

NATIONAL ENDOWMENT FOR THE

Humanities

OFFICE OF INSPECTOR GENERAL

January 17, 2012

RETURN RECEIPT REQUESTED

[REDACTED]
President
New Bedford Whaling Museum
18 Johnny Cake Hill
New Bedford, MA 02740

RE: NEH Challenge Grant (CH-50875-11)
[OIG-12-04 (DR)]

Dear [REDACTED]:

Earlier in the year, our office issued general guidance to new challenge grant award recipients¹. The communication addressed six areas in which the Office of Inspector General has historically encountered problems. The intent of this letter is to expand upon item #5 – “Compliance with Federal audit requirements” since the New Bedford Whaling Museum (the “Museum”) received an endowment-based challenge grant award from the National Endowment for the Humanities (NEH).

Please note that 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. We wanted to alert you to this fact since a unique rule used to determine annual expenditures applies to the Museum’s current NEH challenge grant award entitled “*New Bedford Whaling Museum Humanities Endowment Challenge*” (CH-50875-11).

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* publication states that Federal funds deposited into income-earning accounts are to be treated as Federal expenditures. Accordingly, cumulative Federal funds received from the NEH that are specifically restricted to build an endowment must be reported as Federal expenditures on the Schedule of Expenditures of Federal Awards (SEFA) annually.

We determined that certification report(s) reflecting non-Federal matching funds have been submitted resulting in the release of \$ [REDACTED] in cumulative Federal dollars by the NEH as of December 31, 2011. Now that the related Federal “expenditures” exceed the A-133 major program threshold (\$300,000), it is critical that the NEH challenge grant be properly reported on the SEFA for the pending December 31, 2011 fiscal year-end audit. Since this program was not

¹ Back in May 2011, the NEH Office of Inspector General emailed a memorandum entitled “*Important Challenge Grant Information*” to both the project director and the grant administrator of record.

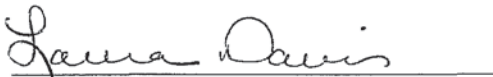
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audited in either of the past two years, the independent auditor will need to treat this grant as a high risk, Type A program when performing the 2011 single audit (per OMB Circular A-133, Section 520).

Please ensure the Museum's controller and the independent auditors 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. 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/whoware/oig-challenge-audit.html>).

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

Sincerely,



Laura Davis
Acting Inspector General

cc:

[REDACTED]
Director of Finance
New Bedford Whaling Museum
18 Johnny Cake Hill
New Bedford, MA 02740