



NATIONAL ENDOWMENT FOR THE HUMANITIES

OFFICE OF INSPECTOR GENERAL

June 8, 2023

via FedEx

Board of Directors
Kentucky Humanities
206 East Maxwell Street
Lexington, KY 40508
Attn: [REDACTED] Chair

OIG Report Number: OIG-23-02 (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 Hicks & Associates CPAs (the "IPA"), which includes Federal assistance programs administered by the Kentucky Humanities Council, Inc. (the "Council") during the organization's fiscal year (FY) ended October 31, 2021. The independent auditors previously furnished a copy of their audit report dated March 29, 2022, 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 April 19, 2022.

Our review was limited to an examination of the single audit reporting package, email exchanges with the Fiscal Officer of the Council and the IPA, a limited review of select IPA workpapers, and review of applicable NEH grant and accounting records. We did not perform a comprehensive examination of the underlying audit documentation to fully evaluate the adequacy of the audit work performed; rather, we used the *Guide for Desk Reviews of Single Audit Reports (2021 Edition)*, as issued by the Council of Inspectors General on Integrity and Efficiency, 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

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.

assign a rating of either **Pass**, **Pass with Deficiencies**, or **Fail**. Audit reports receiving a **Fail** rating require corrective action.

We assigned a rating of **Fail** to the FY 2021 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 (GAAP), 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 '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* requires councils to submit a Federal Financial Report (FFR) within 90 days after the completion date of the annual reporting period to report on the financial progress of each general support grant award. Councils use the FFR as a standardized format to report expenditures under the Federal award and unobligated award funds, as well as cash status.

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 a part of the Single Audit. The Compliance Supplement is 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 relevant requirements.

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 a part of our desk review, we requested copies of all workpapers related to the IPA's opinion concerning the Council's compliance with Federal reporting requirements. During our review of the workpapers provided by the IPA, we noted the firm's conclusion that "the Council's financial reports and statements were prepared in accordance with GAAP and NEH reporting requirements". The IPA further determined that the financial reports tested were "reasonable and appeared fairly stated."

We reviewed the FFR for grant award SO-263390-19⁷, as tested by the IPA, and determined the report contains multiple misstatements.

- The Council reports "Total Cash Receipts" [Line 10.a. of the FFR] in the amount of \$2,077,487.59. According to NEH records related to grant award SO-263390-19, total non-CARES Act and non-AMPU⁸ disbursements to the Council as of October 31, 2021 is \$2,098,185.50.⁹ Consequently, the FFR reflects an understatement of total cash receipts amounting to \$20,697.91.
- The Council reports total "Cash Disbursements" [Line 10.b. of the FFR] as of October 31, 2021 in the amount of \$2,076,088.23 and total "Cash on Hand" [Line 10.c. of the FFR] in the amount of \$1,399.36. Based on this representation, the understatement of "Total Cash Receipts" effects an understatement of "Cash on Hand" in the amount of \$20,697.91.
- The Council reports "Total Federal funds authorized" [Line 10.d. of the FFR] in the amount of \$2,593,502.09. According to NEH records related to grant award SO-263390-19, total non-CARES Act and non-AMPU funding authorized as of October 31, 2021 is \$2,564,200. Consequently, the FFR reflects an overstatement of grant award funding in the amount of \$29,302.09.

⁵ 2 CFR section 200.302(a)

⁶ U.S. Code, Title 18, Section 1001

⁷ This FFR, dated January 24, 2022, represents the Council's reporting on non-CARES Act and non-AMPU activity supported by grant award SO-263390-19 during the period ended October 31, 2021.

⁸ *A More Perfect Union* (AMPU)

⁹ According to NEH records, \$2,088,185.50 was disbursed to the Council between December 19, 2018 and October 20, 2021, with an additional \$10,000 disbursed on October 29, 2021, for a total \$2,098,185.50. We note the \$10,000 disbursement could be considered a timing difference and be excluded from the FFR due to the date of receipt.

- The Council reports “Total Federal share” [Line 10.g. of the FFR] in the amount of \$2,077,487.59, which is consistent with the amount reported as “Cash receipts” [Line 10.a]. This representation of cumulative Federal expenditures as of October 31, 2021 is inconsistent with cumulative expenditures computed based on amounts reflected in the audited SEFAs for the period covered by the FFR (\$2,098,743).¹⁰
- Since the “Unobligated balance of Federal funds” [Line 10.h. of the FFR] is calculated as “Total Federal funds authorized” less “Total Federal share [of expenditures]”, the overstatement of “Total Federal funds authorized” directly effects a corresponding overstatement in the Council’s reporting of the “Unobligated balance of Federal funds” as of October 31, 2021.

We further noted the Council reports “Unobligated balance of Federal funds” as of October 31, 2021 in the amount of \$516,014.50. This amount (\$516,014.50) is the total remaining amount of authorized funds the Council has to drawdown for the grant award, including the AMPU portion of the grant award.

- The Council certifies in the “Remarks” section that the report “excludes CARES Act and AMPU funds/expenses” [Line 12. of the FFR], as is required in the grant agreement for grant SO-263390-19¹¹. However, the amount reported as “Unobligated balance of Federal funds” is equal to the amount of the grant award that has yet to be drawn down by the Council as of October 31, 2021, including authorized AMPU funds in the amount of \$50,000.
- The “Recipient Share” section [Lines 10.i., 10.j., and 10.k. of the FFR] appears to be incomplete and inaccurate.

Based on the results of our limited testing, we believe the IPA’s conclusion concerning the Council’s compliance with Federal reporting requirements, as evidenced by the absence of any reported findings or instances of noncompliance in the FY 2021 single audit reporting package, is not substantiated and misleading.¹²

2. The IPA’s Testing over the Council’s Compliance with Federal Financial Reporting Requirements is Insufficient.

As noted in Finding 1 above, we requested copies of all workpapers related to the IPA’s opinion concerning the Council’s compliance with Federal reporting requirements. Based on our review of the workpapers made available to us, we conclude that the IPA’s testing over the Council’s compliance with Federal reporting requirements was not sufficient to form a basis for their opinion.

¹⁰ Expenditures reflected in audited SEFAs related to grant award SO-263390-19 (non-CARES Act) for the reporting period November 1, 2018 through October 31, 2021 – \$693,347 (FYE October 31, 2019); \$626,546 (FYE October 31, 2020); and \$778,850 (FYE October 31, 2021). [\$693,347 + \$626,546 + \$778,850 = \$2,098,743]

¹¹ According to the Official Notice of Action issued to the Council dated September 22, 2021, “A More Perfect Union (AMPU) supplemental funding must be tracked and reported separately from the parent SO award.” This means all activity concerning AMPU funding must be accounted for similarly to CARES Act activity – excluded from all regularly scheduled FFRs related to the parent SO award and reported in a separate FFR.

¹² The IPA opined that the Council complied in all material respects, with the types of compliance requirements that could have a direct and material effect on the NEH Promotion of the Humanities – Federal/State Partnership program for the year ended October 31, 2021. The “Reporting” compliance requirement is deemed to be direct and material concerning the NEH program.

In addition to generally accepted government auditing standards, 2 CFR Part 200¹³ requires the IPA to perform procedures to obtain an understanding of internal control over Federal programs sufficient to assess a low level of control risk over noncompliance for major programs. The auditor must:

- Plan the testing of internal control over compliance for 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 controls as planned.

In our review of the workpapers provided by the IPA, we noted no such documentation of internal controls or the IPA's understanding of the internal controls, nor did we note any procedures performed to test internal controls implemented by the Council for the assertions relevant to the 'Reporting' compliance requirement.

We further noted there were no workpapers related to the IPA's planning of compliance testing or documentation of planned procedures. The IPA provided a copy of FFRs for grant award SO-263390-19 (CARES Act and non-CARES Act/non-AMPU reports), which appears to be the actual testing workpapers.

Our review of the testing workpapers indicates that the IPA only performed two procedures over Federal financial reports – tracing/verifying *Requests for Advance or Reimbursement* (SF-270s) to a bank statement deposit, and reconciling FFRs and SF-270s to amounts booked by the Council.¹⁴ There was no evidence that critical internal control items were reviewed concerning any of the selected reports, such as reports bearing signatures of only authorized personnel.

We also noted that the IPA "tied" the unobligated balance reported in the FFR (non-CARES Act/non-AMPU report) to a confirmation¹⁵ requested from the NEH. The amount confirmed by NEH, as requested, represents the remaining unpaid portion of grant award SO-263390-19 (\$516,014.50). As discussed in Finding 1 above, this balance includes AMPU funds.

There are instances where the IPA identified and documented discrepancies concerning the FFR tested; however, there is no evidence as to how the discrepancies were resolved or addressed. Despite the discrepancies identified, the IPA issued no written findings and determined that the reports were "reasonable and appeared fairly stated." The IPA's workpapers do not document any of the critical discrepancies noted in Finding 1 above.

Considering the nature of the discrepancies identified during our review, we take exception to the IPA's conclusion that "the Council's financial reports and statements were prepared in accordance with GAAP and NEH reporting requirements." It is not clear, based on our review of the documentation provided by the IPA, whether the firm's compliance testing procedures were properly designed and/or executed to achieve the audit objectives set forth in the Compliance Supplement related to 'Reporting' and substantiate the firm's conclusion concerning the Council's compliance with Federal reporting requirements.

¹³ 2 CFR section 200.514(c)

¹⁴ These procedures are the only procedures documented in the "Compliance Testing Summary" provided to us by the IPA on February 17, 2023.

¹⁵ The IPA's confirmation requested the remaining balance of the SO-263390-19 grant award, with no other specifications.

As the Council's oversight agency, the NEH-OIG will not accept the FY 2021 single audit reporting package until the deficiencies identified above are addressed and corrective action taken, to include revision of the reporting package and resubmission to the FAC. The Council should contact FAC support staff for assistance with the resubmission process as there are special procedures that must be followed.

The deficiencies noted during our desk review are troubling.¹⁶ Accordingly, we expect the Council to implement procedures to ensure Federal financial reporting is complete and accurate. We also expect the IPA to strengthen their audit testing and reporting procedures to ensure reliable representation of the Council's compliance with Federal requirements. We request that Council management provide the NEH-OIG with a written corrective action plan that addresses 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 Hicks & Associates CPAs to inform him 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

Distribution List:

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NEH Key Management Single Audit Liaison:

Mr. Richard Brundage, Director – Office of Grant Management

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Dr. Connie Cox Bodner, Director – Office of Grants Policy and Management

¹⁶ Similar deficiencies were identified during the NEH-OIG desk review of the Council's single audit reporting package for fiscal year ended October 31, 2016, [OIG-18-02 (DR), dated March 29, 2018].