



NATIONAL ENDOWMENT FOR THE  
**Humanities**

OFFICE OF INSPECTOR GENERAL

November 14, 2018

**RETURN RECEIPT REQUESTED**

Board of Directors  
Pennsylvania Humanities Council  
Constitution Place  
325 Chestnut Street, Suite 715  
Philadelphia, PA 19106  
Attn: [REDACTED], Chair

OIG Report Number: OIG-19-01 (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 BBD, LLP (the "IPA"), which includes Federal assistance programs administered by Pennsylvania Humanities Council (the "Council") during the organization's fiscal year (FY) ended October 31, 2017. The independent auditors previously furnished a copy of their audit report dated March 26, 2018, to the Council. The Federal Audit Clearinghouse (FAC) accepted the single audit reporting package on May 23, 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, email exchanges with the Council's financial consultant, 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

---

<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)<sup>2</sup> must be revised and resubmitted to the FAC. 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> Ideally, the IPA should make this determination during the planning phase of the single audit engagement. 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> 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. According to 2 CFR section 200.512(a), the audit must be completed and the entity must submit the data collection form and reporting package to the FAC within the earlier of 30 calendar days after receiving the auditor's report(s), or nine months after the end of the audit period.

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, 2017. This determination is likewise documented in the data collection form certified and submitted to the FAC. However, the Council did not submit its reporting package for the fiscal year ended October 31, 2016 to the FAC until August 28, 2018, subsequent to the date of the IPA's report on the Council's fiscal year ended October 31, 2017.<sup>5</sup> Since the Council did not submit the FY 2016 reporting package and related data collection form to the FAC within the timeframe specified in 2 CFR section 200.512(a), the Council does not qualify as a low-risk auditee concerning the fiscal year ended October 31, 2017. Therefore, the information certified to the FAC concerning the Council's low-risk status must be corrected to reflect that the Council does not qualify as a low-risk auditee.

Fortunately, the major program identified by the IPA encompasses more than forty percent of the total Federal awards expended during fiscal year ended October 31, 2017. Therefore, additional testing will not be required to support the IPA's opinion concerning Federal programs.

We also noted that there were delays with the reporting package submission for the Council's fiscal year ended October 31, 2017. Accordingly, the Council does not qualify as a low-risk entity concerning the upcoming fiscal year ended October 31, 2018 single audit.

---

<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 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.

<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 Council submitted the FY 2016 single audit reporting package to the FAC after we inquired, as part of this Desk Review, about the status of the submission.



## **2. 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>6</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 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>7</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>8</sup>

During 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 documentation evidencing that that the FFRs were only reviewed for timeliness. We deem this testing approach as insufficient to

---

<sup>6</sup> 2 CFR section 200.514(d)

<sup>7</sup> 2 CFR section 200.302(a)

<sup>8</sup> U.S. Code, Title 18, Section 1001

support the IPA's assessment of the Council's compliance with Federal financial reporting requirements, as the design of the audit procedure does not address the audit objectives specified in the Compliance Supplement.

We recommend that the IPA design and implement audit procedures to determine whether the Federal financial reports submitted to the NEH during and/or concerning the fiscal year ended October 31, 2017, (1) include all activity of the respective reporting period; (2) are supported by applicable accounting records; and (3) are fairly presented in accordance with governing requirements, as prescribed by the Compliance Supplement.

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). Please contact FAC support staff for assistance with the resubmission process since there are special procedures that must be followed.<sup>9</sup> Please notify us when the revised 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 Partner at BBD, LLP 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:**

  
BBD, LLP  
1835 Market Street, 3<sup>rd</sup> Floor  
Philadelphia, PA 19103

---

<sup>9</sup> FAC support staff can be contacted at 800-253-0696 or [govs.fac@census.gov](mailto:govs.fac@census.gov).