



NATIONAL ENDOWMENT FOR THE
Humanities

OFFICE OF INSPECTOR GENERAL

February 18, 2015

RETURN RECEIPT REQUESTED

Board of Directors
Alabama Humanities Foundation
1100 Ireland Way, Suite 202
Birmingham, AL 35205
Attn: [REDACTED], Board Chair

OIG Report Number: OIG-15-05 (DR)

Dear Board Members:

We have completed our desk review of the single audit report prepared by Borland Benefield, CPAs, which includes the Federal assistance programs administered by the Alabama Humanities Foundation (the "Council"), for the year ended December 31, 2013. The independent auditors (IPA) previously furnished a copy of their audit report (dated May 2, 2014) to the Council and submitted the related reporting package to the Federal Audit Clearinghouse. The IPA issued unmodified opinions¹ regarding the financial statements and Federal compliance, and drafted one reportable finding related to financial statement preparation.

Our review was limited to email/phone exchanges with the IPA and the Council's Executive Director, and an examination of (1) the 2013 audit report, (2) NEH accounting records, and (3) single audit reports previously submitted by the Council. 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 (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.

Due to identified deviations from generally accepted accounting principles (GAAP), involving the temporarily restricted net asset presentation in the *Statement of Financial Position, Statement of Activities*, and the *Combining Statement of Financial Position by Fund Type*, we deem the December 31, 2013 reporting package to be unacceptable.² Accordingly, the audit report must be revised and resubmitted to the Federal Audit Clearinghouse.

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

² There are four possible conclusions applicable to a single audit desk review: Acceptable; Acceptable with Deficiencies; Technically Deficient; and Unacceptable. The NEH-OIG has concluded that the Council's FY2013 audit report represents an unacceptable submission since the "report contains quality deficiencies that require the auditor to conduct additional work to support the opinions in the report under review."

Material Departure from GAAP: Presentation of Net Asset Balances

In accordance with OMB Circular A-133 (*Audits of States, Local Governments and Non-Profit Organizations*), the auditor shall include an opinion on whether the financial statements are presented fairly in all material respects in conformity with GAAP.

In FY2013, the IPA issued an unmodified audit opinion stating that the financial statements materially complied with GAAP. The notes to the financial statements (*Note 1: Summary of Significant Financial Accounting Policies - Basis of Presentation*) emphasize that the Council adheres to accounting guidelines specific to nonprofits.³ These guidelines require entities to classify inflows as either unrestricted, temporarily restricted, or permanently restricted revenues based upon donor intent. Any purpose and/or time restrictions imposed by donors must be satisfied before a nonprofit can release the funds from restricted to unrestricted status. This monitoring is achieved through the use of the various net asset categories.

Based upon our review, we determined that the financial statements materially misstate the December 31, 2013 temporarily restricted net asset balance associated with Federal grant awards. Specifically, this balance must be recalculated and restated to properly conform with GAAP. After conferring with the IPA, the audit partner agrees that the amount was erroneously reported and requires correction. However, some uncertainty remains concerning the correct ending balance. Accordingly, we ask that Council management review the attached spreadsheet (see Appendix A) and assist the IPA in making a final determination concerning the December 31, 2013 temporarily restricted net asset balance. Since the net asset balances carry forward from year to year, it is critical that the Council resolve this matter prior to initiating the FY2014 single audit.

In conjunction with the restatement, we fully expect the IPA to issue a new finding documenting the identified weakness in internal controls over financial reporting. Please note that the IPA should conduct this work and provide the revised/reissued single audit report at no additional cost to the Council.⁴

Once the December 31, 2013 net asset balances are finalized, please submit the revised single audit reporting package to our office for review. Once the OIG is satisfied that the net asset discrepancy has been properly resolved, we will formally approve the Council's 2013 audit and authorize the IPA to upload the revised single audit reporting package to the Federal Audit Clearinghouse. Depending upon the outcome of this process, the OIG reserves the right to potentially expand this Desk Review into a more intensive Quality Control Review which entails both a site visit to the IPA's office and a detailed review of the of auditor's working papers.

Other Matter(s):

In addition to the material discrepancy previously discussed, the Desk Review also identified two lower impact issues. Moving forward, the following disclosures must be incorporated into all future audit reports beginning with the fiscal year ending December 31, 2014.

³ Accounting standards associated with nonprofit organizations issued by the Financial Accounting Standard Board (FASB). The applicable guidance documented in Section 958 (*Not-for-Profit Entities*) of the Accounting Standards Codification (ASC).

⁴ With respect to reissuance of the audit report, the IPA should consult the following "AU-C" sections of the new clarity standards: 585 (*Consideration of Omitted Procedures After the Report Release Date*) and 935 (*Compliance Audits*).

A. Schedule of Expenditures of Federal Awards (SEFA):

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. The current NEH Federal/State Partnership awards (CFDA #45.129, "SO" prefix) include specific funding for regrant⁵ which are awarded by the Council to subrecipients on an annual basis. According to the audited *Statement of Functional Expenses*, the Council issued over [REDACTED] in regrant during the fiscal year ended December 31, 2013. However, we noted that the SEFA lacked any disclosure concerning the value of Federally-funded regrant awards made to subrecipients.

Please be advised that Council management is responsible for preparing the SEFA schedule and the related footnote disclosures, not the IPA, as stipulated by Section .300 of OMB Circular A-133. Accordingly, the Council must implement new procedures to ensure this information is tracked and properly presented on the SEFA moving forward.

B. Financial Statement Footnote Disclosure ~ Accounting Methodology Applied To Federal Grants [Per Note 1: *Summary of Significant Financial Accounting Policies - Expendable Restricted Resources*]:

The narrative used with this disclosure is somewhat misleading. Based upon our review, the Council initially records NEH grant revenue (temporarily restricted) when the Agency issues funding amendments, not when the related expenses are incurred. To prevent confusion, we recommend the wording be amended to clarify that the grant revenue is released from restriction when the Council incurs the related grant expenditures.

Please note that we are sending this letter to the audit partner at Borland Benefield 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 Elsborg at (202) 606-8353 or via email at selsberg@neh.gov.

Sincerely,



Laura Davis
Inspector General

Distribution List:

Auditor:

[REDACTED], CPA
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⁵ The approved NEH awards (SO-50400-11 & SO-50579-14) include regrant allocations totaling \$231,400 for the two Federal fiscal years ended October 31, 2013 and 2014 which span the Council's fiscal year.