

OFFICE OF INSPECTOR GENERAL

SEMIANNUAL REPORT TO THE CONGRESS

Number 23

APRIL 1, 2000 TO SEPTEMBER 30, 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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October 30, 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 April 1, 2000 – September 30, 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.

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 continued support for our office's work.

Respectfully,

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.

<u>Citation</u>	<u>Reporting Requirements</u>	<u>Page</u>
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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).

AUDIT, SURVEY, AND INSPECTION ACTIVITIES

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 received and processed 155 OMB Circular A-133 audit reports and issued fourteen 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.

INTERNAL AUDITS/REVIEW	Report Number	Date Issued
Review of NEH Annual Performance Plan Prepared Under the Government Performance Results Act (The Results Act)	OIG-00-01(IR)	Draft 09/29/00
Review of the Process and Controls of the NEH "My History is America's History" Project	OIG-00-02 (IR)	Draft 08/29/00

DESK REVIEW

Amerika Samoa Humanities Council, Inc.	OIG-00-01(DR)	08/01/00
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SINGLE AUDIT ACT REVIEWS

Georgia Humanities Council	OIG-00-14 (CAA)	09/19/00
Georgia Humanities Council	OIG-00-15 (CAA)	09/19/00
American Film Institute	OIG-00-16 CAA)	09/19/00
Idaho Humanities Council	OIG-00-17 (CAA)	09/19/00
Humanities Iowa	OIG-00-18 (CAA)	09/19/00
Humanities Iowa	OIG-00-19 (CAA)	09/19/00
Montana Committee for the Humanities	OIG-00-20 (CAA)	09/19/00
Montana Committee for the Humanities	OIG-00-21 (CAA)	09/19/00
Brown University	OIG-00-22 (CAA)	09/19/00
State of Connecticut (University of Connecticut)	OIG-00-23 (CAA)	09/19/00
New Jersey Council for the Humanities	OIG-00-24 (CAA)	09/29/00
Hawaii Committee for the Humanities	OIG-00-25 (CAA)	09/29/00
Vermont Council on the Humanities	OIG-00-26 (CAA)	09/29/00
Delaware Humanities Council, Inc.	OIG-00-27 (CAA)	09/29/00

SUMMARY OF REPORTS ISSUED

INTERNAL AUDITS

**Review of the Process and Controls of the
The NEH "My History is America's History" Project**

**OIG-00-02 (IR) 1/
August 29, 2000**

The objectives of the review were to 1) ascertain policies and procedures pertaining to procurement of printing services for the "My History is America's History" project, and 2) ascertain and evaluate management controls over budget and accounting information for the project.

Our review revealed instances where procurement of printing services processed from the Government Printing Office was not being entered in the NEH's official requisition system. In addition, we noted that the technical representative's budget information was not reconciled to the official NEH accounting records. We made several recommendations to strengthen the management controls applicable to the process.

**Review of the NEH Annual Performance Plan
Prepared Under the Government Performance
Results Act (The Results Act)**

**OIG-00-01 (IR) 1/
September 30, 2000**

The objective of our review of the NEH annual performance plan was to assess the agency's progress towards meeting the expectations of the Results Act and to identify opportunities for the agency to refine and clarify the plan.

As a framework for our review, we referred to the guide entitled, The Results Act - An Evaluator's Guide to Assessing Agency Annual Performance Plans, developed by the Advanced Studies and Evaluation Methodology group in the General Government Division of the General Accounting Office.

To accomplish our objective we reviewed the FY 2001 Performance Plan, reviewed the NEH Strategic Plan for FY 1998 - FY 2002, and interviewed agency officials and staff involved with the development of the FY 2001 Performance Plan. In order to assess the extent to which the FY 2001 Performance Plan meets the requirements of the Results Act and related expectations, we designed our review to address three core areas:

1. Annual Performance Goals and Measures
2. Strategies and Resources
3. Validation and Verification

We made numerous recommendations for the NEH's Office of Strategic Planning to consider. A major concern of ours is the validation process since most of the performance information is obtained from grantees. We believe this first review will be beneficial in moving NEH towards an improved plan that will showcase NEH's work.

1/ Draft reports issued

DESK REVIEWS

Amerika Samoa Humanities Council

**OIG-00-01 (DR)
Dated 08/01/00**

We performed a review of the organization-wide audit report prepared by an independent public accountant, (IPA) for the year ended October 31, 1997. Our review indicated that the audit did not meet the requirements of OMB Circular A-133. The report had deficiencies that we considered material and we did not accept the report. The IPA will be resubmitting the report.

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 155 audit reports. Fourteen 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 these organizations and their independent public accountants to develop an appropriate cost-effective audit approach.

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 chairpersons. 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 updating the compliance supplement for state humanities councils, which is part of the OMB Compliance Supplement.

PEER REVIEW

During this period we began a review of the OIG of the Commodity Futures Trading Corporation and the OIG of the U.S. International Trade Commission began a review of our organization. The review is required by the IG Act, as amended, and covers the audit operations of the OIG.

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 and effective means of receiving allegations or complaints from employees, grantees, contractors, and 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, an 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 have been brought to the attention of the Office of Human Resources and the Office of Equal Employment Opportunity.

As of April 1, 2000, one matter was open in the Investigation branch of the OIG. This was closed during the current period. During the six months ending September 30, 2000, we received ten "Hotline" contacts.

One Case Open at Beginning and Closed

We received a complaint from two employees of a grantee's staff stating that the former executive director mismanaged the organization. Our review disclosed no illegal activity, although we found that funds were mismanaged causing the organization to basically discontinue operations.

Contacts During This Period

Several of the complaints concerned e-mail; from misuse of the NEH e-mail system to unwanted e-mail (including pornography). One matter dealt with political activity and the agency's General Council referred it to the Office of Special Counsel. The other contacts were referred to other offices or other federal agencies.

As of September 30, 2000, all matters have been closed.

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 advising staff to contact the OIG are posted throughout the agency building.

Anonymous E-mail

We now have on the NEH Intranet and the Internet a system for staff, grantees, contractors, etc., to report waste, fraud, abuse, and mismanagement in an anonymous manner.

Investigation Activity

Open at beginning of period	1
Matters brought to the OIG during the reporting period	10
	<hr/>
Total Investigative contacts	11
Closed or referred during reporting period	11
	<hr/>
Open at end of period	<u>0</u>

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 eleven grantees.

INDIRECT COST RATE DESK REVIEW REPORTS ISSUED

<u>Grantee</u>	<u>Report Number</u>	<u>Date Issued</u>
New Images Productions, Inc.	OIG-00-04	05-09-2000
American Historical Association	OIG-00-05	06-15-2000
New York Public Library	OIG-00-06	06-23-2000
Mystic Seaport Museum	OIG-00-07	08-24-2000
Newberry Library	OIG-00-08	09-21-2000
Newberry Library	OIG-00-09	09-21-2000
Filmmakers Collaborative	OIG-00-10	09-25-2000
Saint Thomas Foundation	OIG-00-11	09-25-2000
Station Resource Group	OIG-00-12	09-25-2000
Unicorn Projects	OIG-00-13	09-29-2000
Educational Film Center	OIG-00-14	09-29-2000

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. OIG staffperson attended monthly NEH Employee Association Meetings. 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 policy making.

CONGRESSIONAL REQUESTS

We received and responded to several requests from both Senators and Congressmen.

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 IGMET.

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 audit requirements. 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.

A draft opinion was received in September 2000, recognizing that NEH did not have the authority to waive the A-133 audit requirements for particular grantees or organizations.

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 -
Subtotals (A+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**