



NATIONAL ENDOWMENT FOR THE HUMANITIES

OFFICE OF INSPECTOR GENERAL

August 18, 2020

via FedEx

Board of Trustees
The Nelson Gallery Foundation and The William Rockhill Nelson Trust
4525 Oak Street
Kansas City, MO 64111
Attn: [REDACTED], Chair

OIG Report Number: OIG-20-07 (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 BKD, LLP (the “IPA”), which includes Federal assistance programs administered by The Nelson Gallery Foundation and The William Rockhill Nelson Trust (collectively referred to as the “museum”) during the entities’ fiscal year (FY) ended April 30, 2019. The independent auditors previously furnished a copy of their audit report dated October 11, 2019, to the museum. The Federal Audit Clearinghouse (FAC) accepted the single audit reporting package on October 14, 2019. 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 and the Vice President - Finance of the museum, 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

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 museum’s financial statements as a whole are free from material misstatement, whether due to fraud or error.

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 2019 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 Catalogue of Federal Domestic Assistance (CFDA) Number Referenced throughout the Single Audit Reporting Package for the Major Federal Program is Erroneous

According to 2 CFR Part 200, the museum must prepare a schedule of expenditures of Federal awards (SEFA) for the period covered by the entities' financial statements. At a minimum, the SEFA must list individual Federal programs by Federal agency, provide total Federal awards expended for each individual Federal program, and the CFDA number³ associated with each individual Federal program.

During our desk review, we determined that the CFDA number listed in the audited SEFA for the NEH program, "Promotion of the Humanities - Challenge Grants" (i.e., 43.130) is erroneous. CFDA numbers associated with NEH programs include the prefix "45". CFDA numbers that include the prefix "43" are associated with National Aeronautics and Space Administration (NASA) financial assistance programs. According to the museum, a typographical error occurred in the draft financial statement provided for review which was not caught in the review.

Furthermore, the IPA determined that the NEH program, "Promotion of the Humanities – Challenge Grants", represents a major program, as prescribed by 2 CFR Part 200.⁴ The IPA's determination is documented in the Schedule of Findings and Questioned Costs for the year ended April 30, 2019 and the erroneous CFDA number is referenced.

Lastly, the data collection form, as certified and submitted by the museum to the FAC with the FY 2019 single audit reporting package, also reflects the erroneous CFDA number for the NEH program, "Promotion of the Humanities – Challenge Grants".

2. Expenditures Associated with the NEH Challenge Grant Program are Misstated in the Schedule of Expenditures of Federal Awards

The museum must prepare a SEFA for the period covered by the entities' financial statements, which must include the total Federal awards expended, as determined in accordance with 2 CFR Section 200.502, *Basis for determining Federal awards expended*. We determined that total Federal awards expended for the NEH challenge grant program, as reported in the audited FY

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 The number assigned to a Federal program in the Catalogue of Federal Domestic Assistance (CFDA).

⁴ 2 CFR section 200.518, *Major program determination*

2019 SEFA, are overstated by \$24,448. This misstatement is likewise reflected in the data collection form submitted to the FAC.⁵

In January 2006, the NEH awarded challenge grant CH-50246-06 to the museum to support an endowment for the position of Curator of South and Southeast Asian Art and related expenses for research travel and conservation. As of April 30, 2019, cumulative Federal funds released to the museum related to the challenge grant award totaled \$500,000. According to 2 CFR Section 200.502(e), *Endowment funds*, the cumulative balance of Federal awards for endowment funds that are federally restricted are considered Federal awards expended in each audit period in which the funds are still restricted. Guidance contained in the NEH publication, *Administration of NEH Challenge Grants*, further advises that Federal funds earmarked for endowment in the approved challenge grant budget are considered to be “expended” upon deposit into an income-earning account established as an endowment fund. If the challenge grant award creates an endowment, only the Federal portion of the endowment represents an expenditure of Federal funds. Accordingly, cumulative Federal funds received from NEH that are specifically used to build an endowment fund must be reported as Federal expenditures on the SEFA annually.

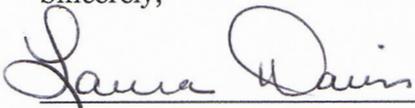
During our review, we concluded that the \$24,448 misstatement represents interest earned on Federal funds associated with the NEH challenge grant program. The museum has confirmed our conclusion.

As the museum's oversight agency, the NEH-OIG will not accept the FY 2019 single audit reporting package until the deficiencies identified above are addressed and the single audit reporting package is revised and resubmitted to the FAC. The museum should contact FAC support staff for assistance with the resubmission process since there are special procedures that must be followed.⁶ Please notify the NEH-OIG when the revised FY 2019 reporting package has been submitted to the FAC.

Please be advised that we are sending a copy of this letter to BKD, LLP and to officials at the other Federal agencies with direct expenditures listed on the Schedule of Expenditures of Federal Awards, to inform them 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

⁵ According to the audited SEFA and the related data collection form, total expenditures associated with the NEH challenge grant program during the year ended April 30, 2019 is \$524,448.

⁶ FAC support staff can be contacted at 800-253-0696 or govs.fac@census.gov.

Distribution List:

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