



NATIONAL ENDOWMENT FOR THE HUMANITIES

OFFICE OF INSPECTOR GENERAL

April 13, 2023

via FedEx

Board of Directors
Illinois Humanities
125 S. Clark Street, Suite 650
Chicago, IL 60603
Attn: [REDACTED], Chair

OIG Report Number: OIG-23-01 (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 Ringold Financial Management Services, Inc. (the "IPA"), which includes Federal assistance programs administered by Illinois Humanities Council (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 April 5, 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 June 16, 2022.

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, 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

¹ An unmodified opinion represents the IPA's highest level of assurance, indicating that the audited entity's financial statement presentation (to include Federal grant activity) materially complies with applicable accounting principles and Federal requirements stipulated in OMB Circular A-133: *Audits of States, Local Governments, and Non-Profit Organizations*.

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 **Fail** for the FY 2021 reporting package due to key deficiencies that collectively affect the reliability and understandability of the report, as well as instances of non-compliance with report submission requirements. 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 Misleading.

In addition to determining whether the Council's financial statements are presented fairly in all material respects in accordance with generally accepted accounting principles, 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 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 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

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 part of a 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.

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 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 obtained 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 IPA's workpapers, the firm noted no issues with the FFRs, as completed by the Council and submitted to the NEH.

We determined that the FFR for grant award SO-263616-19⁷, as reviewed by the IPA, contains material misstatements.

- The Council reports "Total Federal funds authorized" [Line 10.d. of the FFR] in the amount of \$3,551,123.25. According to NEH records related to grant award SO-263616-19, total non-CARES Act funding authorized as of October 31, 2021 is \$4,025,300.
- The misstatement of "Total Federal funds authorized" directly effects a corresponding understatement in the Council's reporting of the "Unobligated balance of Federal funds" [Line 10.h. of the FFR] as of October 31, 2021 in the amount of \$474,176.25.⁸
- The Council reports "Total recipient share required" [Line 10.i. of the FFR] in the amount of \$56,900. This reporting is obviously erroneous based on the mandatory matching/cost-share requirement applicable to the general support grant award⁹, and the Council's reporting of "Total Federal share" [Line 10.g. of the FFR].
- The Council reports "Recipient share of expenditures" [Line 10.j. of the FFR] in the amount of \$71,274.55. There is no evidence in the IPA's workpapers that this reporting is fairly presented.

⁵ 2 CFR section 200.302(a)

⁶ U.S. Code, Title 18, Section 1001

⁷ This FFR, dated January 31, 2022, represents the Council's reporting on non-CARES Act activity supported by grant award SO-263616-19 during the period ended October 31, 2021.

⁸ The "Unobligated balance of Federal funds" is calculated as "Total Federal funds authorized" less "Total Federal share". The Council reports "Total Federal share" as of October 31, 2021 in the amount of \$3,551,123.25.

⁹ The Specific Terms and Conditions applicable to grant award SO-263616-19 stipulate that all NEH outright funds expended by the Council must be matched on a one-to-one basis by cash (from all sources, including other Federal funders) or by third-party in-kind contributions. Auditable records of matching contributions must be maintained.

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 misleading.¹⁰

2. Data Collection Form Contains Errors.

During our review of the Data Collection Form, we identified several errors in the "General Information" and "Federal Awards" sections. In the "General Information" section, we noted that the IPA name and address were incomplete, as the IPA was incorrectly listed as "Ringold Financial Services"¹¹ and the address did not include unit numbers. In addition, we noted spelling errors concerning the Audit Partner's name and email address.

In the "Federal Awards" section, we noted that the list of major programs contradicts the major programs identified in the audited Schedule of Expenditures of Federal Awards (SEFA). NEH award SO-263616-19 was not marked as a major program on the Data Collection Form despite being identified as such in the audited SEFA. Additionally, the same NEH award was also incorrectly listed as a pass-through award with the pass-through entity listed as "N/A."

According to Council management, the exact cause of these errors is unknown. During the period in which the Single Audit reporting package was submitted to the FAC, all financial management activities, including the completion of the Data Collection Form, were contracted out to a third party.

Upon submission of the Data Collection Form, the Council (as the auditee) certifies that all information required to be reported in the form has been included in its entirety, and such information is accurate and complete.¹² Therefore, the accuracy of information reflected in the Data Collection Form is ultimately the responsibility of the Council.

3. Untimely Submission of the FY 2021 Single Audit Reporting Package to the FAC.

2 CFR Part 200 requires the Council to submit the Single Audit reporting package to the FAC within the earlier of 30 calendar days after receiving the audit report or nine months after the fiscal year end.¹³

The complete reporting package was submitted on June 16, 2022. This is over two months after the audit report is dated April 5, 2022. While the package was submitted within the 9-month window after the fiscal year end, it is considered late based on 2 CFR Part 200 requirements.

4. Conflicting Information Presented in the Audited Financial Statements Concerning Government Grant Activity.

¹⁰The IPA opined that the Council complied in all material respects, with the compliance requirements that could have a direct and material effect on the National Endowment for the Humanities 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.

¹¹ The reports included in the single audit reporting package are signed by Ringold Financial Management Services, Inc.

¹² 2 CFR section 200.512(b)(1)

¹³ 2 CFR section 200.512(a)(1)

During our review of the audited financial statements, we noted several issues with “NOTE G. – Government Grants” (“NOTE G”). This financial statement note discloses Federal and State grant activity for fiscal year ended October 31, 2021. The issues discussed below relate to the Federal disclosures.

- A. Inconsistent use of terms. In “NOTE C – Concentration of Market Risk” and in the audited Statements of Financial Position, grants receivable is specifically identified as such. However, in NOTE G, the Federal grants receivable balance is identified as “Uncollected Grant Awards”.

Additionally, in “NOTE D – Grant Commitments”, the Council discloses unconditional promises to give funds to certain not-for-profit organizations who promote and service the humanities in Illinois. In NOTE G, the term “grant commitments” is also used; however, the data reflected in the note is not consistent with the unconditional promises to give data presented in “NOTE D – Grant Commitments”.

- B. Errors reflected in the grants receivable disclosure. The schedule labeled “Grant Awards” within NOTE G appears to be a roll-forward of grants receivable to the current reporting period. The ending balance of the roll-forward as of October 31, 2020 is \$1,472,707. However, the beginning balance of the 2021 roll-forward does not reflect this, as it is \$0.

Generally, grants receivable balances are increased by grant revenue (which would be equal to SEFA expenses). However, the “Grant Awards” schedule uses the term “New Grant Awards”, which implies the grant receivable balances are being increased by new grants issued each year. We noted that the “New Grant Awards” amount reflected in the schedule (\$2,481,557) is not consistent with total Federal expenditures presented in the audited SEFA (\$2,484,023) nor is the amount consistent with Federal grant revenue reflected in the audited Statements of Activities (\$2,880,300).

We further determined that the total “Cash Receipts” amount reflected in the “Grant Awards” schedule (\$1,493,487) appears to misstate total Federal grant receipts.¹⁴

Intent of the “Grant Commitments” schedule is unclear. The use of the term “New Grant Awards” in the schedule labeled “Grant Commitments” appears to conflict with the use of the term in the preceding “Grant Awards” schedule, based on the presumed functionality of each schedule.

We also noted that the “Grant Funds Expended and Revenue Recognized” amount reflected in the schedule (\$2,481,557) is not consistent with total Federal expenditures presented in the audited SEFA (\$2,484,023) nor is the amount consistent with Federal grant revenue reflected in the audited Statements of Activities (\$2,880,300).

The conditions noted above could lead to confusion and misinterpretation for the average reader of the financial statements. Moving forward, we advise the Council to clarify this note and ensure that it is properly designed to accomplish the intended disclosure purpose.

As the Council's oversight agency, 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 resubmission of the single audit reporting package to the FAC. The Council should

¹⁴ According to NEH accounting records, a total of \$2,966,194 was disbursed to the Council during the organization's FY 2021. Also, the audited SEFA reflects \$2,470 in expenditures related to a National Endowment for the Arts pass-through award, for which there is no related grant receivable balance.

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contact FAC support staff for assistance with the resubmission process since special procedures must be followed.¹⁵ Please notify the NEH-OIG when the revised FY 2021 reporting package has been submitted to the FAC.

The deficiencies noted during our desk review are troubling. Accordingly, we expect the IPA to strengthen their audit testing procedures to ensure that all elements of the Council's single audit reporting package comply 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 Audit Partner at Ringold Financial Management Services to inform her of the results of our review.

If you have any questions concerning this letter or need accounting assistance, please contact Ms. Christen Smith at (202) 606-8282 or via email at csmith@neh.gov.

Sincerely,



Laura Davis
Inspector General

Distribution List:

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Mr. Richard Brundage, Director – Office of Grant Management

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¹⁵ FAC support staff can be contacted at 800-253-0696 or govs.fac@census.gov.