



NATIONAL ENDOWMENT FOR THE

Humanities

OFFICE OF INSPECTOR GENERAL

March 23, 2011

RETURN RECEIPT REQUESTED

Board of Directors
South Carolina Humanities Council, Inc.
2711 Middleburg Drive, Suite 203
Columbia, SC 29204
Attn: Judy Burke Bynum (Chair)

Audit Report: OIG-11-10 (DR)

Dear Board Members:

We have completed our desk review of the single audit report prepared by J.W. Hunt and Company, which includes the Federal assistance programs administered by the South Carolina Humanities Council (the "Council"), for the year ended October 31, 2009. 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. The IPA issued an unqualified opinion (both GAAP 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, 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 OMB Circular A-133. Audit reports determined to be *technically deficient* or *unacceptable* require corrective action.

Due to the significant errors identified below, involving the Schedule of Expenditures of Federal Awards (SEFA), we deem the October 31, 2009 audit report to be technically deficient.

- OMB Circular A-133.310(b) requires the Schedule of Expenditures of Federal Awards (SEFA) to be factually correct and free of mistakes. The October 31, 2009 SEFA erroneously states that the source funding for the Council's Federal grants originated with the U.S. Department of the Interior (DOI) when, in fact, both NEH and the Institute of Museum and Library Services (CFDA #45.310) are independent Federal agencies. All references to the DOI must be removed from the SEFA to ensure proper reporting and to avoid confusion among the Federal agency oversight bodies. Additionally, the SEFA needs to properly reflect the Institute of Museum and Library Services as the funding source of the pass-through funds received from the South Carolina State Library.

- 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. NEH's Federal/State Partnership grants (CFDA #45.129) include specific funding for regrants, which are awarded by the Council to subrecipients on an annual basis. Similarly, most "We The People" grant budgets (CFDA #45.168) include regrant funding. In fact, according to the audited statement of functional expenses, the Council issued over \$181,000 in regrants during the fiscal year ended October 31, 2009. However, we noted that the SEFA did not include any disclosure concerning federally-funded subrecipient awards.

As the Council's cognizant agency, NEH will not accept this single audit report until the above deficiencies are addressed and corrective action taken to include the resubmission of the single audit reporting package (to include both a revised audit report and data collection form) to the Federal Audit Clearinghouse (FAC). Please contact the FAC support staff for assistance (800-253-0696 or govs.fac@census.gov) with this process since special procedures must be followed when resubmitting a reporting package. Please note that this process must be completed prior to submission of the October 31, 2010 audit report. Additionally, the IPA should consult professional guidance to include AU 390, *Consideration of Omitted Procedures After the Report Date*, AU 508, *Reports on Audited Financial Statements*, and AU 801, *Compliance Auditing Considerations in Audits of Governmental Entities and Recipients of Governmental Financial Assistance*, with respect to reissuance of the 2009 audit report.

Although our desk review focused on the October 31, 2009 single audit, we also discovered that the two prior year audits included multiple errors related to Federal grant awards. Specifically, a) the October 31, 2007 SEFA erroneously reported total Federal expenditures, understating one NEH award and completely omitting another; b) NEH grant revenue was improperly stated on the October 31, 2007 and October 31, 2008 statements of activities; c) the October 31, 2007 and October 31, 2008 SEFAs incorrectly listed the U.S. Department of the Interior as the primary Federal funding agency; and d) the October 31, 2007 and October 31, 2008 schedules of findings and questioned costs incorrectly reported the dollar threshold used to distinguish between type A and type B programs. The combination of these errors would have precluded the Council from receiving low-risk auditee status during the current year (FY2009). This low-risk designation, which is obtained when the two prior audits do not identify reportable issues, allows the IPA to limit single audit testing to twenty-five percent of the Federal expenditures reported on the SEFA (vs. the normal fifty percent). Fortunately, the major program selected for testing in 2009 resulted in Federal expenditure coverage in excess of the fifty percent threshold therefore there is no need to expand the scope of the single audit and extend testing. However, due to the magnitude of the FY2007 errors, a revised single audit reporting package (to include both an amended audit report and data collection form) must be submitted to the FAC as soon as reasonably feasible; the errors identified in the FY2008 audit will be addressed with the restatement of the FY2009 reporting package.

The fact that these errors, which spanned three years, were missed by both the Council's management and the IPA is troubling. In addition to the corrective action mandated above, we fully expect the Council's management to perform a self-assessment regarding the adequacy of internal controls over Federal grants management and SEFA reporting. In a similar vein, we anticipate sufficient audit resources being devoted by the IPA to this high-risk reporting area during the upcoming October 31, 2010 audit.

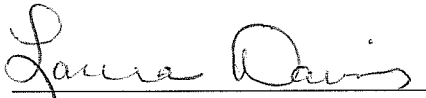
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Within 30 days of receipt of this letter, please provide a formal, written response specifically 1) addressing new procedures/internal control processes implemented by the Council to address the deficiencies noted above and 2) confirming the successful resubmission of both the FY2007 and FY2009 single audit reporting packages to the FAC.

Please note that we corresponded with the audit firm's engagement partner concerning the above issues during the course of our desk review. We are sending this letter to the auditors to inform them of the final 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
Acting Inspector General

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