



NATIONAL
ENDOWMENT
FOR THE
HUMANITIES (NEH)

OFFICE OF INSPECTOR GENERAL

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September 30, 2010

RETURN RECEIPT REQUESTED

[REDACTED]
[REDACTED]

National Underground Railroad Freedom Center
50 East Freedom Way
Cincinnati, OH 45202

RE:

NEH Challenge Grant ([REDACTED]) ~ *Endowment: Exhibits and Educational Programs*
NEH Challenge Grant ([REDACTED]) ~ *Distance Learning Program: Enhancing
Educational Access*
[OIG-10-08 (DR)]

Dear [REDACTED]:

As you already know, OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* requires non-profit entities that annually expend \$500,000 or more in federal awards to undergo either a single or program-specific audit. However, we wanted to alert you to a unique rule used to calculate the annual expenditures reported on the Schedule of Expenditures of Federal Awards (SEFA) for federally funded endowments. This provision applies to both of the National Underground Railroad Freedom Center's (the "Center") current NEH challenge grant awards since they establish humanities based endowments.

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, the *Administration of NEH Challenge Grants* manual states that federal funds deposited into income-earning accounts are to be treated as federal expenditures. Accordingly, the cumulative federal funds received from NEH that are specifically restricted to build an endowment must be reported as federal expenditures on the SEFA annually.

Award: [REDACTED]

We completed a cursory review of the related grant file and determined that the entire award will be used to create an endowment fund. A certification report reflecting \$ [REDACTED] in non-federal matching funds has been submitted to NEH resulting in the release of \$ [REDACTED] in cumulative federal dollars.

[REDACTED]
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Award: [REDACTED]

This challenge grant represents a hybrid award. Approximately ninety-two percent of the funds raised (federal and non-federal) will be used to create an endowment while the remaining funds will subsidize related fundraising costs. Accordingly, a two-pronged methodology must be used to calculate the SEFA expenditures associated with this challenge grant: *

- 1) Endowment fund - SEFA expenditures represent cumulative federal funds received,
- 2) Bridge funds - SEFA expenditures represent direct federal expenditures during the fiscal year.

** Please note that non-federal matching funds are excluded from SEFA reporting.*

A certification report reflecting \$ [REDACTED] in non-federal matching funds has been submitted to NEH resulting in the release of \$ [REDACTED] in cumulative federal dollars.

Please note that both of these awards have been assigned the same Catalog of Federal Domestic Assistance (CFDA) number representing a single federal program. If total federal expenditures related to these two grants exceed \$ [REDACTED] as of December 31, 2010, the independent auditor (IPA) will need to treat this program as a high risk, Type A major program when performing the upcoming single audit (per OMB Circular A-133, Section 520).

In a related matter, we noted that the data collection form (SF-SAC) and associated reporting package for the December 31, 2009 audit has not been posted to the Federal Audit Clearinghouse (FAC). The existing rules state that this information is due within nine months of the organization's fiscal year end (i.e. 9/30/2010). Please be aware that the U.S. Office of Management and Budget (OMB) recently issued new guidance in this area. In particular, late submissions of the reporting package to the FAC, in either one of the two prior years, will prevent the Center from attaining low-risk auditee status (25% vs. 50% dollar coverage) in the current year.

Please ensure the Center's controller and the IPA are promptly informed of this matter since the improper preparation of the SEFA and faulty A-133 audit procedures can lead to additional scrutiny by federal auditors, to include our office, and the temporary suspension of federal funding. Finally, please note that additional audit guidance concerning the challenge grant program can be found on the NEH Office of the Inspector General website (<http://www.neh.gov/whowere/oig-challenge-audit.html>).

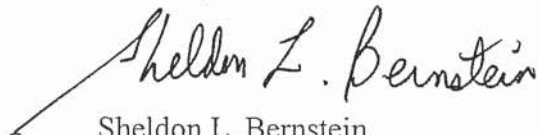
[REDACTED]
RE: NEH Challenge Grants [REDACTED]

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If you have any questions concerning this matter, please call Mr. Steve Elsberg at (202) 606-8353.

Sincerely,

A handwritten signature in cursive script that reads "Sheldon L. Bernstein". The signature is written in black ink and is positioned above the printed name and title.

Sheldon L. Bernstein
Inspector General

cc:

[REDACTED]
National Underground Railroad Freedom Center
50 East Freedom Way
Cincinnati, OH 45202