



NATIONAL ENDOWMENT FOR THE HUMANITIES

OFFICE OF INSPECTOR GENERAL

March 15, 2021

Via FedEx

Board of Directors
Virginia Humanities
145 Ednam Drive
Charlottesville, VA 22903
Attn: [REDACTED], Chair

OIG Report Number: OIG-21-04 (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 Robinson, Farmer, Cox Associates (the "IPA"), which includes Federal assistance programs administered by the Virginia Foundation for the Humanities and Public Policy (the "Council") during the organization's fiscal year (FY) ended June 30, 2019. The independent auditors previously furnished a copy of their audit report dated December 12, 2019, to the Council. 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. The Federal Audit Clearinghouse (FAC) accepted the single audit reporting package on January 27, 2020.

Our review was limited to an examination of the single audit reporting package, email exchanges with the Council's Executive Director, email exchanges with the IPA, a limited review of select IPA workpapers, and review of applicable NEH grant files and accounting records. We did not perform a comprehensive examination of the underlying audit documentation to evaluate the adequacy of the audit work performed; rather, 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.

¹ **Unmodified opinion.** The opinion expressed by the IPA upon concluding that the financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework. An unmodified opinion represents the highest level of assurance the IPA can provide that the Council's financial statements as a whole are free from material misstatement, whether due to fraud or error.

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 form² (Form SF-SAC) must be revised and resubmitted to the FAC. We noted the following deficiencies during our desk review:

1. The IPA Did Not Determine If the Council Complied with Federal Financial Reporting Requirements

In addition to determining whether the Council's financial statements are presented fairly in all material respects in accordance with generally accepted accounting principles, Subpart F of 2 CFR Part 200³ 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.

As part of our desk review, we inquired about the IPA's audit testing related to the Council's Federal reporting. 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. In response to our inquiry, the Council explained that the IPA does not review FFRs as part of the organization's single audit. The responsibility for that review falls under University of Virginia (UVA) and UVA's auditors.

The Office of Management and Budget (OMB) Compliance Supplement⁴ (the "Compliance Supplement") discusses the responsibility of Federal grant recipients to 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 or performance records; and (3) are fairly presented in accordance with program requirements. The Compliance Supplement specifies the following audit objectives related to 'Reporting':

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 2 CFR section 200.514(d)

⁴ The OMB Compliance Supplement serves to identify existing important compliance requirements that the Federal government expects to be considered as part of a Single Audit. The Compliance Supplement provides a source of information for auditors to understand a Federal program's objectives, procedures, and compliance requirements relevant to the audit, as well as audit objectives and suggested audit procedures for determining compliance with these requirements. In the 2019 *Compliance Supplement*, the NEH has identified six (6) types of compliance requirements subject to audit for the "Promotion of the Humanities - Federal/State Partnership" program (CFDA 45.129), which includes the 'Reporting' compliance requirement.

- (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.

The IPA asserts in the *Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance* that the firm audited the Council's compliance with the types of compliance requirements described in the Compliance Supplement that could have a direct and material effect on each of the Council's major Federal programs for the year ended June 30, 2019. The IPA further asserts that the audit of compliance was conducted in accordance with 2 CFR Part 200 and acknowledges the firm's responsibility to express an opinion on compliance for each of the Council's major Federal programs⁵ based on the firm's audit. The IPA issued an opinion that the Council complied, in all material respects, with the types of compliance requirements that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2019. The IPA does not disclose in the report, the extent of the firm's reliance on the work of other independent auditors, and no other evidence was provided in response to our inquiry that substantiates the IPA's decision to assume responsibility for the work of the UVA auditors to support the IPA's conclusion concerning the Council's compliance with Federal reporting requirements.

2. The Audited Financial Statements Misrepresent the Conditional Nature of Funding Associated with NEH General Support Grant Awards

According to the notes to the audited FY 2019 financial statements, the Council recognizes contributions when the donor makes a promise to give to the organization that is, in substance, unconditional. The notes further explain that contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. During the Council's FY 2019, the NEH authorized \$963,600 for NEH general support grant award SO-263519-19. The Council reported this support in the audited FY 2019 *Statement of Activities* as "Contributions and grants: Without Donor Restrictions" from the NEH.

NEH general support grant awards incorporate donor-imposed conditions concerning the use of the funds and the existence of the NEH-imposed conditions is evident in the respective grant award documents. 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 stipulated 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. Based on the support and revenue recognition approach disclosed in the notes to the audited FY 2019 financial statements, the Council would recognize NEH grant revenue

⁵ The IPA identifies the NEH program, "Promotion of the Humanities - Federal/State Partnership" (CFDA 45.129) as a major program in the *Schedule of Findings and Questioned Costs* for the year ended June 30, 2019. General support grant awards are made as part of the "Promotion of the Humanities - Federal/State Partnership" program.

as the NEH-imposed conditions are met, (e.g., as allowable expenditures are incurred). During our desk review, we ascertained that the Council incurred expenditures totaling \$274,531, which the Council deemed allocable to NEH award SO-263519-19 during FY 2019. The conditional nature of the unexpended portion of funding authorized for the grant award is not properly reflected in the audited *Statement of Activities* for the year ended June 30, 2019.⁶ Consequently, the presentation of the NEH support related to grant award SO-263519-19 is overstated in the audited *Statement of Activities* for the year ended June 30, 2019 and represents a departure from generally accepted accounting principles.

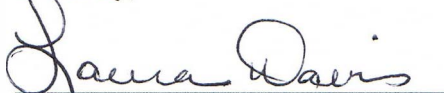
The deficiencies noted during our desk review are troubling. Accordingly, we expect the IPA to design and implement compliance testing procedures to ensure that all audit objectives related to the 'Reporting' compliance requirement are accomplished, as contemplated by the Compliance Supplement. Within 30 days of receipt of this letter, please provide a written response specifically (1) describing the IPA's testing of the Council's compliance with Federal reporting requirements and the results of the testing; and (2) confirming resubmission of the FY 2019 single audit reporting package to the FAC.

As the Council's oversight agency, the NEH-OIG will not accept the FY 2019 single audit reporting package until the IPA performs testing of the Council's Federal reporting sufficient to accomplish the audit objectives specified in the Compliance Supplement, and revise the single audit reporting package as necessary. The Council should contact FAC support staff for assistance with the resubmission process since there are special procedures that must be followed.⁷ 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 the Audit Manager at Robinson, Farmer, Cox Associates to inform him of the results of our review.

If you have any questions concerning this letter or need accounting assistance, please contact Mr. Daniel M. Gelfand at (202) 606-8353 or via email at dgelfand@neh.gov.

Sincerely,



Laura Davis
Inspector General

⁶ Funding authorized (\$963,600) less expended (\$274,531) equals unexpended, conditional funding (\$689,069).

⁷ FAC support staff can be contacted at 800-253-0696 or govs.fac@census.gov.

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Distribution List:

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