



NATIONAL ENDOWMENT FOR THE
Humanities

OFFICE OF INSPECTOR GENERAL

March 7, 2017

RETURN RECEIPT REQUESTED

Board of Directors
Massachusetts Foundation for the Humanities
66 Bridge Street
Northampton, MA 01060-2406
Attn: [REDACTED] Chair

OIG Report Number: OIG-17-01 (DR)

Dear Board Members:

We have completed a Desk Review of the single audit report prepared by Whittlesey & Hadley, P.C., which includes the Federal assistance program administered by the Massachusetts Foundation for the Humanities (the "Council"), for the fiscal year (FY) ended October 31, 2015. The independent auditor (IPA) previously furnished a copy of their audit report dated March 10, 2016, to the Council and submitted the related reporting package to the Federal Audit Clearinghouse. The IPA issued unmodified opinions¹ regarding the financial statements and compliance with Federal requirements. Furthermore, no written findings were issued in conjunction with the single audit.

Our review was limited to an examination of the audit report, email exchanges with the Executive Director, 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, the *Guide for Desk Reviews of OMB Circular A-133 Audit Reports (2015 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 receiving a *Fail* rating require corrective action.

We assigned a rating of *Fail*² for the October 31, 2015 reporting package due to key deficiencies that affect the reliability of the report. Accordingly, the audit report and the Data Collection

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 accounting principles and Federal requirements stipulated in OMB Circular A-133: *Audits of States, Local Governments, and Non-Profit Organizations*.

² There are three possible conclusions applicable to a single audit desk review -- Pass; Pass with Deficiencies; or Fail. The NEH-OIG has assigned a "Fail" rating to the FY2015 audit report submission since the "report contains quality deficiencies that may affect the reliability of the audit report and/or may require the auditor to conduct additional audit work to support the opinions in the report under review."

Form (Form SF-SAC) must be revised and resubmitted to the Federal Audit Clearinghouse (FAC). A summary of the desk review findings are noted below.

1. NEH Challenge Grant CH-50962-12 Is Not Properly Recognized in the Schedule of Expenditures of Federal Awards (SEFA)

In November 2011, the NEH awarded challenge grant CH-50962-12 to the Council to support an endowed Fund for New Communities. As of October 31, 2015, cumulative Federal funds released to the Council related to this grant award totaled \$333,455. The NEH challenge grant³ is not included in the audited Schedule of Expenditures of Federal Awards (SEFA) for fiscal year ended October 31, 2015.

OMB Circular A-133, Section 205(e) states that the cumulative balance of Federal awards for endowment funds, which are federally restricted, are considered awards expended in each year in which the funds are still restricted. Moreover, NEH guidance entitled, *Administration of NEH Challenge Grants* advises that Federal funds deposited into income-earning accounts be treated as Federal expenditures. Accordingly, cumulative Federal funds received from NEH that are specifically restricted to build an endowment must be reported as Federal expenditures on the SEFA annually. Absent specific direction from the NEH, endowment-based challenge grant awards are considered permanently restricted.

2. Reliability of the IPA's Conclusion Concerning Compliance with Federal Financial Reporting Requirements

In addition to determining whether the Council's financial statements are presented fairly in all material respects in accordance with generally accepted accounting principles, OMB Circular A-133 also requires the IPA to determine whether the Council has complied with Federal statutes, regulations, and the terms and conditions of Federal awards that may have a direct and material effect on each of its major programs. Compliance testing must include tests of transactions and other auditing procedures necessary to support the IPA's opinion on compliance.

The Council is required by NEH *General Terms and Conditions for General Support Grants to State Humanities Councils* to submit annual and final Federal Financial Reports (FFRs) to the NEH within 90 days after the completion date of the respective reporting period. The FFR is used as a standardized format to report expenditures as well as Federal cash status. OMB Circular A-110 requires such reporting to be substantiated by the Council's accounting records.

As part of our desk review, we inquired about the IPA's testing related to Federal financial reporting. The IPA provided a copy of the reconciliation they performed which shows that the expenditure amount on the FY 2015 SEFA reconciles to the Council's FFR submission for NEH grant SO-50601-14 for the period ending October 31, 2015. However, when we examined the IPA's documentation, we noted that the prior year data used in the reconciliation does not agree with information in the Council's FY 2014 audited SEFA or the FFR submitted to the NEH for the period ending October 31, 2014⁴.

³ Grant award CH-50962-12 has been assigned the CFDA number 45.130.

⁴ Prior year expenditures of Federal awards, (i.e., FY 2014), as noted in the IPA's reconciliation, total \$821,723. According to the FY 2014 audited SEFA, Federal expenditures related to NEH grant SO-50601-14 total \$828,276. The FFR submitted to the NEH dated January 29, 2015, reflects total Federal share of expenditures of \$817,690.

Furthermore, we identified discrepancies in Federal expenditure amounts certified in FFRs submitted to the NEH in comparison to audited SEFAs as shown below.

Date of FFR	Period Covered	Grant Number	Expenditures		Variance
			Per FFR	Per Audited SEFA	
			(a)	(b)	(a - b)
1/28/2016	FY 2015	SO-50601-14	\$828,790 ⁵	\$782,415	\$46,375
1/29/2015	FY 2014	SO-50601-14	\$817,690	\$828,276	(\$10,586)

The IPA issued an unmodified opinion concerning the Council's compliance with the requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on its major Federal program for fiscal year 2015, and no written findings were issued. It does not appear that the impact of the discrepancies identified during our desk review is properly represented in the FY 2015 OMB Circular A-133 reporting package, as issued by the IPA.

As the Council's oversight agency, NEH-OIG will not accept the FY 2015 single audit report submission until the above deficiencies are addressed and corrective action taken to include resubmission of the single audit reporting package to the FAC. Please contact FAC support staff for assistance with the single audit resubmission process since special procedures must be followed, (800-253-0696 or govns.fac@census.gov).

The deficiencies noted during our desk review are troubling. Accordingly, we expect the IPA to strengthen their audit testing procedures to ensure that all elements of the Council's single audit reporting package comply with Federal audit requirements. We request that Council management provide the NEH-OIG with a written corrective action plan regarding the noted deficiencies within 30 days of receipt of this letter.

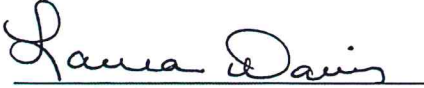
Please be advised that we are sending a copy of this letter to the Partner at Whittlesey & Hadley, P.C. to inform him of the results of our review.

⁵ The FFRs submitted to the NEH reflect Federal share of expenditures on a cumulative basis. Therefore, Federal expenditures per the FFR for FY 2015 were calculated by subtracting the "Total Federal Share" amount shown on Line "g" of the FY 2014 FFR from the "Total Federal Share" amount shown on Line "g" of the FY 2015 FFR, (\$1,646,480 - \$817,690).

Letter to the Board of Directors
March 7, 2017
Page 4

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:

 Partner
Whittlesey & Hadley, P.C.
14 Bobala Road
Holyoke, MA 01040