



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](http://WWW.NEH.GOV)  
HOTLINE 877-786-7598

September 30, 2010

**RETURN RECEIPT REQUESTED**

[REDACTED]  
[REDACTED]  
Peabody Essex Museum  
East India Square  
Salem, MA 01970

RE: NEH Challenge Grant [REDACTED] - *Endowment of Curator of Photography*  
[OIG-10-06 (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 endowment funds. This provision applies to the Peabody Essex Museum's current NEH challenge grant since the award establishes a curator of photography endowment.

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.

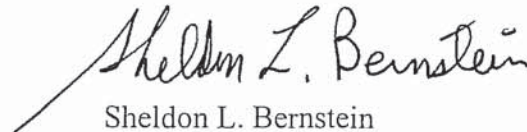
We completed a cursory review of the related grant file and determined that the entire award will be used to create an endowment fund. Certification reports reflecting \$ [REDACTED] in non-federal matching funds were submitted to NEH in 2010 resulting in the release of \$ [REDACTED] in cumulative federal dollars. This amount represents the A-133 major program threshold, therefore it's critical that the NEH challenge grant be properly reported on the SEFA for the upcoming December 31, 2010 audit. Since this federal program was not 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 2010 single audit (per OMB Circular A-133, Section 520).

[REDACTED]  
RE: NEH Challenge Grant [REDACTED]  
September 30, 2010  
Page 2

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, and the temporary suspension of federal funding. 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/howeare/oig-challenge-audit.html>).

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

Sincerely,



Sheldon L. Bernstein  
Inspector General

cc:

[REDACTED]  
[REDACTED]  
Peabody Essex Museum  
East India Square  
Salem, MA 01970