



NATIONAL ENDOWMENT FOR THE

Humanities

OFFICE OF INSPECTOR GENERAL

March 29, 2018

RETURN RECEIPT REQUESTED

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

OIG Report Number: OIG-18-02 (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 (the "Council") for the fiscal year (FY) ended October 31, 2016. The independent auditors previously furnished a copy of their audit report, dated March 10, 2017, to the Council. The Federal Audit Clearinghouse (FAC) accepted the related reporting package on March 22, 2017. 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.

Our review was limited to an examination of the single audit reporting package, email exchanges with the Executive Director of the Council, 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, the *Guide For Desk Reviews of Single Audit Reports (2016 Edition)*, issued by the Council of Inspectors General on Integrity and Efficiency (CIGIE), was used to determine whether the audit report meets the core reporting requirements stipulated by Office of Management and Budget (OMB) *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*² (OMB Uniform Guidance). Based on our review, we can assign a rating to the IPA's reporting package 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 2016 reporting package. We determined that the audit report generally meets Federal reporting requirements, with the following exceptions:

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.

² Title 2 U.S. Code of Federal Regulations Part 200 (2 CFR Part 200)

Sufficiency of the IPA's Conclusion Concerning Compliance 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, OMB Uniform Guidance³ 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.

NEH *General Terms and Conditions for General Support Grants to State Humanities Councils* requires councils to submit annual and final Federal Financial Reports (FFRs) within 90 days after the completion date of the applicable reporting period. Grantees use the FFR as a standardized format to report expenditures as well as Federal cash status. 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.⁴

As part of our desk review, we inquired about the IPA's testing related to the Council's Federal financial reporting. In response to our inquiry, the IPA provided a copy of the workpapers that document their testing of the annual FFR submissions for NEH grants SO-50536-13 (for the reporting period ended October 31, 2015) and SO-233935-16 (for the reporting period ended October 31, 2016). The IPA did not report any exceptions concerning the FFRs tested.

We reviewed the FFRs that the IPA selected for testing and we noted errors concerning the preparation of the report for NEH grant SO-233935-16. Specifically, certain balances reported in the "Federal Expenditures and Unobligated Balance"⁵ section of the FFR are not properly stated and are therefore misleading.

As of October 31, 2016, the Council reported unliquidated obligations in the amount of \$145,881 (Line "f" of the FFR). The IPA determined that this amount represents deferred grant revenue (\$69,681) and a prospective cash advance to be requested from the NEH (\$76,200). The IPA noted in their workpapers that the 'advance funds request' was submitted to the NEH in November 2016. The Council further reported that the unobligated balance of Federal funds authorized for the grant (Line "h" of the FFR) was zero as of October 31, 2016. There is no evidence in the IPA's workpapers that the amount reported as 'unliquidated obligations' was verified to the Council's accounting records that substantiate the existence of unliquidated obligations.

Furthermore, according to the notes to the audited FY 2016 financial statements, "deferred grant revenue" represents advance payments received by the Council that will be recorded as income

³ 2 CFR section 200.514(d)

⁴ U.S. Code, Title 18, Section 1001

⁵ The "Federal Expenditures and Unobligated Balance" section records data regarding the obligation and expenditure of the Federal share of grant funds.

when expended.⁶ The notes also disclose that the Council is obligated to provide funding for a regrant project once the regrant is approved, and such funds are not fully payable until the subrecipient meets all reporting requirements. However, the Council asserts no obligation to provide funds upon completion of grant requirements by subrecipients as of October 31, 2016.⁷ These two disclosures contradict the Council's reporting of 'unliquidated obligations' in the FFR as of October 31, 2016. Therefore, we conclude that the amount reported as the Federal share of unliquidated obligations actually represents the unobligated balance of Federal funds as of October 31, 2016, and should be presented in the FFR as such, (i.e., presented on Line "h" of the FFR).

We recommend that Council management develop and document procedures to ensure all future FFR submissions are prepared correctly and accurately report Federal cash status and Federal award status. We also expect the IPA to design and implement audit procedures to determine whether the Council's FFR submissions include all activity of the reporting period, are supported by applicable accounting records, and are fairly presented in accordance with governing requirements, as prescribed by the OMB *Compliance Supplement*.⁸

The Schedule of Expenditures of Federal Awards Does Not Include a Note on the De Minimis Cost Rate

OMB Uniform Guidance specifies that the auditee must prepare a schedule of expenditures of Federal awards (SEFA) for the period covered by the entity's financial statements, which must include the total Federal awards expended. The SEFA must also include notes that describe the significant accounting policies used in preparing the schedule and a note that addresses whether or not the entity elected to use the 10 percent de minimis cost rate as described in 2 CFR section 200.414, *Indirect (F&A) costs*.⁹

The audited SEFA for the fiscal year ended October 31, 2016 does not include a note concerning the Council's election of the 10 percent de minimis cost rate.

The City and State Where the IPA Practices is Missing from the Reporting Package

The city and state where the IPA practices does not appear in the *Independent Auditors' Report; the Independent Auditors' 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*; and the *Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required By The Uniform Guidance*, as submitted by the Council to the FAC.

⁶ Note J ~ *Deferred Grant Revenue*

⁷ Note F ~ *Commitment and Contingency*

⁸ The OMB Compliance Supplement provides guidance to assist IPAs in determining compliance requirements that could have a direct and material effect on the Federal programs being audited, related audit objectives, and suggested audit procedures.

⁹ 2 CFR section 200.510(b)

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According to auditing guidance issued by the American Institute of Certified Public Accountants (AICPA), the auditor's [IPA] report on the financial statements and reports on compliance should name the city and state where the auditor practices.¹⁰ The city and state named in the firm's letterhead is generally sufficient to meet this requirement. When we inquired as to why the IPA omitted this information from their reports, the Council responded that the IPA's address (inclusive of city and state) is shown in the firm's letterhead, which is on the front page of each report; however, the FAC system does not allow for scanned copies of reports to be uploaded by the IPA. Therefore, reports obtained from the FAC do not bear the IPA's letterhead.

Since there is a problem uploading IPA reports to the FAC bearing the firm's letterhead, we suggest that the IPA place the city and state of practice under the auditor's signature on each report issued to ensure compliance with applicable professional reporting standards.

Please be advised that there is no need to revise the FY 2016 audit report and resubmit the single audit reporting package to the FAC. Our office will alert NEH management of the matters discussed in this letter. However, the NEH-OIG may deem future reports with similar concerns as unacceptable.

We will be sending a copy of this letter to the Primary Auditor 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 Mr. Daniel M. Gelfand at (202) 606-8353 or via email at dgelfand@neh.gov.

Sincerely,



Laura Davis
Inspector General

Distribution List:

Auditor:

██████████ Primary Auditor
Hicks & Associates, CPAs
1795 Alysheba Way, Suite 6206
Lexington, KY 40509

¹⁰ AU-C 700.40; AU-C 935.30(k)