



NATIONAL ENDOWMENT FOR THE
Humanities

OFFICE OF INSPECTOR GENERAL

June 3, 2015

RETURN RECEIPT REQUESTED

Council Trustees
North Carolina Humanities Council
320 East 9th Street, Suite 414
Charlotte, NC 28202
Attn: [REDACTED], Chair

OIG Report Number: OIG-15-07 (DR)

Dear Council Trustees:

We have completed our desk review of the single audit report prepared by Bernard Robinson & Company, CPAs, which includes the Federal assistance programs administered by the North Carolina Humanities Council (the "Council"), for the year ended October 31, 2014. The independent auditors (IPA) previously furnished a copy of their audit report (dated March 3, 2015) to the Council and submitted the related reporting package to the Federal Audit Clearinghouse. The IPA issued unmodified opinions¹ regarding the financial statements and Federal compliance. Furthermore, no reportable findings were identified.

Our review was limited to email/phone exchanges with the IPA and the Council's Executive Director, and an examination of (1) the FY2014 audit report, (2) NEH accounting records, and (3) single audit reports previously submitted by the Council. We did not examine the underlying audit documentation to evaluate the adequacy of the audit work performed; rather, the *Guide for Desk Reviews of OMB Circular A-133 Audit Reports (2010 Edition)*, issued by the Council of the 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 meets Federal reporting requirements as evidenced by the lack of any noted exceptions. Accordingly, our office is accepting this single audit report in its current form and no corrective action to the FY2014 submission deemed necessary.

¹ 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*.

Other Matters:

During the course of our review, we identified two matters potentially impacting the upcoming FY2015 audit that warrant the attention of the Council Trustees.

1. Revenue Recognition Methodology - Federal Grants

The Financial Accounting Standards Board (FASB) provides accounting guidance to the Not-For-Profit community.² These standards prescribe two main approaches to recognizing revenue associated with Federal awards.

- Exchange transactions (i.e. contract) represent reciprocal transfers in which each party receives and sacrifices something of commensurate value. The most classic example is the purchase of goods or services. Under this approach, an entity recognizes revenue when the required goods or services are provided.
- Contributions represent the voluntary, unconditional transfer of assets to an entity. Their primary characteristic is that they are nonreciprocal – that is, one entity gives an asset or cancels a liability without directly receiving commensurate value in return. The recipient must classify the contribution as either unrestricted or restricted based upon donor's intent. Under this approach, an entity records revenue immediately upon notification from the donor.

We ascertained that the Council immediately records revenue upon notification from NEH which corresponds to the contribution approach discussed above. The Council argues that the purpose of this award mirrors the nonprofit's overall humanities-based mission therefore the funding stream treated as unrestricted revenue.

Although the FASB rules provide latitude concerning the aforementioned approach, the OIG believes the *General Support* grant³ incorporates specific "purpose" restrictions on the use of the funds. Based upon this interpretation of the facts, a nonprofit would initially record inflows as temporarily restricted revenue and then release the donor-imposed restriction as the entity incurs related expenditures.

As of October 31, 2014, total revenues associated with the existing *General Support* grant (SO-50552-13) exceeded the related expenditures by \$368,740. As noted in the preceding paragraph, we believe this residual amount would be more appropriately reported in the financial statements as temporarily restricted net assets. Adopting this conservative approach alerts the financial statement users (i.e. Council management and Governance) that certain restrictions have been imposed on the use of the NEH funds. Please note that the majority of the state Councils have adopted this revenue recognition methodology.

Recommendation: In an attempt better alert financial statement users of potential restrictions on the use of NEH funds, the OIG recommends the Council begin treating the related inflows as temporarily restricted revenues. This change could be adopted on a prospective basis

² Section 958 of the Accounting Standards Codification (ASC), issued by FASB, documents the generally accepted accounting principles (GAAP) unique to the nonprofit sector.

³ NEH *General Support* grant (CFDA #45.129)

beginning with FY2015. In regards to administrative burden, please note that the trigger for recognizing revenue remains consistent between the two approaches (i.e. recognized as NEH issues funding action notices).⁴ As a result, significant modifications to the Council's existing internal processes and procedures will not be required, thereby allowing for an easy transition.

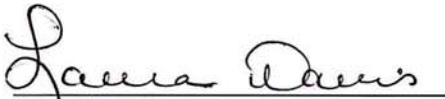
2. Relocation Costs

According to the financial statements (Footnote 8 ~ Relocation), Federal funds may be used to cover office relocation expenses, to include severance packages offered to employees choosing not to relocate to Charlotte, NC. Due to the unique nature of this expense, which may fall outside the scope of allowable *General Support* grant activities, we recommend the Council contact the NEH Office of Grant Management for guidance prior to charging the related costs to the Federal award.

Please note that we are sending this letter to the audit partner at Bernard Robinson & Company to inform him 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,



Laura Davis
Inspector General

Distribution List:

Auditor:

██████████ CPA
Partner
Bernard Robinson & Company
1501 Highwoods Blvd, Suite 300
Greensboro, NC 27410

⁴ Generally, the full amount of a contribution is recognized upon notification or receipt. However, revenue recognition associated with donor-imposed conditions (i.e. a future and uncertain event whose occurrence or failure to occur terminates the associated contribution) must be delayed until the condition has been satisfied. In the case of the multi-year *General Support* grant, future year funding is predicated on NEH receiving anticipated appropriations from Congress. Accordingly, revenue recognition is delayed until the Agency actually receives appropriations and issues the periodic funding notices over the course of the grant award. Under the OIG recommendation, the timing of the Federal grant revenue entries will not change; rather, the initial entry will now be treated as temporarily restricted revenue in lieu of the existing unrestricted treatment.