 2 CFR section 200.501(a)

6. The Schedule of Findings and Questioned Costs is Missing Required Elements

Subpart F of 2 CFR Part 200²³ stipulates that the IPA's single audit report must include a schedule of findings and questioned costs, which encompasses a summary of the auditor's results. The summary must include:

- (i) The type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP (i.e., unmodified opinion, qualified opinion, adverse opinion, or disclaimer of opinion).
- (ii) Where applicable, a statement about whether significant deficiencies or material weaknesses in internal control were disclosed by the audit of the financial statements.
- (iii) A statement as to whether the audit disclosed any noncompliance that is material to the financial statements of the auditee.
- (iv) Where applicable, a statement about whether significant deficiencies or material weaknesses in internal control over major programs were disclosed by the audit.
- (v) The type of report the auditor issued on compliance for major programs (i.e., unmodified opinion, qualified opinion, adverse opinion, or disclaimer of opinion).
- (vi) A statement as to whether the audit disclosed any audit findings that the auditor is required to report under 2 CFR section 200.516(a), *Audit findings*.
- (vii) An identification of major programs by listing each individual major program.
- (viii) The dollar threshold used to distinguish between Type A and Type B programs.
- (ix) A statement as to whether the auditee qualified as a "low-risk auditee".

The *Schedule of Findings and Questioned Costs* included in the IPA's single audit report does not include (1) a statement that addresses whether material weaknesses in internal control were disclosed by the audit of the financial statements; and (2) a statement as to whether the audit disclosed any audit findings required to be reported under 2 CFR section 200.516(a).

7. The FY 2020 Single Audit Reporting Package Was Not Submitted to the FAC Timely

Subpart F of 2 CFR Part 200 stipulates that the audit must be completed and the data collection form and reporting package must be submitted to the FAC within the earlier of 30 days after receipt of the IPA's report, or nine months after the end of the audit period.²⁴

The Council submitted its FY 2020 single audit reporting package to the FAC on October 28, 2021, which was just under twelve months after the end of its 2020 fiscal period and six months after the IPA signed its report on May 6, 2021. Consequently, since the FY 2020 reporting package was not submitted to the FAC in a timely manner, the Council does not qualify as a low-

²³ 2 CFR section 200.515(d)(1)

²⁴ 2 CFR section 200.512(a)(1)

risk auditee concerning the single audit of fiscal years ending October 31, 2021 and October 31, 2022.

Other Matter

1. Implementation of Accounting Guidance for Contributions Received and Contributions Made

In June 2018, the Financial Accounting Standards Board²⁵ 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.²⁶ The amendments in ASU 2018-08 are effective as of the Council's fiscal year ended October 31, 2020.

NEH general support grant awards incorporate donor-imposed conditions concerning use of the funds and the Council's compliance with the legislatively-mandated cost-share requirement.²⁷ Accordingly, the Council would recognize NEH grant revenue when the conditions are met, (e.g.,

²⁵ 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.

²⁶ 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.

²⁷ 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.

as allowable expenditures are incurred). Upon the Council's implementation of ASU 2018-08, NEH grant award funding that has been authorized but, as of the end of the fiscal year, has not been expended by the Council or earned through the organization's fulfillment of the stipulations associated with the grant award, must be disclosed in the footnotes of the financial statements consistent with the disclosure requirements applicable to conditional contributions.

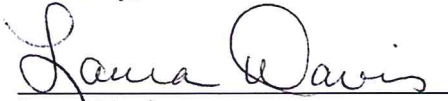
As the Council's oversight agency, the NEH-OIG will not accept the FY 2020 single audit reporting package until the deficiencies identified above are addressed and the single audit reporting package is revised as necessary. The Council should contact FAC support staff for assistance with the resubmission process since there are special procedures that must be followed.²⁸ Please notify the NEH-OIG when the revised FY 2020 reporting package has been submitted to the FAC.

The deficiencies noted during our desk review are troubling. Accordingly, we expect the Council to implement procedures to ensure that Federal financial reporting is complete and accurate. We also expect the IPA to strengthen their single audit reporting procedures to ensure alignment with the results of their testing procedures and reliable representation of the Council's compliance with Federal requirements. We request that Council management provide the NEH-OIG with a written corrective action plan that addresses the noted deficiencies within 30 days of receipt of this letter.

Please be advised that we are sending a copy of this letter to the Partner at Whisman, Giordano & Associates LLC to inform her of the results of our review.

If you have any questions concerning this letter or need accounting assistance, please contact me at (202) 606-8574 or via email at ldavis@neh.gov.

Sincerely,



Laura Davis
Inspector General

Distribution List:

Auditor:

_____, Partner
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²⁸ FAC support staff can be contacted at 800-253-0696 or govs.fac@census.gov.