



NATIONAL ENDOWMENT FOR THE

Humanities

OFFICE OF INSPECTOR GENERAL

1100 PENNSYLVANIA AVE., NW
WASHINGTON, D.C. 20506
ROOM 419
(202) 606-8350 PHONE
(202) 606-8329 FAX
WWW.NEH.GOV
HOTLINE: 877-786-7598

December 29, 2010

RETURN RECEIPT REQUESTED

Board of Directors
Asian Art Museum of San Francisco
200 Larkin Street
San Francisco, CA 94102

Audit Report: OIG-11-06 (DR)

Dear Board Members:

We have completed our desk review of the single audit report prepared by Deloitte & Touche, which includes the Federal assistance programs administered by the Asian Art Museum of San Francisco (the "Museum"), for the year ended June 30, 2009. The independent auditors (IPA) previously furnished a copy of their audit report to the Museum and submitted the related reporting package to the Federal Audit Clearinghouse. The IPA issued an unqualified opinion (both GAAP and single audit) with five 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 material error identified below, involving the Schedule of Expenditures of Federal Awards (SEFA), we deem the audit report to be *unacceptable* since it contains quality deficiencies that require the IPA to conduct additional audit work to support the opinions in the report under review.

- OMB Circular A-133, Sections .310(b)(3) & .500(b), requires the total federal awards expended for each individual federal program to be properly reported on the SEFA. Additionally, OMB Circular A-133, Section .205(e) states that the ***cumulative*** balance of Federal awards for endowment funds, which are federally restricted, are considered awards expended in ***each year*** in which the funds are still restricted. Moreover, the *Administration of NEH Challenge Grants* manual states that funds deposited into income-earning accounts are to be treated as Federal expenditures.

Our review determined that the June 30, 2009 SEFA improperly excluded NEH challenge grant [REDACTED] - \$[REDACTED], which was specifically awarded to fund a restricted endowment at the Museum. Since NEH disbursed the entire award amount, the cumulative challenge grant funding received as of June 30, 2009 [REDACTED] should have been reflected as Federal expenditures in the SEFA in accordance with OMB Circular A-133, Section .205(e). Furthermore, this Federal award was not subjected to single audit testing during the previous two years; therefore it represents a high-risk, Type A major program and should have been tested accordingly. Due to these deficiencies, the June 30, 2009 audit must be revisited. The IPA will need to perform the omitted A-133 compliance testing related to the NEH challenge grant [REDACTED]¹ and correct the SEFA. 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 audit report.

In addition, we identified several other Federal reporting deficiencies, not deemed to be material in nature, as noted below:

- OMB Circular A-133.510(b) stipulates that audit findings shall be presented in sufficient detail for the auditee to prepare a corrective action plan and take corrective action, and for Federal agencies and pass-through entities to arrive at a management decision. Audit findings 2009-3, 2009-4, and 2009-5 lacked sufficient detail to determine the magnitude of these compliance deficiencies since the potential questioned cost impact was not disclosed. For example, finding 2009-5 simply states that the Museum did not comply with the *Davis-Bacon Act* requirements; however, the IPA did not identify the total amount of construction work performed under this grant (i.e. potential questioned costs).
- OMB Circular A-133.315(c) stipulates that the auditee develop a written corrective action plan to respond to each audit finding reported by the IPA. This corrective action plan shall provide the name(s) of the contact person(s) responsible for corrective action, the corrective action planned, and the anticipated completion date. We noted that current year findings 2009-02 through 2009-05 lacked both the name of the key contact and the estimated completion date.

As the Museum'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.


Letter to the Board of Directors
December 29, 2010
Page 3

The fact that these errors were missed by both the Museum's management and the IPA is troubling. In addition to the corrective action mandated above, we fully expect the Museum'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 June 30, 2010 audit (i.e. has not yet been filed with the Federal Audit Clearinghouse).

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.

Sincerely,


Sheldon L. Bernstein
Inspector General

Distribution List:

Deloitte & Touche, CPA's
50 Fremont Street
San Francisco, CA 94105-2230
Attn: Sally Flood, Audit Partner

¹ Please note that additional audit guidance concerning the NEH challenge grant program can be found on the Office of the Inspector General website (<http://www.neh.gov/whoware/oig-challenge-audit.html>)