



NATIONAL ENDOWMENT FOR THE HUMANITIES

OFFICE OF INSPECTOR GENERAL

September 9, 2021

Via FedEx

Board of Directors
Utah Humanities
202 West 300 North
Salt Lake City, UT 84103
Attn: [REDACTED], Chair

OIG Report Number: OIG-21-06 (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 Tanner LLC (the "IPA"), which includes Federal assistance programs administered by the Utah Humanities Council (the "Council") during the organization's fiscal year (FY) ended October 31, 2020. The independent auditors previously furnished a copy of their audit report dated February 26, 2021 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 March 16, 2021.

Our review was limited to an examination of the single audit reporting package, email exchanges and a video conference with the Council's Executive Director and Director of Finance and Operations, a limited review of select IPA workpapers, telephone and email exchanges 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 (2016 Edition)*, as issued by the Council of Inspectors General on Integrity and Efficiency (CIGIE), 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 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 2020 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 IPA's Conclusion Concerning Compliance with Federal Financial Reporting Requirements is Not Substantiated

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

According to the Office of Management and Budget (OMB) Compliance Supplement⁴ (the "Compliance Supplement"), Federal grant recipients must establish and implement internal controls sufficient to provide reasonable assurance that reports of Federal awards submitted to the Federal awarding agency or pass-through entity (1) include all activity for the reporting period; (2) are supported by underlying accounting or performance records; and (3) are fairly presented in accordance with program requirements. Recipients must use the standard financial reporting forms, or such other forms as may be authorized by OMB, to report program outlays and program income on a cash or accrual basis, as prescribed by the Federal awarding agency. The Compliance Supplement specifies the following audit objectives related to 'Federal Reporting':

- 1) Obtain an understanding of internal control, assess risk, and test internal control as required by 2 CFR section 200.514(c).
- 2) Determine whether required reports for Federal awards include all activity of the reporting period, are supported by applicable accounting or performance records, and are fairly presented in accordance with governing requirements.

NEH *General Terms and Conditions for General Support Grants to State Humanities Councils* require councils to submit a Federal Financial Report (FFR) within 90 days after the completion date of the annual reporting period for each general support grant award. Councils use the FFR as a standardized format to report expenditures under the Federal award, as incurred during the period associated with the report, as well as cash status.

² The 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. Use of the Compliance Supplement is mandatory.

2 CFR Part 200 stipulates that the Council's financial management system, including records documenting compliance with Federal statutes, regulations, and the terms and conditions of the Federal award, must be sufficient to permit the preparation of required financial reports; and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the terms and conditions of the Federal award.⁵ By signing and submitting the FFR to the NEH, Council management certifies to the best of their knowledge and belief that the report is true, complete, and accurate, and the expenditures, disbursements and cash receipts are for the purposes and intent set forth in the award documents. Council management further attests to being aware that any false, fictitious, or fraudulent information may subject the Council to criminal, civil, or administrative penalties.⁶

As part of our desk review, we inquired about the IPA's testing related to the Council's Federal reporting. In response to our inquiry, we were provided documentation in support of the IPA's audit procedures designed to address the 'Federal Reporting' audit objectives, as set forth in the Compliance Supplement, as well as an explanation of the firm's efforts to specifically review financial reports submitted by the Council to the NEH.⁷ The IPA concluded, based on their procedures, that the Council had reasonable controls around the filing process, was in compliance with filing deadlines, and that the amounts reported were materially correct.

We determined, based on information available in the NEH Grants Management System (eGMS), that the Annual Financial Report related to the grant year ending October 31, 2019 was actually submitted to the NEH after the respective due date.⁸ The Annual Financial Report related to the grant year ending October 31, 2018 was also submitted to the NEH after the respective due date.

We also identified a discrepancy concerning the Council's reporting of Federal expenditures that impacts the accuracy of the annual financial report filing included in the IPA's testing. Specifically, Federal expenditures reflected in the Annual Financial Report related to the grant year ending October 31, 2019 differ from the amount presented in the audited *Schedule of Expenditures of Federal Awards* (SEFA) for the fiscal year ended October 31, 2019. According to Council management, the discrepancy is influenced by inconsistent reporting of regrants payable and the cumulative effect of other prior annual financial reporting errors. The IPA observed this condition and deemed the impact of the Federal financial reporting anomaly as immaterial.

⁵ 2 CFR section 200.302(a)

⁶ U.S. Code, Title 18, Section 1001

⁷ According to the IPA, the firm's procedures were performed over the Council's annual financial report filing related to the fiscal year ending October 31, 2019. We determined that this filing is associated with NEH grant award SO-253154-17.

⁸ According to eGMS, a delinquency notice was issued to the Council on March 8, 2020 concerning the Annual Financial Report for grant SO-253154-17, which was due January 31, 2020. The Council submitted the Annual Financial Report on March 9, 2020. A delinquency notice was also issued to the Council on March 9, 2019 concerning the Annual Financial Report due January 31, 2019. The Council submitted the respective Annual Financial Report on April 24, 2019.

Federal reporting compliance requirements stipulate that 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. Expenditure activity reflected in annual Federal financial reports submitted to the NEH should be consistent with expenditure activity presented in the audited financial statements and the SEFA for the period(s) associated with the annual submissions. Since both the SEFA and the FFR represent the reporting of Federal expenditures and are prepared based on information maintained in the Council's financial management system for the period covered by the two presentations, the information reported should not differ. Consequently, expenditure activity included in the audited SEFA but not reflected in the annual FFRs constitutes incomplete and inaccurate Federal financial reporting.

2. The Single Audit Reporting Package Improperly Reflects the Council as a Low-Risk Auditee

Subpart F of 2 CFR Part 200 establishes criteria for determining whether an auditee is low risk.⁹ Ideally, the IPA should make this determination during the planning phase of the single audit engagement. An entity that meets certain conditions for each of the preceding two audit periods qualifies for low-risk auditee status and is eligible for reduced audit coverage.¹⁰ The IPA states in the *Schedule of Findings and Questioned Costs* that the Council qualified as a low-risk auditee for the fiscal year ended October 31, 2020. This determination is likewise documented in the data collection form submitted to the FAC.

One of the low-risk criteria stipulates that an entity must have single audits performed on an annual basis in accordance with the provisions of 2 CFR Part 200 Subpart F, including submitting the data collection form and the reporting package to the FAC within the specified timeframe. The Compliance Supplement further advises, if an entity was below the \$750,000 threshold in either of the prior two audit periods, and an audit was not required under the uniform guidance, the entity does not qualify as a low-risk auditee.¹¹

Based upon this guidance, we conclude that the Council does not qualify for low-risk auditee status for fiscal year ended October 31, 2020 since the organization did not expend more than \$750,000 in Federal awards during its fiscal years ended October 31, 2019 and October 31, 2018, and an audit was not required in accordance with the provisions of 2 CFR Part 200 Subpart F.

The Council had a program-specific audit for the fiscal years ended October 31, 2019 and October 31, 2018, pursuant to the requirements stipulated in the terms and conditions of NEH award SO-253154-17. However, the scope of the NEH program-specific audit requirement is not intended to satisfy the annual audit requirement outlined in Subpart F of 2 CFR Part 200.¹²

⁹ 2 CFR section 200.520

¹⁰ Normally, the IPA must test total Federal awards expended in the major programs that, in the aggregate, encompass at least forty percent of the total Federal awards expended. However, when an entity meets the low-risk criteria, the testing requirement is reduced from forty to twenty percent.

¹¹ 2020 OMB Compliance Supplement; Appendix VII, *Other Audit Advisories*

¹² 2 CFR section 200.501(a)

Fortunately, total Federal awards expended during fiscal year ended October 31, 2020 are associated with one major program. Therefore, additional testing will not be required to support the IPA's opinion concerning Federal programs. However, the reporting of the Council's low-risk auditee status must be corrected in both the FY 2020 single audit reporting package and the related data collection form.

As the Council's oversight agency, the NEH-OIG will not accept the FY 2020 single audit reporting package until the deficiencies identified above are addressed and the single audit reporting package is revised as necessary. The Council should contact FAC support staff for assistance with the resubmission process since there are special procedures that must be followed.¹³ Please notify the NEH-OIG when the revised FY 2020 reporting package has been submitted to the FAC.

The deficiencies noted during our desk review are troubling. Accordingly, we expect the Council to implement procedures to ensure that Federal financial reporting is complete, accurate, and timely. We also expect the IPA to strengthen their audit testing procedures to ensure that audit conclusions and determinations are appropriately substantiated. We request that Council management provide the NEH-OIG with a written corrective action plan regarding the noted deficiencies within 30 days of receipt of this letter.

Please be advised that we are sending a copy of this letter to the Partner at Tanner LLC to inform her of the results of our review.

If you have any questions concerning this letter or need accounting assistance, please contact me at (202) 606-8574 or via email at ldavis@neh.gov.

Sincerely,



Laura Davis
Inspector General

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¹³ FAC support staff can be contacted at 800-253-0696 or govs.fac@census.gov.