Program-Specific Audit Guide

Promotion of the Humanities – Federal/State Partnership
(CFDA No. 45.129)
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PREFACE

This Guide is not intended to be a complete manual of procedures, nor is it intended to supplant the independent auditor’s (IPA) judgment of the requisite audit work. The IPA should perform reasonable procedures to ensure that compliance requirements applicable to the NEH Federal/State Partnership program (CFDA No. 45.129) are current and to determine whether there are any additional provisions of the grant awards made under this program that should be covered by the program-specific audit engagement.

The suggested audit procedures in this Guide may not cover all circumstances or conditions encountered at a particular state humanities council (herein referred to as “Council”). The IPA should use professional judgment and due care to tailor the audit procedures to ensure that required compliance areas are sufficiently tested. If the IPA determines that certain procedures for a compliance requirement will not be performed, the rationale for the exclusion must be explained and documented in the audit workpapers in support of the IPA’s report.

All applicable management assertions for the program-specific audit engagement covered by this Guide must be addressed by the IPA.
PROGRAM OBJECTIVES/OVERVIEW

Promotion of the Humanities – Federal/State Partnership (CFDA 45.129)

By Congressional mandate, the National Endowment for the Humanities (NEH), an independent Federal agency in the executive branch, provides General Operating Support grants to humanities councils located in each State and several jurisdictional territories to include the District of Columbia, the Commonwealth of Puerto Rico, the Virgin Islands, Guam, American Samoa, and the Commonwealth of Northern Mariana Islands. The 56 state and jurisdictional humanities councils (“Councils”) represent independent nonprofit [501(c)(3)] organizations governed by volunteer boards of directors and staffed by humanities professionals.

General Operating Support grants provide funding to cover both administrative and programmatic activities of each Council. Regarding humanities programming, the Councils (1) design and conduct humanities projects internally; and (2) support, on a competitive basis, locally initiated humanities programs through the issuance of subrecipient awards referred to as “regrants”.

By law, the NEH cannot support more than fifty percent of the costs of a Council’s activities. To substantiate compliance with this restriction, each Council must submit a final financial report demonstrating that the Council’s share of expenditures (not revenues) equaled or exceeded the NEH ‘Outright’ award amount.

NEH utilizes two separate funding streams for General Operating Support grants: (1) Outright Funds and (2) Federal Matching Funds. Each funding stream must be matched by the Council as follows:

- **Outright Funds:** Councils must ‘cost-share’ the Outright Funds on at least a dollar-for-dollar basis. Cost-sharing for Outright Funds may be accomplished through (a) cash contributions made to the Council from any source (including funds from other Federal agencies); (b) program income earned by the Council; (c) unreimbursed allowable costs that a subrecipient incurs in carrying out a Council-funded project (i.e. grantee cost-share); and/or (d) the value of in-kind contributions made by third parties.

- **Federal Matching Funds:** The rules associated with Federal Matching Funds are much more restrictive. Only cash gifts from third-party sources are eligible to release Federal Matching Funds. Cash gifts made directly to a grantee may also be certified by Councils to release Federal Matching Funds; however, the amount certified must be limited to two gift dollars for each dollar of grant funds provided to a grantee, (i.e. 2-to-1 cap).

An example of the Official Notice of Action (issued by the NEH Office of Grant Management) is presented below to illustrate the distinction made between Outright and Federal Matching Funds, (See Illustration 1).

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1 General Operating Support grants are awarded to State humanities councils under CFDA No. 45.129 (Promotion of the Humanities - Federal/State Partnership).

2 Each Council issues written guidance concerning their grant program(s) documenting evaluation criteria, proposal deadlines, award amounts, matching requirements, etc.

3 20 U.S.C. 956

4 Outright funds represent the major component of NEH General Operating Support awards, generally accounting for at least 90 percent of total funding.
NEH awards General Operating Support grants to each of the 56 humanities councils upon submission and approval of the NEH Federal/State Partnership Compliance Plan. Generally, each grant covers a five-year period with annual funding authorized during the first three years. Annually, each Council must submit a Summary Budget for the Funding Period (OMB No. 3136-0134 – see Illustration 2), wherein the Council allocates total annual funding between the various budget categories:

A. Administrative Purposes:
   1. General Management
   2. Fundraising

B. Programmatic Activities
   1. Program Services
   2. Public Meetings
   3. Council-conducted Projects
   4. Re-Grants
   5. Other

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5 The five-year grant period encompasses three years of funding plus two years following the last year of funding to allow for the liquidation of obligations made during the 3-year funding period.

6 The Federal/State Partnership program is unique in that Councils are allowed to expend grant funds on most general administration and fundraising costs. See NEH guidance entitled, General Terms and Conditions for General Support Grants to State Humanities Councils for details.
As part of this submission, the Council must also document the anticipated amount of cash gifts that will be certified to NEH for matching purposes (i.e. Federal Matching Funds).

**Illustration 2**

**SUMMARY BUDGET FORM FOR STATE COUNCIL GENERAL SUPPORT GRANTS**

For each budget category shown below, please list the total anticipated expenditure of NEH outright funds, NEH federal matching funds, and cash cost sharing (including the gifts that will be certified to NEH for matching). **Do not include 1) other NEH grant funds, 2) third party in-kind contributions, or 3) carry-over funds from a prior funding period on this budget form.** For regrants only, please itemize the amount budgeted for each of the three funding types.

If you do not use the budget categories below in your organizational budget, you may cross out these categories and replace them with the ones your council uses, or you may redo this form. However, the regrant expenditures must be itemized as shown below and the Executive Director must sign the summary budget.

General Management .......................................................... $

Program Services ............................................................. $

Fund Raising ................................................................. $

Public Meetings ............................................................... $

Council-Conducted Projects ............................................. $

Regrants: (Total of A, B, & C below) .................. $ 0.00

  A) NEH Outright Funds ........................................ $

  B) NEH Federal Matching Funds .......... $

  C) Cash Cost Sharing ........................................ $

Other (please itemize): .................................................. $

**TOTAL COSTS** ......................................................... $ 0.00

*The Total Costs amount may not be less than the sum of the outright and federal matching funds offered plus the gifts that will be certified to NEH to release the federal matching funds.

_________________________  ________________________________
Council name                  Grant ID number

_________________________  ________________________________
Signature of Executive Director  Date
Source of Governing Requirements

The laws governing the NEH Federal/State Partnership program are found in 20 USC 956.

Availability of Other Program Information

The NEH maintains a website (www.neh.gov/grants/manage/organizations) that provides general information about NEH grant programs. Please note the following publications, which are specifically applicable to the Federal/State Partnership program (CFDA 45.129):

- General Terms and Conditions for General Support Grants to State Humanities Councils
- Addendum to General Terms and Conditions for Awards and General Terms and Conditions for General Support Grants for Humanities Councils
- Matching Guidelines for General Support Grants to State Humanities Councils
SUMMARY OF KEY COMPLIANCE REQUIREMENTS

A. Activities Allowed or Unallowed/Allowable Costs

1. Funds may be used to initiate and support programs and research which have substantial scholarly and cultural significance; to insure that the benefit of programs will also be available to citizens where such programs would otherwise be unavailable due to geographic or economic reasons; and to foster education in and public understanding and appreciation of the humanities. [20 USC 956(c)(4), 956(c)(7), and 956(c)(9)].

2. Councils may regrant funds to organizations (including institutions of higher education and units of State and local governments), groups or persons that form an association to carry out a project, not-for-profit groups (do not have to be incorporated), or individuals. Regrants may not be made to for-profit organizations [20 USC 956(c)(2), 956(h)(1), and 956(l)].

3. Federal regrant funds must be expended according to the Summary Budget for the Funding Period (OMB No. 3135-0134) and any amendments as approved by the NEH.\(^7\)

4. Subrecipient awards (i.e. regrants) have several restrictions:
   
   - Each Council must institute a competitive selection process. This includes formal, written guidelines regarding the grant application and selection processes. Evidence of grant approval must be documented in the Council’s Board minutes.
   
   - Subrecipient awards can only be issued to nonprofit organizations and individuals. For-profit entities are prohibited from receiving regrants.

B. Matching, Level of Effort, Earmarking

1. Matching

Under the NEH Federal/State Partnership program, Councils receive two types of funding: Outright Funds and offers to provide Federal Matching Funds. The amount of each type of funding is identified in the grant award document.

*Outright Funds*: Councils must ‘cost share’ the Outright Funds on at least a dollar-for-dollar basis\(^8\). Cost sharing for Outright Funds may be accomplished through (a) cash contributions made to the Council from any source (including funds from other Federal agencies); (b) program income earned by the Council; (c) unreimbursed allowable costs that a subrecipient (regrantee) incurs in carrying out a Council-funded project (i.e., regrantee cost-share); and/or (d) the value of in-kind contributions made by third parties. In-kind contributions may be in the form of charges for real property and equipment or the value of goods and services directly benefiting and specifically identifiable to the project [20 USC 956(f)(1)].

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\(^7\) Transfers may be made from other categories to ‘Regrants’, but written permission from the NEH must be obtained to transfer funds out of the ‘Regrant’ category.

\(^8\) For those Councils covered by the Economic Development of the Territories Act [the Virgin Islands, Guam, American Samoa, and the Commonwealth of Northern Mariana Islands], the cost-share requirement does not apply to the first $200,000 in Outright Funds [48 USC 1469a(d)].
**Federal Matching Funds:** This funding stream must also be matched dollar-for-dollar. The NEH releases Federal Matching Funds to a Council only upon certification that the Council or its grantee has raised the required amount of eligible third-party cash gifts to support grant activities, per the *Matching Funds Certification Letter* (OMB No. 3136-0134) and accompanying instructions [20 USC 960(a)(2)(B)]. (See Illustration 3)

**Illustration 3**

**APPENDIX: SAMPLE CERTIFICATION LETTER**

(Address the letter to the Donations Section, Office of Grant Management, 2nd Floor, National Endowment for the Humanities, 400 7th Street SW, Washington DC 20506)

I certify that $__________00 has been received in the form of gifts that have been donated in support of the activities that will be carried out under NEH grant _____: ______:____:

These gifts meet the criteria for eligibility established by NEH and will be expended for project purposes during the grant period. Documentation that substantiates the amounts, sources, and eligibility of the gifts will be retained for three years following the submission to NEH of the final financial report for the referenced grant. The funds certified above were provided by a donor/donors in the following category/categories:

<table>
<thead>
<tr>
<th>Donor Category</th>
<th>Number of Donors</th>
<th>Amount</th>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>$_____</td>
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<td>$_____</td>
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<tr>
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<td></td>
<td>$_____</td>
</tr>
</tbody>
</table>

The matching funds released by this certification will be used as follows:

- Reagents $ .00
- All other categories $ .00

(If unpaid pledges or awards are certified, the following sentence must appear in the certification letter.)

The amount certified in this letter includes $ _______ in unpaid pledges.

The following documentation required by the Endowment is attached:

- Justification for the immediate need of matching funds, a copy of the donor’s pledge letter,
- And evidence that the donor is legally bound to pay the pledge during the grant period

(If such evidence is not included in the donor letter).

Sincerely,

Executive Director

* Please use the following numerical designations for donor categories.

1. Individuals
2. Corporations and businesses (including company-sponsored and corporate foundations)
3. Private and public foundations (including independent, operating, and community foundations)
4. Labor unions and professional associations
5. Nonfederal government units (state, county, municipal)
6. Affiliated groups (alumni, “Friends”)
7. Special events and benefits (use only when gifts raised through this means cannot be readily assigned to any of the above donor categories)
8. Other (specify)
2. Level of Effort – Not Applicable
3. Earmarking – Not Applicable

C. Reporting

1. Financial Reporting
   a. SF-270, Request for Advance or Reimbursement
2. Performance Reporting – Not Applicable
3. Special Reporting
   - Matching Funds Certification Letter (OMB No. 3136-0134) -- This letter is used to describe and certify the eligibility of third-party gifts for the release of Federal Matching Funds.
INTERNAL CONTROL

Internal control is generally defined as a process effected by an entity’s oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved.

Office of Management and Budget (OMB) Circular A-110 and 2 CFR section 200.303 (Uniform Guidance) require that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. 2 CFR section 200.514\textsuperscript{10} requires IPAs to obtain an understanding of the non-Federal entity’s internal control over Federal programs sufficient to plan the audit to support a low assessed level of control risk of noncompliance, and unless internal control is likely to be ineffective, plan the testing of internal control over major programs to support a low assessed level of control risk for the assertions relevant to the compliance requirements for each major program and perform testing of internal control as planned.

The objectives of internal control over the compliance requirements for Federal awards\textsuperscript{11} are as follows:

1. Transactions are properly recorded and accounted for in order to:
   a. Permit the preparation of reliable financial statements and Federal reports;
   b. Maintain accountability over assets; and
   c. Demonstrate compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

2. Transactions are executed in compliance with:
   a. Federal statutes, regulations, and the terms and conditions of the Federal award that could have a direct and material effect on a Federal program; and
   b. Any other Federal statutes and regulations that are identified in the OMB Compliance Supplement; and

3. Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.

A system of internal control is expected to provide a non-Federal entity with reasonable assurance that these objectives relating to compliance with Federal statutes, regulations, and the terms and conditions of Federal awards will be achieved.

\textsuperscript{9} Extract from the OMB June 2016 2 CFR Part 200, Appendix XI Compliance Supplement (Part 6 – Internal Control)

\textsuperscript{10} Office of Management and Budget Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance); Subpart F – Audit Requirements.

\textsuperscript{11} 2 CFR Part 200.62 – Internal control over compliance requirements for Federal awards.
Internal control should be an integral part of the entire cycle of planning, budgeting, management, accounting, monitoring, and reporting. It should support the effectiveness and the integrity of every step of the process and provide continual feedback to management. Program managers for non-Federal entities must carefully consider the appropriate balance between the strength of controls and the relative risk associated with particular grant award programs and operations. Additionally, the benefits of controls should outweigh the costs. Non-Federal entities should consider both qualitative and quantitative factors when analyzing costs against benefits.

The following describes characteristics of internal control relating to each of the five components of internal control [as defined by the Standards for Internal Control in the Federal Government issued by the Government Accountability Office (GAO)] that should reasonably ensure compliance with the requirements of Federal statutes, regulations, and the terms and conditions of Federal awards. (Please note: The bracketed [ ] information highlights a relationship to one of the GAO principles.) This description is intended to assist Councils and their IPAs in complying with their respective requirements. However, the characteristics may not necessarily reflect how a Council organization considers and implements internal control. Also, the following is not a checklist of required internal control characteristics. Councils could have adequate internal control even though some or all of the following characteristics are not present. Further, Councils could have other appropriate internal controls operating effectively that have not been included. Councils will need to exercise judgement in determining the most appropriate and cost-effective internal control in a given environment or circumstance, to provide reasonable assurance of compliance with Federal program requirements.

A. **Control Environment.** The control environment is the foundation for an internal control system. It provides the discipline and structure to help an entity achieve its objectives.

- There is a sense of conducting operations ethically, as evidenced by a code of conduct or other verbal or written directive. [Principle 1]
- There is a governing Board or equivalent that is responsible for engaging the auditor, receiving all reports and communications from the auditor, and ensuring that audit findings and recommendations are adequately addressed; and they fulfill those responsibilities. [Principle 2]
- Responsibilities of key managers are clearly defined. [Principle 3]
- The Board has established an Audit Committee. [Principle 3]
- Key managers have adequate knowledge and experience to discharge their responsibilities. [Principle 4]
- Management’s commitment to competence ensures that staff receive adequate training to perform their duties. [Principle 4]
- Staff are knowledgeable about compliance requirements and are tasked with the responsibility to communicate all instances of noncompliance to management. [Principle 4]
- Management demonstrates respect for and adherence to program compliance requirements. [Principle 5]
- Management initiates positive responsiveness to prior compliance and control findings. [Principle 4]
- Management makes evident its support of adequate information and reporting systems. [Principle 1]

B. Risk Assessment. Assessment of the risks facing the entity as it seeks to achieve its objectives. This assessment provides the basis for developing appropriate risk responses.

- Program managers and staff understand and have identified key compliance objectives and risk tolerances. [Principle 6]
  - Management is aware of results of monitoring, audits, and reviews, and considers related risk of noncompliance. [Principle 7]
  - Management and employees identify, analyze, and adequately respond to risks related to achieving the defined objectives. [Principle 7]

- The organizational structure provides identification of risks of noncompliance. [Principle 7]
  - Key managers have been given responsibility to identify and communicate changes.
  - Employees who require close supervision (e.g., they are inexperienced) are identified.
  - Management has identified and assessed complex operations, programs, or projects.

- Management considers the potential for fraud when identifying, analyzing, and responding to risk. This assessment includes, at a minimum, the following: [Principle 8]
  - Types of fraud,
  - Fraud risk factors, and
  - Response to fraud risks.

- Processes are established to implement significant changes in program objectives and procedures. [Principle 9]

C. Control Activities. Control activities are the actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal controls system, which includes the entity's information system.

- Adequate segregation of duties is provided between performance, review, and recordkeeping of a task. [Principle 10]

- Computer and program controls include [Principle 11]:
  - Data entry controls, e.g., edit checks
  - Exception reporting
  - Access controls
  - Reviews of input and output data
  - Computer general controls and security controls

- Supervision of employees is commensurate with their level of competence. [Principle 10]
Personnel possess adequate knowledge and experience to discharge their responsibilities. [Principle 10]

Operating policies and procedures exist and are clearly written and communicated. [Principle 11]

Procedures are in place to implement changes in statutes, regulations, and the terms and conditions affecting Federal awards. [Principle 11]

Management prohibits intervention or overriding established controls. [Principle 11]

Equipment, inventories, cash, and other assets are secured physically and periodically counted and compared to recorded amounts. [Principle 10]

If there is a governing Board, the Board conducts regular meetings where financial information is reviewed and the results of program activities and accomplishments are discussed. Written documentation is maintained of the matters addressed at such meetings. [Principle 11]

D. Information and Communication. The quality of information management and personnel communicate and use to support the internal control system.

- The accounting system provides for separate identification of Federal and non-Federal transactions and allocation of transactions applicable to both. [Principle 13]

- Adequate source documentation exists to support amounts and items reported. A recordkeeping system is established to ensure that accounting records and documentation are retained for the time period required in the statutes, regulations, and the terms and conditions applicable to the program. [Principle 13]

- Accurate information is accessible to those who need it. [Principle 13]

- Reports are provided timely to managers for review and appropriate action. [Principle 13]

- Reconciliations and reviews ensure accuracy of reports. [Principle 13]

- Established internal and external communication channels exist. [Principle 14]
  - Staff meetings
  - Bulletin boards
  - Memos, circulation files, e-mail
  - Surveys, suggestion box

- Employees' duties and control responsibilities are effectively communicated. [Principle 14]

- Channels of communication for people to report suspected improprieties have been established. [Principle 14]

- There are established channels of communication between a pass-through entity and subrecipients. [Principle 15]

- Actions are taken as a result of communications received. [Principle 13]
E. Monitoring. Activities that management establishes and operates to assess the quality of performance over time and promptly resolve the findings of audits and other reviews constitute monitoring.

- Ongoing monitoring is built-in through independent reconciliations, staff meeting feedback, rotating staff, supervisory review, and management review of reports. [Principle 16]

- Periodic site visits are performed at decentralized locations (including subrecipients’ locations) and checks are performed to determine whether procedures are being followed as intended. [Principle 16]

- Management meets with program monitors, auditors, and reviewers to evaluate the condition of the program and controls. [Principle 16]

- Management follows-up on irregularities and deficiencies to determine the cause. [Principle 17]

- Internal quality control reviews are performed.

- Internal audit routinely tests for compliance with Federal requirements. [Principle 17]

- If there is a governing Board, the Board reviews the results of all monitoring or audit reports and periodically assesses the adequacy of corrective action. [Principle 17]
COMPLIANCE REQUIREMENTS

The following screen shot was extracted from the OMB June 2016 2 CFR Part 200, Appendix XI Compliance Supplement (Part 2 - Matrix of Compliance Requirements). Similar to a standard Single Audit, please assess each individual General Operating Support grant and determine if testing of all eight compliance areas is required.

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<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>E</th>
<th>F</th>
<th>G</th>
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<td>Y</td>
<td>Y</td>
<td>Y</td>
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<td>N</td>
<td>Y</td>
<td>Y</td>
<td>Y</td>
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45 – National Endowment for the Humanities (NEH)

The following key compliance areas should be tested with every NEH Federal/State Partnership (CFDA No. 45.129) program-specific audit engagement.

A. Activities Allowed Or Unallowed/Allowable Costs

I. Internal Control Objectives: To provide reasonable assurance that awards under the Federal/State Partnership program (General Operating Support grants) are expended only for allowable activities and that the cost of goods and services charged to the General Operating Support grants are allowable and in accordance with the cost principles outlined in 2 CFR sections 200.420 through 200.475.

Suggested Audit Procedures

i. Perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program.

ii. Plan the testing of internal control to support a low assessed level of control risk for activities allowed or unallowed/allowable costs and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in 2 CFR section 200.514(c)(4), including assessing control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.

iii. Consider the results of the testing of internal control in assessing the remaining risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.

II. Compliance Requirements

A. Grant Expenditures. Federal grant funds are to be expended according to the approved budget and any amendments. Transfers may be made from other budget categories to ‘Regrants’,
but written permission from the NEH Federal/State Partnership is required to transfer funds from the 'Regrant' category.

**Suggested Audit Procedures**

1) Trace the regrant amounts shown in the last approved budget (i.e., annual *Summary Budget Form*) or last NEH grant amendment to the general ledger or working papers that reconcile to the Federal Financial Report (SF-425) submitted for the period tested.

2) If the Council has transferred Federal funds designated for grantees to other cost categories, verify that written approval from the NEH Federal/State Partnership was properly obtained.

3) Select a representative sample of expenditures charged to the General Operating Support grant during the fiscal year and test for propriety. Please refer to the individual grant award and the NEH publication entitled, *General Terms and Conditions for General Support Grants to State Humanities Councils* when performing this audit testing.

**B. Re grants.** Federal program funds can only be disbursed to organizations (including institutions of higher education and units of state and local governments), groups or persons that form an association to carry out a project, not-for-profit groups (do not have to be incorporated), and individuals. For-profit organizations are not eligible.

**Suggested Audit Procedure**

Review the Council's guidelines concerning their regrant program and regrant application packages to ensure that an assertion regarding the applicant's nonprofit status is required. Review a sample of applications submitted by grantees and verify nonprofit status.

**C. Re grants.** All regrant awards must be made based on applications received through open competition. All awards (regrants) and amendments must be approved by the Board and recorded in the Board's minutes.

**Suggested Audit Procedure**

Determine that regrant awards were based on applications received in open competition. Accomplish this by comparing a sample of regrant award letters to the Board minutes to determine that each award has Board approval. Further, ensure the Council properly recorded the liability associated with the regrant award in the accounting records.

**D. Re grants.** Councils are prohibited from making subawards (regrants) to parties that are suspended or debarred. Each Council must verify that a prospective regrantee is not suspended, debarred, or otherwise excluded from participating in a transaction involving Federal funds.

**Suggested Audit Procedures**

1) Review the Council's procedures for verifying that an entity to which it plans to make a regrant award is not debarred, suspended, or otherwise excluded.
2) Select a sample of regrant awards and test whether the Council followed its procedures before the regrant award was made.

B. **Matching Requirements**

I. **Internal Control Objectives**: To provide reasonable assurance that matching requirements applicable to awards under the NEH Federal/State Partnership program *(General Operating Support grants)* are met using only allowable funds or costs which are properly calculated and valued; and that the legislatively-mandated cost-share requirement is met.

**Suggested Audit Procedures**

i. Perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program.

ii. Plan the testing of internal control to support a low assessed level of control risk for matching requirements and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in 2 CFR section 200.514(c)(4), including assessing the control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.

iii. Consider the results of the testing of internal control in assessing the remaining risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.

II. **Compliance Requirements**

A. **Cost Sharing – Outright Funds.** For every dollar in 'Outright' funds provided to the Council by NEH, an equal amount of cash or in-kind cost sharing must be used to support budgeted Council activities. (Please note, for those Councils covered by the Economic Development of the Territories Act, the first $200,000 is exempt from the cost-share requirement.)

**Suggested Audit Procedures**

1) Review the most current *Federal Financial Report* (SF-425) submitted to the NEH (interim or final) and note the reporting of "Recipient Share of Expenses". Trace this amount to the Council's supporting working papers, general ledgers, or other subsidiary ledgers. Report any differences to the NEH.

2) Select a sample of the underlying cost-share transactions (that comprises total "Recipient Share of Expenses" per the *Federal Financial Report*) and trace to supporting documentation to ensure propriety. Report any discrepancies to the NEH, to include lack of documentation, etc.

3) Verify that cumulative cost-share actually equals or exceeds the amount of *Outright* funds awarded to and expended by the Council. If the cost-share amount falls below the mandated 1-to-1 requirement, report this discrepancy to the NEH. Ideally, this procedure should be performed based on cumulative grant activity (i.e. *General Operating Support* grants run for 5 years).
B. Federal Matching Funds. Gifts received for matching must be eligible to release Federal Matching Funds. Only cash can be used to satisfy the dollar-for-dollar matching requirement associated with Federal Matching Funds. Noncash gifts are not eligible. Furthermore, Councils may certify cash gifts made directly to a grantee, limited to two gift dollars for each dollar of grant funds provided to the grantee, (i.e., 2-to-1 cap). Gifts may be retained by the Council or the related grantee. Gifts that are restricted for a particular grant project must be certified and expended during the respective grant period. In extraordinary cases, a pledge made directly to a Council may be certified, (subject to certain stipulations). In no case may a pledge made to a grantee be certified. Documentation that substantiates eligibility of all gifts certified must be maintained by the Council.

Suggested Audit Procedures

- Determine if the Council received any Federal Matching Funds as part of its General Operating Support grant award. If so, perform the following:
  - Review and evaluate the system used by the Council for determining eligibility of gifts received and retained by the Council, and of gifts retained by a grantee.
  - Review certification letters submitted to the NEH to determine that the Council has complied with all assertions made in the letter.
  - Select a sample of matching gifts included in the certification letters and test for propriety/compliance with the requirements set forth in the NEH Matching Guidelines for General Support Grants to State Humanities Councils.
    - Ascertain that (1) certified gifts meet the eligibility criteria; (2) documentation will be or has been maintained; and (3) if applicable, a disclosure paragraph was included that identifies unpaid pledges and justification for matching.
    - Determine that all certified gifts were expended during the appropriate NEH grant period.

C. Reporting

I. Internal Control Objectives: To provide reasonable assurance that reports of Federal awards submitted to the NEH include all activity of the reporting period, are supported by underlying accounting or performance records, and are fairly presented in accordance with the requirements of the NEH Federal/State Partnership program.

Suggested Audit Procedures

i. Perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program.

ii. Plan the testing of internal control to support a low assessed level of control risk for reporting and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in 2 CFR section 200.514(c)(4), including assessing control risk at the maximum and considering whether
additional compliance tests and reporting are required because of ineffective internal control.

iii. Consider the results of the testing of internal control in assessing the remaining risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.

II. Compliance Requirement

A. Councils must use standard financial reporting forms authorized by OMB when reporting to the NEH. The standard financial reporting forms for the Federal/State Partnership program (General Operating Support grants) are as follows:

- Request for Advance or Reimbursement (SF-270)
- Federal Financial Report (SF-425) [Interim and Final]

*NOTE: Program/performance reports not required with CFDA 45.129.

Suggested Audit Procedures

1) Select a sample of reports submitted\textsuperscript{12} during the audit period and test for accuracy and completeness.

- Review accounting records and ascertain if all applicable accounts were included in the sampled reports (e.g., program income, expenditure credits, loans, interest earned on Federal funds, and reserve funds).

- Determine that all unliquidated obligations are reported in the sampled SF-425s, (regardless as to whether the Council uses accrual or cash basis accounting).

- Trace amounts reported\textsuperscript{13} in the sampled SF-270s and SF-425s to accounting records that support the audited financial statements (if applicable) and verify agreement or perform alternative procedures to verify the accuracy and completeness of the reports and that they agree with the accounting records.

- When intervening computations or calculations are required between the records and the reports, trace reported data elements to supporting worksheets or other documentation that link reports to the data.

- Test mathematical accuracy of reports and supporting worksheets.

2) Obtain written representation from management that the reports provided to the auditor are true copies of the reports submitted or electronically transmitted to the NEH.

D. Subrecipient Monitoring

\textsuperscript{12} Sampled reports may either be reports submitted during the audit period or related to the audit period, contingent upon the timing of audit fieldwork. Generally, Federal Financial Reports (SF-425s) submitted during the audit period relate to the prior audit period.

\textsuperscript{13} All verifiable components of the sampled Requests for Advance or Reimbursement (SF-270) and/or Federal Financial Reports (SF-425) must be reconciled to the appropriate accounting records.
I. **Internal Control Objectives:** To provide reasonable assurance that Federal award information and compliance requirements are identified to subrecipients, subrecipient activities are monitored, subrecipient audit findings are resolved, and the impact of any subrecipient noncompliance on the Council is evaluated.

**Suggested Audit Procedures**

i. Perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program.

ii. Plan the testing of internal control to support a low assessed level of control risk for subrecipient monitoring and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in 2 CFR section 200.514(c)(4), including assessing control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.

iii. Consider the results of the testing of internal control in assessing the remaining risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.

II. **Compliance Requirements**

A. As a pass-through entity (PTE), the Council must:

- **Identify the Federal Award and Applicable Requirements** – Clearly identify to the subrecipient: (1) the grant as a subaward at the time of award (or subsequent subaward modification) by providing the information described in 2 CFR section 200.331(a)(1); (2) all requirements imposed by the Council on the subrecipient so that the grant is used in accordance with Federal statutes, regulations, and the terms and conditions of the Federal award [2 CFR section 200.331(a)(2)]; and (3) any additional requirements that the Council imposes on the subrecipient in order for the Council to meet its own responsibilities under the General Operating Support grant (e.g., financial reports) [2 CFR section 200.331(a)(3)].

- **Evaluate Risk** – Evaluate each subrecipient’s risk of noncompliance for purposes of determining the appropriate monitoring related to the grant [2 CFR section 200.33 (b)]. This evaluation of risk may include consideration of such factors as the following:

  1. The subrecipient’s prior experience with the same or similar awards;

  2. The results of previous audits, including whether or not the subrecipient receives single audit in accordance with 2 CFR part 200, Subpart F, and the extent to which the same or similar grant has been audited as a major program; and
3. Whether the subrecipient has new personnel or new or substantially changed systems.

- Monitor – Monitor the activities of the subrecipient as necessary to ensure that the regrant is used for authorized purposes, complies with the terms and conditions of the regrant, and achieves performance goals [2 CFR sections 200.331(d) through (f)]. In addition to procedures identified as necessary based upon the evaluation of subrecipient risk or specifically required by the terms and conditions of the award, subrecipient monitoring must include the following:

1. Reviewing financial and programmatic reports required by the Council.

2. Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the regrant, as detected through audits, on-site reviews, and other means.

3. Issuing a management decision for audit findings pertaining to the regrant, as required by 2 CFR section 200.521.

**Suggested Audit Procedures**

1) Review the Council’s subrecipient monitoring policies and procedures to gain an understanding of the Council’s process to identify the regrant as a subaward, evaluate risk of noncompliance by subrecipients, and perform monitoring procedures based upon identified risks.

2) Review regrant documents, including the terms and conditions of the regrants, to ascertain if, at the time of award (or subsequent subaward modification) the Council made the reegantee aware of the Federal award information required by 2 CFR section 200.33(a) sufficient for the subrecipient to comply with Federal statutes, regulations, and the terms and conditions of the respective General Operating Support grant.

3) Review the Council’s documentation of monitoring the regrant and consider if the Council’s monitoring provided reasonable assurance that the subrecipient used the regrant for authorized purposes in compliance with Federal statutes, regulations, and the terms and conditions of the regrant.

4) Ascertain if the Council verified that subrecipients expected to be audited as required by 2 CFR part 200, Subpart F, met this requirement [2 CFR section 200.331(f)].

**E. Special Tests and Provisions/Period of Performance**

I. **Internal Control Objective:** To provide reasonable assurance that Federal funds awarded under the NEH Federal/State Partnership program (General Operating Support grants) are used during the authorized period of availability.
Suggested Audit Procedures

i. Perform procedures to obtain an understanding of internal control sufficient to plan the audit to support a low assessed level of control risk for the program.

ii. Plan the testing of internal control to support a low assessed level of control risk for period of availability of Federal funds and perform the testing of internal control as planned. If internal control over some or all of the compliance requirements is likely to be ineffective, see the alternative procedures in 2 CFR section 200.514(c)(4), including assessing control risk at the maximum and considering whether additional compliance tests and reporting are required because of ineffective internal control.

iii. Consider the results of the testing of internal control in assessing the remaining risk of noncompliance. Use this as the basis for determining the nature, timing, and extent (e.g., number of transactions to be selected) of substantive tests of compliance.

II. Compliance Requirements

A. General Operating Support grants provide funding during the first three (3) years of the grant period. The grant period extends for a total of five (5) years to provide adequate time to administratively close grant awards, etc. Accordingly, two General Operating Support grants will overlap during certain years.

B. Accounting records must be maintained on a grant-to-date basis and should reconcile to the Federal Financial Reports (SF-425s) submitted to the NEH (interim and final reports).

C. Subsidiary ledgers should be maintained that identify all grantees awarded under each General Operating Support grant. The subsidiary ledgers must be reconcilable to the general ledger control accounts.

Suggested Audit Procedures

1) Determine that the Council’s accounting system properly tracks each individual General Operating Support grant.

2) Review reconciliations of grant-to-date records to the most recently submitted Federal Financial Report(s). Verify that expenditures associated with each NEH General Operating Support grant are properly identified, recorded, and reflected in the applicable Federal Financial Report.

3) Reconcile the regrant subsidiary records or list of grantees to the grant-to-date records for total obligations incurred and unliquidated obligations.

VERY IMPORTANT: Verify that the Council adheres to the individual grant’s period of performance cut-off dates, and doesn’t simply roll over any unused grant funds to the subsequent NEH award.

Please contact the NEH Office of Inspector General with any questions associated with these suggested audit procedures.
GENERAL GUIDANCE

I. **Engagement Letter.** A written letter of engagement between the Council and the IPA is required and must contain the following information:

- A statement that the audit is to be performed in accordance with auditing standards generally accepted in the United States; *Government Auditing Standards*, as issued by the Comptroller General of the United States; and the *Program-Specific Audit Guide for the NEH Federal/State Program (CFDA No. 45.129)*, as issued by the NEH Office of Inspector General.

- The estimated date the audit report package will be delivered to the Council.\(^ {14} \)

- A statement that the IPA is required to provide the Chairman of the NEH or his or her designee, the NEH Inspector General, and the U.S. Government Accountability Office (GAO) or their representatives, access to audit documentation or any other documents necessary to assess the quality of the audit performance (hardcopy or electronic). Access to audit documentation by NEH and GAO representatives includes making necessary photocopies of hardcopy audit documentation or other documents or electronic copies of electronic documentation.

- A statement that, if the IPA becomes aware of noncompliance with provisions of laws, regulations, and grant agreements or fraud that has occurred or is likely to occur, the IPA is required to bring such acts to the attention of the appropriate level of management. In addition, the IPA must contact the NEH Inspector General to discuss matters relating to fraud. Based on that discussion, the IPA may be requested to prepare a written report on all known or likely fraud that has occurred. Acceptance of the engagement letter grants the IPA permission to contact the NEH Inspector General and discuss the conditions noted.

- A description of the scope of the planned audit and contents of the report package.

- If applicable, a statement that the Council grants permission for the successor IPA to discuss and review the predecessor IPA’s audit documentation and for the Council to make the appropriate arrangements.

- A list of the information the IPA wants the Council to provide for the program-specific audit and the requested delivery date of those items.

II. **Testing.** The IPA should use professional judgment to determine the extent of testing necessary to report on the Council’s internal controls and on compliance. All compliance requirements contained in this audit guide must be addressed.

III. **Management Representations.** The IPA is required to obtain written representations from Council management that include matters concerning compliance with laws and regulations

\(^{14}\) It is the Council’s responsibility to ensure that the audit is completed and submitted to the NEH no later than nine (9) months after the end of the Council’s fiscal year.
that have a material effect on the NEH Federal/State Partnership program (CFDA No. 45.129) and all compliance violations or issues regardless of their materiality, as well as management’s responsibilities for establishing and maintaining effective internal control over Federal financial reporting and internal control over compliance.

IV. Audit Documentation. The IPA must retain audit documentation, (e.g., audit working papers) and reports for a minimum of six (6) years from the submission of the audit report package to the NEH, unless the IPA is notified in writing by the NEH or GAO to extend the retention period. When an IPA becomes aware that the NEH or the Council is contesting an audit finding in the report, the IPA may contact the NEH Office of Inspector General for further guidance regarding the length of time the related audit documentation should be held before destruction.

REPORTING REQUIREMENTS

A. Required Report Package. The following report and schedules are required to be included in the report package.

i. Independent Auditor’s Report on Compliance with Requirements That Could Have a Direct and Material Effect on the NEH Federal/State Partnership Program (CFDA No. 45.129) and on Internal Control Over Compliance Based on an Audit in accordance with the NEH OIG Program-Specific Audit Guide. The auditor is required to express or disclaim an opinion on compliance with laws, regulations, and the provisions of contracts or grant agreements applicable to the NEH Federal/State Partnership program (CFDA No. 45.129). The report on compliance with requirements applicable to the NEH Federal/State Partnership program expresses the IPA’s opinion (or disclaimer of opinion) on whether the Council complied with the requirements that, if noncompliance occurred, could have a direct and material effect on the program. Additionally, the IPA should report any significant deficiencies and material weaknesses in internal control over compliance that are noted. AICPA AU-C section 935, Compliance Audits, provides requirements and guidance concerning reporting on compliance and internal control over compliance.

Significant deficiencies, material weaknesses, and material instances of noncompliance are required to be identified in the body of the report on compliance and internal control over compliance (which can be accomplished by a brief description and a reference to related finding numbers) and detailed in a separate “Schedule of Findings, Questioned Costs, and Recommendations”, using the elements of a finding as outlined in Government Auditing Standards. It is the Council’s responsibility to include the action taken or to be taken in a corrective action plan issued separate from the audit report. The corrective action plan is not to be included to or as a part of the “Schedule of Findings, Questioned Costs, and Recommendations”.

ii. Schedule of Findings, Questioned Costs, and Recommendations. This schedule should be prepared by the IPA and included in the audit report package when findings are presented. It should be formatted as follows: “Corrective Action Not Started or in Process” and/or “Corrective Action Completed.” This distinction is based on the Council’s representation, as conveyed in the management representation letter. If the program-specific audit resulted in no findings, the “Schedule of Findings, Questioned Costs, and Recommendations” should still be included in the audit report package and should include the following statement:
"Our program-specific audit disclosed no findings that are required to be reported herein under the NEH Office of Inspector General Program-Specific Audit Guide."

Regardless of whether the Council has started correcting the deficient condition disclosed in the finding, is in the process of correcting it, or has corrected it, the IPA must include the finding in the report with all required elements, and the Council must address the matter in the corrective action plan. The IPA should not delay the issuance of the report so that the Council can correct the deficient condition(s).

a. **Corrective Action Not Started or in Process.** Oftimes, when the auditee is presented with draft findings, management will start to take action to correct the deficient condition. When this action is underway before the report's issuance, a description of the actions completed and the actions remaining to be taken should be included in the "Management's Response" section of the finding.

b. **Corrective Action Completed.** Oftimes, when the auditee is presented with draft findings, management will start to take action and complete that action, correcting the deficient condition before the issuance of the auditor's report. When this occurs, a description of the action taken and completed should be included in the "Management's Response" section of the finding. The IPA's "Recommendation" section should follow the Council's comment section, and in it, the IPA should state whether he or she confirmed that the Council completed the corrective action as stated in the response. If the IPA has validated the corrective action, the IPA may include any additional recommendations he or she believes necessary based on the validation of the Council's action.

c. **Content of Finding.** Each finding must include all of the following information as appropriate.

- **Numbering the Findings.** Each finding is to be numbered using the year followed by a consecutive number (201X-1, 201X-2, 201X-3, etc.)

- **Questioned Costs.** Each finding must identify known questioned costs resulting from errors or noncompliance that are quantifiable. Identification of these costs should not be limited to only those costs that potentially are to be refunded to the NEH. If costs are not quantifiable or are unknown, the IPA should so state and indicate the reasons for that determination.

- **Universe and Population Size.** Each finding must include the description and size of the universe and population and information to provide a proper perspective for judging the prevalence and consequences of the audit findings (e.g., whether the audit findings represent an isolated instance or a systemic problem). When appropriate, the instances identified should be related to the universe and the number of cases examined and quantified in terms of dollar value.

- **Sample Size.** If the error was discovered as a result of a sampling procedure, the size and dollar amount of the sample selected and tested must be included.

- **Noncompliance Data.** The number of instances of noncompliance in the sample and the dollar amount of the noncompliance must be included.
- **Condition.** The condition is the situation that exists. It is determined and documented during the audit.

- **Criteria.** Criteria are the laws, regulations, contracts, grant agreements, standards, measures, expected performance, defined business practices, and benchmarks against which performance is compared or evaluated. Criteria identify the required or desired state or expectation with respect to the program or operation. Criteria provide a context for evaluating evidence and understanding the findings.

- **Cause.** The cause identifies the reason or explanation for the condition or the factor or factors responsible for the difference between the situation that exists (condition) and the required or desired state (criteria), which may also serve as a basis for recommendations for corrective action(s). Common factors include poorly designed policies, procedures, or criteria; inconsistent, incomplete, or incorrect implementation; or factors beyond the control of program management. IPAs may assess whether the evidence provides a reasonable and convincing argument for why the stated cause is the key factor or factors contributing to the difference between the condition and the criteria.

- **Effect or Potential Effect.** The effect is a clear, logical link to establish the impact or potential impact of the difference between the situation that exists (condition) and the required or desired state (criteria). The effect or potential effect identifies the outcomes or consequences of the condition. When the audit objectives include identifying the actual or potential consequences of a condition that varies (either positively or negatively) from the criteria identified in the audit, "effect" is a measure of those consequences. Effect or potential effect may be used to demonstrate the need for corrective action in response to identified problems or relevant risks.

- **Recommendations.** Recommendations are the auditor's written suggestions for specific auditee action to correct a deficient condition, prevent recurrence of the condition, or alleviate the adverse effects of a condition. Each recommendation for each finding is to be consecutively lettered (a, b, c, etc.) and prefixed with the finding number. For example, two recommendations to Finding 1 would be 201X-1-a, 201X-1-b.

- **Views of Responsible Officials.** IPAs should obtain and report the views of responsible officials concerning the findings, conclusions, and recommendations, which should include the Council's planned corrective action(s). Government Auditing Standards provide additional guidance on this finding element. This element, as reported in the "Schedule of Findings, Questioned Costs, and Recommendations" is different from the separate Corrective Action Plan the Council is required to prepare.

**iii. Management Letter.** A management letter, or other type of written auditor communication to management, may be used to report nonmaterial instances of noncompliance. If the IPA issues or intends to issue a management letter (or other similar written communication) for this purpose, the Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on the NEH Federal/State Partnership Program (CFDA No. 45.129) and on Internal Control Over Compliance Based on an Audit in accordance with the NEH OIG Program-Specific Audit Guide must refer to that communication by name and the actual or planned date of issuance. Note that a
management letter should not be used to report material findings that were resolved before the audit report was issued. Such findings are to be reported as findings in the Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on the NEH Federal/State Partnership Program (CFDA No. 45.120) and on Internal Control Over Compliance Based on an Audit in accordance with the NEH OIG Program-Specific Audit Guide (by reference to finding numbers) and on the “Schedule of Findings, Questioned Costs, and Recommendations” under the category “Corrective Actions Completed.”

iv. **Schedule of Prior Audit Findings, Questioned Costs, and Recommendations.**
This schedule is to be prepared by the Council and is to be included in the audit report package. This schedule must be prepared in connection with the audit for the year following the year that an audit report package is issued with audit findings. The schedule should address all findings that were in the prior year report, including whether any questioned costs were refunded or otherwise resolved by the NEH. A description of the prior audit finding, along with the current status, should be included for each finding. If a finding is no longer relevant, the reason(s) should be so noted in the schedule.

v. **Corrective Action Plan.** A corrective action plan (CAP) must be prepared by the Council, and it should be transmitted to the NEH as a separate part of the audit report package. The CAP must be a separate and distinct document from the ‘Views of Responsible Officials’ included with each finding in the “Schedule of Findings, Questioned Costs, and Recommendations”. The Council must describe the correction action(s) taken or planned in response to the current year finding(s) identified by the IPA. It should include task(s), subtask(s), and date(s) for the completion of the action.

When the “Schedule of Prior Audit Findings, Questioned Costs, and Recommendations” identifies prior findings as unresolved or “open,” the CAP should include comments on the corrective action taken and the action that will be taken on the open prior findings.

The Council must express its agreement or disagreement with the content of the finding, and if the Council disagrees with the finding, it is to fully explain the points of that disagreement with specific information to support its position.

Also, the Council must express its agreement or disagreement with each recommendation. If there is disagreement with the recommended course of action, the Council should explain the points of that disagreement and propose an alternative action that would accomplish resolution of the respective finding.

B. **Report Issuance.** Items ‘i’ through ‘iv’ of the audit report package described above are to be prepared and issued by the IPA to Council management and those charged with governance, as appropriate. The report cover should clearly indicate the NEH program and period audited.

C. **Report Distribution.** The Council should electronically file the audit report package (.pdf version) with the NEH Office of Grant Management within the earlier of 30 calendar days after receipt of the IPA’s report package, or nine months after the end of the audit period. The report package is not to be submitted to the Office of Inspector General (OIG) unless it is specifically requested by the Inspector General. However, if applicable, the report on fraud is to be sent directly to the OIG at the following email address:

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oig@neh.gov
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