



NATIONAL ENDOWMENT FOR THE HUMANITIES

OFFICE OF INSPECTOR GENERAL

February 3, 2020

RETURN RECEIPT REQUESTED

Board of Directors
New York Council for the Humanities (d/b/a Humanities New York)
150 Broadway, Suite 1700
New York, NY 10038
Attn: [REDACTED] Chair

OIG Report Number: OIG-20-03 (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 Lutz and Carr CPAs, LLP (the "IPA"), which includes Federal assistance programs administered by the New York Council for the Humanities [d/b/a Humanities New York] (the "Council") during the organization's fiscal year (FY) ended October 31, 2018. The independent auditors previously furnished a copy of their audit report dated April 12, 2019, to the Council. The Federal Audit Clearinghouse (FAC) accepted the single audit reporting package on May 22, 2019. 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 Council's Executive Director and Director of Finance and Administration, email exchanges with the IPA, 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 (2016 Edition)*, as issued by the Council of Inspectors General on Integrity and Efficiency (CIGIE), to determine whether the audit report 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 to the

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.

IPA's reporting package 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 2018 reporting package due to a key deficiency that affects the reliability of the report. Accordingly, the audit report and the related data collection form² (Form SF-SAC) must be revised and resubmitted to the FAC. We noted the following deficiency during our desk review:

1. The IPA's Conclusion Concerning Compliance with Federal Financial Reporting Requirements Is Not Sufficiently 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, Subpart F of 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 '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 require councils to submit a Federal Financial Report (FFR) within 90 days after the completion date of the annual reporting period for each general support grant

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 provides 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 these requirements.

award. Councils use the FFR as a standardized format to report expenditures under the Federal award, 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 inquired about the IPA's audit testing related to the Council's Federal financial reporting. In response to our inquiry, the IPA provided documentation evidencing their determination that all FFRs due within fiscal year ending October 31, 2018 were filed on a timely basis.

We reviewed the Council's FFR submission for NEH support grant award SO-253166-17 and identified a material discrepancy (\$160,474) between the amount certified as total Federal expenditures during the reporting period, (\$1,491,977)⁷ and the amount reported in the audited Schedule of Expenditures of Federal Awards (SEFA) as total Federal expenditures⁸ for FY 2018, (\$1,652,451). Since the audited SEFA⁹ and the FFR share the same reporting period, and the reported expenditures derive from the same underlying accounting records, there should not be a material discrepancy between the two representations of total Federal expenditures.

Based on the results of our limited testing of the FFR for NEH grant award SO-253166-17, we conclude that the scope of the IPA's review of the FFR submissions was insufficient to substantiate an assessment of the Council's compliance with Federal financial reporting requirements.

⁵ 2 CFR section 200.302(a)

⁶ U.S. Code, Title 18, Section 1001

⁷ This amount is reported through Line "g" of the FFR (Total Federal Share) and represents accrued expenditures for the annual reporting period ending 10/31/2018 -- \$1,491,977 equals \$2,780,360 [cumulative balance of Line "g" for the annual reporting period ending 10/31/2018] less \$1,288,383 [cumulative balance of Line "g" for the annual reporting period ending 10/31/2017].

⁸ According to the audited FY 2018 SEFA, total Federal expenditures are associated with only one *Catalog of Federal Domestic Assistance* (CFDA) number [CFDA number 45.129]. NEH general support grant award SO-253166-17 was the only award active under CFDA number 45.129 during the Council's FY 2018.

⁹ The audited SEFA includes Federal award activity of the Council for the year ended October 31, 2018. Expenditures reported in the SEFA reflect the accrual basis of accounting.

2. Other Matters Identified during the NEH-OIG Desk Review

During the course of our desk review, we also identified audit reporting deficiencies not deemed to be material in nature, as noted below:

Subpart F of 2 CFR Part 200¹⁰ stipulates that the IPA's single audit report must include a schedule of findings and questioned costs, which encompasses a summary of the auditor's results. The summary must include:

- (i) The type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP (i.e., unmodified opinion, adverse opinion, or disclaimer of opinion);
- (ii) Where applicable, a statement about whether significant deficiencies or material weaknesses in internal control were disclosed by the audit of the financial statements;
- (iii) A statement as to whether the audit disclosed any noncompliance that is material to the financial statements of the auditee;
- (iv) Where applicable, a statement about whether significant deficiencies or material weaknesses in internal control over major programs were disclosed by the audit;
- (v) The type of report the auditor issued on compliance for major programs (i.e., unmodified opinion, qualified opinion, adverse opinion, or disclaimer of opinion)
- (vi) A statement as to whether the audit disclosed any audit findings that the auditor is required to report under 2 CFR section 200.516 *Audit findings* paragraph (a);
- (vii) An identification of major programs by listing each individual major program;
- (viii) The dollar threshold used to distinguish between Type A and Type B programs; and
- (ix) A statement as to whether the auditee qualified as a "low-risk auditee".

The Schedule of Findings and Questioned Costs included in the single audit report concerning the Council's FY 2018 does not include (1) a statement that addresses whether material weaknesses in internal control were disclosed by the audit of the financial statements; or (2) a statement that addresses whether material weaknesses in internal control over major programs were disclosed by the audit.

Moving forward, the IPA must revisit the format of this schedule and ensure that the summary of the auditor's results includes all required statements.

¹⁰ 2 CFR section 200.515(d)(1)

As the Council's oversight agency, the NEH-OIG will not accept the FY 2018 single audit reporting package until the IPA performs additional testing of the Council's Federal financial reporting sufficient to accomplish the audit objectives specified in the Compliance Supplement, and revise the single audit reporting package as necessary. The Council should contact FAC support staff for assistance with the resubmission process since there are special procedures that must be followed.¹¹ Please notify the NEH-OIG when the revised FY 2018 reporting package has been submitted to the FAC.

The discrepancies noted during our desk review are troubling. Accordingly, we expect the IPA to design and implement compliance testing procedures to ensure that all audit objectives related to "Federal Reporting" are accomplished, as contemplated by the Compliance Supplement. We also expect the Council to implement procedures to ensure that all Federal financial reporting submissions are accurate. Within 30 days of receipt of this letter, please provide a written response specifically (1) describing new procedures/internal control processes implemented concerning Federal financial reporting; and (2) confirming resubmission of the FY 2018 single audit reporting package to the FAC.

We will be sending a copy of this letter to the Partner for this single audit at Lutz and Carr CPAs, LLP to inform her 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:

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¹¹ FAC support staff can be contacted at 800-253-0696 or govs.fac@census.gov.