



NATIONAL ENDOWMENT FOR THE HUMANITIES

OFFICE OF INSPECTOR GENERAL

April 13, 2020

RETURN RECEIPT REQUESTED

Board of Directors
Humanities Texas
1410 Rio Grande Street
Austin, TX 78701
Attn: [REDACTED], Chair

OIG Report Number: OIG-20-05 (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 Monday Rufus & Co., P.C. (the "IPA"), which includes Federal assistance programs administered by Humanities Texas (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 July 25, 2019, to the Council. The Federal Audit Clearinghouse (FAC) accepted the single audit reporting package on July 31, 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 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 (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 IPA's reporting package of either **Pass**, **Pass with Deficiencies**, or **Fail**. Audit reports receiving a **Fail** rating require corrective action.

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.

We assigned a rating of **Fail** to the FY 2018 reporting package due to key deficiencies that affect the reliability of the report. 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 FY 2018 Schedule of Expenditures of Federal Awards Materially Misstates Total Federal Awards Expended

2 CFR Part 200 states that the Council must prepare financial statements that reflect its financial position, results of operations or changes in net assets, and where appropriate, cash flows for the fiscal year audited. The Council must also prepare a schedule of expenditures of Federal awards (SEFA) for the period covered by the organization's financial statements, which must include the total Federal awards expended, as determined in accordance with 2 CFR Section 200.502, *Basis for determining Federal awards expended*.³ During our desk review, we determined that the audited SEFA understates total Federal awards expended during the Council's fiscal year ended October 31, 2018 by \$379,040, (see Appendix A for a detailed analysis of the misstatements).

We noted that expenditures associated with NEH challenge grant award CH-233773-16 (CFDA Number⁴ 45.130), are incorrectly presented in the audited SEFA. 2 CFR Part 200 stipulates that the cumulative balance of Federal awards for endowment funds that are federally restricted are considered Federal awards expended in each audit period in which the funds are still restricted.⁵ Moreover, guidance contained in the NEH publication, *Administration of NEH Challenge Grants*, advises that Federal funds deposited into income-earning accounts are to be treated as Federal expenditures. Absent specific direction from the NEH, endowment-based challenge grant awards are considered permanently restricted. Accordingly, cumulative Federal funds received from NEH that are specifically restricted to build an endowment must be reported as Federal expenditures on the SEFA annually. We determined based on review of NEH records related to the challenge grant award, that Federal matching funds totaling \$489,600 had been released (disbursed) to the Council as of October 31, 2018. The audited SEFA reflects expenditures associated with the NEH challenge grant in the amount of \$144,732.

We also identified discrepancies between Federal expenditures reflected in the audited *Statement of Activities* for the year ended October 31, 2018 and the audited SEFA for the year ended October 31, 2018 in the amount of \$34,172.⁶

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 200.510, *Financial Statements*

⁴ The number assigned to a Federal program in the Catalogue of Federal Domestic Assistance (CFDA).

⁵ 2 CFR section 200.502(e)

⁶ Expenditures reported in the SEFA are reported on the accrual basis of accounting, consistent with the audited *Statement of Activities*.

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

2 CFR Part 200 stipulates that the SEFA must 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*.⁷


The audited SEFA for the fiscal year ended October 31, 2018 does not include a note concerning the Council's election to use the 10 percent de minimis cost rate.

As the Council's oversight agency, the NEH-OIG will not accept the FY 2018 single audit reporting package until the deficiencies identified above are addressed and the single audit reporting package is revised as necessary. The Council should contact FAC support staff for assistance with the resubmission process since there are special procedures that must be followed.⁸ Please notify the NEH-OIG when the revised FY 2018 reporting package has been submitted to the FAC.

Please be advised that we are sending a copy of this letter to the Managing Shareholder at Monday Rufus & Co., P.C. 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:

██████████, Managing Shareholder
Monday Rufus & Co., P.C.
1508 Dessau Ridge Lane., Suite 405
Austin, TX 78754

⁷ 2 CFR section 200.510(b)(6)

⁸ FAC support staff can be contacted at 800-253-0696 or govs.fac@census.gov.

Appendix A

SEFA Misstatements Identified by the NEH Office of Inspector General

Fiscal Year Ended October 31, 2018

<u>Grant Number</u>	<u>CFDA Number</u>	<u>Expenditures</u>		<u>SEFA (Understated)/ Overstated</u>	
		<u>SEFA</u>	<u>Based on 2 CFR section 200.502(e)</u>		
CH-233773-16	45.130	\$144,732	\$489,600	<u>(\$344,868)</u>	(a)
Expenditures					
<u>Grant Number</u>	<u>CFDA Number</u>	<u>SEFA</u>	<u>Audited Financial Statements</u>	<u>SEFA (Understated)/ Overstated</u>	
SO-253181-17	45.129		\$1,857,496		
SO-50625-14	45.129		2,192		
Total CFDA Number 45.129		\$1,838,868	\$1,859,688	(\$20,820)	
PY-234231-16	45.149		(\$707)		
SP-259529-17	45.149		3,000		
Total CFDA Number 45.149		\$1,973	\$2,293	(\$320)	
AV-255533-17	45.162	\$10,306	\$10,306	\$0	
LD-234345-16	45.164	\$61,619	\$74,651	<u>(\$13,032)</u>	
Total				<u>(\$34,172)</u>	(b)
Total Misstatement of Federal Awards Expended				(\$379,040)	(a) + (b)