



NATIONAL ENDOWMENT FOR THE HUMANITIES

OFFICE OF INSPECTOR GENERAL

July 12, 2024

via FedEx

Board of Directors
Mississippi Humanities Council, Inc.
3825 Ridgewood Road, Room 311
Jackson, MS 39211-6497
Attn: [REDACTED] Chair

OIG Report Number: OIG-24-02 (DR)

Dear Board Members:

The National Endowment for the Humanities (NEH) Office of Inspector General has completed a desk review of the single audit report prepared by Matthews, Cutrer & Lindsay, P.A., Certified Public Accountants (the "IPA"), which includes the Federal assistance program administered by the Mississippi Humanities Council, Inc (the "Council"), during the organization's fiscal year (FY) ended October 31, 2022. The independent auditors previously furnished a copy of their audit report dated June 1, 2023 to the Council. The IPA issued unmodified opinions¹ regarding the financial statements and compliance with Federal requirements. Furthermore, no written findings were issued in conjunction with the single audit. The Federal Audit Clearinghouse (FAC) accepted the single audit reporting package on June 14, 2023.

Our review was limited to an examination of the single audit reporting package, email exchanges with the Council's Executive Director and the IPA, a limited review of selected IPA workpapers, a virtual meeting with the IPA, 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, 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

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 (1) the Council's financial statements as a whole, are free from material misstatement, whether due to fraud or error; and (2) the Council's Federal grant activity materially complies with requirements identified as subject to audit in the *OMB Compliance Supplement*.

review, we can assign a rating 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 2022 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 IPA's Conclusion Concerning Compliance with Federal Financial Reporting Requirements is 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 200 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 Supplement³ (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 other forms such 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, to report on the financial progress of

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 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.

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.⁴ 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.⁵

As part of our desk review, NEH-OIG obtained copies of all workpapers related to the IPA's testing and conclusion concerning the Council's compliance with Federal reporting requirements. Based on our review of the IPA's workpapers, we noted the IPA's testing focused on the reasonableness of the FFRs associated with NEH grant award SO-268648-20⁶. The IPA reconciled cumulative Federal expenditures reflected in the FFRs with cumulative expenditures recorded in the Council's financial management system and concluded the FFRs appear reasonable.

During our review of the FFR associated with NEH grant award SO-268648-20 (General Operating Support), we noted the amount certified as cumulative Federal expenditures is the same as the amount certified as cumulative Federal cash disbursements. The nature of this reporting is not consistent with FFRs submitted by the Council for preceding annual reporting periods, nor does it appear to fully account for subaward activity related to the NEH grant award⁷. The Council discloses in the audited *Schedule of Expenditures of Federal Awards* (SEFA) that Federal awards associated with the general operating support grant were passed through to subrecipients in the amount of \$169,387 during the year ended October 31, 2022, and the audited *Statements of Financial Position* reflect a subawards payable balance of \$252,288 at October 31, 2022. Collectively, these representations raise doubt as to the accuracy of the amount reported and certified as "Cash disbursements" [Line 10.b. of the FFR] or the completeness of the amount reported and certified as total Federal share of expenditures [Line 10.g. of the FFR].

Further, there is no evidence in the IPA's workpapers to substantiate the auditor's testing and conclusion concerning the accuracy of Federal cash status, as certified by the Council in the FFR for grant award SO-268648-20 (General Operating Support).

⁴ 2 CFR section 200.302(a)

⁵ U.S. Code, Title 18, Section 1001

⁶ The IPA's workpaper documents testing of FFR data for three (3) reporting objectives ~ SO-268648-20 (General Operating Support); SO-268648-20 CARES; and SO-268648-20 (AMPU).

⁷ The Council reported "Total Federal share of unliquidated obligations" [Line 10.f. of the FFR] in the amount of \$0.

Based on the results of our limited testing, NEH-OIG believes the IPA's conclusion concerning the Council's compliance with Federal reporting requirements, as evidenced by the absence of any reported finding or instances of noncompliance identified in the FY 2022 single audit reporting package, is not fully substantiated.

The inconsistencies noted during our desk review are troubling. Accordingly, we expect the Council to implement procedures to ensure Federal financial reporting is complete and accurate. We also expect the IPA to strengthen their single audit testing procedures to ensure audit conclusions are appropriately substantiated. We request that Council management provide the NEH-OIG with a written corrective action plan that addresses the noted deficiency within 30 days of receipt of this letter.

Other Matter

1. Implementation of Accounting Guidance for Contributions Received and Contributions Made

In June 2018, the Financial Accounting Standards Board⁸ issued Accounting Standards Update (ASU) 2018-08, Not-for-Profit Entities (Topic 958), *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (ASU 2018-08). 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.⁹The

⁸ The Financial Accounting Standards Board (FASB) provides accounting guidance to the nonprofit community. These standards prescribe two main approaches to recognizing revenue associated with Federal awards.

- Exchange transactions (i.e., contracts) represent reciprocal transfers in which each party receives and sacrifices something of commensurate value. The most classic example is the purchase of goods or services. Under this approach, an entity recognizes revenue when the required goods or services are provided.
- Contributions (Non-exchange transactions) represent voluntary, unconditional transfer of assets, as well as unconditional promises to give, to an entity. Their primary characteristic is that they are nonreciprocal – that is, one entity gives an asset or cancels a liability without directly receiving commensurate value in return. The recipient must classify the contribution as either unconditional or conditional based upon the existence of donor stipulations. A donor stipulation represents a barrier that must be overcome before the recipient is entitled to the assets transferred or promised. Failure to overcome the barrier gives the contributor a right of return of the assets it has transferred or gives the promisor a right of release from its obligation to transfer its assets. A conditional transaction includes both a barrier that must be overcome and either a right of asset return or release of promise to give.

⁹ 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.

amendments in ASU 2018-08 were effective as of the Council's fiscal year ended October 31, 2020.

NEH general support grant awards incorporate donor-imposed conditions concerning use of the funds and the Council's compliance with the legislatively mandated cost-share requirement.¹⁰ Accordingly, the Council would recognize NEH grant revenue when the conditions are met, (e.g., as allowable expenditures are incurred). Upon 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 general support grant award, should be disclosed in the footnotes of the financial statements consistent with the disclosure requirements applicable to conditional contributions.

The Council's audited financial statements as of and for the year ended October 31, 2022 reflect the recognition of NEH grant revenue based on grant award funds authorized, (i.e., NEH Notices of Funding). Unexpended award funds are presented in the audited *Statement of Activity* as "Net Assets with Donor Restrictions".¹¹ The IPA asserts that this approach is acceptable based on the high probability that the Council will meet the conditions applicable to NEH grant awards and there has never been an instance where the Council had to return unspent funds. Accordingly, the IPA has concluded that NEH grant revenue recorded for fiscal year ended October 31, 2022, based on grant award funds authorized, appears reasonable. We are unable to substantiate the IPA's position based on ASU 2018-08, which is the current guidance issued by FASB.¹²

As the Council's oversight agency, the NEH-OIG will not accept the FY 2022 single audit reporting package until the deficiencies identified above are addressed and the single audit reporting package is revised, as necessary. The Council should consult the FAC Help Center for assistance with the resubmission process since there are special procedures that must be followed.¹³ Please notify the NEH-OIG when the revised FY 2022 single audit reporting package has been submitted to the FAC.

Please be advised that we are sending a copy of this letter to the Shareholder at Matthews, Cutrer & Lindsay, P.A., to inform the firm of the results of our review.

¹⁰ In accepting an NEH 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 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.

¹¹ The Council's failure to implement the provisions of ASU 2018-08 as of the organization's fiscal year ended October 31, 2020 results in an overstatement of total Net Assets in the amount of \$94,431 (as of October 31, 2020), \$285,502 (as of October 31, 2021), and \$273,243 (as of October 31, 2022) [based on audited *Statement of Activity* and *SEFA* data for the respective fiscal years].

¹² The guidance in Subtopic 958-605, *Not-for-Profit Entities – Revenue Recognition* indicates that if the possibility that a condition will not be met is remote, a conditional promise to give is considered unconditional, and contribution revenue is recognized immediately. This provision was superseded by ASU 2018-08.

¹³ support.fac.gov

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

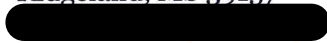
Sincerely,



Laura Davis
Inspector General

Distribution List:

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, Shareholder
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NEH Key Management Single Audit Liaison:

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