



NATIONAL ENDOWMENT FOR THE  
**Humanities**

OFFICE OF INSPECTOR GENERAL

June 25, 2015

**RETURN RECEIPT REQUESTED**

Board of Directors  
Louisiana Endowment for the Humanities at Turners' Hall  
938 Lafayette Street  
New Orleans, LA 70113  
Attn: [REDACTED] Board Chair

OIG Report Number: OIG-15-09 (DR)

Dear Board Members:

We have completed our desk review of the single audit report prepared by Justin Scanlan, CPA, which includes the Federal assistance programs administered by the Louisiana Endowment for the Humanities (the "Endowment"), for the year ended October 31, 2014. The independent auditor (IPA) previously furnished a copy of his audit report (dated February 4, 2015) to the Endowment and submitted the related reporting package to the Federal Audit Clearinghouse. The IPA issued unmodified opinions<sup>1</sup> regarding the Endowment's financial statements and compliance with the provisions of the Federal single audit. Furthermore, no reportable findings were identified.

Our review was limited to an examination of the audit report; email correspondence with the IPA and Endowment staff; and review of select NEH records. 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 generally meets Federal reporting requirements<sup>2</sup>, with the following exceptions:

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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 the 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 Endowment's FY2014 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]."

## **1. Schedule of Expenditures of Federal Awards and the Data Collection Form**

OMB Circular A-133, Sections .310(b) and .320(b), discusses the reporting requirements affiliated with the Schedule of Expenditures of Federal Awards (SEFA) and the Data Collection Form (DCF). Disclosure requirements include total expenditures associated with each individual Federal program or program cluster; related Catalog of Federal Domestic Assistance (CFDA) number(s)<sup>3</sup>; and the proper sorting of program expenditures by Federal agency.

In addition to the above information, the FY2014 SEFA and DCF included the individual NEH grant number, associated with the major program, which was erroneously reported. Since this represents supplemental information, not specifically mandated by OMB Circular A-133, we will waive any requirement to revise/resubmit these documents.

Moving forward, we fully expect the Endowment and the IPA to catch these types of errors prior to report finalization. Please note that future audit reports with similar deficiencies may be deemed unacceptable submissions by the NEH Office of Inspector General.

## **2. Low-Risk Status ~ Single Audits**

An entity subject to a single audit can qualify for low-risk status if certain conditions are met. The amount of required testing associated with Federal programs decreases as a result of this low-risk designation. Normally, the IPA must test at least fifty percent of the total Federal expenditures reported on the SEFA. However, when an entity meets low-risk criteria, the testing requirement is reduced to twenty-five percent, possibly resulting in a more cost-efficient single audit.

One of the low-risk criteria stipulates that the single audit reporting package, for the two preceding fiscal years, must be submitted to the Federal Audit Clearinghouse (FAC) within the lesser of nine months of the auditee's fiscal year-end or thirty days of the audit report date. We determined the FY2013 FAC submission was delinquent (i.e. uploaded more than thirty days after the audit report date). Normally, this would prohibit the IPA from treating the Endowment as a low-risk auditee. However, we have been advised that the FAC website experienced technical issues when processing FY2013 submissions (due to the launch of a new single audit reporting database). As such, we do not take exception to the Endowment's FY2014 low-risk designation.

With that said, the FAC acceptance date associated with the FY2014 audit also exceeded the thirty-day rule. Accordingly, please be advised that the Endowment will not qualify as a low-risk auditee for the FY2015 audit. Fortunately, the existing major program (CFDA #45.129) easily exceeds fifty percent of total Federal expenditures. Therefore the loss of the low-risk designation will, most likely, not result in additional single audit testing next year.

Please note that OMB Memorandum M-10-14 prevents an agency from granting waivers to this rule.

## **Other Comments**

In addition to the two aforementioned matters that directly relate to the Federal single audit, we also identified several other matters that warrant the attention of the Endowment's Board and management.

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<sup>3</sup> The Catalog of Federal Domestic Assistance is a government-wide compendium of Federal programs, projects, services, and activities that provide assistance or benefits to the American public. It contains financial and nonfinancial assistance programs administered by departments and establishments of the Federal government. As the basic reference source of Federal programs, the primary purpose of the Catalog is to assist users in identifying programs that meet specific objectives of the potential applicant, and to obtain general information on Federal assistance programs.



## 1. Relationship Between the Endowment and Prime Time Family Reading

Due to the related party relationship between the Endowment and Prime Time Family Reading (i.e. common control), the FY2014 financial statement presentation “**combined**” the activities of both organizations. Under this approach, both nonprofits are still considered separate, legally viable entities. As such, the IPA reviewed the total Federal expenditures associated with each individual nonprofit, ultimately determining that the Endowment represented the sole organization with annual Federal expenditures in excess of the \$500,000 single audit threshold. Accordingly, the FY2014 SEFA and the single audit opinions only capture the Federal activity associated with the Endowment. The IPA provided a copy of the related working paper documenting the rationale behind this approach. Based upon the conditions identified by the IPA, our office generally agrees with the conclusion reached. However, based upon our discussions with Endowment management, we believe the underlying assumptions used to render this decision need to be reevaluated to ensure they are still valid and up-to-date.

Specifically, professional standards state that **consolidated** financial statements must be issued when one nonprofit organization exerts control and holds an economic interest in another nonprofit organization. The FY2014 audit determined that the Endowment exerts control over Prime Time Family Reading but does not hold an economic interest. As a result, full consolidation was not required.

When multiple entities are consolidated for financial statement purposes, OMB Circular A-133 considers all of the associated organizations to represent the auditee. Accordingly, the SEFA should capture all Federal expenditures associated with the consolidated entities. This is of critical importance since the IPA uses the SEFA as the basis to select the major Federal programs to be audited. An incomplete listing can lead to a faulty single audit and may require the IPA to reopen a previously issued audit due to a lack of sufficient testing.

As noted above, the FY2014 SEFA excluded Prime Time Family Reading’s Federal expenditures. To determine the potential impact of moving to a consolidated (vs. “combined”) presentation, we prepared a comprehensive SEFA, reflecting the activity of both nonprofit entities, and re-performed the major program selection process. Fortunately, the FY2014 major program(s) selected using either the combined or consolidated presentation approach are identical.

Prior to commencing the FY2015 audit, we urge the Endowment to review the professional standards regarding this topic.<sup>4</sup> In particular, if management determines that the Endowment holds an economic interest in Prime Time Family Reading (in addition to exerting control) then consolidated financials should be issued. Please note that an economic interest in another nonprofit organization exists when: 1) one organization holds or uses significant resources to directly or indirectly produce income for or provide services to another organization; or 2) an organization is responsible for another organization’s liabilities.

## 2. Federal Financial Reporting

As part of the Desk Review, we reviewed the Endowment’s October 31, 2014 financial report submission associated with NEH grant SO-50598-14. Although the amounts reported reconcile back to the audited financial statements without exception, we determined that the Endowment submitted this information using an outdated template. Accordingly, please ensure all future financial report submissions to the NEH utilize the current form (i.e. SF-425 Federal Financial Report) as directed by the Agency’s *General Terms and Conditions for General Support Grants to State Humanities Councils*.

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<sup>4</sup> See Federal Accounting Standards Board (FASB) *Accounting Standards Codification* (ASC) 958-810 series for specifics.

### 3. Unrestricted Net Assets

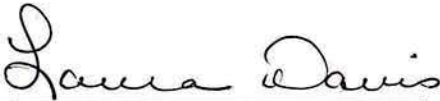
One key measure used to assess a nonprofit's fiscal health compares the size of the organization's unrestricted net assets against the entity's total annual expenditures.<sup>5</sup> Unrestricted net assets represent the equity available to support general operations. Both temporarily restricted and permanently restricted net assets are typically excluded from this analysis since the external donor has imposed specific purpose and/or time restrictions on these funds. Accordingly, management is usually prohibited from using these restricted (net) assets to cover general operating costs.

Over the past two fiscal years, the Endowment's unrestricted net asset balance decreased dramatically due to an imbalance between revenues and expenses. Specifically, the balance decreased from \$ [REDACTED] million (as of October 31, 2012) to \$ [REDACTED] million (as of October 31, 2014) resulting in an overall decline of \$ [REDACTED] million ([REDACTED]%). We feel this situation warrants immediate attention from management and the Board to include the development of a formal action plan, if not already in place. If this downward trend continues, the Endowment may face going concern issues requiring drastic measures such as significant staff reductions and program cuts.

Please note that we are sending a copy of this letter to Mr. Scanlan 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 Elsborg at (202) 606-8353 or via email at [selsberg@neh.gov](mailto:selsberg@neh.gov).

Sincerely,



Laura Davis  
Inspector General

#### **Distribution List:**

**Auditor:**

Mr. Justin Scanlan, CPA  
4769 St. Roch Ave.  
New Orleans, LA 70122

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<sup>5</sup> This financial measure is known as the unrestricted net asset ratio. This calculation measures the amount of unrestricted, spendable net assets, in relation to the nonprofit organization's annual expense. A decreasing ratio may indicate pending liquidity problems.