



NATIONAL ENDOWMENT FOR THE

Humanities

OFFICE OF INSPECTOR GENERAL

April 20, 2018

RETURN RECEIPT REQUESTED

Board of Directors
Humanities Tennessee
807 Main Street, Suite B
Nashville, TN 37206
Attn: [REDACTED], Chair

OIG Report Number: OIG-18-03 (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 Frasier, Dean & Howard, PLLC (the "IPA"), which includes Federal assistance programs administered by Humanities Tennessee (the "Council"), for the fiscal year (FY) ended December 31, 2016. The independent auditors previously furnished a copy of their audit report dated May 22, 2017, to the Council. The Federal Audit Clearinghouse accepted the related reporting package on June 13, 2017. 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, email exchanges with the IPA, 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, the *Guide For Desk Reviews of Single Audit Reports (2016 Edition)*, issued by the Council of Inspectors General on Integrity and Efficiency (CIGIE), was used to determine whether the audit report meets the core reporting requirements stipulated by Office of Management and Budget (OMB) *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*² (OMB Uniform Guidance). Based on our review, we can assign a rating to the IPA's reporting package of either a **Pass**, **Pass with Deficiencies**, or **Fail**. Audit reports receiving a **Fail** rating require corrective action.

We assigned a rating of **Pass with Deficiencies** to the FY 2016 reporting package. We determined that the audit report generally meets Federal reporting requirements, with the following exception:

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.

² Title 2 U.S. Code of Federal Regulations Part 200 (2 CFR Part 200)

Sufficiency of the IPA's Conclusion Concerning Compliance with Federal Financial Reporting Requirements

In addition to determining whether the Council's financial statements are presented fairly in all material respects in accordance with generally accepted accounting principles, OMB Uniform Guidance 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.³ Compliance testing must include tests of transactions and other auditing procedures necessary to support the IPA's opinion on compliance.

NEH General Terms and Conditions for General Support Grants to State Humanities Councils requires councils to annually submit Federal Financial Reports (FFR) within 90 days after the completion date of the applicable reporting period. Councils use the FFR as a standardized format to report expenditures under NEH awards as well as Federal cash status. OMB Uniform Guidance 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.⁴ 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.⁵

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 a copy of their workpapers that document the audit procedures implemented to determine the Council's compliance with Federal statutes, regulations, and the terms and conditions applicable to its major Federal award. According to this document, in order to ascertain the Council's compliance with financial reporting requirements, the IPA executed procedures designed to only test the timeliness of financial report submissions, and whether all drawdowns received were supported with a corresponding SF-270 (Request for Advance or Reimbursement).⁶ The IPA concluded that all financial reports tested were completed in accordance with applicable guidelines.

We reviewed the Council's FFR submissions dated February 3, 2017 and February 1, 2016 for NEH award SO-50624-14. We determined that the FFR submissions were not prepared in accordance with the instructions for completing FFRs, as provided by the NEH. First, the line item balances included in the FFR should reflect cumulative transactions from the date of inception of the award through the end date of the reporting period, as stated on Line 9 of the FFR, (i.e., "Reporting Period End Date"). According to the FFR dated February 3, 2017, the "Reporting Period End Date" is October 31, 2016; however, the Council based its FFR reporting on fiscal year ending December 31, 2016 award and expenditure information. We noted the same anomaly in the FFR dated February 1, 2016. Further, the Council did not complete the FFRs on a

³ 2 CFR section 200.514(d)

⁴ 2 CFR section 200.302(a)

⁵ U.S. Code, Title 18, Section 1001

⁶ Councils are required to use the SF-270 to request reimbursement and advance payments.

cumulative basis, but only included transactions that occurred during the annual periods ending December 31, 2016 and December 31, 2015, respectively. The IPA did not perform procedures to verify the accuracy and completeness of the financial report submissions. Consequently, the IPA did not detect that the Council's submissions were prepared incorrectly.

We recommend that Council management develop and document procedures to ensure all future FFR submissions are prepared consistent with applicable reporting instructions and accurately report Federal cash status and Federal award status. We also expect the IPA to design and implement audit procedures to determine whether the Council's FFR submissions include all activity of the reporting period, are supported by applicable accounting records, and are fairly presented in accordance with governing requirements, as prescribed by the OMB *Compliance Supplement*.⁷

Please be advised that there is no need to revise the FY 2016 audit report and resubmit the single audit reporting package to the FAC. Our office will alert NEH management of the matters discussed in this letter. However, the NEH-OIG may deem future reports with similar concerns as unacceptable.

We will be sending a copy of this letter to the Partner at Cherry Bekaert LLP⁸ 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

Distribution List:

Auditor:

, Partner
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⁷ The OMB Compliance Supplement provides guidance to assist IPAs in determining compliance requirements that could have a direct and material effect on the Federal programs being audited, related audit objectives, and suggested audit procedures.

⁸ Frasier, Dean & Howard is now a part of Cherry Bekaert LLP.