



NATIONAL
ENDOWMENT
FOR THE
HUMANITIES (NEH)

OFFICE OF INSPECTOR GENERAL

1100 PENNSYLVANIA AVE., NW
ROOM 419
WASHINGTON, D.C. 20506
(202) 606-8350 (PHONE)
(202) 606-8329 (FAX)
WWW.NEH.GOV
HOTLINE 877-786-7598

September 28, 2010

RETURN RECEIPT REQUESTED

[REDACTED]
[REDACTED]

The Colonial Williamsburg Foundation
P.O. Box 1776
Williamsburg, VA 23187-1776

RE: OIG-10-06 (EA)

Dear [REDACTED]

The National Endowment for the Humanities Office of Inspector General (OIG) has completed a limited audit of documentation supporting grant expenditures and matching gifts certified for NEH challenge grants [REDACTED] and [REDACTED] awarded to the Colonial Williamsburg Foundation (the "Foundation").

A copy of the report is enclosed, and in general, we believe the report to be self-explanatory. However, we wish to emphasize the need for the Foundation to:

- revise and resubmit the most recent certification report for award [REDACTED] to exclude the matching gift deemed unallowable; and
- ensure NEH challenge grant activity is properly reported on the Schedule of Expenditures of Federal Awards (SEFA) and incorporated into the OMB Circular A-133 audit.

Please consider the recommendations in this report, and within thirty days, provide the OIG with a written response including any comments you have regarding the findings and recommendations and a proposed timeline for implementation of the recommendations. Office of Management and Budget (OMB) Circular A-50, *Audit Follow-up*, requires that all recommendations must be resolved within six months after a report is issued to a grantee.

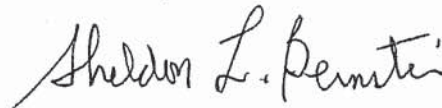
The thirty-day limit has been established for a first response due to the length of time frequently required by grantees and NEH personnel to communicate ideas, reach sound conclusions, and implement recommendations.

If available, documentation supporting the implementation of each recommendation should be included with your response. The response should be addressed to:

National Endowment for the Humanities
Office of Inspector General
1100 Pennsylvania Avenue NW, Room 419
Washington, DC 20506
ATTN: Audit Resolution Section

If you have any questions concerning the findings and recommendations or need accounting assistance, please call Mr. Steve Elsberg at (202) 606-8353. We would like to express our appreciation for the cooperation and assistance extended to our auditor by your staff during the audit.

Sincerely,



Sheldon L. Bernstein
Inspector General

Enclosure

cc:



The Colonial Williamsburg Foundation
P.O. Box 1776
Williamsburg, VA 23187

cc:



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LIMITED AUDIT REPORT

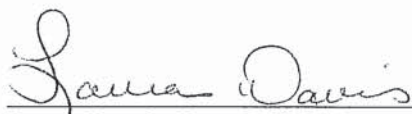
NATIONAL ENDOWMENT FOR THE HUMANITIES
CHALLENGE GRANT AWARDS
TO THE
COLONIAL WILLIAMSBURG FOUNDATION
WILLIAMSBURG, VA

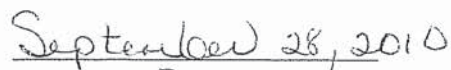
██████████ 3D VISUALIZATION LAB

&

██████████ TO FORM A MORE PERFECT UNION:
AFRICAN AMERICAN HISTORY AT COLONIAL
WILLIAMSBURG

OIG-10-06 (EA)


Laura Davis, Deputy Inspector General


Date

**LIMITED AUDIT REPORT
 NATIONAL ENDOWMENT FOR THE HUMANITIES (NEH)
 CHALLENGE GRANT AWARDS
 TO THE
 COLONIAL WILLIAMSBURG FOUNDATION
 WILLIAMSBURG, VA**

I. INTRODUCTION

We have performed a limited audit of the Colonial Williamsburg Foundation (the "Foundation") records as they relate to the following NEH challenge grants.

<u>Grant Number</u>	<u>Grant Period</u>	<u>Amount Awarded</u>
██████████	6/1/2007 – 1/31/2012	\$ ██████████
██████████	9/1/2006 – 3/31/2012	\$ ██████████

Matching Gifts: Based upon certification reports submitted to NEH in 2008 and 2009, the Foundation certified that eligible gifts totaling \$ ██████████ and \$ ██████████ respectively, were either pledged or received and used to meet the matching requirements stipulated by the above NEH challenge grants. The grantee conveyed in the certification reports that all restricted gifts were made in response to the NEH challenge grants; that the gifts meet the criteria for eligibility established by NEH and would be expended for the intended grant purposes; and that the total of any unrestricted gifts certified does not exceed the federal portion of each challenge grant. The grantee further certified that documentation substantiating the sources, purposes, eligibility, and expenditure of the gifts would be retained for three years following the submission of the final financial and performance reports to NEH. Based upon the cumulative matching gifts reported on the certification reports, NEH has released \$ ██████████ and \$ ██████████ respectively, in federal funds.

Grant Expenditures: As noted below, the grant awards will be invested in endowments that will yield annual support to cover costs associated with both the Foundation's 3D Visualization Lab and the Foundation's research into the role of African Americans in the founding era of the Republic. Currently, none of the grant funds or related investment earnings have been spent since the Foundation continues to raise the necessary endowment funds. The grantee conveyed that expenditures conform to the intended grant purposes, as stipulated in the NEH challenge grant awards.

II. BACKGROUND

Founded in 1926, the Colonial Williamsburg Foundation represents a nonprofit educational institution dedicated to the preservation, restoration, interpretation, and presentation of eighteenth-century Williamsburg, Virginia's colonial capital. The Foundation has been granted tax-exempt status under Section 501(c)(3) of the Internal Revenue Code.

██████████ The Foundation was awarded this \$██████████ challenge grant in order to establish a 3D Visualization Lab that will advance the development of interactive, 3D computer graphics to model Williamsburg at the time of the Revolution and to create other virtual environments relevant to the Foundation's educational programming. To achieve this goal, the Foundation will create an endowment that will support the annual operating costs of this endeavor. To meet the terms of the grant award, the Foundation must raise three times the federal offer in eligible, non-federal matching funds resulting in a total endowment of \$██████████ (\$██████████ NEH; \$██████████ non-federal).

██████████ The Foundation was awarded this \$██████████ challenge grant in order to establish an endowment which will support research to explore the role of African Americans in the founding of the American Republic. To meet the terms of the grant award, the Foundation must raise three times the federal offer in eligible, non-federal matching funds resulting in a total endowment of \$██████████ (\$██████████ NEH; \$██████████ non-federal).

III. LIMITED AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

The principal objectives of this limited audit were to determine whether 1) the gifts certified by the Foundation were eligible to release federal matching funds and 2) grant expenditures are made in accordance with applicable provisions of NEH's *General Terms and Conditions for Awards to Organizations* and the terms of the grant budgets approved by NEH and any amendments. Our review was conducted in accordance with *Generally Accepted Government Auditing Standards (GAGAS)* as promulgated by the Comptroller General of the United States.

We examined documentation provided by the Foundation supporting a) the eligibility of gifts included in the certification reports and b) the allowability of expenses incurred for the NEH challenge grants. We also reviewed the Foundation's accounting system as it pertains to the challenge grant donations and expenditures and gained an understanding of procedures implemented by management to oversee the Foundation's endowment and related investment portfolio.

IV. LIMITED AUDIT FINDINGS AND RECOMMENDATIONS

A. Certification of Ineligible Matching Gifts

One of the matching gifts certified for grant [REDACTED] included real estate that was sold and converted to cash. The amount reported on the certification report improperly reflected the gross sales price rather than the net cash proceeds actually received. The difference of \$ [REDACTED] represents an unallowable matching gift.

Per Sections I and III of the *Administration of NEH Challenge Grants* manual (see www.neh.gov/manage/challenge_admin.html), restricted matching gifts must be used to support the purposes outlined in the approved challenge grant application/budget. Real estate represents a valid gift only if it's converted into cash by means of sale. The value of the matching gift is limited to the net sales value (vs. gross sales price).

Recommendation A

The Foundation must revise and resubmit the most recent certification report for grant [REDACTED] to reflect the removal of the unallowable matching gift (\$ [REDACTED]). The unallowable funds will need to be replaced with new matching gifts, as stipulated under the challenge grant guidelines, prior to the conclusion of the grant period.

B. Schedule of Expenditures of Federal Awards Reporting (Financial Statements)

As of December 31, 2008 and 2009, the Foundation received \$ [REDACTED] and \$ [REDACTED], respectively, in total challenge grant funding from NEH for the primary purpose of creating endowments to support humanities programs as approved in the challenge grant budgets. However, these funds were not reported on the Schedule of Expenditures of Federal Awards (SEFA) as required by OMB Circular A-133 for the fiscal years ended December 31, 2008 and 2009. Accordingly, the NEH challenge grant programs were not considered by the independent auditor (IPA) when selecting federal programs to be audited as part of the A-133 audit.

OMB Circular A-133, Section 205(e) states that the *cumulative* balance of federal awards for endowment funds (i.e. the Foundation's challenge grants), which are federally restricted, are considered awards expended in *each year* in which the funds are still restricted. Moreover, the *Administration of NEH Challenge Grants* manual states that funds deposited into income-earning accounts are to be treated as federal expenditures. Consequently, the \$ [REDACTED] and \$ [REDACTED] should have been reported as federal expenditures on the 2008 and 2009 SEFA, respectively, since these funds are specifically restricted to build endowments.

Recommendation B

We request that the Foundation, after consulting with their IPA, provide an explanation documenting why NEH challenge grant (CFDA # 45.130) expenditures were omitted from the December 31, 2008 and 2009 SEFAs and related A-133 audits.

Since our audit addressed the timeframe in question, we do not expect the IPA to duplicate work and re-open the 2008 and 2009 A-133 audits. However, we fully anticipate the proper reporting of NEH challenge grant expenditures on the 2010 SEFA, which is critical to ensuring proper major program testing. Please note that additional audit guidance concerning the challenge grant program can be found on the NEH Office of Inspector General website (<http://www.neh.gov/howeare/oig-challenge-audit.html>).

V. EXIT CONFERENCE

The results of our review were discussed with [REDACTED] (Controller) and [REDACTED] [REDACTED] Corporate and Foundation Relations) on May 13, 2010. Foundation management agrees with the above recommendations and has asserted that these issues will be addressed in a timely fashion.