



NATIONAL  
ENDOWMENT  
FOR THE  
HUMANITIES (NEH)

OFFICE OF INSPECTOR GENERAL

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July 13, 2010

**RETURN RECEIPT REQUESTED**

██████████  
Director of Foundation and Government Grants  
New-York Historical Society  
170 Central Park West  
New York, NY 10024

RE: NEH Challenge Grant ██████████ - *American History Education Program*  
NEH Challenge Grant ██████████ - *Institute for Constitutional Studies*  
[OIG-10-03 (DR)]

Dear Ms. ██████████:

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 both of the New-York Historical Society's 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. Consequently, the cumulative federal funds received from NEH that are specifically restricted to build an endowment must be reported as federal expenditures on the SEFA each year that the grant remains active.

**Award:** ██████████

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 \$██████████ in non-federal matching funds have been submitted to NEH resulting in the release of \$██████████ in cumulative federal dollars. Now that the total federal "expenditures" exceed the A-133 major program threshold (\$██████████), it is critical that the NEH challenge grant be properly reported on the SEFA for the upcoming June 30, 2010 audit. Since this 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).

Letter to [REDACTED]  
RE: NEH Challenge Grants ([REDACTED] & [REDACTED])  
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**Award:** [REDACTED]

This challenge grant, which was transferred from George Washington University, represents a hybrid award. Approximately eighty-five percent of the award will be used to create an endowment while the remaining bridge funds will support operations during the interim. Accordingly, a two-pronged methodology must be used to calculate the SEFA expenditures associated with this challenge grant:

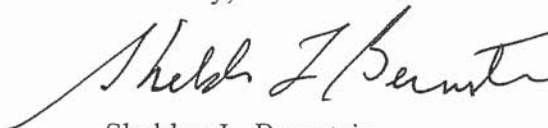
- 1) Endowment fund - SEFA expenditures represent cumulative federal funds received,
- 2) Bridge funds - SEFA expenditures represent actual direct expenses incurred after backing out the non-federal matching portion.

Based upon a quick analysis, at least \$ [REDACTED] ([REDACTED]% of NEH funds received) should have been reported as SEFA expenditures for the year ended June 30, 2009. Since the reporting of endowment fund expenditures is cumulative, we request that the methodology used to report SEFA expenditures be re-evaluated and modified for the upcoming FY2010 audit. Similar to grant [REDACTED], total expenditures will exceed \$ [REDACTED] therefore this award will need to be treated as a high risk, Type A program when performing the 2010 single audit (per OMB Circular A-133, Section 520). Please note that there is no need to re-open the June 30, 2009 single audit.

Please ensure the Society'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/whoweare/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]  
President and CEO  
New-York Historical Society  
170 Central Park West  
New York, NY 10024