



NATIONAL ENDOWMENT FOR THE

Humanities

OFFICE OF INSPECTOR GENERAL

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

November 19, 2010

RETURN RECEIPT REQUESTED

Board of Directors
Delaware Humanities Council
100 West Tenth Street
Suite 1009
Wilmington, DE 19801

Audit Report: OIG-11-04 (DR)

Dear Board Members:

We have completed our desk review of the single audit report prepared by Barbacane, Thornton & Company, which includes the Federal assistance programs administered by the Delaware 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 *substandard* will 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 technically deficient.

- 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. As part of our review, we determined that the cumulative Federal expenditures reported in the SEFA were overstated by \$ [REDACTED]. Since the IPA opined on the SEFA, erroneously concluding that it was fairly stated (in all material respects), the audit report must be reissued to either 1) restate the Federal expenditures reported in the SEFA and disclose a Federal compliance audit finding; or 2) modify the existing audit opinion regarding 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 as noted below:

- 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 statement of functional expenses, 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 the federally funded subrecipient awards.
- OMB Circular A-133.310(b) requires the Schedule of Expenditures of Federal Awards (SEFA) to be factually correct and free of mistakes. We noted that the grant number related to the prior year's NEH "We The People" project (CFDA #45.168) was improperly rolled forward on the current year schedule.

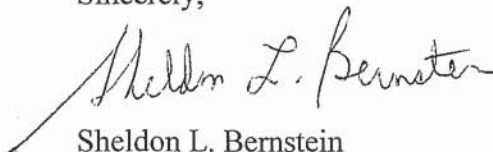
As the Council's cognizant agency, NEH will not accept this single audit report until the above deficiencies are addressed and corrective action taken to include the resubmission of the single audit reporting package to the Federal Audit Clearinghouse (FAC). Please contact the FAC support staff for assistance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

The fact that these errors 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.

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:

Barbacane, Thornton & Company, CPA's
3411 Silverside Road
Wilmington, DE 19810