

OFFICE OF INSPECTOR GENERAL

January 8, 2013

**RETURN RECEIPT REQUESTED**

Board of Directors  
Colorado Humanities  
7935 E. Prentice Ave., Suite 450  
Greenwood Village, CO 80111-2708  
Attn: [REDACTED] Board Chair

OIG Report Number: OIG-13-02 (DR)

Dear Board Members:

We have completed our desk review of the single audit report prepared by Davis & Company, CPAs, which includes the Federal assistance programs administered by Colorado Humanities (the "Council"), for the year ended October 31, 2011. 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 (FAC). The IPA issued an unqualified opinion (both financial statements 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 (2010 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 determined to be *technically deficient* or *unacceptable* require corrective action.

We determined that the audit report generally meets Federal reporting requirements<sup>1</sup>, with the following exceptions:

**1. Schedule of Expenditures of Federal Awards (SEFA):**

- a. In accordance with OMB Circular A-133.310(b)(3), the SEFA must provide total Federal awards expended for each individual Federal program administered by the Council during the period covered by the financial statements. This information is used as a basis by the IPA to identify the Federal grants that require detailed testing (i.e. "major programs"). Accordingly, it's imperative that these amounts be properly reported on the SEFA.

We determined that the Federal expenditures reported on the SEFA (FY2011 and prior years) erroneously represent Federal grant revenue rather than the associated expenses. Furthermore, the FY2011 SEFA completely omits information concerning the National Endowment for the Humanities (NEH) "We The People" program, (CFDA 45.168). According to Note 7 to the financial statements, \$10,017 was expended under the program during the fiscal year ended October 31, 2011.

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<sup>1</sup> Of the four possible conclusions applicable to a single audit desk review, the NEH OIG has concluded that the Council's FY2011 audit report is *Acceptable with Deficiencies*, [i.e. the report contains quality deficiencies that should be brought to the attention of the auditor (and auditee) for correction in future audits]."

To assess the impact of the aforementioned errors, an analysis was performed going back to FY2009; the cumulative effect of the inaccurate reporting resulted in the overstatement of Federal expenditures, for this three year period, by approximately \$35,000.

- b. OMB Circular A-133.310(b)(4) requires the inclusion of a summary note (i.e. "Basis of Presentation") that describes the significant accounting policies used in preparing the SEFA. The FY2011 SEFA omitted this required disclosure.
- c. 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 on the Schedule of Expenditures of Federal Awards (SEFA). Two NEH programs administered by the Council, [Federal/State Partnership (CFDA #45.129) and "We The People" (CFDA #45.168)], include specific funding for regrants which are awarded by the Council to subrecipients on an annual basis. In fact, according to the audited Statement of Activities, the Council incurred over \$ [REDACTED] in "Regrants" expense during the fiscal year ended October 31, 2011. However, we noted that the SEFA did not include any disclosure concerning federally-funded subrecipient awards.

The fact that these errors were missed by both the Council's management and the IPA is troubling. Fortunately, the above errors were not material enough to adversely impact the core single audit testing (to include major program selection) performed by the IPA. Accordingly, we will accept the FY2011 single audit report on the condition that both the Council and the IPA strengthen internal controls associated with the preparation and audit of the SEFA. To document this process, please provide the OIG with a written corrective action plan regarding the noted deficiencies within 30 days of receipt of this letter.

## **2. Timely Submission of Audit Report to the Federal Audit Clearinghouse (FAC):**

In accordance with OMB Circular A-133.320, a single audit must be completed and successfully submitted to the FAC within nine months of the auditee's fiscal year-end. If a grantee does not comply with this standard in either of the previous two years, the organization is precluded from qualifying for "low-risk" status<sup>2</sup>.

According to the October 31, 2011 *Schedule of Findings and Questioned Costs*, the Council was treated as a low-risk auditee by the IPA. However, the FY2010 single audit package was not successfully submitted to the FAC until December 2012 (as a result of our Desk Review). Therefore, the low-risk classification was made in error. Fortunately, the IPA's major program selection enabled the IPA to effectively satisfy the 50 percent audit coverage requirement therefore there is no need to reopen the audit and perform additional testing.

In a similar fashion, there were delays with the FY2011 submission to the FAC. Technically, the IPA needs to treat the Council as a high-risk entity during the upcoming FY2012 audit to comply with OMB guidance noted above. However, we determined that both the FY2010 and FY2011 audits were completed within the nine month timeframe<sup>3</sup> therefore we will provide the Council with a one-time exemption.

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<sup>2</sup> When an organization qualifies for low-risk status under OMB Circular A-133, the IPA is only required to test Federal programs that encompass at least 25 percent of the total Federal expenditures for the fiscal year. If an organization does not qualify for low-risk status, the IPA must test Federal programs that encompass at least 50 percent of the total Federal expenditures.

<sup>3</sup> The annual audit reports were completed in a timely fashion by the IPA (month of April); however, the administrative process involved with submitting the single audit package to the FAC broke down, resulting in the Desk Review finding.

The two late submissions make it clear that the Council must implement new controls over this process. To document this process, please provide the OIG with a written corrective action plan regarding the noted deficiency within 30 days of receipt of this letter.

### **3. Single Audit Reporting -- Format and Language:**

The IPA omitted certain standardized language from the Single Audit reports that clarifies the difference between a control deficiency, significant deficiency, and material weakness<sup>4</sup>. Although the revised wording used by the auditor does not impact the overall readability of the audit reports, we strongly recommend that the standard wording approved by the Office of Management and Budget (OMB) and the American Institute of Certified Public Accountants (AICPA) be utilized in future Single Audit reports.

Furthermore, the Council opted to issue two separate, stand-alone audit reports: 1) non-profit financial statements; and 2) the A-133 reports. Although this approach is allowable under auditing standards, we encourage the Council to adopt the more conventional consolidated reporting format, in which both the financial statements and the Single Audit reports are combined. This will prevent any potential confusion, from the user standpoint, as to whether a Single Audit was performed (in any given year) and will be consistent with audit reporting practices utilized within the state humanities council community.

Future OMB Circular A-133 audit reports that include improperly prepared SEFA's will be deemed unacceptable submissions by the NEH Office of Inspector General and late submissions to the FAC will jeopardize the Council's current "low-risk" status in regards to Single Audit testing.

Please note that we are sending this letter to the audit partner at Davis & Company 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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<sup>4</sup> Specifically, the AICPA Audit Guide entitled *Government Auditing Standards and Circular A-133 Audits (October 2009 Edition)*, Sections 4.28(d) and 13.23(n), states that both the "Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards" and the "Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133" should incorporate language defining a deficiency in internal control and a significant deficiency.