

OFFICE OF INSPECTOR GENERAL

June 9, 2011

RETURN RECEIPT REQUESTED

Board of Directors
Kentucky Humanities Council
206 East Maxwell Street
Lexington, KY 40508
Attn: Dr. Aristofanes Cedeño, Chair

Audit Report: OIG-11-16 (DR)

Dear Board Members:

We have completed our desk review of the single audit report prepared by Mountjoy Chilton Medley, LLP, which includes the Federal assistance programs administered by the Kentucky 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 (FAC). The IPA issued an unqualified financial statement and schedule of expenditures of federal awards (SEFA) opinion, issued a qualified opinion concerning compliance with major Federal programs, and disclosed one reportable audit finding.

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.

We determined that the audit report contained the following exceptions:

1. 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, "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 Activities, the Council issued over [REDACTED] 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.

2. OMB Circular A-133.310(b) requires the SEFA to be factually correct and free of mistakes. We noted that two of the four Federal grant numbers (50%) were erroneously reported on the SEFA. First, the previous NEH Federal/State Partnership award (██████████), which expired on ██████████ was improperly rolled forward. Second, the current NEH "We The People" grant number included the wrong fiscal year extension ██████████. Fortunately, our testing did not identify any errors with the other key data elements linked to these grants, to include the Catalog of Federal Domestic Assistance (CFDA) numbers and Federal expenditures, therefore the actual single audit testing and selection of major programs do not appear to be adversely impacted.
3. According to the audited financial statements (Footnote A - *Revenue Recognition*), the Council recognizes grant revenue as expenditures are incurred. However, we determined that the grant revenues are actually booked when the funds are obligated by NEH (via the Official Notices of Action), not when the related expenditures are incurred. Accordingly, this financial statement disclosure is factually incorrect and misleading.
4. As discussed above, NEH grant revenue is actually booked when awarded. As of October 31, 2009, the total grants revenue reported in the Statement of Activities ██████████ exceeded the related SEFA expenditures (\$██████████), therefore the net balance should have been reflected as temporarily restricted net assets (vs. unrestricted) since the NEH grant funds are purpose restricted.
5. The IPA issued a qualified audit opinion concerning the Council's compliance with the major Federal programs tested. Yet, the Schedule of Findings and Questioned Costs and the Form SF-SAC (Data Collection Form) erroneously reported an unqualified opinion, unnecessarily confusing the issue.

Typically, these findings would result in a "technically deficient" conclusion since 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."¹ However, the IPA's recently issued October 31, 2010 audit report addressed two of the findings above (Items 2 and 4) by (a) reporting valid NEH grant numbers on the current year SEFA; and (b) presenting comparative financial statements that include revised 2009 temporarily restricted net asset and revenue balances. Furthermore, the Council received unqualified audit opinions (both GAAP and Federal awards) for the most recent fiscal year ended October 31, 2010 and the organization's ability to qualify as a low-risk auditee was not impacted by the above errors. Accordingly, our office will waive the requirement to re-open and correct the 2009 single audit reporting package. Please note that the remaining findings (Items 1, 3 and 5) must be addressed and corrected moving forward; otherwise, future audit reports may be deemed unacceptable submissions by the NEH Office of Inspector General.

Please note that we are sending this letter to the auditors to inform them of the results of our review.

¹ As defined by the CIGIE single audit desk review guide.

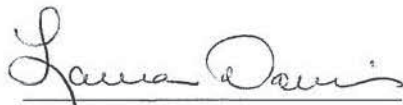
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If you have any questions concerning this letter or need accounting assistance, please contact Mr. Steve Elsberg at (202) 606-8353 or via email at selsberg@neh.gov.

Sincerely,



Laura Davis
Acting Inspector General

Distribution List:

Mountjoy Chilton Medley, LLP
175 East Main Street, Suite 200
Lexington, KY 40507
Attn: Patricia Featherston, Audit Partner