



## NATIONAL ENDOWMENT FOR THE HUMANITIES

### OFFICE OF INSPECTOR GENERAL

January 9, 2026

#### Via FedEx

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

OIG Report Number: OIG-26-01 (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 Pearce, Bevill, Leesburg, Moore, P.C., Certified Public Accountants (the "IPA"), which includes Federal assistance programs administered by the Alabama Humanities Alliance (the "Council"), during the organization's fiscal year (FY) ended December 31, 2023. The independent auditors previously furnished a copy of their audit report dated September 3, 2024 to the Council. 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. The Federal Audit Clearinghouse accepted the single audit reporting package on September 30, 2024.

Our desk review was limited to an examination of the single audit reporting package, email exchanges with the Council's Executive Director and the IPA, a limited review of select IPA workpapers, a virtual meeting with the IPA, 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 (2021 Edition)*, as issued by the Council of Inspectors General on Integrity and Efficiency, 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

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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 (1) the Council's financial statements as a whole, are free from material misstatement, whether due to fraud or error; and (2) the Council's Federal grant activity materially complies with requirements identified as subject to audit in the *OMB Compliance Supplement*.

CFR Part 200). Based on our desk review, we can assign 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 2023 reporting package due to key deficiencies that affect the reliability of the report. We noted the following deficiencies during our desk review:

**1. Federal Grant Revenue is Misstated in the Audited Financial Statements and is not Presented Consistent with Applicable Accounting Standards and Guidance**

In June 2018, the Financial Accounting Standards Board<sup>2</sup> 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* (ASU 2018-08). 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 upon receipt, whereas a conditional contribution cannot be recorded until related conditions have been met. The guidance further requires conditional contributions to be disclosed in the footnotes of the financial statements.<sup>3</sup>

NEII general support grant awards incorporate donor-imposed conditions concerning use of the funds and the legislatively-mandated cost-share requirement.<sup>4</sup> Accordingly, the Council would recognize NEH grant revenue when the conditions are met, (e.g., as allowable expenditures are incurred). NEH grant award funding that has been authorized but not expended by the Council as of the end of the fiscal year, should be disclosed in the

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<sup>2</sup> 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 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 determine if the contribution is 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.

<sup>3</sup> FASB Accounting Standards Codification (ASC) Paragraph 958-310-50-4 requires the following disclosures about conditional promises to give:

- The total of amount(s) 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.

<sup>4</sup> In accepting an NEH 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.



footnote section of the financial statements, consistent with the disclosure requirements applicable to conditional contributions.

The Council's audited financial statements as of and for the year ended December 31, 2023 reflect recognition of NEH grant revenue based on grant award funds received by the Council through requests for advance grant payments. Unexpended (unearned) NEH grant award funds are reflected in the audited *Statement of Activities and Changes in Net Assets* as "Net Assets with Donor Restriction". This representation is inconsistent with the Council's accounting policy, as described in the notes to the audited financial statements, and applicable accounting standards.<sup>5</sup>

On May 28, 2025, NEH-OIG held a discussion with the IPA regarding this matter. The IPA acknowledged the discrepancy and stated he would work with the Council to address the inconsistency.

## **2. Federal Expenditures Reflected in the Audited *Statement of Activities and Changes in Net Assets* is Inconsistent with Information Presented in the Audited *Schedule of Expenditures of Federal Awards* (SEFA)**

Subpart F of 2 CFR Part 200 requires the Council (as the auditee) to prepare financial statements that reflect its financial position, results of operations or changes in net assets, and where appropriate, cash flows for the fiscal year audited.<sup>6</sup> Additionally, the Council must prepare a *Schedule of Expenditures of Federal Awards* (SEFA) for the period covered by the Council's financial statements, which must detail the total Federal awards expended.<sup>7</sup>

According to the audited *Statement of Activities and Changes in Net Assets*, the Council reports \$1,136,317 as net assets released from NEH restrictions.<sup>8</sup> However, the audited SEFA indicates the total Federal awards expended were \$1,085,427, resulting in a difference of \$50,890. The NEH-OIG was unable to ascertain the basis for the inconsistency. On May 28, 2025, the NEH-OIG discussed this discrepancy with the Council's IPA. The IPA explained that the inconsistency

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<sup>5</sup> The Council describes their accounting policy concerning restricted and unrestricted revenue and support in Note 1 to the audited financial statements ("Summary of Significant Accounting Policies"). According to **Note 1 ~ Restricted and Unrestricted Revenue and Support**, cost-reimbursable government contracts and grants are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Council has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the *Statement of Financial Position*. The Council recognized cost-reimbursable grant revenues of \$1,163,573 for the year ended December 31, 2023.

The Council's failure to properly implement the provisions of ASU 2018-08 results in an overstatement of NEH Grant Revenue in the amount of \$78,146 for the year ended December 31, 2023, [based on audited *Statement of Activities and Changes in Net Assets* (\$1,163,573) and audited *Schedule of Expenditures of Federal Awards* (\$1,085,427) data].

<sup>6</sup> 2 CFR section 200.510(a)

<sup>7</sup> 2 CFR section 200.510(b)

<sup>8</sup> The Council describes their accounting policies concerning net assets with donor restrictions in Note 1 to the audited financial statements ("Summary of Significant Accounting Policies"). According to **Note 1 ~ Net Assets With Donor Restrictions**, net assets that are subject to donor-imposed stipulations that may or will be met, either by actions of the Council and/or passage of time are classified as net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the *Statement of Activities and Changes in Net Assets* as net assets released from restrictions.

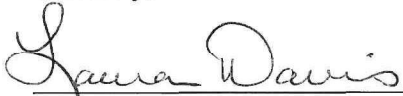
between the audited financial statements and the audited SEFA may have been due to a reporting error and/or timing difference.

As the Council's oversight agency, due to the timing of this communication, the NEH-OIG will not require the Council to revise and resubmit the FY 2023 single audit reporting package. However, the Council must review and update their revenue recognition accounting procedures to align with the provisions of ASU 2018-08. The NEH-OIG fully expects the Council to report Federal grant revenue as of and for the year ended December 31, 2025, consistent with applicable accounting standards and guidance.

Please be advised that we are sending a copy of this letter to the Director at Pearce, Bevill, Leesburg, Moore, P.C. to inform the firm of the results of our desk review.



If you have any questions concerning this letter or need accounting assistance, please contact Ms. Brandie Staton at (202) 606-8355 or via email at [bstaton@neh.gov](mailto:bstaton@neh.gov).

Sincerely,

  
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Laura Davis  
Inspector General

**Distribution List:**

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NEH Key Management Single Audit Liaison:

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