



NATIONAL ENDOWMENT FOR THE
Humanities

OFFICE OF INSPECTOR GENERAL

July 1, 2015

RETURN RECEIPT REQUESTED

Board of Directors
Maryland Humanities Council
108 West Centre Street
Baltimore, MD 21201-4565
Attn: [REDACTED], Board Chair

OIG Report Number: OIG-15-10 (DR)

Dear Board Members:

We have completed our *Desk Review* of the single audit report prepared by Mr. Randall Snyder, CPA, which includes the Federal assistance programs administered by the Maryland Humanities Council (the "Council"), for the year ended October 31, 2014. The independent auditor (IPA) previously furnished a copy of his audit report (dated December 10, 2014) to the Council and submitted the related reporting package to the Federal Audit Clearinghouse. The IPA issued unmodified opinions¹ regarding the Council's financial statements and compliance with Federal requirements. Furthermore, no reportable findings were identified.

Our review was limited to an examination of the audit report; correspondence and/or phone conversations with the IPA and Council staff; and review of applicable NEH grant files and accounting records. We did not examine the underlying audit documentation to evaluate the adequacy of the audit work performed; rather, the *Guide for Desk Reviews of OMB Circular A-133 Audit Reports (2015 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) Circular A-133. Audit reports receiving a *Fail* rating require corrective action.

We determined that the audit report generally meets Federal reporting requirements, with the following exception.²

¹ 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 standards and the Federal requirements stipulated in OMB Circular A-133: *Audits of States, Local Governments, and Non-Profit Organizations*.

² Of the three possible conclusions applicable to a single audit desk review, the NEH-OIG has concluded that the Council's FY2014 audit report meets the *Pass with Deficiencies* criteria, [i.e. "the report contains quality deficiencies that should be brought to the attention of the auditor (and auditee) for correction in future audits."]

Reporting of Regrantee Cost-Share

The Council tracks the cumulative value of reported regrantee cost-share and reflects the amount in the core financial statements. Specifically, \$ [REDACTED] was reported as both a revenue and an expense in the *Statement of Activities*.³ Although there is no bottom line impact to net income, this approach inflates the scope of the entity's operations and fails to comply with generally accepted accounting principles (GAAP). Under GAAP, contributed services should only be recognized in the core financial statements when the auditee represents the primary beneficiary of the donated services and certain other specific criteria are met. To fully comply with the accounting standards, the regrantee cost-share amount should be removed from the face of the financial statements and simply reported as a footnote disclosure.

We understand the Council adopted the aforementioned presentation approach based upon an illustration in the NEH-OIG *Accounting System Manual for State Humanities Councils (the "Manual")*. We ultimately determined that this *Manual* contains an error which led to the confusion.⁴ NEH expects Councils to comply with GAAP, therefore the mistake identified in the *Manual* will be promptly corrected by the NEH-OIG.

Adopting the revised presentation described above should be rather painless for the Council since there is no need to adjust beginning net assets. As such, the revised reporting of regrantee cost-share can be implemented on a prospective basis beginning with the fiscal year ending October 31, 2015.

Other Comments

In addition to the aforementioned matter that directly impacted the *Desk Review* opinion, we also identified another matter that warrants the attention of the Endowment's Board and management.

Low-Risk Status: Single Audits

An entity subject to a single audit can qualify for low-risk status if certain conditions are met. The amount of required testing associated with Federal programs decreases as a result of this low-risk designation. Normally, the IPA must test at least fifty percent of the total Federal expenditures reported on the Schedule of Expenditures of Federal Awards (SEFA). However, when an entity meets low-risk criteria, the testing requirement is reduced to twenty-five percent, possibly resulting in a more cost efficient single audit.⁵

One of the low-risk criteria stipulates that the single audit reporting package, for the two preceding fiscal years, must be submitted to the Federal Audit Clearinghouse (FAC) within the lesser of nine months of the auditee's fiscal year-end or thirty days of receipt of the audit report. We determined that the FY2012 and FY2013 FAC submissions were delinquent (i.e. uploaded more than thirty

³ The related expense was also reported in the *Statement of Functional Expenses* (see the "Cost Sharing" line item).

⁴ The actual examples in the *Manual* properly stipulate that regrantee cost-share entries should be 1) recorded as "memorandum only" transactions; and 2) used to prepare the Federal Financial Report(s) required by NEH. Unfortunately, the *Manual* erroneously reports the associated regrantee cost-share amount in the illustrative *Statement of Activities* (Schedule 4B - p.71) template rather than limiting disclosure to a financial statement footnote.

⁵ The new *Uniform Guidance (Subpart F, Section 200.518)*, which is effective for fiscal years ending after December 26, 2014, reduces the single audit testing requirements to 40 percent and 20 percent, respectively.

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days after the audit report date). Additionally, the FAC acceptance date associated with the current (FY2014) audit also exceeded the thirty-day rule. Accordingly, the Council will not be in a position to qualify as a low-risk auditee for the foreseeable future.

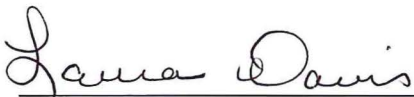
Fortunately, the major program (CFDA #45.129 - NEH General Support Grant) exceeded fifty percent of total Federal expenditures, therefore the failure to obtain low-risk status did not impact the Council during FY2014. Moving forward, we strongly recommend the Council work towards the low-risk designation and implement new safeguards to ensure the timely submission of the single audit reporting package. Once achieved, the low-risk designation should ultimately result in lower audit fees for the Council due to the reduced amount of audit coverage required.

Please note that OMB Memorandum M-10-14 prevents an Agency from granting waivers to this rule.

Please be advised that we are sending a copy of this letter to the IPA to inform him 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
Inspector General

Distribution List:

Auditor:

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