



NATIONAL ENDOWMENT FOR THE  
**Humanities**

OFFICE OF INSPECTOR GENERAL

September 5, 2017

**RETURN RECEIPT REQUESTED**

Board of Directors  
Illinois Humanities Council  
17 North State Street  
Chicago, IL 60602  
Attn: [REDACTED], Chair

OIG Report Number: OIG-17-06 (DR)

Dear Board Members:

We have completed a Desk Review of the single audit report prepared by Kessler, Orlean, Silver & Company, P.C., which includes the Federal assistance program administered by the Illinois Humanities Council (the "Council"), for the fiscal year ended October 31, 2016 (FY 2016). The independent auditor (IPA) previously furnished a copy of their audit report dated June 30, 2017, to the Council. The Federal Audit Clearinghouse (FAC) accepted the related reporting package on July 6, 2017. The IPA issued unmodified opinions<sup>1</sup> regarding the financial statements and compliance with Federal requirements. Furthermore, no written findings were issued in conjunction with the single audit.

Our review was limited to an examination of the audit report, email exchanges with the Executive Director of the Council, an email exchange 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, the *Guide for Desk Reviews of Single Audit Reports* (2016 Edition), issued by the Council of Inspectors General on Integrity and Efficiency (CIGIE), was used to determine whether the audit report meets the core reporting requirements stipulated by Office of Management and Budget (OMB) *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Subpart F).<sup>2</sup> There are three possible conclusions that can be reached as a result of the desk review -- **Pass**, **Pass with Deficiencies**, or **Fail**. Audit reports receiving a "Fail" rating require corrective action.

We assigned a rating of **Fail** for the fiscal year ended October 31, 2016 reporting package due to a key deficiency that affects the reliability of the report. Accordingly, the audit report and the

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<sup>1</sup> An unmodified opinion represents the IPA's highest level of assurance, indicating that the audited entity's financial statement presentation (to include Federal grant activity) materially complies with applicable accounting principles and Federal requirements stipulated in OMB *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

<sup>2</sup> 2 CFR Part 200

related Data Collection Form<sup>3</sup> (Form SF-SAC) must be revised and resubmitted to the FAC. The following deficiency was noted during our desk review:

### **Misstatement in the Audited Schedule of Expenditures of Federal Awards**

The Federal expenditure amount reported in the audited *Schedule of Expenditures of Federal Awards* (SEFA) for the year ended October 31, 2016 does not agree with total Federal expenditures, as represented in the audited *Statement of Activities and Changes in Net Assets* for the year ended October 31, 2016. We further note that this misstatement is replicated in the related Form SF-SAC.

According to the audited SEFA, \$1,145,020 represents total Federal expenditures, which are presented in the SEFA consistent with the accrual basis of accounting. However, based on Note 1 to the audited financial statements, total Federal expenditures should equal total Federal grant revenue reported in the audited *Statement of Activities and Changes in Net Assets*, (\$1,159,720). According to Note 1 to the audited financial statements (Summary of Significant Accounting Policies):

#### *Basis of Accounting*

*The Organization prepares its financial statements using the accrual basis of accounting in accordance with U.S. generally accepted accounting principles ("GAAP").*

#### *Government Grants*

*Government grants are recorded as receivables and government grants not yet earned upon notification of the grant award. **As expenses are incurred relative to the grant, revenue is recognized as earned** and the government grants not yet earned balance is reduced. The grants receivable is reduced as cash is received.*

While the \$14,700 discrepancy between the reported Federal expenditure amounts may not exceed the audit materiality threshold, there should not be a discrepancy since both representations are intended to reflect accrual-basis accounting and measure Federal award activity over the same accounting period.

We also noted this condition concerning the FY 2015 single audit submission, which results in a \$35,000 discrepancy between the Federal expenditure amount reported in the audited SEFA for the year ended October 31, 2015 (\$1,107,410) compared to the audited *Statement of Activities and Changes in Net Assets* for the year ended October 31, 2015 (\$1,142,410).

We requested an explanation from the Council concerning this discrepancy. In response to our request, the IPA explained that an error was uncovered in their workpaper, which was used to calculate the expenditure amounts shown on the SEFA. The IPA asserted that the financial

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<sup>3</sup> 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.

statements and the Federal Financial Reports were prepared correctly<sup>4</sup>; the expenditure amounts reflected in the audited SEFAs are incorrect.

OMB *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Subpart F) stipulates that the auditee (i.e., 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 auditee must also prepare a SEFA for the period covered by the auditee's financial statements. Representations made in the financial statements and SEFA must be supported by the auditee's financial management system.

As the Council's oversight agency, NEH-OIG will not accept the FY 2016 nor the FY 2015 single audit report submissions until the discrepancies discussed above are addressed and corrective action taken to include resubmission of the single audit reporting packages to the FAC. Please contact FAC support staff for assistance with the single audit resubmission process since special procedures must be followed, (800-253-0696 or [govs.fac@census.gov](mailto:govs.fac@census.gov)).

The discrepancies noted during our desk review are troubling. Accordingly, we expect the Council to maintain a financial management system sufficient to support the preparation of reliable financial statements and SEFAs, as required by OMB guidance.<sup>5</sup> We further expect the IPA to strengthen their audit testing procedures to ensure that all elements of the Council's single audit reporting package comply with accounting standards and Federal audit requirements. We request that Council management provide the NEH-OIG with a written corrective action plan regarding 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 Audit Partner at Kessler, Orlean, Silver & Company, P.C. to inform him of the results of our review.

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<sup>4</sup> We determined during our desk review that the Federal expenditure amount included in the annual Federal Financial Report submitted by the Council for the period ended October 31, 2016 reconciles to the audited FY 2016 financial statements, without exception.

<sup>5</sup> According to 2 CFR Section 200.302, financial management systems maintained by non-Federal entities must be sufficient to permit the preparation of reports required by general and program-specific terms and conditions; and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award. The financial management system must provide for:

1. Identification, in its accounts, of all Federal awards received and expended and the Federal programs under which they were received.
2. Accurate, current, and complete disclosure of the financial results of each Federal award or program.
3. Records that identify adequately the source and application of funds for federally-funded activities.
4. Effective control over, and accountability for, all funds, property, and other assets.
5. Comparison of expenditures with budget amounts for each Federal award.
6. Written procedures to implement the requirements of 2 CFR Section 200.305 – *Payment*.
7. Written procedures for determining the allowability of costs in accordance with Subpart E of 2 CFR Part 200 (*Cost Principles*), and the terms and conditions of the Federal award.

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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:**

**Auditor:**

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