

OFFICE OF INSPECTOR GENERAL

March 21, 2012

**RETURN RECEIPT REQUESTED**

Board of Directors  
Humanities Council of Washington, DC  
925 U Street, NW  
Washington, DC 20001

Audit Report: OIG-12-15 (DR)

Dear Board Members:

We have completed our desk review of the single audit report prepared by Gelman, Rosenberg & Freedman, which includes the Federal assistance programs administered by the Humanities Council of Washington, DC (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 (FAC). 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.

Initially, our work identified an apparent discrepancy related to Federal grant revenues and the Schedule of Expenditures of Federal Awards (SEFA). Upon further investigation, we determined that the October 31, 2009 audit report generally meets Federal reporting requirements with the following exception.

- 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 operating grants (CFDA #45.129, "SO" prefix) include specific funding for regrants, which are awarded by the Council to subrecipients on an annual basis. In fact, according to the audited statement of functional expenses, the Council issued \$ [REDACTED] in regrants during the fiscal year ended October 31, 2009. Based upon these facts, we find it highly unusual that the Schedule of Expenditures of Federal Awards (SEFA) did not disclose any subrecipient awards for this or any other Federal programs.

Additionally, errors relating to the prior year audit report (October 31, 2008) surfaced as follows:

- Federal grant revenue totaling \$ [REDACTED] was improperly classified as non-Federal foundation grant income. Although total revenue was successfully captured in the financial statements, the improper classification in the Statement of Activities misrepresented the Council's true level of Federal funding and made it virtually impossible to reconcile the subsequent year's (October 31, 2009) Federal revenues against the related SEFA expenditures and ending temporarily restricted net assets.
- OMB Circular A-133.310(b) requires the SEFA to be factually correct and free of mistakes. The October 31, 2008 SEFA omitted Federal expenditures totaling \$305 related to one of the Federal grants discussed in the finding above. Fortunately, this error did not impact the major programs selected for single audit testing by the independent auditor.
- See the 2009 finding above concerning SEFA subrecipient reporting requirements.

The fact that these errors were missed by both the Council's management and the IPA is troubling. Nevertheless, the core single audit testing and the ending net asset balances were not impacted, and the two quantitative errors noted above were not repeated in fiscal year ended October 31, 2009. Accordingly, we will accept the 2008 and 2009 single audit reports. However, 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.

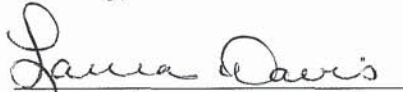
Please note that we performed a cursory review of the October 31, 2010 single audit prior to the issuance of this report and determined that the 2009 exception was addressed; specifically, the 2010 SEFA properly disclosed the funding provided to subrecipients as required by OMB Circular A-133.310(b)(5). However, the related single audit reporting package (submitted to the FAC) included an erroneous employer identification number, apparently due to a keying error. This mistake must be corrected immediately to ensure the integrity of the single audit database. The appropriate personnel at the FAC can be contacted using the following hyperlink:

<http://harvester.census.gov/sac/FACCONTA.htm>

Please note that we are sending this letter to the auditors to inform them 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](mailto:selsberg@neh.gov).

Sincerely,



Laura Davis  
Acting Inspector General

Distribution List:

National Endowment for the Arts (Single Audit Coordinator)

National Park Service (Single Audit Coordinator)

*Gelman, Rosenberg & Freedman, CPAs*  
4550 Montgomery Avenue, Suite 650 North  
Bethesda, MD 20814