



NATIONAL ENDOWMENT FOR THE

Humanities

OFFICE OF INSPECTOR GENERAL

August 26, 2011

RETURN RECEIPT REQUESTED

Board of Directors
California Council for the Humanities
312 Sutter Street, Suite 601
San Francisco, CA 94108
Attn: Curtis F. Shepard, Board Chair

Audit Report: OIG-11-17 (DR)

Dear Board Members:

We have completed our desk review of the single audit report prepared by Izabal, Bernaciak & Company, which includes the Federal assistance programs administered by the California Council for the Humanities (the "Council"), for the year ended October 31, 2009. The independent auditors (IPA) previously furnished a copy of their audit report to the Council and submitted the related reporting package to the Federal Audit Clearinghouse. The IPA issued an unqualified opinion (both GAAP and single audit) with no reportable current year findings.

Our review was limited to an examination of the IPA's audit report. We did not examine the underlying audit documentation to evaluate the adequacy of the audit work performed; rather, the single audit desk review guide, 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 OMB Circular A-133. Audit reports determined to be *technically deficient* or *unacceptable* will require corrective action.

We determined that the October 31, 2009 audit report generally meets Federal reporting requirements, with the following exception:

- OMB Circular A-133.310(b)(5) states that pass-through entities, to the extent practical, should identify the total amount of funding provided to subrecipients from each Federal program. NEH's Federal/State Partnership grants (CFDA #45.129, "SO" prefix) include specific funding for regrants, which are awarded by the Council to subrecipients on an annual basis. Similarly, the approved grant budget for the current "We The People" award (CFDA #45.168, "BC" prefix) includes pass-thru funding. In fact, according to the audited statement of functional expenses, the Council issued [REDACTED] in grant awards during the fiscal year. However, we noted that the SEFA did not include any disclosure concerning federally-funded subrecipient awards.

We will accept this single audit report on the condition that the above deficiency is addressed and corrected during the Council's next audit (i.e. December 31, 2011). Future audit reports that include improperly prepared SEFA's will be deemed unacceptable submissions by the NEH Office of Inspector General (OIG).

Letter to the Board of Directors

August 26, 2011

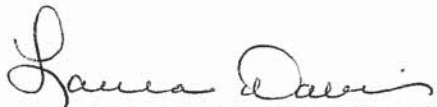
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In a separate matter, we determined that the deferred revenue balance reported on the October 31, 2009 statement of financial position represented the net activity associated with the NEH Federal/State Partnership grants (CFDA #45.129 - "SO" awards). Specifically, the [REDACTED] balance consisted of a [REDACTED] receivable related to the current NEH award (grant [REDACTED]) and [REDACTED] in deferred revenue related to the previous award (grant [REDACTED]) which expired on October 31, 2009. Based upon this analysis and a detailed workpaper provided by the IPA, it appears that the [REDACTED] needs to be returned to NEH since the funds were not fully expended as of the grant expiration date. Council management, which was notified of the discrepancy in July 2011, is actively working with the IPA to resolve the matter. Once the internal investigation has concluded, please report back to both our office (OIG) and Robert Straughter in the NEH Office of Grants Management. Mr. Straughter can be reached at rstraughter@neh.gov or (202) 606-8237.

Please note that we are sending this letter to the auditors to inform them of the results of our review.

If you have any questions concerning this letter or need accounting assistance, please contact Mr. Steve Elsberg at (202) 606-8353 or via email at selsberg@neh.gov.

Sincerely,



Laura Davis
Acting Inspector General

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