



NATIONAL ENDOWMENT FOR THE  
**Humanities**

OFFICE OF INSPECTOR GENERAL

December 29, 2016

**RETURN RECEIPT REQUESTED**

Board of Directors  
Humanities Council of Washington, DC  
925 U Street, NW  
Washington, DC 20001  
Attn: [REDACTED] Chair

[REDACTED]  
Managing Principal  
Han Group, LLC  
1020 19<sup>th</sup> Street, NW  
Suite 800  
Washington, D.C. 20036

Subject: Quality Control Review - Single Audit of the Humanities Council of Washington, D.C.  
Fiscal Year Ended October 31, 2014  
[OIG Report: OIG-17-01 (QCR)]

As the Federal oversight agency for the Humanities Council of Washington, DC (the "Council"), the National Endowment for the Humanities Office of Inspector General (NEH-OIG) has performed a quality control review<sup>1</sup> (QCR) of the single audit report issued by Han Group, LLC (herein referred to as "the IPA") for the fiscal year ended October 31, 2014. The purpose of our review was to determine whether the audit was conducted in accordance with auditing standards<sup>2</sup> and requirements promulgated by Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Appendix A of this report contains additional background, scope and methodology associated with the quality control review, and Appendix B lists the applicable single audit compliance requirements deemed to be direct and material by the IPA.

**Background:**

The Council, which was incorporated under the laws of the District of Columbia in 1980, represents a nonprofit organization that funds and conducts humanities-based cultural and

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<sup>1</sup> The Council of Inspectors General on Integrity and Efficiency (CIGIE) issued a *Guide for Quality Control Reviews of OMB Circular A-133 Audits* (2015 Edition). This document was used as the basis for performing the quality control review. See Appendix A for more details.

<sup>2</sup> Applicable auditing standards include both Generally Accepted Government Auditing Standards (GAGAS) and Generally Accepted Audit Standards (GAAS).

educational programs within the District of Columbia. In fiscal year (FY) 2014, the Council received 49 percent of its annual revenue from the National Endowment for the Humanities (NEH). Federal funds authorized under the NEH Federal/State Partnership program (CFDA<sup>3</sup> No. 45.129) supported expenditures totaling \$506,055 during fiscal year 2014, which represents 53 percent of the Council's total expenses during this timeframe. Due to the material impact of this Federal program, the IPA treated CFDA No. 45.129 as the major program for single audit purposes.<sup>4</sup>

## Results:

A quality control review can result in one of the following three overall conclusions:

[A] **Pass** - Audit documentation contains no quality deficiencies or only minor quality deficiencies that do not require corrective action for the audit under review or future audits.

[B] **Pass with Deficiencies** - Audit documentation contains quality deficiencies that should be brought to the attention of the auditor (and auditee, as appropriate) for correction in future audits.

[C] **Fail** - Audit documentation contains quality deficiencies that affect the reliability of the audit results and/or audit documentation does not support the opinions contained in the audit report, and require correction for the audit under review.

*Note: When the overall rating is "Fail" and additional audit work is necessary to support the opinions contained in the audit, auditors should follow AU-C 585 and AU-C 935.43 with respect to reissuance of the audit report.*

We assigned an overall rating of "Fail" to the IPA's work related to the Council's single audit submission for fiscal year ended October 31, 2014. We determined that the IPA did not sufficiently execute audit procedures designed to support the IPA's opinion concerning compliance attributes deemed to be direct and material to the major Federal program tested. Specifically, the IPA failed to fully implement planned procedures for testing the Council's:

- 1) Federal financial reporting;
- 2) Fulfillment of subrecipient monitoring responsibilities;
- 3) Fulfillment of mandated cost-sharing requirement; and
- 4) Implementation of safeguards to ensure that Federal funds are not disbursed to suspended or debarred parties.

Consequently, the IPA failed to detect a substantive Federal reporting anomaly.

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<sup>3</sup> Catalog of Federal Domestic Assistance

<sup>4</sup> In accordance with OMB Circular A-133 guidelines, the IPA must utilize a risk-based approach to select a sample of the Federal programs administered by the auditee. Since the Council qualified as a low-risk entity (as defined by the OMB Circular), these "major programs" must represent at least twenty-five percent of the total Federal awards expended by the auditee during the fiscal year. For the selected "major programs", the IPA obtains copies of the related grant awards, determines which of the fourteen Federal compliance attributes apply (see Appendix B), and performs detailed testing to ensure the organization 1) implemented sufficient internal controls; 2) adhered to grant terms and conditions; and 3) complied with the relevant Federal compliance provisions. This testing ultimately results in a single audit report (generated by the IPA) that is issued in conjunction with the standard financial statement audit.

## **Findings/Recommendations:**

### 1) Federal Financial Reporting

According to the OMB Circular A-133 Compliance Supplement (herein referred to as the “OMB 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 of 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 NEH requires grant recipients to use the *Federal Financial Report* (SF-425) [herein referred to as the “FFR”], as a standardized format to report expenditures for each Federal award and cash status.

Accordingly, the OMB Compliance Supplement stipulates the following audit objectives related to Federal Reporting:

- 1) Obtain an understanding of internal control, assess risk, and test internal control as required by OMB Circular A-133 §\_\_\_\_.500(c); and
- 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.

The OMB Compliance Supplement also includes “Suggested Audit Procedures” that will accomplish the audit objectives, and if properly implemented, would enable the IPA to detect any errors, or other issues concerning financial and performance reports submitted by the Council to the NEH and conclude concerning the effectiveness of the Council’s internal controls over compliance with Federal reporting requirements.

According to documentation obtained from the IPA during our QCR, the firm chose to incorporate the OMB “Suggested Audit Procedures” in its planned audit procedures. Such procedures include:

- Perform appropriate analytical procedures and ascertain the reason for any unexpected differences. Examples of analytical procedures include:
  - A. Comparing current period reports to prior period reports.
  - B. Comparing anticipated results to the data included in the reports.
  - C. Comparing information obtained during the audit of the financial statements to the reports.
- Ascertain if the financial reports were complete, accurate, and prepared in accordance with the required accounting basis.
- Trace the amounts reported to accounting records that support the audited financial statements and the *Schedule of Expenditures of Federal Awards* and verify agreement or perform alternative procedures to verify the accuracy and completeness of the reports and that they agree with the accounting records.

Based on our review of the IPA’s workpapers, we determined that the planned audit procedures were not fully implemented during the IPA’s testing. Consequently, the IPA failed to detect a

substantive misstatement of unliquidated obligations reported by the Council concerning grant number SO-50526-13.

The IPA selected the FFR filed by the Council dated January 31, 2014<sup>5</sup> and four (4) *Requests for Advance or Reimbursement* (SF-270) for compliance testing. Our analysis of the FFR that was tested by the IPA, disclosed major errors concerning the information reported as follows:

- The amount noted on Line “d” of the FFR as “Total Federal Funds Authorized” (\$657,650) does not reconcile to award notifications<sup>6</sup> issued to the Council by the NEH related to the reporting period, (\$522,650). Therefore, the amount noted on Line “d” of the FFR is overstated by \$135,000.

There is no evidence in the IPA’s workpapers that Line “d” of the FFR was tested.

- The amount noted on Line “f” of the FFR as “Federal Share of Unliquidated Obligations” (\$136,157.70) appears to represent the difference between the amount noted on Line “d” as “Total Federal Funds Authorized” (\$657,650) and the amount noted on Line “e” as “Federal Share of Expenditures” (\$521,492.30)<sup>7</sup>. However, concerning general operating support grants, this amount would usually represent the amount of subrecipient (regrant) awards yet to be disbursed. According to the audited *Schedule of Expenditures of Federal Awards* for the year ended October 31, 2013, Federal awards to subrecipients only totaled \$15,177. Based on the total subrecipient awards disbursed during the year ended October 31, 2013 and our understanding of the Council’s policy pertaining to the accounting for subrecipient awards<sup>8</sup>, the amount noted on Line “f” is grossly overstated. Furthermore, since the IPA reconciled Line “e” of the FFR (“Federal Share of Expenditures”) to the related SEFA and grant general ledger without exception, the amount reported as “Federal Share of Unliquidated Obligations” should be no more than \$1,158 (\$522,650 - \$521,492.30), due to the fact that the Council cannot obligate funds that have not been authorized.

The “Suggested Audit Procedures” outlined in the OMB Compliance Supplement require the IPA to review all of the information contained in the FFR. This review should include reconciling the amounts reported on the individual data lines to the accounting records that support the audited financial statements and the SEFA. However, our review of the IPA’s workpapers disclosed that the IPA only traced the amount reported on Line “e” of the FFR (“Federal Share of Expenditures”) to the related SEFA/grant general ledger.

The IPA further noted in the workpapers that, once an annual financial report is prepared, it is reviewed by the program director against the underlying accounting records and submitted electronically via “eGMS”, the online grant management system for NEH. The IPA concluded, “per tests performed and results obtained, HCWDC has adequate internal control for reporting

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<sup>5</sup> The reporting period covered by this FFR is November 1, 2012 through October 31, 2013, which coincides with the Council’s FY 2013.

<sup>6</sup> The “Official Notice of Action” is the form used by the NEH to notify an award recipient of a significant financial and/or administrative action taken on an award. This form is the means used to communicate the amount and nature of Federal funds authorized for the respective grant award.

<sup>7</sup> The IPA reconciled the amount reported as “Federal Share of Expenditures” to the related SEFA and grant general ledger without exception.

<sup>8</sup> In conjunction with the FY 2014 single audit, the IPA issued a written communication to the Council’s management wherein the IPA acknowledged grant agreements executed by the Council for which the Council withholds ten percent of the total grant award until receipt of a final report from the subrecipient. Accordingly, the Council only expenses the amount disbursed to the subrecipient at the time award. Upon receipt of the final report, the Council expenses the 10 percent withheld.

compliance requirements and was effective for the year ended October 31, 2014. Also, HCWDC appears to be in compliance with OMB A-133 requirements for reporting for the year ended October 31, 2014.”

### **RECOMMENDATION**

We recommend that the Council review the instructions for the *Federal Financial Report* (SF-425) and correct the FY 2013, and subsequent financial report submissions to properly reflect activity related to grant SO-50526-13, as of the end of the respective reporting periods, (i.e., October 31, 2013 and October 31, 2014). The corrected FFRs should be resubmitted to the NEH. We further recommend that the Council draft written procedures to ensure future FFR submissions are prepared in accordance with Federal guidelines.

We recommend that the IPA review the misrepresentations in the FFR selected for testing during the FY 2014 single audit engagement, as identified by the NEH-OIG, and assess the impact of the misrepresentations on the opinion and findings originally reported. The FY 2014 single audit reporting package must be resubmitted to the Federal Audit Clearinghouse to document any changes warranted. We further recommend for future single audit engagements, the IPA expand tests related to Federal financial reporting to include all verifiable data included in sampled *Federal Financial Reports* (SF-425) and *Requests for Advance or Reimbursement* (SF-270).

#### 2) Subrecipient ‘During-the-Award’ Monitoring

According to the OMB Compliance Supplement, one of the Council’s responsibilities as a pass-through entity for Federal grant funds, is to perform “during-the-award monitoring” of its subrecipients. During-the-award monitoring activities ensure the proper use of Federal awards by subrecipients through reporting, site visits, regular contact, or other means which provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

Similar to the IPA’s approach for testing related to Federal reporting requirements, the IPA incorporated the OMB “Suggested Audit Procedures” in their planned audit procedures designed to accomplish the audit objectives pertaining to subrecipient monitoring. Included in these procedures is a step that instructs the IPA to review the pass-through entity’s documentation of during-the-award monitoring to ascertain if the pass-through entity’s monitoring provided reasonable assurance that subrecipients used Federal awards for authorized purposes, complied with laws, regulations, and the provisions of contracts and grant agreements, and achieved performance goals.

During our review of the IPA’s workpapers, we found no evidence to support the IPA’s review of the Council’s ‘during-the-award’ monitoring of subrecipient activities, as prescribed by the IPA’s planned audit procedures. The IPA haphazardly selected three (3) subrecipients for testing. The IPA:

- Reviewed the subrecipient files and noted the existence of an application/proposal for the subrecipient;
- Reviewed documentation of the subrecipient selection process and reasons, based on information recorded in the Board of Directors’ minutes;
- Reviewed the subrecipient file for a final report;
- Verified the subrecipient is a not-for-profit or association (and not a for-profit organization).

The IPA concluded, “per tests performed and results obtained, HCWDC has adequate internal control for subrecipient monitoring compliance requirements and was effective for the year ended October 31, 2014. Also, HCWDC appears to be in compliance with OMB A-133 requirements for reporting for the year ended October 31, 2014.”

### **RECOMMENDATION**

We recommend that the IPA complete a review of the Council’s ‘during-the-award’ subrecipient monitoring activities to substantiate a conclusion as to whether the Council’s procedures provide reasonable assurance that subrecipients administer Federal awards in compliance with Federal requirements. The IPA must assess the impact of the results of additional testing on the opinion and findings originally reported and resubmit the FY 2014 single audit reporting package to the Federal Audit Clearinghouse to document any changes warranted.

#### **3) Mandated Cost-Sharing Requirement**

The NEH Federal/State Partnership program stipulates matching/cost-share requirements for both "Outright" and "Federal Matching" funds associated with general operating support grants.<sup>9</sup> Due to the immaterial amount of “Federal Matching” funds received by the Council during FY 2014, (\$3,300), the IPA did not deem the matching compliance requirement to be direct and material for the program. Consequently, the IPA did not test the Council’s compliance with the mandated cost-sharing requirement associated with the NEH Federal/State Partnership program.

The NEH will not release “Federal Matching” funds until the Council submits proper supporting documentation concerning third-party contributions received. Therefore, an inherent control exists to address the Council’s fulfillment of ‘matching’ requirements applicable to “Federal Matching” funds. However, the NEH relies upon the IPA community to verify 1) compliance with the mandated cost-share requirement applicable to “Outright” funds; and 2) the accuracy of the cost-share information reported to the Agency.

As explained in the OMB Compliance Supplement, councils must cost-share the "Outright" funds received on a dollar-for-dollar basis. Cost-sharing may be accomplished through cash contributions to the councils from any source; program income the councils have earned; unreimbursed allowable costs that a subrecipient (re-grantee) incurs in carrying out a council-funded project; and/or the value of in-kind contributions made by third parties. This requirement is acknowledged in the IPA’s workpapers that support the IPA’s conclusion related to “Matching, Level of Effort, Earmarking” compliance requirements. However, procedures were not designed or executed by the IPA to test the Council’s compliance with the mandated cost-sharing requirement applicable to “Outright” funds expended.

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<sup>9</sup> By law, the NEH cannot support more than fifty percent of the costs of a council’s activities. Council’s must cost-share the "Outright" and "Federal Matching" funds on at least a dollar-for-dollar basis. To substantiate compliance with this restriction, each council must demonstrate that the Council’s share of expenditures (not revenues) equaled or exceeded the NEH "Outright" and "Federal Matching" award amount and this assertion should be reflected in the Federal Financial Reports submitted to the NEH as “Recipient Share of Expenses” (Line “j”).

### **RECOMMENDATION**

We recommend that the Council provide the NEH-OIG with a detailed schedule that supports the total cost-share amount reported in the most recently submitted FFR related to NEH award SO-50526-13<sup>10</sup> and cumulative cost-share data as of October 31, 2015.

We recommend that the IPA design and execute additional tests to assess whether the Council has properly implemented procedures to substantiate compliance with the mandated cost-share requirement applicable to the NEH Federal/State Partnership program, moving forward.

#### 4) Suspension and Debarment Compliance Requirement

The IPA deemed the Procurement and Suspension/Debarment compliance requirements to be direct and material for the NEH Federal/State Partnership program and appropriately designed audit procedures to test the Council's compliance concerning the related attributes. According to the OMB Compliance Supplement, non-Federal entities are prohibited from contracting with or making sub-awards under covered transactions to parties that are suspended or debarred, or whose principals are suspended or debarred. "Covered transactions" include: 1) procurement contracts for goods and services, paid with Federal funds, expected to equal or exceed \$25,000; and 2) all non-procurement transactions (i.e. awards to subrecipients), irrespective of award amount.

The IPA concluded that "it appears that there are adequate internal controls for procurement, suspension and debarment compliance requirements." However, based upon our review of the related workpapers, there is no evidence that the IPA actually tested, or even obtained an understanding of, the controls in place to ensure that Federal funds are not disbursed to suspended or debarred parties.

### **RECOMMENDATION**

Moving forward, we recommend that the IPA properly execute audit procedures to assess whether the Council has instituted and consistently implements the requisite controls to prevent disbursement of Federal funds to suspended or debarred parties.

Please consider the recommendations in this report, and within thirty (30) days, provide the NEH-OIG with a written response, including any comments you have regarding the QCR findings and a proposed timeline for implementation of the recommendations.

Please note, according to the President's Council on Integrity and Efficiency (PCIE) Statement No. 6, *Questions and Answers on OMB Circular A-133* (Question 80), an independent auditor's time with Federal agencies during a quality control review is similar to other time for quality control such as training, auditor policies and procedures, and peer review. Accordingly, Federal awards should not be charged for the independent auditor's time spent on quality control reviews.

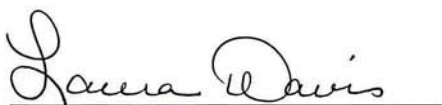
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<sup>10</sup> A Federal Financial Report was submitted to the NEH concerning award SO-50526-13 dated February 4, 2016, wherein the Council reported \$526,184 as "Recipient Share of Expenses" for the reporting period ended October 31, 2015.

Letter to the Board of Directors  
December 29, 2016  
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We appreciate the courtesies extended to the NEH-OIG auditor. 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](mailto:dgelfand@neh.gov).

Sincerely,

A handwritten signature in cursive script that reads "Laura Davis". The signature is written in black ink and is positioned above a horizontal line.

Laura Davis  
Inspector General

**Distribution List:**

Humanities Council of Washington, DC  
925 U Street, NW  
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Attn: [REDACTED], Executive Director



## Appendix A - Description of the Quality Control Review Process

### Background, Scope and Methodology

The Single Audit Act, Public Law 98-502, as amended, was enacted to improve the financial management of State and Local Governments and nonprofit organizations by establishing a uniform set of auditing and reporting requirements for all Federal award recipients required to obtain a single audit. OMB Circular A-133 establishes policies that guide the implementation of the Single Audit Act and provides an administrative foundation for uniform audit requirements of non-Federal entities expending Federal awards. Entities that expend \$500,000<sup>11</sup> or more are subject to the Single Audit Act and the audit requirements documented in OMB Circular A-133. Therefore, they must have an annual single or program-specific audit performed in accordance with *Government Auditing Standards* and submit a complete reporting package to the Federal Audit Clearinghouse (FAC).

Utilizing the *Guide for Quality Control Review of OMB Circular A-133 Audits* (2015 Edition), we reviewed the Council's FY 2014 single audit and the related reporting package submitted to the FAC. This guide, which was issued by the Council of the Inspectors General on Integrity and Efficiency (CIGIE), represents the standard guidance used to perform a quality control review (QCR). A QCR institutes additional requirements above and beyond an OMB Circular A-133 desk review to include a detailed review of the auditor's working papers. We conducted our on-site review of the working papers during the month of June 2016 at the IPA's office in Tyson's Corner, Virginia. The QCR was conducted in accordance with the *Quality Standards for Inspection and Evaluation*, as issued by the CIGIE.

The objectives of a QCR are to:

1. determine whether the audit was conducted in accordance with applicable standards, which include Generally Accepted Government Auditing Standards (GAGAS) and Generally Accepted Auditing Standards (GAAS), and meets the requirements of Office of Management and Budget (OMB) Circular A-133;
2. identify any follow-up work needed to support the conclusions and opinions contained in the audit reporting package; and,
3. identify issues that may require Federal program management attention.

The QCR focused on the following qualitative aspects of a single audit:

- Auditor Qualifications
- Independence
- Due Professional Care
- Quality Control
  - Firm Peer Review
  - Planning and Supervision
  - Sufficient Audit Documentation
- Determination of Major Programs
- Schedule of Expenditures of Federal Awards (SEFA)
- Sampling Methodology
- Internal Control and Federal Compliance Testing
- Data Collection Form (DCF) and Reporting of Deficiencies

Note: Our office has not performed any other quality control reviews of this audit firm during the past five years. However, NEH-OIG issued an OMB Circular A-133 Desk Review report related to the Council's FY 2009 single audit [OIG-12-15 (DR)], issued March 21, 2012.

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<sup>11</sup> OMB recently updated single audit guidance with the issuance of *Uniform Guidance: Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Subpart F)*, which was effective December 26, 2014. For fiscal years beginning after December 25, 2014, the single audit threshold increases from \$500,000 to \$750,000 under this new guidance.

**Appendix B - Major Program Compliance Requirements<sup>12</sup>**

**Audit Year: FY2014**

<b>Compliance Requirements</b>	<b>Applicable? (✓ = Yes)</b>	<b>Direct and Material? (✓ = Yes)</b>
Activities Allowed/Unallowed	✓	✓
Allowable Costs/Cost Principles	✓	✓
Cash Management	✓	✓
Davis-Bacon Act		
Eligibility	✓	✓
Equipment and Real Property Management		
Matching, Level of Effort, Earmarking	✓	
Period of Availability of Federal Funds		
Procurement, Suspension and Debarment	✓	✓
Program Income		
Real Property Acquisition and Relocation Assistance		
Reporting	✓	✓
Subrecipient Monitoring	✓	✓
Special Tests and Provisions		

***Major Program Selected:***

NEH Promotion of the Humanities – Federal/State Partnership [CFDA No. 45.129]

<sup>12</sup> This chart reflects the IPA's determination concerning the direct and material Federal compliance elements.