



NATIONAL ENDOWMENT FOR THE HUMANITIES

OFFICE OF INSPECTOR GENERAL

August 3, 2022

via FedEx

Board of Directors
Vermont Humanities Council
11 Loomis Street
Montpelier, VT 05602
Attn: [REDACTED] Board Chair

OIG Report Number: OIG-22-04 (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 McSoley McCoy & Company (the “IPA”), which includes Federal assistance programs administered by the Vermont Humanities Council (the “Council”) during the organization’s fiscal year (FY) ended December 31, 2020. The independent auditors previously furnished a copy of their audit report dated May 12, 2021 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 July 5, 2021.

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 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 **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.

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.

We assigned a rating of **Fail** to the FY 2020 reporting package due to key deficiencies that affect the reliability of the submission. Accordingly, the audit report and the related data collection form (Form SF-SAC) must be revised and resubmitted to the FAC. We noted the following deficiencies during our desk review:

1. The Audited Schedule of Expenditures of Federal Awards Does Not Properly Present CARES² Act Award Expenditures

According to 2 CFR Part 200, the auditee must 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.³ At a minimum, the schedule must:

1. List individual Federal programs by Federal agency.
2. Include the name of the pass-through entity and identifying number assigned by the pass-through entity for Federal awards received as a subrecipient.
3. Provide total Federal awards expended for each individual Federal program and the Assistance Listing Number⁴ (ALN) or other identifying number when the ALN is not available.
4. Include the total amount provided to subrecipients from each Federal program.
5. Identify in the notes to the schedule, the balances outstanding at the end of the audit period for loan or loan guarantee programs.
6. Include notes that describe the significant accounting policies used in preparing the schedule, and state whether or not the auditee elected to use the 10 percent de minimis cost rate.

To maximize the transparency and accountability of COVID-19 related award expenditures, SEFA guidance has been augmented to require recipients and subrecipients of COVID-19 Emergency Acts funding to separately identify the related expenditures on the SEFA and Form SF-SAC.⁵ This may be accomplished by identifying COVID-19 expenditures on:

- A separate line by ALN with "COVID-19" as a prefix to the program name. (SEFA presentation)

² Coronavirus Aid, Relief, and Economic Security (CARES)

³ 2 CFR section 200.510(b)

⁴ Formerly known as the Catalog of Federal Domestic Assistance (CFDA) Number

⁵ Office of Management and Budget (OMB) Compliance Supplement dated August 2020 ~ Appendix VII, *Other Audit Advisories*, Paragraph I – Novel Coronavirus (COVID-19)

- A separate row by ALN with “COVID-19” as the first characters in Part II, Item 1c, Additional Award Identification. (Form SF-SAC presentation)

In April 2020 and July 2020, the NEH awarded supplemental funding to the Council under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act).⁶ These awards were administratively made through general operating support grant SO-268670-20 (i.e., ALN 45.129). The Council was advised in the related official notices of action that the CARES Act funding could only be used to support subawards to eligible entities for humanities projects and general operating support – the funds cannot be used for the Council’s general operating support or council-conducted projects. The Council was also advised that the CARES Act funding could be used for reasonable costs associated with issuing and administering related subawards. Consistent with Congress’ intent in enacting the CARES Act, which was to immediately mitigate the impact of the coronavirus at the state and jurisdictional level, the NEH requested that the Council subaward the emergency CARES Act funding no later than October 31, 2020.

During our desk review, we noted that the Council did not identify the total amount provided to subrecipients from the NEH award(s) listed on the audited SEFA for the fiscal year ended December 31, 2020. We further noted that the Council reported \$517,900 as “Awards and grants” expenditures in the audited *Statement of Functional Expenses* (SOFE) for the fiscal year ended December 31, 2020. In response to our inquiry concerning the nature of the support for the “Awards and grants” expenditures, Council management asserts that the grant expenditures captured on the SOFE for fiscal year 2020 were funded through CARES (\$391,750) and private funding (\$126,150). The respondent further asserts that the amount captured on the SOFE does not meet the definition of regrants or subawards on the SEFA. Accordingly, the total amount of “Awards and grants” expenditures that were funded through the NEH CARES Act award are not listed on the audited SEFA as funds passed through to subrecipients⁷. We determined that CARES Act award expenditures are reflected in the audited SEFA as expenditures associated with grant award SO-268670-20.

Supplemental NEH funding accepted by the Council pursuant to CARES Act legislation is subject to NEH administrative requirements, as conveyed to the Council through the respective official notices of action and other subsequent communications. Eligible entities to which the Council subawards CARES Act funds, consistent with use restrictions established by the NEH, are considered “subrecipients”.

⁶ The NEH issued an “Official Notice of Action” dated April 10, 2020, advising the Council of the amendment to grant award SO-268670-20 providing supplemental funding under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) in the amount of \$402,800.

The NEH issued an “Official Notice of Action” dated July 25, 2020, advising the Council of the amendment to grant award SO-268670-20 providing an equal distribution of supplemental CARES Act funds withheld from another council in the amount of \$8,467.

⁷ According to 2 CFR Part 200, a subrecipient is an entity that receives a subaward from a pass-through entity to carry out part of a Federal award. A subaward is an award provided by a pass-through entity to a subrecipient for the subrecipient to carry out part of a Federal award received by the pass-through entity. [2 CFR 200.1, *Definitions*]

Furthermore, the Council has reported to the NEH that subawards totaling \$391,750⁸ were made during the fiscal year ended December 31, 2020 using CARES Act funding and the remaining balance of the total awarded to the Council (\$19,517) was used to cover a portion of the time spent administering the grants program, direct costs associated with making the grants, and reporting to the NEH and the broader community on the success of the grants. However, CARES Act expenditure activity is not separately presented in the audited SEFA, consistent with 2 CFR Part 200 and OMB guidance pertaining to COVID-19 related funding.

2. The IPA's Conclusion Concerning Compliance with Federal Financial Reporting Requirements is Misleading and Not Fully 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 200⁹ 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 Supplement¹⁰ (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

⁸ The Council submitted a CARES Act Semi-Annual PPR dated November 30, 2020 to the NEH, in which the Council reports that CARES Act funds received from the NEH had been distributed to eligible organizations facing financial hardship with losses or unforeseen expenses due to the coronavirus, (\$391,750) and total administrative costs to issue and administer the CARES Act subawards were \$19,517.

⁹ 2 CFR section 200.514(d)

¹⁰ 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.¹¹ 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.¹²

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, we were provided a copy of the IPA's workpapers that document the audit procedures designed to facilitate the firm's determination concerning the Council's compliance with Federal reporting requirements. The IPA selected the annual FFR for grant award SO-268670-20¹³ and executed procedures to verify the accuracy and completeness of the report, as submitted to the NEH. Based on the results of the IPA's testing, the firm concluded that the information reported in the annual FFR was correct.

We reviewed the FFR that was included in the IPA's testing and identified several discrepancies and errors in the report. We also noted conditions that are inconsistent with the observations that inform the IPA's conclusions. We noted the following conditions, which collectively raise doubt as to the accuracy and completeness of the FFR tested by the IPA.

- The Council reports "Cash receipts" [Line 10.a. of the FFR] in the amount of \$624,250. According to NEH accounting records related to grant award SO-268670-20, a total of \$454,000 (non-CARES Act funds) was disbursed to the Council during the period covered by the FFR (November 1, 2019 – October 30, 2020).
- The Council reports "Cash disbursements" [Line 10.b. of the FFR] in the amount of \$624,250 and "Federal share of expenditures"¹⁴ [Line 10.e. of the FFR] in the amount of \$817,224. These two amounts should be the same since the Council

¹¹ 2 CFR section 200.302(a)

¹² U.S. Code, Title 18, Section 1001

¹³ This FFR, dated January 20, 2021, represents the Councils reporting on non-CARES Act activity supported by grant award SO-268670-20 during the period November 1, 2019 through October 31, 2020. The Council submitted a separate FFR, dated November 30, 2020, to report on CARES Act activity during the period November 1, 2019 through October 31, 2020.

¹⁴ According to the FFR instructions, for reports prepared on a cash basis, Federal share of expenditures are the sum of cash disbursements for direct charges for property and services; the amount of indirect expense charged; and the amount of cash advance payments and payments made to subrecipients.

indicates in Box 7 of the FFR that the report is prepared using the cash basis of accounting.

- The Council reports “Total Federal share” [Line 10.g. of the FFR] in the amount of \$817,224. This amount is inconsistent with the Council’s reporting of non-CARES Act expenditures in the audited SEFA for the fiscal year ended December 31, 2020¹⁵, (\$624,250)¹⁶.

Based on the results of our limited testing, we believe that the IPA’s conclusion concerning the Council’s compliance with Federal reporting requirements is not sufficiently informed.

3. NEH Grant Awards Are Not Properly Represented in the Audited SEFA

According to 2 CFR Part 200, the SEFA must list individual Federal programs by Federal agency. The Council incorrectly represents in the audited SEFA that the Federal program, *Promotion of the Humanities – Federal/State Partnership*, is a U.S. Department of Treasury program passed through the National Endowment for the Humanities.

4. The Assistance Listing Number Associated with the NEH Grant Awards Is Incorrect in the Data Collection Form

The Assistance Listing Number (ALN), formerly known as the Catalog of Federal Domestic Assistance (CFDA) number, is a five-digit number assigned in the awarding document for all Federal assistance award instruments, including Federal grants and cooperative agreements. The number consists of a two-digit prefix (which corresponds to the Federal awarding agency) and a three-digit extension (which corresponds to the Federal program). The ALN prefix noted in the Data Collection Form for the *Promotion of the Humanities – Federal/State Partnership* program is incorrect. The correct prefix is “45”.

Other Matters:

During the course of our desk review, we identified other deficiencies that must be addressed in future audit reporting packages, as noted below.

1. The Council’s Implementation of Disclosure Requirements Applicable to Conditional Contributions and Promises To Give

In June 2018, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2018-08, Not-for-Profit Entities (Topic 958), *Clarifying the Scope and the*

¹⁵ The audited SEFA appears to reflect cash-basis accounting despite the Council’s assertion in the notes to the schedule that the expenditures are reported using the accrual basis of accounting.

¹⁶ The Council does not identify expenditures associated with grant award SO-268670-20 in the audited SEFA for fiscal year ended December 31, 2019. Therefore, the annual amount of non-CARES Act expenditures reflected in the SEFA for fiscal year ended December 31, 2020 would also represent cumulative non-CARES Act expenditures as of the fiscal year ended December 31, 2020.

Accounting Guidance for Contributions Received and Contributions Made. This ASU provides a framework for determining whether a contribution is conditional or unconditional, which affects the timing of revenue recognition. An unconditional contribution is recognized immediately whereas a conditional contribution cannot be recorded until the conditions have been met. The guidance further requires conditional contributions to be disclosed in the footnotes of the financial statements.¹⁷ The amendments in ASU 2018-08 are effective as of the Council's fiscal year ended December 31, 2019.

NEH general support grant awards incorporate donor-imposed conditions concerning the use of the funds and the Council's compliance with legislatively-mandated cost-share requirements.¹⁸ Accordingly, the Council would recognize NEH grant revenue when the conditions are met, (e.g., as allowable expenditures are incurred). Upon the Council's implementation of ASU 2018-08, NEH grant award funding that has been authorized but, as of the end of the fiscal year, has not been expended by the Council or earned through the Council's fulfillment of the stipulations applicable to the grant award, should be disclosed in the footnotes of the financial statements consistent with the disclosure requirements applicable to conditional contributions.

2. The Independent Auditors' Report Is Missing a Required Statement

The Independent Auditors' Report does not include the required statement that the audit was conducted in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

According to *Government Auditing Standards* (GAS) and guidance issued by the American Institute of Certified Public Accountants (AICPA)¹⁹, the IPA must state in the Independent Auditors' Report that:

“The audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.”

As the Council's oversight agency, the NEH-OIG will not accept the FY 2020 single audit reporting package until the deficiencies identified herein are addressed and the single audit reporting package is revised as necessary. The Council should contact FAC support

¹⁷ FASB Accounting Standards Codification (ASC) Paragraph 958-310-50-4 requires the following disclosures about conditional promises to give:

- The total of amounts promised.
- A description and amount for each group of promises having similar characteristics. For example, separate groups having similar characteristics might include those promises conditioned on establishing new programs, on completing a new building, or on raising matching gifts by a specified date.

¹⁸ In accepting a general support grant award and any related funding supplements, the Council assumes the legal responsibility for administering the award in accordance with the general terms and conditions applicable to the grant award and of complying fully with any special terms and conditions included in the award agreement. Failure to do so may result in the suspension or termination of the award and the NEH's recovery of award funds.

¹⁹ GAS 6.36 and AAG-GAS 4.92 (AICPA Audit Guide – *Government Auditing Standards and Single Audits*)

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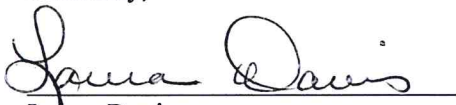
staff for assistance with the resubmission process since there are special procedures that must be followed.²⁰ Please notify the NEH-OIG when the revised FY 2020 reporting package has been submitted to the FAC.

The deficiencies noted during our desk review are troubling. Accordingly, we expect the Council to implement procedures to ensure that Federal financial reporting is complete and accurate. We also expect the IPA to strengthen their audit testing procedures to ensure that audit conclusions are appropriately substantiated. 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 Partner at McSoley McCoy & Company to inform the firm of the results of our review.

If you have any questions concerning this letter or need accounting assistance, please contact me at (202) 606-8574 or via email at ldavis@neh.gov.

Sincerely,



Laura Davis
Inspector General

Distribution List:

Auditor:

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██████████

²⁰ FAC support staff can be contacted at 800-253-0696 or govs.fac@census.gov.