



NATIONAL ENDOWMENT FOR THE  
**Humanities**

OFFICE OF INSPECTOR GENERAL

August 21, 2018

**RETURN RECEIPT REQUESTED**

Board of Directors  
Oregon Humanities  
921 SW Washington Street; Suite 150  
Portland, OR 97205  
Attn: [REDACTED], Chair

OIG Report Number: OIG-18-07 (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 Gary McGee & Co. LLP (the "IPA"), which includes Federal assistance programs administered by Oregon Humanities (the "Council") during the organization's fiscal year (FY) ended October 31, 2017. The independent auditors previously furnished a copy of their audit report dated April 9, 2018, to the Council. The Federal Audit Clearinghouse accepted the single audit reporting package on May 22, 2018. The IPA issued unmodified opinions<sup>1</sup> 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 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 assign a rating of either a **Pass**, **Pass with Deficiencies**, or **Fail**. Audit reports receiving a **Fail** rating require corrective action.

We assigned a rating of **Pass with Deficiencies** to the FY 2017 reporting package. We determined that the audit report generally meets Federal reporting requirements, with the following exceptions:

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<sup>1</sup> **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.

**1. The Note to the Schedule of Expenditures of Federal Awards Regarding the Council's Use of the 10% De Minimis Cost Rate is Misleading**

According to Subpart F of 2 CFR Part 200, the Council must prepare a schedule of expenditures of Federal awards (SEFA) for the period covered by the organization's financial statements, which must include a note that states whether or not the Council elected to use the 10% de minimis cost rate covered in the regulations.<sup>2</sup> The note accompanying the audited SEFA for fiscal year ended October 31, 2017 indicates that the Council elected to use the 10% de minimis cost rate.

According to Council management, the organization has never held a negotiated indirect cost rate. The de minimis cost rate disclosure in the notes to the SEFA was based on an interpretation of Office of Management and Budget (OMB) Uniform Guidance, which appeared to suggest that such a disclosure should be made by all organizations that do not have a negotiated rate. However, Council management clarified that the organization has not elected or used the 10% de minimis cost rate.

**2. 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<sup>3</sup> 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.

NEH *General Terms and Conditions for General Support Grants to State Humanities Councils* requires 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. Councils use the FFR as a standardized format to report expenditures under Federal awards, 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.<sup>4</sup> 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

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<sup>2</sup> In accordance with 2 CFR section 200.414(f)\_Indirect (F&A) costs, any non-Federal entity that has never received a negotiated indirect cost rate may elect to charge a de minimis rate of 10% of modified total direct costs, which may be used indefinitely. However, costs must be consistently charged as either indirect or direct costs, but may not be double-charged or inconsistently charged as both. Upon election, this methodology must be used consistently for all Federal awards until such time as the entity chooses to negotiate for a rate, which the entity may do at any time.

<sup>3</sup> 2 CFR section 200.514(d)

<sup>4</sup> 2 CFR section 200.302(a)



attests to being aware that any false, fictitious, or fraudulent information may subject the Council to criminal, civil, or administrative penalties.<sup>5</sup>

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, the IPA provided a copy of workpapers that document their testing of the Council's compliance with Federal financial reporting requirements, which included a workpaper that documents the IPA's review of an FFR related to NEH award SO-253155-17. The IPA determined that the FFR was without error and concluded that the Council had adopted sufficient policies and procedures to provide assurance that Federal reporting requirements are monitored and adhered to by the organization.

We reviewed the FFR that the IPA selected for testing, and we noted an error concerning the preparation of the report. Specifically, information provided in the "Federal Cash" section<sup>6</sup> of the FFR varies from NEH records. The Council reported "Cash Receipts" (Line "a" of the FFR) in the amount of \$764,817. However, according to NEH accounting records, as of the end of the reporting period covered by the FFR (i.e., October 31, 2017), total cumulative disbursements to the Council related to the grant award was \$694,817 -- a discrepancy of \$70,000. This discrepancy was not identified by the IPA; rather, it appears from the workpaper that the IPA verified the amount reported as correct.

Furthermore, there is no evidence in the IPA's workpaper that the amount reported as "Federal share of expenditures" (Line "e" of the FFR) is supported by the underlying accounting records and is fairly presented in accordance with governing requirements.

Moving forward, we expect Council management to immediately implement new controls and provide staff with the necessary training to ensure all future FFR submissions are complete and accurate.

Please be advised that there is no need to revise the FY 2017 audit report and resubmit the single audit reporting package to the FAC since NEH represents the Council's only source of Federal funds. We will alert NEH management of the exceptions noted during our desk review. However, the NEH-OIG may deem future reports with similar concerns as unacceptable.

We are sending a copy of this letter to the Managing Partner at Gary McGee & Co. LLP to inform him of the results of our review.

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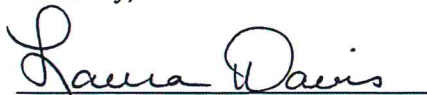
<sup>5</sup> Title 18 U.S. Code, Section 1001

<sup>6</sup> The "Federal Cash" section tracks and facilitates the reporting of Federal cash status concerning the grant award, as of the end of the reporting period. This section includes the cumulative amount of actual cash received from the Federal agency, cumulative amount of Federal fund disbursements by the awardee (such as cash or checks), and cash on hand (which represents the immediate cash needs of the awardee).

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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,



Laura Davis  
Inspector General

**Distribution List:**

**Auditor:**

, Managing Partner  
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