



## NATIONAL ENDOWMENT FOR THE HUMANITIES

OFFICE OF INSPECTOR GENERAL

March 29, 2024

**via FedEx**

Board of Directors  
South Carolina Humanities  
2711 Middleburg Drive, Suite 203  
Columbia, SC 29204  
Attn: [REDACTED], Chair

OIG Report Number: OIG-24-01 (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 Burkett Burkett & Burkett, Certified Public Accountants, P.A. (the "IPA"), which includes the Federal assistance program administered by South Carolina Humanities Council (the "Council") during the organization's fiscal year (FY) ended October 31, 2022. The independent auditors previously furnished a copy of their audit report dated January 16, 2023<sup>1</sup> to the Council. The IPA issued unmodified opinions<sup>2</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 February 20, 2023.

Our review was limited to an examination of the single audit reporting package, email exchanges with the Council's Executive Director and the IPA, a limited review of select IPA workpapers, a virtual meeting 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

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<sup>1</sup> There are conflicting report dates throughout the single audit reporting package. The independent auditor's reports are all signed and dated January 16, 2023. However, references to the *Independent Auditor's Report* and the *Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards* note January 5, 2023 as the date of the reports.

<sup>2</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 (1) the Council's financial statements as a whole, are free from material misstatement, whether due to fraud or error; and (2) the Council's Federal grant activity materially complies with requirements identified as subject to audit in the *OMB Compliance Supplement*.

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

We assigned a rating of **Pass with Deficiencies** to the FY 2022 reporting package. We determined that the audit report generally meets Federal reporting requirements, with the following exception:

### **The IPA's Low-Risk Auditee Determination**

Subpart F of 2 CFR Part 200 establishes criteria for determining whether an auditee is low risk.<sup>3</sup> 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.<sup>4</sup> Therefore, the IPA should make this determination during the planning phase of the single audit engagement.

According to 2 CFR section 200.520, an auditee that meets the following conditions for each of the preceding two audit periods must qualify as a low-risk auditee –

- a) Single audits were performed annually, in accordance with the provisions outlined in Subpart F of 2 CFR Part 200, including submission of the data collection form and reporting package to the FAC within the earlier of 30 calendar days after receipt of the IPA's report(s), or nine months after the end of the audit period.
- b) The IPA's opinion on the financial statements and the IPA's in relation to opinion on the Schedule of Expenditures of Federal Awards were unmodified.
- c) There were no deficiencies in internal control which were identified as material weaknesses under the requirements of Government Auditing Standards.
- d) The IPA did not report substantial doubt about the auditee's ability to continue as a going concern.
- e) None of the Federal Type A programs had audit findings related to internal control deficiencies identified as material weaknesses; a modified opinion on a major program; or known or likely questioned costs that exceeded five percent of total Federal awards expended for a Type A program during the audit period.

The IPA states in the *Schedule of Findings and Questioned Costs* that the Council did not qualify as a low-risk auditee for the fiscal year ended October 31, 2022. This determination is likewise documented in the data collection form submitted to the FAC. In response to our inquiry concerning the basis for the IPA's determination, the firm advised that the Council does not meet the condition for classification as a low-risk auditee since the organization has submitted their single audits directly to NEH (with prior NEH permission).

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<sup>3</sup> 2 CFR Section 200.520, *Criteria for a low-risk auditee*

<sup>4</sup> Normally, the IPA must test total Federal awards expended in the major program 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.

We reviewed FAC records and determined the Council's FY 2021 and FY 2020 single audit reporting packages were submitted to the FAC within the requisite timeframe. Furthermore, we did not identify any other conditions that would disqualify the Council as a low-risk auditee for the fiscal year ended October 31, 2022.

The IPA has acknowledged the error concerning the Council's low-risk auditee determination and will address this matter as of the Council's FY 2023 single audit.

**Other Matter:**

During our desk review, we identified another matter that must be addressed in future single audit reporting packages, as noted below.

**Implementation of Disclosure Requirements Applicable to Conditional Contributions and Promises to Give**

Accounting Standards Update (ASU) 2018-08, Not-for-Profit Entities (Topic 958), *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* provides a framework for determining whether a contribution is conditional or unconditional, which affects the timing of revenue recognition.<sup>5</sup> An unconditional contribution is recognized immediately whereas a conditional contribution cannot be recorded until the conditions have been met. The guidance further requires conditional promises to give to be disclosed in the footnotes of the financial statements.<sup>6</sup>

NEH general support grant awards incorporate donor-imposed conditions concerning the use of the funds. Accordingly, the Council would recognize NEH grant revenue when the conditions are met, (i.e., as allowable expenditures are incurred). NEH grant award funding that has been authorized, (i.e., promised) but not expended by the Council as of the end of the fiscal year, should be disclosed in the footnotes of the financial statements consistent with the disclosure requirements applicable to conditional promises to give.

During our review of the Council's audited financial statements for the fiscal year ended October 31, 2022, we noted the design of "Note 11" to the financial statements<sup>7</sup> generally satisfies the conditional contribution disclosure requirements. However, the functionality of the information being presented is not entirely clear. The chart presents cumulative NEH grant awards authorized (*NEH Grant Award Notices*) and cumulative unspent NEH grant awards (*Unspent Grant Awards as of October 31, 2022*). However, the amount that represents cumulative unspent NEH grant awards is computed based on cumulative NEH grant drawdowns (versus cumulative NEH grant expenditures). This approach does not effectively account for instances where grant drawdown

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<sup>5</sup> The Financial Accounting Standards Board (FASB) provides accounting guidance to the nonprofit community. In June 2018, the FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958), *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*.

<sup>6</sup> Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Paragraph 958-310-50-4 requires the following disclosures about conditional promises to give:

- The total of amounts promised.
- A description and amount for each group of promises having similar characteristics. For example, separate groups having similar characteristics might include those promises conditioned on establishing new programs, on completing a new building, or on raising matching gifts by a specified date.

<sup>7</sup> Note 11 – Expended and Authorized NEH Grant Funds

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activity may not be consistent with grant expenditure activity or indicative of the extent to which related donor-imposed conditions have been met. For example, cumulative drawdowns reflected in "Note 11" for NEH grant award SO-263418-19 (\$2,295,580) is not consistent with cumulative Federal expenditures certified to the NEH in the Federal Financial Report (FFR) for the reporting period ended October 31, 2022, concerning the respective grant award (\$2,339,491). Consequently, there are two different representations of unspent grant awards related to NEH grant award SO-263418-19 – \$228,820 (based on "Note 11" to the financial statements) and \$184,909 (based on the FFR submitted to the NEH). We identified a similar issue with the representation of unspent grant awards related to NEH grant award ZSO-283154-21.

We recommend that Council management review the design of "Note 11" to ensure the objective of the footnote appropriately accomplishes applicable disclosure requirements and the information being presented accurately reflects the status of conditional promises to give.

Please be advised that there is no need to revise the FY 2022 audit report and resubmit the single audit reporting package to the FAC.

We are sending a copy of this letter to the Executive Vice President of Burkett Burkett & Burkett, Certified Public Accountants, P.A. to inform the firm of the results of our review.

If you have any questions concerning this letter or need accounting assistance, please contact Ms. Brandie Staton at (202) 606-8355 or via email at [bstaton@neh.gov](mailto:bstaton@neh.gov).

Sincerely,



Laura Davis  
Inspector General

**Distribution List:**

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