



NATIONAL ENDOWMENT FOR THE
Humanities

OFFICE OF INSPECTOR GENERAL

September 28, 2018

RETURN RECEIPT REQUESTED

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

OIG Report Number: OIG-18-09 (DR)

Dear Board Members:

The National Endowment for the Humanities (NEH) Office of Inspector General (OIG) has completed a desk review of the single audit report prepared by Davis & Co., CPAs, P.C. (the "IPA"), which includes Federal assistance programs administered by Colorado Humanities (the "Council") during the organization's fiscal year (FY) ended October 31, 2017. The independent auditors previously furnished a copy of their audit report dated May 14, 2018, to the Council. The Federal Audit Clearinghouse (FAC) accepted the single audit reporting package on July 30, 2018. The IPA issued unmodified opinions¹ regarding the financial statements and compliance with Federal requirements. Furthermore, the IPA issued no written findings in conjunction with the single audit.

Our review was limited to an examination of the single audit reporting package, 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, we used the *Guide For Desk Reviews of Single Audit Reports (2016 Edition)*, as issued by the Council of Inspectors General on Integrity and Efficiency, to determine whether the audit report meets the core reporting requirements stipulated by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (2 CFR Part 200). Based on our review, we can assign a rating of either **Pass**, **Pass with Deficiencies**, or **Fail**. Audit reports receiving a **Fail** rating require corrective action.

On January 8, 2013, we issued a report concerning our desk review of the single audit reporting package for the Council's fiscal year ended October 31, 2011, [OIG Report Number OIG-13-02 (DR)]. While we noted several exceptions concerning the Schedule of Expenditures of Federal Awards (SEFA), timely submission of audit reports to the FAC, and the format of the IPA's

¹ **Unmodified opinion.** The opinion expressed by the IPA upon concluding that the financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework. An unmodified opinion represents the highest level of assurance the IPA can provide that the Council's financial statements as a whole are free from material misstatement, whether due to fraud or error.

report, we determined that the FY 2011 audit report generally meets Federal reporting requirements. However, we advised the Board that future Office of Management and Budget (OMB) Circular A-133² audit reports that include improperly prepared SEFAs will be deemed unacceptable submissions by the NEH-OIG and late submissions to the FAC will jeopardize the Council's "low-risk" status.

We have assigned a rating of **Fail** to the FY 2017 reporting package due to key deficiencies that affect the reliability of the single audit, many of which were discussed in our prior report concerning the Council's FY 2011 reporting package. Accordingly, the FY 2017 reporting package and the related data collection form³ (Form SF-SAC) must be revised and resubmitted to the FAC.

We noted the following deficiencies during our desk review of the FY 2017 single audit reporting package:

1. The Schedule of Expenditures of Federal Awards Does Not Include Required Notes

According to Subpart F of 2 CFR Part 200, the Council must prepare a schedule of expenditures of Federal awards (SEFA) for the period covered by the organization's financial statements, which must include notes that describe significant accounting policies used in preparing the SEFA, and a note that states whether or not the Council elected to use the 10% de minimis cost rate covered in 2 CFR section 200.414(f).⁴ The audited SEFA for fiscal year ended October 31, 2017 does not include these required disclosures.

This deficiency is consistent with an exception identified during our desk review of the Council's FY 2011 single audit reporting package. We noted that the FY 2011 SEFA omitted the required disclosure concerning the significant accounting policies used in preparing the SEFA.⁵

2. The Reporting Package Improperly Reflects the Council as a Low-Risk Auditee

Subpart F of 2 CFR Part 200 establishes criteria for determining whether an auditee is low risk⁶. An entity that meets certain conditions for each of the preceding two audit periods qualifies for

² Subpart F of CFR Part 200 supersedes audit requirements that were previously specified in OMB Circular A-133.

³ The Form SF-SAC (i.e., Data Collection Form) is submitted to the Federal Audit Clearinghouse with the single audit reporting package. This form provides information about the auditee and its Federal programs, and summarizes the results of the audit. The information in this form must agree with information presented in the single audit reporting package.

⁴ 2 CFR section 200.510(b)(6)

⁵ A note that states whether or not the Council elected to use the 10% de minimis cost rate was not a required disclosure in accordance with OMB Circular A-133. (OMB Circular A-133 was in effect when the FY 2011 SEFA was prepared.)

⁶ 2 CFR section 200.520

low-risk auditee status and is eligible for reduced audit coverage.⁷ One of the low-risk criteria stipulates that an entity must have single audits performed on an annual basis in accordance with the provisions of 2 CFR Part 200 Subpart F, including submitting the data collection form and the reporting package to the FAC within the specified timeframe. According to 2 CFR section 200.512(a) the audit must be completed and the entity must submit the data collection form and reporting package to the FAC within the earlier of 30 calendar days after receiving the auditor's report(s), or nine months after the end of the audit period.

The IPA states in the *Schedule of Findings and Questioned Costs* that the Council qualified as a low-risk auditee for the fiscal year ended October 31, 2017. This determination is likewise documented in the data collection form submitted to the FAC. However, our review of FAC records revealed multiple report submissions by the Council that were beyond the specified timeframe, (including the reporting package for FY 2017). The Council's reporting package for FY 2016 was accepted by the FAC 115 days after the date the report was signed by the IPA and the Council's reporting package for FY 2015 was accepted by the FAC 126 days after the date the report was signed by the IPA. Since the Council did not submit the FY 2016 and FY 2015 reporting packages and related data collection forms to the FAC within the timeframe specified in 2 CFR section 200.512(a), the Council does not qualify as a low-risk auditee concerning the fiscal year ended October 31, 2017. Therefore, the information provided to the FAC concerning the Council's low-risk status must be corrected to reflect that the Council does not qualify as a low-risk auditee.

Fortunately, the major program identified by the IPA encompasses more than forty percent of the total Federal awards expended during fiscal year ended October 31, 2017. Therefore, additional testing will not be required to support the IPA's opinion concerning Federal programs.

This deficiency is germane to an exception identified during our desk review of the Council's FY 2011 single audit reporting package. We noted that the Council did not submit the FY 2010 and FY 2011 reporting packages to the FAC in a timely manner. To address this condition, we recommended that the Council implement new controls over the submission process.

Given the continued pattern of delinquent submissions to the FAC, we strongly recommend that the Council immediately implement safeguards to ensure the timely submission of the single audit reporting package, as prescribed by 2 CFR section 200.512(a).

3. Basic Elements Required by Applicable Standards and Regulations Are Missing from the IPA's Reports

The IPA omitted certain standardized statements from the single audit reporting package for the fiscal year ended October 31, 2017. Specifically, the following elements, which are recommended by the American Institute of Certified Public Accountants (AICPA) and have been approved by the OMB, were omitted from the IPA's reports:

⁷ Normally, the IPA must test total Federal awards expended in the major programs that, in the aggregate, encompass at least forty percent of the total Federal awards expended. However, when an entity meets the low-risk criteria, the testing requirement is reduced from forty to twenty percent.

- A statement in the INDEPENDENT AUDITOR'S REPORT that the audit was conducted in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States;⁸
- A reference in the INDEPENDENT AUDITOR'S REPORT to the separate report on internal control over financial reporting and on compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters prepared in accordance with GAGAS;⁹
- The definition of a *significant deficiency* in the REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS;¹⁰
- A statement in the REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS that the auditor's consideration of the internal control was not designed to identify all deficiencies in internal control that might be material weaknesses, or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified;¹¹
- A statement in the REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS that (1) the purpose of the report is solely to describe the scope of the testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance, (2) the report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance, and (3) accordingly, the communication is not suitable for any other purpose.¹²

This deficiency is consistent with an exception identified during our desk review of the Council's FY 2011 single audit reporting package. We noted that the IPA omitted certain standardized language from the Single Audit reports that clarifies the difference between a control deficiency, significant deficiency, and material weakness. We concluded that the revised wording used by the IPA did not affect the overall readability of the audit reports; however, we strongly recommended that the standard wording, as approved by OMB and the AICPA, be utilized in future single audit reports.

⁸ 2 CFR section 200.514(a); Government Auditing Standards (GAS) 2.23-2.24, 4.18; AICPA clarified Statement on Auditing Standards (AU-C) 700.42; and AICPA Audit Guide "Government Auditing Standards and Single Audits" (AAG-GAS) 4.48(i)

⁹ GAS 4.22 and AAG-GAS 4.10

¹⁰ AAG-GAS 4.54(g)

¹¹ AU-C 265.14(c)(iv) and AAG-GAS 4.54(h)

¹² AU-C 905.11; and AAG-GAS 4.54(t)

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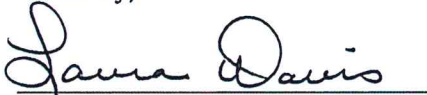
As the Council's oversight agency, the NEH-OIG will not accept the FY 2017 single audit reporting package until the deficiencies discussed above are addressed and corrective action taken, to include resubmission of the reporting package to the FAC (as revised to correct the deficiencies identified by this desk review). The Council may contact FAC support staff for assistance with the resubmission process since special procedures must be followed, (800-253-0696 or govs.fac@census.gov). Please notify the NEH-OIG when the revised FY 2017 reporting package has been submitted to the FAC.

We further expect the IPA to strengthen their audit testing and reporting procedures to ensure that all components of the Council's single audit reporting package comply with Subpart F of 2 CFR Part 200.

Please be advised that we are sending a copy of this letter to the co-owner of Davis & Co., CPAs, P.C., to inform him 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

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