



NATIONAL ENDOWMENT FOR THE HUMANITIES

OFFICE OF INSPECTOR GENERAL

January 14, 2022

via FedEx

Board of Directors
Colorado Humanities
7935 E. Prentice Avenue, Suite 450
Greenwood Village, Colorado 80111
Attn: [REDACTED], Board Chair

OIG Report Number: OIG-22-01 (DR)

Dear Board Members:

The National Endowment for the Humanities (NEH) Office of Inspector General (OIG) has completed a desk review of the single audit report prepared by Watson Coon Ryan, LLC (the "IPA"), which includes Federal assistance programs administered by Colorado Humanities (the "Council") during the organization's fiscal year (FY) ended October 31, 2020. The independent auditors previously furnished a copy of their audit report dated February 17, 2021 to the Council. The IPA issued unmodified opinions¹ regarding the financial statements and compliance with Federal requirements. Furthermore, the IPA issued no written findings in conjunction with the single audit. The Federal Audit Clearinghouse (FAC) accepted the single audit reporting package on March 22, 2021.

Our review was limited to an examination of the single audit reporting package, email exchanges with the Council's Executive Director and the IPA, a limited review of select IPA workpapers, and review of applicable NEH grant files and accounting records. We did not perform a comprehensive examination of the underlying audit documentation to evaluate the adequacy of the audit work performed; rather, we used the *Guide For Desk Reviews of Single Audit Reports (2016 Edition)*, as issued by the Council of Inspectors General on Integrity and Efficiency (CIGIE), to determine whether the reporting package meets the core reporting requirements stipulated by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (2 CFR Part 200). Based on our review, we can assign a rating of either a **Pass**, **Pass with Deficiencies**, or **Fail**. Audit reports receiving a **Fail** rating require corrective action.

¹ **Unmodified opinion.** The opinion expressed by the IPA upon concluding that the financial statements are presented fairly, in all material respects, in accordance with the applicable financial reporting framework. An unmodified opinion represents the highest level of assurance the IPA can provide that the Council's financial statements as a whole are free from material misstatement, whether due to fraud or error.

We assigned a rating of **Fail** to the FY 2020 reporting package due to a key deficiency that affects the reliability of the submission. Accordingly, the audit report (Form SF-SAC) must be finalized and resubmitted to the FAC. We noted the following deficiency during our desk review:

1. Two IPA Reports Submitted as part of the Council's Single Audit Reporting Package are not Dated

The American Institute of Certified Public Accountants (AICPA) Clarified Statement on Auditing Standard (AU-C) Section 935, *Compliance Audits*, states that the auditor's combined report on compliance and internal control over compliance should be in writing and include the date of the auditor's report, which should be no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on compliance, including evidence that management has asserted that it has identified the entity's government programs and has taken responsibility for understanding and complying with the compliance requirements.²

During our review of the Council's fiscal year 2020 single audit report submission to the FAC, we noted that the *Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards* and the *Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance in Accordance with the Uniform Guidance* are not dated. According to the IPA, this condition is due to an oversight in the firm's review process.

We also identified one other reporting deficiency that must be corrected in future audit reports, as noted below.

1. Failure to Properly Implement Disclosure Requirements Applicable to Conditional Contributions and Promises To Give

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-08, Not-for-Profit Entities (Topic 958), *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU provides a framework for determining whether a contribution is conditional or unconditional, which affects the timing of revenue recognition. An unconditional contribution is recognized immediately whereas a conditional contribution cannot be recorded until the conditions have been met. The guidance further requires conditional contributions to be disclosed in the footnotes of the financial statements.³ Colorado Humanities adopted this new guidance as of the year ended October 31, 2019.

² AU-C 935.30(m)

³ FASB Accounting Standards Codification (ASC) Paragraph 958-310-50-4 requires the following disclosures about conditional promises to give:

- The total of amounts promised.
- A description and amount for each group of promises having similar characteristics. For example, separate groups having similar characteristics might include those promises conditioned on establishing new programs, on completing a new building, or on raising matching gifts by a specified date.

According to Federal Financial Reports submitted to the NEH for award SO-263595-19, the Council had \$266,384 in Federal funds authorized but not expended as of October 31, 2020. Based on the disclosure requirements applicable to conditional contributions, the Council should have included information concerning the unobligated balance of Federal funds in the financial statement notes. We determined that the Council properly reported the revenue for award SO-263595-19 in the *Statements of Activities* for the year ended October 31, 2020 and 2019; however, the unobligated Federal award balance of \$266,384 was not disclosed in the financial statement notes.

As the Council's oversight agency, the NEH-OIG will not accept the FY 2020 single audit reporting package until all reports that constitute the submission to the FAC reflect the appropriate issuance date. The Council should contact FAC support staff for assistance with the resubmission process since there are special procedures that must be followed.⁴ Please notify the NEH-OIG when the finalized FY 2020 reporting package has been submitted to the FAC.

Please be advised that we are sending a copy of this letter to the Audit Partner at Watson Coon Ryan, LLC to inform the firm of the results of our review.

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

Sincerely,



Laura Davis
Inspector General

Distribution List:

Auditor:

██████████, Audit Partner
Watson Coon Ryan, LLC
9250 E. Costilla Avenue, Suite 450
Greenwood Village, CO 80112
██████████@wrcrpa.com

⁴ FAC support staff can be contacted at 800-253-0696 or govs.fac@census.gov.