



NATIONAL ENDOWMENT FOR THE

# Humanities

OFFICE OF INSPECTOR GENERAL

June 17, 2014

## RETURN RECEIPT REQUESTED

Board of Directors  
Kentucky Humanities Council  
206 East Maxwell Street  
Lexington, KY 40508  
Attn: [REDACTED] Board Chair

OIG Report Number: OIG-14-06 (DR)

Dear Board Members:

We have completed a Desk Review of the single audit report prepared by Mountjoy Chilton Medley, CPAs, which includes the Federal assistance programs administered by the Kentucky Humanities Council (the "Council"), for the year ended October 31, 2013. The independent auditors (IPA) previously furnished a copy of their audit report, dated March 13, 2014, to the Council and submitted the related reporting package to the Federal Audit Clearinghouse (FAC). The IPA issued unmodified opinions<sup>1</sup> regarding the financial statements and Federal compliance. Furthermore, no reportable findings were identified.

Our review was limited to an examination of the IPA's audit report and email exchanges with the audit partner and Council fiscal officer. 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.

We determined that the audit report generally meets Federal reporting requirements<sup>2</sup>, with the following exception:

### **Compliance Testing – Financial Reporting**

In regards to the Council's FY2013 single audit, the IPA treated NEH's *Promotion of the Humanities-Federal/State Partnership* grant<sup>3</sup> as the major Federal program. The Council submitted the applicable Final Financial Report (FFR) to NEH in March 2013, reporting \$2,155,090 in total Federal expenditures for the award period related to grant SO-50363-10. In

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<sup>1</sup> An unmodified opinion represents the IPA's highest level of assurance, indicating that the audited entity's financial statement presentation (to include Federal grant activity) materially complies with applicable auditing standards and Federal requirements stipulated in OMB Circular A-133: *Audits of States, Local Governments, and Non-Profit Organizations*.

<sup>2</sup> Of the four possible conclusions applicable to a single audit desk review, the NEH-OIG has concluded that the Council's FY2013 audit report is *Acceptable with Deficiencies*, [i.e. the report contains quality deficiencies that should be brought to the attention of the auditor (and auditee) for correction in future audits]."

<sup>3</sup> Catalog of Federal Domestic Assistance (CFDA) #45.129

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an attempt to validate this amount, we compared the FFR to the total FY2010 - FY2013 SEFA<sup>4</sup> expenditures reported for this multi-year grant which had an effective start date of November 1, 2009 (i.e. FY2010). The cumulative expenditures reported in the four SEFAs fell short of the amount reported on the FFR by approximately \$48,000. Upon subsequent inquiry, the Council's Fiscal Officer explained that reporting errors were made on previous year SEFAs.

Since this grant was tested as a major Federal program and financial reporting represents a key compliance attribute, we believe the IPA should have caught the aforementioned reconciling error and drafted a written Federal compliance deficiency finding in conjunction with the FY2013 Single Audit<sup>5</sup>. Part 3 of the *OMB Circular A-133 Compliance Supplement* (Reporting subsection), instructs the audit firm to select a sample of the financial reports and 1) "ascertain whether they were complete, accurate, and prepared in accordance with the required accounting basis; and 2) trace the amounts reported to the accounting records that support the audited financial statements and the SEFA, and verify agreement or perform alternative procedures to verify the accuracy and completeness of the reports, and that they agree with the accounting records." It further instructs the auditors to verify accuracy and completeness of the financial reports to include testing the mathematical accuracy.

Since this issue does not appear to impact the FY2013 SEFA presentation and the FFR reporting discrepancy has already been identified by this Desk Review, the NEH-OIG waives any requirement to reopen and amend the associated single audit reporting package. However, we fully expect the Council to adopt new procedures to ensure the financial reports filed with NEH properly reconcile to the audited SEFA expenditures. To this end, please provide the NEH-OIG with a written response describing the corrective action taken to address this matter within 30 business days. Furthermore, we anticipate the IPA performing an in-house assessment of its methodology used to test the Financial Reporting compliance provision attributable to single audits.

Please be advised that we are also sending this letter to the audit partner at Mountjoy Chilton Medley to inform her 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  
Inspector General

**Distribution List:**

Auditor:

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Appalachian Research Commission  
Office of Inspector General  
1666 Connecticut Avenue, NW, Suite 700  
Washington, DC 20009

<sup>4</sup> Schedule of Expenditures of Federal Awards (SEFA)

<sup>5</sup> The Final Federal Financial report for award SO-50363-10 was submitted during the fiscal year under audit (3/14/2013) therefore it would have been selected for compliance testing.