April 5, 2013

RETURN RECEIPT REQUESTED

Board of Directors
Idaho Humanities Council
217 W. State Street
Boise, ID 83702
Attn: [Redacted]

OIG Report Number: OIG-13-05 (DR)

Dear Board Members:

We have completed our desk review of the single audit report prepared by Wilson, Harris & Company, CPAs, which includes the Federal assistance programs administered by Idaho Humanities Council (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.

Due to the unrecognized, material deviation from generally accepted accounting principles (GAAP), involving the presentation of Federal grant revenue, we deem the October 31, 2011 reporting package to be technically deficient. Accordingly, the audit report and the Data Collection Form (Form SF-SAC) must be revised and resubmitted to the Federal Audit Clearinghouse.

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1 As defined by the CIGIE desk review guide, a "technically deficient" finding is warranted when the single audit reporting package contains "quality deficiencies that may affect the reliability of the audit report and, which must be corrected in the audit report under review."

Material Departure from GAAP

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 FY2011, the IPA issued an unqualified 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) further emphasize that “the financial statements were prepared using the accrual basis of accounting.” However, the audit report presented Federal grant revenue on a cash basis rather than on the GAAP-approved accrual basis. Since the variance between these two approaches represents a material amount, 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; or

- Federal grant revenues must be restated and presented on an accrual basis.

The IPA will also need to include a written finding documenting the Council’s weakness in internal controls over financial reporting.

Please note that Council issued the FY2012 financial statements (dated January 23, 2013) while the OIG was waiting for a formal response from the IPA concerning the FY2011 Desk Review. In FY2012, Note 1 (Summary of Significant Financial Accounting Policies) was revised to state that “grant revenue from NEH is presented on the cash basis” and further explains that a grants receivable balance does not exist since “the Organization accounts for federal funds revenue on a cash basis.” However, the audit opinion did not change. Once again, the IPA issued an unqualified opinion stating that the financial statements materially complied with GAAP, even though the Council continued to recognize NEH revenue using the cash basis. Accordingly, the FY2012 audit report will need to be restated (assuming the variance between cash and accrual basis is deemed material), as well.

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

In FY2011, we determined that the Council actually recognized NEH grant revenue when cash was disbursed by the Agency (cash basis); however, the Grants Receivable section of Footnote 1 (Summary of Significant Financial Accounting Policies) erroneously implies that the Council records revenue upon NEH notification of grant award funding.

3 See Appendix A for a detailed analysis.

4 OMB Circular A-133 requires the IPA to issue an opinion on 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. [Source: OMB Circular A-133 and AICPA Not for Profit Entities Audit Guide, Chapter 14, Section .13 & .14 (Basis of Accounting Other Than GAAP)].
Other Desk Review Findings:

Schedule of Expenditures of Federal Awards (SEFA)

a. 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.

b. 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 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 grantees which are awarded by the Council to subrecipients on an annual basis. In fact, according to the audited Schedule of Functional Expenses, the Council incurred “Refrains” 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.

c. The Council chose to disclose the revenues associated with the NEH awards on the SEFA. As indicated above, this presentation does not conform to GAAP and is not addressed in a “Basis of Presentation” footnote (see Item a above).

Single Audit Reporting -- Format and Language

The IPA omitted or revised certain standardized language related to two single audit reports to include the Report On Compliance With Requirements Applicable To Each Major Program and Internal Control Over Compliance In Accordance With OMB Circular A-133 (Federal Programs) and the Schedule of Findings and Questioned Costs. Although the revised wording used by the auditor does not significantly 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 with future single audit reports. This will ensure consistency and avoid potential reader confusion.

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.

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 FY2009 single audit package has not been successfully submitted to the FAC. Therefore, the low-risk classification was made in error. Fortunately, the IPA’s major program selection enabled the IPA to effectively satisfy the fifty percent audit coverage requirement therefore there is no need to perform additional single audit testing.

In a similar fashion, there were delays with the FY2011 submission to the FAC (submitted at the end of the 11th month - September 25, 2012).

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5 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.
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As the Council’s oversight agency, NEH will not accept this single audit report submission until the above deficiencies are addressed and corrective action taken to include the resubmission of the single audit reporting package to the Federal Audit Clearinghouse (FAC). Please contact the FAC support staff for assistance (800-253-0696 or govs.fac@census.gov) with the single audit resubmission process since special procedures must be followed.

The fact that these errors were missed by both the Council’s management and the IPA is troubling. Accordingly, we expect the Council to strengthen internal controls associated with grant revenue recognition, SEFA preparation, and timely submission of the single audit reporting package to the FAC. To document this process, we expect Council management to provide the OIG with a written corrective action plan regarding the noted deficiencies within 30 days of receipt of this letter.

Please note that we are sending this letter to the audit partner at Wilson, Harris & 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

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**Distribution List:**  

**Auditor:**  

**[Audit Partner]**  

Wilson, Harris & Company  
1602 W. Franklin Street  
Boise, ID 83702
Appendix A – NEH Grant Revenue Analysis (FY2011)

Federal grant activity at the Idaho Humanities Council during FY2011 consisted of two types of NEH awards: State Operating (SO) and We The People (WTP) grants.

To determine if the grant revenue variances between cash and accrual basis accounting were "material" to the financial statements, the following spreadsheet was prepared. 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 $23,000 represents a "material" amount.

Two predominant accrual-based revenue recognition methodologies (used to recognize Federal grants) are utilized by the State Humanities Council community.

1. The most common approach recognizes revenue as NEH’s Office of Grant Management issues the individual “Notices of Action” amendments throughout the life of the grant award (i.e. contribution approach).***

2. The other approach recognizes revenue as valid grant expenses are incurred (i.e. exchange transaction approach).

The OIG a) calculated grant revenue under both of these 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 the results below, the FY2011 variance between the cash and accrual approaches to grant revenue recognition exceed the materiality threshold.

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Calculated Materiality</th>
<th>Cash Basis</th>
<th>Accrual Basis-Option 1</th>
<th>Accrual Basis-Option 2</th>
<th>Amount Exceeds Materiality?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Grant Revenue</td>
<td>NEH Grant Amendments</td>
<td>Difference</td>
<td>Grant Revenue</td>
</tr>
<tr>
<td>FY11</td>
<td>$ 23,000</td>
<td>$ 658,190</td>
<td>$ 533,630</td>
<td>$ 124,560</td>
<td>$ 658,190</td>
</tr>
</tbody>
</table>

***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 life of these awards as the NEH Office of Grant Management formally authorizes grant funds (rather than entirely upon award notification).