



## NATIONAL ENDOWMENT FOR THE HUMANITIES

OFFICE OF INSPECTOR GENERAL

March 3, 2022

**Via FedEx**

Board of Trustees  
Nevada Humanities  
P.O. Box 8029  
1670-200 North Virginia Street  
Reno, NV 89507-8029  
Attn: [REDACTED], Chair

OIG Report Number: OIG-22-02 (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 Pangborn & Co., Ltd. (the "IPA"), which includes Federal assistance programs administered by Nevada Humanities (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 July 26, 2021 to the Council. The IPA issued unmodified opinions<sup>1</sup> regarding the financial statements and compliance with Federal requirements. Furthermore, the IPA issued no written findings in conjunction with the single audit. The Federal Audit Clearinghouse (FAC) accepted the single audit reporting package on July 30, 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 fiscal consultant, a limited review of select IPA workpapers, email exchanges and a video conference 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.

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<sup>1</sup> **Unmodified opinion.** The opinion expressed by the IPA upon concluding that the financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework. An unmodified opinion represents the highest level of assurance the IPA can provide that 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)<sup>2</sup> 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 Fully 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 200<sup>3</sup> 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 Compliance Supplement<sup>4</sup> (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. 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), [Internal control].
- 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 CFR Part 200 stipulates that the Council's financial management system, including records documenting compliance with Federal statutes, regulations, and the terms and

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<sup>2</sup> 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.

<sup>3</sup> 2 CFR section 200.514(d)

<sup>4</sup> The 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.

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.<sup>5</sup> 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.<sup>6</sup>

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. According to the IPA's workpapers, the firm traced the amounts reported to accounting records that support the audited financial statements and the schedule of expenditure of Federal awards (SEFA) and verified agreement or performed alternative procedures to verify the accuracy and completeness of the reports and that they agree with the accounting records.<sup>7</sup> The IPA concluded, based on their procedures, that the Council had reasonable controls around the reporting process.

During our desk review, we identified a discrepancy concerning the Council's reporting of Federal expenditures. Specifically, Federal expenditures reflected in the annual FFR related to NEH award SO-252763-17 for the year ended October 31, 2020 differ from the amount presented in the audited SEFA for the fiscal year ended October 31, 2020.<sup>8</sup> According to Council management, the discrepancy is explained by disparate approaches in computing total Federal expenditures associated with the respective NEH award. The IPA's testing related to the SEFA and compliance with Federal reporting requirements did not illuminate this disparity.

Federal reporting compliance requirements stipulate that reports required 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 the annual FFRs 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

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<sup>5</sup> 2 CFR section 200.302(a)

<sup>6</sup> U.S. Code, Title 18, Section 1001

<sup>7</sup> The IPA reviewed the FFR associated with NEH award SO-252763-17 for the year ended October 31, 2020 as part of their efforts to evaluate the design effectiveness and implementation of the Council's internal control over compliance with 'Federal Reporting' requirements.

<sup>8</sup> Total Federal expenditures associated with NEH award SO-252763-17 is overstated by \$44,305 in the audited SEFA for the fiscal year ended October 31, 2020, compared to total Federal expenditures reported in the FFR for the same fiscal period.

We also noted that total Federal expenditures associated with NEH award SO-268682-20 is understated by \$32,829 in the audited SEFA for the fiscal year ended October 31, 2020, compared to total Federal expenditures reported in the FFR for the same fiscal period.

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 (or vice versa) constitutes incomplete and inaccurate Federal financial reporting.

## **2. The IPA's Conclusion Concerning Compliance with NEH Cost-Sharing Requirements is not Sufficiently Substantiated**

According to 2 CFR Part 200, matching or cost-sharing includes requirements to provide contributions (usually non-Federal) or a specified amount or percentage to match Federal awards. Matching may be in the form of allowable costs incurred or in-kind contributions (including third-party in-kind contributions).<sup>9</sup>

By law, the NEH cannot support more than 50 percent of the activities of a state humanities council. The balance of support may come from cash contributions to the council that are made from any source (including funds from other Federal agencies), program income the council has earned, allowable unreimbursed costs that a subrecipient incurs in carrying out a council-funded project, and the value of in-kind contributions that are made by a third party. NEH *General Terms and Conditions for General Support Grants to State Humanities Councils* stipulate that all cash and in-kind contributions that are used by the council to meet the legislatively-mandated cost-sharing requirement are acceptable when such contributions (or supported expenditure activity) meet the following criteria:

- Are verifiable from the council's or subrecipient's records;
- Are not included as contributions for any other federally-assisted program;
- Are necessary and reasonable for the proper and efficient accomplishment of project objectives;
- Are the types of charges that would be allowable under the Federal cost principles;
- Are used to support activities that are included in the approved project work plan; and
- Are incurred during the period of performance of the general support grant award.

The Council discloses in the notes to the audited financial statements that matching funds in the amount of \$780,089 had been reported towards the NEH matching requirement applicable to the year ended October 31, 2020.

The Compliance Supplement suggests the following audit procedures to ensure an informed assessment of the non-Federal entity's compliance with Federal 'matching' requirements.

- a. Perform tests to verify that the required matching contributions were met.
- b. Ascertain the sources of matching contributions and perform tests to verify that they were from an allowable source.
- c. Test records to corroborate that the values placed on in-kind contributions (including third party in-kind contributions) are in accordance with 2 CFR sections 200.306 [Cost

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<sup>9</sup> 2 CFR section 200.306

sharing or matching], 200.434 [Contribution and donations], and 200.414 [Indirect (F&A) costs], and the terms and conditions of the award.

- d. Test transactions used to match for compliance with the allowable costs/cost principles requirements.

During our desk review, we noted that the Council included unreimbursed subrecipient expenditures in the cost-sharing calculations applicable to the NEH general support grant awards. However, it appears that the Council included unreimbursed subrecipient expenditures associated with subawards that pre-date the NEH award for which the cost-share is being calculated. Specifically, the cost-share calculation for NEH award SO-268682-20<sup>10</sup> includes unreimbursed subrecipient expenditures associated with 2016, 2018, and 2019 subawards. It is unclear from the IPA's workpapers, the basis for the firm's conclusion that this condition constitutes compliance with NEH cost-sharing requirements.

### **3. Inconsistent Representation of NEH Grant Revenue in the Audited Financial Statements**

Subpart F of 2 CFR Part 200 provides that the IPA shall determine whether the financial statements are presented fairly, in all material respect, in conformity with generally accepted accounting principles (GAAP). The IPA must also determine whether the SEFA is stated fairly in all material respects in relation to the financial statements as a whole.<sup>11</sup>

The IPA issued an unmodified audit opinion, assuring that the Council's financial statements for the fiscal year ended October 31, 2020 are presented, in all material respects, in accordance with GAAP. The IPA further opined that the information in the SEFA is fairly stated in all material respects, in relation to the financial statements as a whole.

The Council discloses in the notes to the audited financial statements that revenue associated with NEH grants is recognized as allowable expenditures are incurred, in accordance with the agreement terms. However, during our desk review, we identified a \$24,541 discrepancy between the NEH grant revenue amount presented in the audited *Statement of Activities* and total NEH expenditures reflected in the audited SEFA.<sup>12</sup>

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.<sup>13</sup> Please notify the NEH-OIG when the revised FY 2020 reporting package has been submitted to the FAC.

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<sup>10</sup> The period of performance for NEH award SO-268682-20 is November 1, 2019 through October 31, 2024.

<sup>11</sup> 2 CFR section 200.514(b)

<sup>12</sup> NEH grant revenue, as presented in the audited *Statement of Activities*, is \$847,852. Total NEH expenditures, as reflected in the audited SEFA, is \$872,393.

<sup>13</sup> FAC support staff can be contacted at 800-253-0696 or [govs.fac@census.gov](mailto:govs.fac@census.gov).

Board of Trustees  
March 3, 2022  
Page 6

The deficiencies noted during our desk review are troubling. Accordingly, we expect the Council to implement procedures to ensure that Federal financial reporting is consistent and accurate. We also expect the IPA to strengthen their audit testing procedures to ensure that audit conclusions and determinations are appropriately informed. 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 Shareholder at Pangborn & Co., Ltd. to inform the firm 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](mailto:ldavis@neh.gov).

Sincerely,



Laura Davis  
Inspector General

**Distribution List:**

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