



NATIONAL ENDOWMENT FOR THE

Humanities

OFFICE OF INSPECTOR GENERAL

May 30, 2017

RETURN RECEIPT REQUESTED

Board of Directors
South Carolina Humanities Council, Inc.
2711 Middleburg Drive, Suite 203
Columbia, SC 29204
Attn: [REDACTED], Chair

OIG Report Number: OIG-17-04 (DR)

Dear Board Members:

We have completed a Desk Review of the single audit report prepared by Burkett Burkett & Burkett Certified Public Accountants, P.A., which includes the Federal assistance program administered by the South Carolina Humanities Council, Inc. (the "Council"), for the fiscal year ended October 31, 2015 (FY 2015). The independent auditor (IPA) previously furnished a copy of their audit report dated October 5, 2016, to the Council. The related reporting package was accepted by the Federal Audit Clearinghouse (FAC) on March 13, 2017. The IPA issued unmodified opinions¹ regarding the financial statements and compliance with Federal requirements. Furthermore, no written findings were issued in conjunction with the single audit.

Our review was limited to an examination of the audit report, 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, 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.

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

We assigned a rating of *Fail*² for the FY 2015 audit report due to the unrecognized, material deviation from generally accepted accounting principles (GAAP), involving the presentation of Federal grant revenue. Accordingly, the reporting package and related Data Collection Form (Form SF-SAC) must be revised and resubmitted to the FAC.

Material Departure from GAAP: Federal Grant Revenue

In accordance with OMB Circular A-133, the auditor shall issue a report that includes an opinion as to whether the financial statements are presented fairly in all material respects in conformity with GAAP³.

On October 5, 2016, the IPA issued an unmodified audit opinion stating that the FY 2015 financial statements are presented, in all material respects, in accordance with GAAP. The notes to the financial statements (*Note 1: Summary of Significant Financial Accounting Policies*) further emphasize that, "the financial statements of the Organization have been prepared on the accrual basis of accounting." However, revenue associated with the Council's Federal grant is presented in the audited Statement of Activities on a cash basis rather than on the accrual basis, consistent with GAAP.⁴ Since the variance between these two approaches represents a material amount,⁵ the:

- audit opinion needs to be modified to reflect an adverse opinion; or
- audit opinion needs to stipulate that the financial statements were prepared using a comprehensive basis of accounting (OCBOA) that does not materially conform to GAAP;⁶ or
- Federal grant revenue must be restated and presented on an accrual basis.

The IPA will also need to issue a written finding documenting the Council's weakness in internal control over financial reporting.

² There are three possible conclusions applicable to a single audit desk review -- Pass; Pass with Deficiencies; or Fail. The NEH-OIG has assigned a "Fail" rating to the FY2015 audit report since the report contains quality deficiencies that affect the reliability of the audit report and may require the auditor to conduct additional audit work to support the opinions in the report.

³ OMB Circular A-133, Subpart C, § .505, *Audit Reporting*

⁴ Accrual based accounting requires revenue to be recognized when earned. Under the cash basis approach, an organization does not record revenue until cash is received.

⁵ See Appendix A for a detailed analysis.

⁶ OMB Circular A-133 requires the IPA to issue an opinion as to whether the financial statements are presented fairly in all material respects in conformity with GAAP. Some non-profits may find that financial statements prepared on the cash basis or the modified cash basis of accounting are adequate for their governing boards and other users. AU section 623, *Special Reports*, describes the IPA's reporting requirements when the financials are prepared on a comprehensive basis of accounting other than GAAP (OCBOA). Since the accrual basis of accounting is required by GAAP, financial statements presented on an OCBOA basis can only be considered to be in conformity with GAAP if they do not differ materially from financials prepared on an accrual basis.

Other Desk Review Finding

Untimely Submission of the FY 2015 Single Audit Reporting Package to the FAC

OMB Circular A-133 stipulates that the audit shall be completed and the data collection form and reporting package shall be submitted to the FAC within the earlier of 30 days after receipt of the IPA's report, or nine months after the end of the audit period.⁷

The Council submitted its FY 2015 single audit reporting package to the FAC on March 13, 2017, (just over sixteen months after the end of its FY 2015). The reporting package was submitted to the FAC after we contacted the Council to inquire of its status. The Council explained that the delinquency was due to an oversight. Consequently, since the FY 2015 reporting package was not submitted to the FAC in a timely manner, the Council does not qualify as a low-risk auditee for a single audit of fiscal years ending October 31, 2016 and October 31, 2017.

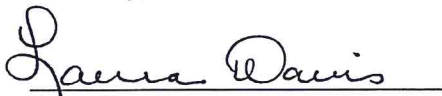
As the Council's oversight agency, NEH-OIG will not accept the FY 2015 single audit reporting package until the above deficiencies are addressed and corrective action taken to include resubmission of the single audit reporting package and the related data collection form (Form SF-SAC) to the FAC. Please contact FAC support staff for assistance with the single audit resubmission process since special procedures must be followed, (800-253-0696 or govs.fac@census.gov).

We expect the Council to strengthen internal control associated with grant revenue recognition and timely submission of Federal audit reports. To document this process, we request that Council management provide the NEH-OIG with a written corrective action plan that addresses the identified deficiencies within 30 days of receipt of this letter.

Please be advised that we are sending a copy of this letter to Burkett Burkett & Burkett, Certified Public Accountants to inform the firm of the results of our review.

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.

Sincerely,



Laura Davis
Inspector General

Distribution List:

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⁷ OMB Circular A-133, Subpart C, §_.320, *Report Submission*

Appendix A - NEH Grant Revenue Analysis

During FY 2015, Federal grant activity at the South Carolina Humanities Council was funded through NEH general operating support grant SO-50561-13. The Council has elected to recognize revenue from this NEH award based on cash received from the NEH. Thus revenue from Federal grant activity is presented in the Council's FY 2015 audited financial statements on a cash basis,⁸ rather than the accrual basis, in conformity with GAAP.

Throughout the state humanities council community, two predominant accrual-based methodologies are utilized to recognize Federal grant revenue.

1. The more common methodology is to recognize revenue as the NEH Office of Grant Management issues the individual "Notices of Action" amendments throughout the life of the general operating support grant (i.e., "contribution" approach). When using this methodology, Federal grant revenue would be recorded as a temporarily restricted net asset, based upon the notifications of grant award funding. As allowable expenditures are incurred, the assets are released from program restrictions and the corresponding funds would be reclassified from temporarily restricted net assets to unrestricted net assets.⁹
2. The second methodology is to recognize revenue as valid grant expenses are incurred (i.e., "exchange transaction" approach). When using this methodology, as allowable expenditures are incurred, Federal grant revenue would be recorded as unrestricted and a related receivable would be created.

To determine if the grant revenue variances between cash and accrual basis accounting was "material" to the financial statements, we took the following steps. Based upon our completion of the *Financial Statement Materiality Worksheet* template (issued by PPC - a major third party firm that supplies audit resources to the IPA community), we determined that a financial statement error in excess of \$17,000 represents a "material" amount for FY 2015. We then a) calculated Federal grant revenue under both approaches; b) compared these amounts to the cash basis amount reported in the audited financials; and c) determined if the variance exceeded the calculated "materiality" level. Based upon our results (see following tables), the FY 2015 variance between the cash and accrual approach (i.e., "contribution" approach) to grant revenue recognition exceeds the materiality threshold.¹⁰

⁸ According to the IPA, as part of its audit, the timing of cash receipts near year-end and several large deposits after year-end were reviewed and compared to FY 2015 expenditures. The IPA concluded that overall, Federal expenditures exceeded Federal cash receipts by about \$6,000, which represents a carryover from the previous fiscal year. Therefore, no receivable was considered necessary as of October 31, 2015. The IPA indicated that this approach was also used to evaluate the completeness of Federal grant revenues and receivables for prior audits.

⁹ Since full funding of the multi-year "SO" awards is contingent upon the NEH receiving anticipated appropriations from Congress each year, the grant revenue is recognized throughout the first three years of the respective award period, as the NEH Office of Grant Management formally authorizes funding (rather than entirely upon award notification).

¹⁰ Presentation of Federal grant revenue as a temporarily restricted net asset in the FY 2015 audited financial statements is consistent with the "contribution" approach for revenue recognition.

Accrual Basis – “Contribution” Approach

Fiscal Year	Calculated Materiality	NEH Awards (2013-2015)	Grant Revenue Per Council	NEH Grant Amendments	Variance
<i>Desk Review Year:</i>					
FY2015	\$17,000.00	SO-50561-13	\$669,970	\$709,970	(\$40,000)
<i>Other Years SO-50561-13 Grant was Active</i>					
FY2014	\$16,000.00	SO-50561-13	\$645,530	\$719,970	(\$74,440)
FY2013	\$16,000.00	SO-50561-13	\$350,000	\$645,530	(\$295,530)
		SO-50388-10	\$353,040	\$ -	\$353,040
Cumulative Reporting			\$2,018,540	\$2,075,470	(\$56,930)

Accrual Basis – “Exchange Transaction” Approach

Fiscal Year	Calculated Materiality	Grant Revenue Per Council	Total Grant Expenditures*	Variance
<i>Desk Review Year:</i>				
FY2015	\$17,000	\$669,970	\$676,071	(\$6,101)
<i>Other Years SO-50561-13 Grant was Active</i>				
FY2014	\$16,000	\$645,530	\$612,154	\$33,376
FY2013	\$16,000	\$703,040	\$639,251	\$63,789
Cumulative Reporting for SO-50561-13 Grant Period		\$2,018,540	\$1,927,476	\$91,064

*Per Schedule of Expenditures of Federal Awards (SEFA)