

# ***OFFICE OF INSPECTOR GENERAL***

## **SEMIANNUAL REPORT TO THE CONGRESS** Number 22

**OCTOBER 1, 1999 TO MARCH 31, 2000**

**NATIONAL ENDOWMENT FOR THE HUMANITIES**

"Democracy demands wisdom and vision in its citizens"  
- National Foundation on the Arts and the Humanities Act of 1965

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April 26, 2000

Honorable William R. Ferris  
Chairman  
National Endowment for the Humanities  
Washington, DC 20506

Dear Chairman Ferris:

Enclosed is the Semiannual Report for the Office of Inspector General (OIG) for the period October 1, 1999 – March 31, 2000. The report, which is required by the Inspector General Act as amended, provides an overview of the activities of the OIG during this six-month period. The Act requires that you transmit this report, with your Report of Final Action, to the appropriate congressional committees within 30 days of its receipt.

During this reporting period we issued the final reports of our Limited Review of the Peer Review Process. While we made several recommendations, we found the process was working in a satisfactory manner. The NEH awards are based on a reasonable and impartial criteria fairly applied throughout the programs.

I look forward to continuing working with you and agency managers, the NEH employees Union, Congress, and NEH's various stakeholders to help ensure that NEH delivers the grant awards in an economical and efficient manner.

I appreciate your support for the OIG.

Sincerely,

Sheldon L. Bernstein  
Inspector General

Enclosure

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## REPORTING REQUIREMENTS

The Inspector General Act of 1978, as amended (Public Law 100-504), specifies reporting requirements for semiannual reports. The requirements are listed and cross-referenced to the applicable pages in this report.

<b><u>Citation</u></b>	<b><u>Reporting Requirements</u></b>	<b>Page</b>
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\* None this period.

# INTRODUCTION

## THE NATIONAL ENDOWMENT FOR THE HUMANITIES

In order "to promote progress and scholarship in the humanities and the arts in the United States," Congress enacted the National Foundation on the Arts and the Humanities Act of 1965. This act established the National Endowment for the Humanities as an independent grant-making agency of the federal government to support research, education, and public programs in the humanities. Grants are made through four divisions - Research Programs, Education Programs, Preservation and Access, and Public Programs -- and three offices -- Challenge Grants, Enterprise, and Federal-State Partnership.

The act that established the National Endowment for the Humanities says "The term `humanities' includes, but is not limited to, the study of the following: language, both modern and classical; linguistics; literature; history; jurisprudence; philosophy; archaeology; comparative religion; ethics; the history, criticism, and theory of the arts; those aspects of social sciences which have humanistic content and employ humanistic methods; and the study and application of the humanities to the human environment with particular attention to reflecting our diverse heritage, traditions, and history and to the relevance of the humanities to the current conditions of national life.

## THE OFFICE OF INSPECTOR GENERAL

The NEH's Office of Inspector General was established on April 9, 1989, in accordance with the Inspector General Act Amendments of 1988, Public Law 100-504. In this legislation, Congress established Offices of Inspector General in several departments and in thirty-three agencies, including NEH. The NEH Inspector General (IG) is appointed by the Chairman. The independence of the IG is an important aspect of the Act. For example, the IG:

- cannot be prevented from initiating, carrying out, or completing an audit or investigation, or from issuing any subpoena;
- has access to all records of the agency;
- reports directly to the Chairman, and can only be removed by the Chairman, who must promptly advise Congress of the reasons for the removal; and
- reports directly to Congress.

The Act states that the Office of Inspector General is responsible for (1) conducting audits and investigations; (2) reviewing legislation; (3) recommending policies to promote efficiency and effectiveness; and (4) preventing and detecting fraud, waste, and abuse in the operations of the agency. The Inspector General is also responsible for keeping the Chairman and Congress fully and currently informed of problems and deficiencies in the programs and operations.

The OIG staff consists of the Inspector General, a Deputy Inspector General for Audits, two auditors, and a secretary. The OIG and the Office of General Counsel (OGC) have a Memorandum of Understanding detailing the procedures for the OIG to be provided with OGC legal services. Investigations are handled by the Inspector General, an auditor and as required by the agency's Deputy General Counsel (currently vacant).

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# AUDIT, SURVEY, AND INSPECTION ACTIVITIES

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This office is responsible for external and internal audits. External auditing includes grants, pre-award accounting system surveys, review of OMB Circular A-133 reports, and on-site quality assurance reviews of CPA work papers. Internal efforts consists of audits, inspections, and reviews/evaluations of the NEH administrative, programmatic, and financial operations.

During this reporting period, the OIG issued the last three audit reports of the NEH panel process. We also issued a post-award accounting system survey that was originally a "Hotline" call. In addition, we received and processed 154 OMB Circular A-133 audit reports and issued thirteen memorandum reports containing findings (see Single Audit Act Reviews).

## LIST OF AUDIT REPORTS ISSUED

The following is a list of audit/survey reports issued by the OIG during the reporting period. The Act requires us to report on the "Dollar Value of Recommendations that Funds Be Put to Better Use," and the "Total Dollar Value of Questioned Costs (including a separate category for the dollar value of unsupported costs)." None are reported during this period.

<b>INTERNAL AUDITS</b>	<b>Report Number</b>	<b>Date Issued</b>
Limited Audit of the Peer Review Process Division of Research and Education	OIG-00-01 (LIA)	10/28/99
Limited Audit of Peer Panel Review Process Office of Challenge Grants	OIG-99-04 (LIA)	10/18/99
Limited Audit of the Peer Review Panel Process Division of Preservation and Access	OIG-99-05 (LIA)	10/13/99
 <b>EXTERNAL REVIEWS</b>		
Virgin Islands Humanities Council	OIG-00-01 (ER)	03/30/00
Newport Historical Society	OIG-00-02 (ER)	03/31/00
 <b>QUALITY ASSURANCE REVIEWS</b>		
Review of Independent Public Accountants (IPA) Workpapers for 1995 and 1996 Financial Statements and Compliance Audit		
-Virgin Islands Humanities Council, Inc.	OIG-00-101(QAR)	12/03/99
-Amerika Samoa Humanities Council, Inc.	OIG-00-102(QAR)	03/31/00
 <b>SINGLE AUDIT ACT REVIEWS</b>		
Missouri Humanities Council	OIG-00-01 (CAA)	03/31/00
Oregon Council for the Humanities	OIG-00-02 (CAA)	03/31/00
Utah Humanities Council	OIG-00-03 (CAA)	03/31/00
Newberry Library	OIG-00-04 (CAA)	03/31/00
Dartmouth College	OIG-00-05 (CAA)	03/31/00
Montana Committee for Humanities	OIG-00-06 (CAA)	03/31/00
Massachusetts Foundation for the Humanities, Inc.	OIG-00-07 (CAA)	03/31/00
Ohio Historical Society	OIG-00-08 (CAA)	03/31/00
Minnesota Humanities Commission	OIG-00-09 (CAA)	03/31/00
Walters Art Gallery	OIG-00-10 (CAA)	03/31/00
Walters Art Gallery	OIG-00-11 (CAA)	03/31/00
Nevada Humanities Committee	OIG-00-12 (CAA)	03/31/00
New Jersey Council for the Humanities	OIG-00-13 (CAA)	03/31/00

## SUMMARY OF REPORTS ISSUED

### INTERNAL AUDITS

**Limited Audit of Peer Panel Review Process  
Former Division of Research and Education (RED)**  
(for Fellowships for University Teachers and Fellowships for  
College Teachers and Independent Scholars)

**OIG-00 01(LIA)  
Dated October 28, 1999**

The objectives of the limited audit were:

- To determine if verbal instructions on Conflict of Interest and Confidentiality were consistent with written instructions sent to panelists and in compliance with NEH written policy.
- To assess the adequacy of the verbal instructions.
- To determine if opening remarks were complete, covering all of the main points in RED's script/check list.
- To observe the panel discussions to determine if the proposals are adequately debated. (Our observations were to see if the debates covered the criteria as set forth in the guidelines, not to judge the scholarly content of the debates.)
- To assess the staff's role during the panel discussions. This assessment was designed to answer two questions. Did staff act as moderators and raise questions that would help the panelists debate the applications within the framework of the stated criteria? Or did staff sway or influence the debate?

Our limited audit was conducted in accordance with "government auditing standards," issued by the Comptroller General of the United States.

Our limited audit revealed that the peer panel review process in RED met the audit objectives.

**Limited Audit of Peer Panel Review Process  
Division of Preservation and Access**

**OIG-99-05 (LIA)  
Dated October 13, 1999**

The objectives of our limited audit were to:

- Determine if verbal instructions on Conflict of Interest were consistent with the written instructions sent to panelists and to assess the adequacy of the instructions;
- Determine if verbal instructions on Confidentiality were consistent with the written instructions sent to panelists and to assess the adequacy of the instructions;
- Determine if other verbal instructions were consistent with materials sent to panelists;
- Determine if opening remarks covered all of the main points in the *General Outline for Panel Introduction* prepared by the Division of Preservation and Access;
- Determine if the proposals are subjected to thorough debates (i.e., whether or not the debates address the evaluation criteria as set forth in the Preservation and Access guidelines); and
- Observe and assess staff participation during the panel discussions.

Our limited audit was conducted in accordance with "government auditing standards," issued by the Comptroller General of the United States.

Our limited audit revealed that the peer panel review process in the Division met the audit objectives. We made several recommendations to strengthen the panel review process.

**Limited Audit of Peer Panel Review Process  
Office of Challenge Grants**

**OIG-00-04 (LIA)  
Dated October 18, 1999**

The objectives of our limited audit were to:

- Determine if verbal instructions on Conflict of Interest were consistent with the written instructions sent to panelists and to assess the adequacy of the instructions;
- Determine if verbal instructions on Confidentiality were consistent with the written instructions sent to panelists and to assess the adequacy of the instructions;
- Determine if other verbal instructions were consistent with materials sent to panelists;
- Determine if opening remarks covered all of the main points in the *Introductory Remarks to Panelists* outline prepared by the Office of Challenge Grants;
- Determine if the proposals are subjected to thorough debates (i.e., whether or not the debates address the evaluation criteria as set forth in the Challenge Grants guidelines); and
- Observe and assess staff participation during the panel discussions.

Our limited audit was conducted in accordance with "government auditing standards," issued by the Comptroller General of the United States.

Our limited audit revealed that the peer panel review process in the Division met the audit objectives. We made several recommendations to strengthen the panel review process.

**EXTERNAL AUDITS**

**Virgin Island Humanities Council**

**OIG-00-01 (ER)  
Dated March 30, 2000**

The objective of this review was to determine the reasonableness of the auditor's work and the extent to which we could rely on it. Our work was performed in accordance with Government Auditing Standards.

We found the work conducted by the auditor was not in all respects done in accordance with applicable standards and did not fully meet the requirements of OMB Circular A-133. We provided recommendations and informed the Council that we would not accept such a report again.

**Newport Historical Society**

**OIG-00-03 (ER)  
Dated March 30, 2000**

The OIG performed a limited scope review of the Newport Historical Society (the Society). The objectives of the review were to determine if the Society was in compliance with the National Endowment for the Humanities (NEH) General Grant Provisions for Organizations (the Provisions) with regards to personnel activity reports and budget controls. Our review was for grant GM-24712-92 and was a follow-up to the site visit of May 28, 1999.

We were able to allow the costs charged to the grant project. In addition, we made several recommendations for the Society to improve its accountability of federal funds. We notified NEH that before awarding any further funds to the Society that an accounting system review be performed.

## **SINGLE AUDIT ACT REVIEWS**

We receive audit reports on NEH grantee organizations from other federal agencies, state and local government auditors, and independent public accountants. These reports generally are the result of OMB Circular A-133 audits. The single audits report on financial activities, compliance with laws and regulations, and grantee management (internal) controls over federal expenditures. In most instances, the cognizant agency is the Department of Health and Human Services, the federal agency with the predominant financial interest.

During this period we received and processed 154 audit reports. Thirteen reports contained findings. We are continuing our follow-up work on these. In addition, we expended considerable effort in determining which grantees have not submitted OMB Circular A-133 audit reports. Several organizations do not have sufficient funds for audits by independent public accountants. The OIG is working with them and their independent public accountants to develop an appropriate cost-effective audit approach. We expect to receive all the reports by June 30, 2000.

To ensure that we receive OMB Circular A-133 audit reports from the state humanities councils in a timely manner, we sent an e-mail message to all of the executive directors and Board chairmen. We will continue to send reminders to the State Councils.

## **A-133 COMPLIANCE SUPPLEMENT**

State humanities councils that receive at least \$300,000 per year are subject to Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations". We have worked with OMB in developing a compliance supplement for state humanities councils that will be part of the government-wide guidance. Our submission has been included in the OMB Compliance Supplement.

## **Y2K COMPUTING CHALLENGE**

During the past two years we have been monitoring the agency's Year 2000 compliance program. NEH's Office of Information Resources Management (OIRM) has resolved all major problems and only had to deal with some very minor issues. Operations at NEH continued without interruption. We commend them for this success.

## **INVESTIGATION ACTIVITY**

The Inspector General Act provides the authority for the Office of Inspector General to investigate possible violations of criminal or civil laws, administrative regulations, and agency policies, which relate to the programs and operations of the NEH. The OIG Hotline, E-mail address, and regular mail are efficient, effective means of receiving allegations or complaints from employees, grantees, contractors, or the general public. The OIG has obtained assistance from other OIGs, the Federal Bureau of Investigation, the Postal Inspection Service, and other investigative entities as applicable.

When the OIG receives a complaint or allegation of a criminal or administrative violation, we make a determination of the appropriate action to take. This can be an audit, investigation, a referral to another NEH office or division, or a referral to another federal agency.

Since the Reduction-In-Force that occurred in the last quarter of calendar year 1995, NEH employees have contacted the OIG on matters that should be brought to the attention of the Office of Human Resources and the Office of Equal Opportunity.

As of October 1, 1999, one matter was open in the Investigation branch of the OIG. This was closed during the current period. During the six months ending March 31, 2000, we received 19 "Hotline" contacts.

### **One Case Open at Beginning and Closed**

We investigated an allegation that an employee was given an illegal "early out". Also, that a job announcement was specifically written for a particular person. Our investigation, with the assistance of two Office of Personnel Management departments, disclosed no illegal activity. The matter was closed.

### **Contacts During This Period**

During this reporting period we received 19 telephone, e-mail, letter or walk-in contacts. Three contacts provided the OIG about unsolicited pornography e-mail received by NEH staff. We were unable to trace the e-mail to the original sender and therefore closed all three cases. Seven contacts were from NEH staff that involved internal agency matters. Of the seven, two concerned panel and application issues and we monitored these until conclusions were reached. After giving the person advice, we referred them to other NEH officers or divisions and told them to return to the OIG if the matter was not resolved.

One complaint involved an NEH employee and a person from another agency; we referred the matter to the appropriate personnel in the other agency. We had one contact by e-mail concerning foster care fraud and referred this to the Department of Health and Human Services OIG.

We heard from one office concerning several calls they had received from individuals who paid money to a company to receive a "free grant." NEH was listed as one of the organizations that was supposed to be giving out "free grant funds." We referred this to the appropriate U.S. Postal Office Inspectors who were already working on this matter.

In response to one of our e-mail "posters" informing employees to contacting the OIG, we received a allegation that an employee was not working a full 40 hour week. We discussed the situation with the employee's supervisors and were informed that the person performs all the required work.

One employee complained about publication costs because the agency was disposing of quite a few books, brochures and pamphlets. We referred this matter to our Audit Division.

Two contacts required full investigations. The first involved an allegation from an employee stating their supervisor was threatened by another employee. We investigated this matter. We determined that there was no credible evidence to support the allegation. In the second case, we received a complaint from two employees of a grantee's staff stating the former executive director mismanaged the organization, including the federal funds. We are currently looking into this matter.

We received two contacts involving allegations of discrimination. One involved a complaint that the person was not selected for a position because of age. The other involved an allegation that a minority received a preference. In both situations, we found that the person selected was fully qualified to be selected. We counseled both individuals that they had the right to go forward with their allegations as an Equal Opportunity matter.

### **MATTERS REFERRED TO PROSECUTIVE AUTHORITIES**

No new cases were referred for criminal prosecution.

### **HOTLINE AND PREVENTION ACTIVITIES**

We maintain a local Hotline phone number, agency E-mail address, and an Internet address. We maintain all three to provide additional confidentiality for those persons bringing matters to the attention of the OIG.

We continue to issue agency-wide E-mail messages to NEH staff informing them of the violations that should be reported to the OIG. We use E-mail messages to inform NEH staff about the OIG operations several times during the year. Posters informing staff to contact the OIG are posted throughout the agency building.

### **Investigation Activity**

Open at beginning of period	1
Matters brought to the OIG during the reporting period	19
	—
Total Investigative contacts	20
Closed or referred during reporting period	1
	—
Open at end of period	1
	=

# OTHER ACTIVITIES

## INDIRECT COST RATE NEGOTIATIONS/REVIEWS

Grantees are entitled to recover total project costs, both direct and indirect. Indirect costs are those costs of an organization or institution that are not readily identifiable with a particular project or activity but are nevertheless necessary to the general operation of the organization or institution and the conduct of the activities it performs.

The cost of office supplies, general telephone, postage, accounting, and administrative salaries are types of expenses usually considered as indirect costs. In theory, all such costs might be charged directly; practical difficulties, however, preclude such an approach. Therefore, they are usually grouped into a common pool(s) and distributed to those organizational or institutional activities that benefit from them through the expedient of an indirect cost rate(s).

Cognizant federal agencies approve the rates after reviewing cost allocation plans submitted by grantees. The approved rate will generally be recognized by other federal agencies.

During this period, we negotiated indirect cost rates with three grantees.

### INDIRECT COST RATE DESK REVIEW REPORTS ISSUED

<u>Grantee</u>	<u>Report Number</u>	<u>Date Issued</u>
Northeast Document Conservation Center	OIG-00-01	11-17-99
The Walters Art Gallery	OIG-00-02	12-22-99
ETV Endowment of South Carolina	OIG-00-03	02-24-00

## INTRA-AGENCY COOPERATION

In this period OIG staff attended and engaged in various NEH meetings - panel meetings (where grant applications are reviewed by outside consultants), pre-council meetings (where the program divisions discuss the panel review results with the chairman and his immediate staff), and the National Council meeting. In addition, the IG attended the chairman's monthly policy group meetings. Two OIG staff attended monthly NEH Employee Association Meetings; one is on the executive committee. The staff were also involved in the review of NEH administrative directives.

The Office of Inspector General contributes to the discussions; however, the office does not participate in the policy making.

## PARTICIPATION ON THE EXECUTIVE COUNCIL ON INTEGRITY AND EFFICIENCY

The Executive Council on Integrity and Efficiency (ECIE) was established by the President in 1992 to coordinate and implement government-wide activities to combat fraud and waste in federal programs and operations. OIG staff regularly attend ECIE meetings and provide information to the ECIE.

## **REGULATORY AND LEGISLATIVE REVIEWS**

The Inspector General Act of 1978, as amended, requires the Office of Inspector General to review proposed legislation and regulations. The reviews are made to assess whether the proposed legislation or regulation (1) impacts on the economy and efficiency of Endowment programs and operations, and (2) contains adequate internal controls to prevent and detect fraud and abuse. During this period we provided the ECIE with comments on various matters affecting the OIG community.

### **OIG INTERNET AND INTRANET**

The OIG has listed several semiannual reports on the internet. The reports are accessible through the Inspectors General homepage (<http://www.ignet.gov/ignet/internal/neh/html>). The reports link to the NEH homepage (<http://www.neh.gov/html/oig/>). To access the semiannual reports from outside the NEH, enter the URL <http://www.ignet.gov>.

To enhance NEH staff's recognition of our mission and responsibilities, we provide links to several other federal agencies such as the Office of Management and Budget, the General Accounting Office, the Office of Government Ethics, and the IGET.

### **A-133 WAIVER ISSUED BY NEH**

NEH has waived the A-133 audit requirement for grants awarded in the Centers Program and the International Program. The reasons for dropping the A-133 audit requirement for Centers grants "... was the fact that our support of these projects was limited to publicity, selection costs, and the actual fellowship stipends, with the majority of funding going to stipends. Since we know who are selected as fellows, what their projects are, and how much they receive in the way of NEH support, we saw no reason to insist on an audit of these grants. We are now recommending the same approach for the International Program because, except for a small amount of funding for administrative costs, the use of NEH funds is limited to publicity, selection costs and stipends." 1/

OMB Circular A-133 is guidance on how to implement the Single Audit Act Amendments of 1996. It is the OIG's position that NEH does not have any provision in its reauthorizing legislation or its annual appropriation that gives it authority to waive A-133. We have requested that the NEH Office of General Counsel provide the OIG with an opinion on the propriety of the A-133 waiver. We expected a written opinion by the end of May 1999. We understand it will be available prior to December 31, 1999.

1/ Memorandum of Director of Grants Office to Deputy Chairman.

**TABLE I  
INSPECTOR GENERAL-ISSUED REPORTS  
WITH QUESTIONED COSTS DOLLAR VALUE**

	Number Of Reports	Questioned Cost	Unsupported Cost
A. For which no management decision has been made by the commencement of the reporting period.	- 0 -	\$ - 0 -	\$ - 0 -
B. Which were issued during the reporting period	- 0 -	- 0 -	- 0 -
<b>Subtotals (A+B)</b>	- 0 -	\$ - 0 -	\$ - 0 -
C. For which a management decision was made during the reporting period.			
<i>i.</i> Dollar value of disallowed costs.	- 0 -	\$ - 0 -	\$ - 0 -
<i>ii.</i> Dollar value of costs not disallowed (grantee subsequently supported all costs).	- 0 -	\$ - 0 -	\$ - 0 -
D. For which no management decision has been made by the end of the reporting period	- 0 -	\$ - 0 -	\$ - 0 -
E. Reports for which no management decision was made within six months of issuance.	- 0 -	\$ - 0 -	\$ - 0 -

**TABLE II  
INSPECTOR GENERAL-ISSUED REPORTS  
WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE**

	Number of Reports	Dollar Value
A. For which no management decision has been made by the commencement of the reporting period.	- 0 -	\$ - 0 -
B. Which were issued during the reporting period.	- 0 -	\$ - 0 -
C. For which a management decision was made during the reporting period.	- 0 -	\$ - 0 -
<i>i.</i> Dollar value of recommendations that were agreed to by management.	- 0 -	\$ - 0 -
<i>ii.</i> Dollar value of recommendations that were not agreed to by management.	- 0 -	\$ - 0 -
D. For which no management decision was made by the end of the reporting period.	- 0 -	\$ - 0 -

## GLOSSARY OF AUDIT TERMINOLOGY

**Questioned Cost** - A cost that is questioned by the OIG because of an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds; because such cost is not supported by adequate documentation; or because the expenditure of funds for the intended purpose is unnecessary or unreasonable.

**Unsupported Cost** - A cost that is questioned because of the lack of adequate documentation at the time of the audit.

**Disallowed Cost** - A questioned cost that management, in a management decision, has sustained or agreed should not be charged to the government.

**Funds Be Put To Better Use** - Funds, which the OIG has disclosed in an audit report, that could be used more efficiently by reducing outlays, de-obligating program or operational funds, avoiding unnecessary expenditures, or taking other efficiency measures.

**Management Decision** - The evaluation by management of the audit findings and recommendations and the issuance of a final decision by management concerning its response to such findings and recommendations.

**Final Action** - The completion of all management actions, as described in a management decision, with respect to audit findings and recommendations. When management concludes no action is necessary, final action occurs when a management decision is made.

Source: Excerpt from Section 106(d) of the Inspector General Act Amendments of 1988 (P.L. 100-504).

## **THE OFFICE OF INSPECTOR GENERAL**

**serves American taxpayers  
by investigating reports of waste, fraud,  
mismanagement, abuse, integrity violations or  
unethical conduct involving federal funds.**

**To report any suspected activity  
Involving NEH programs, operations, or employees**

**Please Call**

**(202) 606-8423**

**or,**

**Write**

**Office of Inspector General-Hotline  
National Endowment for the Humanities  
1100 Pennsylvania Ave. N.W., Room 419  
Washington, DC 20506**

**FAX: (202) 606-8329**

**ELECTRONIC MAIL HOTLINE  
OIG@neh.gov**

- **Government employees are protected from reprisal**
- **Caller can remain anonymous**
- **Information is confidential**