NATIONAL ENDOWMENT FOR THE HUMANITIES

OFFICE OF INSPECTOR GENERAL

SemiAnnual Report to Congress

April 1, 2002 to September 30, 2002

REPORT NO. 27

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

Call the OIG Hotline

(202) 606-8423

Mailing Address
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

This report is also available on the NEH/OIG Website at http://www.neh.gov/whoweare/oig.html
October 31, 2002

Honorable Bruce Cole
Chairman
National Endowment for the Humanities
Washington, D.C. 20506

Dear Chairman Cole:

I am pleased to provide you with the Office of Inspector General’s Semiannual Report to Congress for the second half of fiscal year 2002. The report is submitted in accordance with the Inspector General Act of 1978, as amended. Section 5 of the Act requires that you submit this report, with your Report of Final Action, to the appropriate committee or subcommittee of the Congress within 30 days of its receipt. The report provides a summary of the activities of the OIG during the six-month period ended September 30, 2002.

During this period, we completed our work on the second phase of the Government Information Security Reform Act review. We issued three reports that were included with our September 16, 2002 submission to OMB. Our review of the Davis-Bacon Act, as it applies to grants awarded through the Office of Challenge Grants, revealed that NEH needs to be more active in monitoring these awards. The OIG is working with the Office of Challenge Grants and the Office of the General Counsel to improve this process.

I appreciate your support and look forward to working with you and all agency staff to help ensure that NEH delivers grant awards in an economical, effective and efficient manner.

Sincerely,

Sheldon L. Bernstein
Inspector General
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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 two offices -- Challenge Grants 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 Office of Inspector General was established on April 9, 1989, in accordance with the Inspector General Act Amendment of 1988, (Public Law 100-504). In this legislation, Congress established Offices of Inspector General in several departments and in thirty-three agencies, including the 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, two auditors, and a secretary. The OIG and the Office of the 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 Assistant General Counsel.
AUDIT AND REVIEW 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 control reviews of CPA work papers. Internal efforts consist of audits, inspections, and reviews/evaluations of the NEH administrative, programmatic, and financial operations. During this reporting period, the OIG received and processed 93 OMB Circular A-133 audit reports and issued sixteen memorandum reports containing findings (see Single Audit Act Reviews).

LIST OF AUDIT REPORTS ISSUED

The following is a list of audit/review reports issued by the OIG during this 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/REVIEWS

<table>
<thead>
<tr>
<th>Report Number</th>
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<td>OIG-02-05 (IR)</td>
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<td>OIG-02-08 (IR)</td>
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EXTERNAL AUDITS

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<tr>
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<td>-------------------------</td>
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<tr>
<td>Vermont Historical Society</td>
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<tr>
<td>Brown University, John Carter Brown Library</td>
<td>OIG-02-09 (CAA)</td>
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<td>Delaware Humanities Council</td>
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<td>Humanities Tennessee</td>
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<td>La Fundación Puertorriqueña de las Humanidades</td>
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<td>The Newberry Library</td>
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<tr>
<td>Rhode Island Committee for the Humanities</td>
<td>OIG-02-23 (CAA)</td>
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</table>
INTERNAL REVIEWS

Review of Firewall and Router
August 1, 2002, OIG-02-05 (Internal Review)

This review is part of a series of reviews that is included in the OIG’s Government Information Security Reform Act (GISRA) submission to the Office of Management and Budget (OMB) for the current year. We reported to OMB in September 2002.

The objectives of the review were to determine 1) if NEH’s current firewall and firewall policies are in compliance with NIST guidance, and 2) whether access from the internal network to the Internet and from the Internet to the internal network is controlled.

Our review revealed that except for two findings, the firewall at NEH is in compliance with NIST guidance which describes the type of firewall NEH is using as being “simple but very secure.” The first finding is OIRM system administrators use a group account to perform their system administration duties. This is contrary to NEH IT Systems - OIRM Computer Security Policies, Procedures and Rules of Behavior. The second finding is the modem pool, used to remotely connect NEH IT users to the internal network, bypasses the firewall. This increases the possibility of attack.

We made two recommendations to correct these deficiencies. The CIO stated that it was necessary to trust the OIRM staff. The OIG and CIO are currently working on the first finding. Concerning the modem pool, the CIO indicated that NEH will discontinue this practice.

Inspection of Davis-Bacon Program
Grants Awarded Through Office of Challenge Grants
August 20, 2002, OIG-02-06 (Internal Review)

In the OIG’s review of OMB Circular A-133 audit reports, we found two reports that disclosed grantee non-compliance with the provisions of the Davis-Bacon Act. The Davis-Bacon Act requires the payment of prevailing wage rates determined by the U.S. Department of Labor to all laborers and mechanics on Federal construction projects in excess of $2,000.

The objective of our review was to determine whether grantees receiving NEH Challenge grants in support of projects that involve renovation and/or construction are complying with the Act. We reviewed 32 grantee files and found that 26 were subject to the Act.

Our review revealed that, of the 26 grantees subject to the Act, a total of five did not comply with the Act. Of the five, two were previously cited by the OIG for non-compliance thus, no action is necessary. For one, the grant and construction has ended and no action needs to be taken. The other two grantees provided justification of why they were not subject to the Act.

We recommended that the NEH General Counsel review the justification provided by the grantees and provide an opinion as to whether they are subject to the Act. The General Counsel’s preliminary review stated that both grantees were subject to the Act. We also recommended that the General Counsel review several questions concerning the application of the Act to NEH grantees.
This review is also a part of a series of reviews included in the OIG’s GISRA submission to OMB for the current year.

The objectives of our limited review were to:

- Assess the controls, permissions and safeguards that ensure that only data owners can add, change and delete records and the process used to assign that privilege;
- Determine what audit trails exist to record additions, modifications, or deletion of records, and the conversion of an application to a grant;
- Determine that these audit trails are adequate.

Our review revealed:

- Office of Grant Management employees had administrator privileges that should be only available to Office of Information Resources Management personnel.
- Permissions in the application process were not incorporated into a security plan. A staff person from one division could add a new application in another division.
- The permission to add and modify people and institution records is universally granted to all users of the Grants Management System.
- The permission to create a panel to review applications in a division was also universally granted to all GMS users.
- No audit log existed that could be used to track activity in the GMS.
- The ability to modify division recommendations and National Council recommendations exists after OIRM runs its “roll over” program as part of the recommendation process.

We made six recommendations to correct the deficiencies noted. The CIO is reviewing the recommendations and has indicated that they are working on correcting the deficiencies.


The CIO reviewed the OIRM Fiscal Year 2001 (FY01) Plan of Action and Milestones (POA & MS) and FY01 OIG GISRA review recommendations.

The CIO submitted a list of nine POA & MS to OMB. In addition, the OIG’s FY01 GISRA review contained several recommendations.

The purpose of this review was to verify that policies and/or procedures implemented were consistent with items on the CIO’s list and addressed the recommendations made by the OIG.

Our review revealed that, except for one OIG recommendation, the CIO implemented and took the necessary action to adequately address the weaknesses reported in the POA & MS. OIRM did not adequately address the security weakness concerning “agency-wide” security training. While OIRM did conduct several training sessions, we noted that all system users did not attend the sessions.

We recommended that the CIO institute a system that adequately maintains and tracks employee training. We also recommended that, if a system user fails to take the required training, the CIO should deny the person system access.
City Lore, Inc. is an Internal Review Code Section 501 (c)(3) tax-exempt nonprofit organization located in New York City. City Lore has received grants from NEH as the organization of record on behalf of for-profit organizations and individuals. In addition, City Lore has received grants for projects that they undertake.

The objectives of the limited review were to determine 1) the extent to which City Lore's accounting system, internal controls, and management policies provide reasonable assurance that the organization is adequately managed and accounts for grant funds in accordance with NEH requirements and applicable Federal regulations and 2) that assurances provided by City Lore in a telephone survey [(OIG-99-02 (TS)] in November 1998 were correctly implemented. For the year ended December 31, 2001, City Lore contracted with a certified public accountant for an OMB Circular A-133 audit.

We found several weaknesses by testing City Lore's books and records for grant transactions on seven grants. We also tested the amounts reported on the Final Financial Status Reports and Federal Cash Transaction Reports. Our findings include:

- Monthly or quarterly budget reports comparing actual costs to budget amounts were not prepared.\(^1\)
- "Procedures for Working with Filmmakers and other Cultural Specialists..." were not adequate to monitor subrecipients. \(^1/\ 2\)
- Organizational prior approval system was not adequate to properly monitor and control administrative changes to NEH-supported projects. \(^1/\)

We identified six additional weaknesses in City Lore accounting and grant management systems. \(^1/\)

We made recommendations to correct these findings.

\(^1/\) OMB Circular A-110
\(^2/\) OMB Circular A-133
We receive audit reports on NEH grantee organizations from other federal agencies (mainly the Department of Health and Human Services), state and local government auditors, and independent public accountants (IPA). These reports are the result of OMB Circular A-133 audits and they cover financial activity, compliance with laws and regulations, and grantee management (internal) controls over federal expenditures.

During the six-month period ended September 30, 2002, we reviewed 93 OMB Circular A-133 audit reports. Sixteen of the reports contained audit findings. Thirteen of the reports with findings were associated with state humanities councils.

To ensure that we receive OMB Circular A-133 audit reports from the state humanities councils in a timely manner, we send an e-mail message to all of the executive directors and Board chairpersons.

Following are some of the IPA recommendations pertaining to the councils. The councils should:

- Put procedures in place to include in Board minutes the approval for opening and closing bank accounts.
- Put control procedures in place to ensure that all reports are reviewed by someone in management before submission to the appropriate Federal agency.
- Remit interest earned annually over $250 on Federal deposits to the Department of Health and Human Services.
- Develop a policy to periodically reconcile accounts receivable, accounts payable, and grants payable to the general ledger.
- Ensure that managers and supervisors sign time cards.
- Develop a well-defined, written disaster recovery plan.
- Provide Board with training on how to monitor internal controls of the organization.
- Include in Board meetings, the Treasurer’s presentation of a formal financial report.
- Submit payroll taxes on a timely basis to avoid interest and penalties.
- Ensure timely submission of financial reports. In addition, if such reports are to be filed after the due date, ensure that management requests the appropriate extensions.
- Provide for a managerial approval system for journal entries made. In addition, journal entries should include documentation and explanation.
- Develop a policy for improving internal controls when making checks payable to cash.
- Develop a formal, written procurement policy that adheres to the requirements set forth in OMB Circular A-110 for taking physical inventory of assets.
- Review current policies and procedures for monitoring subrecipients and consider making any necessary revisions to ensure compliance with federal laws and regulations.
- Develop a policy to be used when preparing bank reconciliations to handle old outstanding checks.
INVESTIGATIVE ACTIVITIES

BACKGROUND

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 necessary.

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.

As of April 1, 2001, one case was open. During the six months ended September 30, 2002, we received 11 "Hotline" contacts. We are holding two matters open at September 30, 2002.

OPEN AT APRIL 1, 2002

- Allegation that a grantee organization was having financial problems and NEH would not receive a final product. Our inquiry revealed that the organization was indeed in dire straights; however, there was no indication that NEH funds were not properly spent and accounted for. The grantee has raised sufficient funds to have an independent public accountant perform an audit. We are continuing to monitor this matter.

CONTACTS DURING THIS PERIOD

We received seven internal contacts during this period.

- One contact was referred to the person’s supervisor and another was referred to the Office of Human Resources.

- Four contacts concerned unwanted e-mail, i.e., business opportunity scams, the Nigerian unclaimed money scam, etc. All were forwarded to the Federal Trade Commission, and when applicable the Federal Bureau of Investigation. We advised NEH staff to send these messages to the NEH Security Officer in the Office of Information Resources Management.

- An employee was given a gift by a former grantee. We referred this matter to the Designated Agency Ethics Officer. We understand the gift was returned because it exceeded the allowable dollar threshold.

We received four contacts concerning grantees and applicants for NEH grants.

- Allegation that a state humanities council was directing a subrecipient to involve a church in a proposed project. The subrecipient thought this was a violation of the church-state doctrine. The NEH General Council, with the little information we had at the time, did not believe this particular situation violated the Constitution. The OIG is gathering facts from the state council.

- We looked into the three other matters and determined there was no basis for an investigation.
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 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 violations that should be reported to the OIG. We also send e-mail messages several times during the year to inform NEH staff about the OIG operations. Posters advising staff to contact the OIG are displayed 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.

SUMMARY OF INVESTIGATION ACTIVITY

<table>
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<th>Description</th>
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<td>Total investigative contacts</td>
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<tr>
<td>Closed or referred during the reporting period</td>
<td>10</td>
</tr>
<tr>
<td>Open at end of period</td>
<td>2</td>
</tr>
</tbody>
</table>

RESEARCH MISCONDUCT

The deputy chairman requested the OIG’s assistance regarding a person who received a fellowship supported with NEH funds from an NEH grantee. It was alleged that this person fabricated statistics used in a book. The deputy chairman asked the OIG to review the material that was available to the NEH grantee and determine if the individual should have been awarded a fellowship funded by NEH. The OIG opined that significant information was available that should have alerted the NEH grantee not to award the fellowship supported with federal funds.
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 rates after reviewing cost allocation plans submitted by grantees. The approved rates are generally recognized by other federal agencies.

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

<table>
<thead>
<tr>
<th>Grantee</th>
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<tbody>
<tr>
<td>Center for Desert Archaeology</td>
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<td>Southeastern Library Network</td>
<td>OIG-02-03 (IDC)</td>
<td>07/11/02</td>
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<td>Conservation Center for Art and Historic Artifacts</td>
<td>OIG-02-05 (IDC)</td>
<td>08/05/02</td>
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<tr>
<td>The Jewish Theological Seminary</td>
<td>OIG-02-06 (IDC)</td>
<td>08/05/02</td>
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<td>Heritage Preservation</td>
<td>OIG-02-07 (IDC)</td>
<td>08/23/02</td>
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<tr>
<td>New York Public Library</td>
<td>OIG-02-08 (IDC)</td>
<td>09/18/02</td>
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<tr>
<td>Pre-Columbian Art Research Institute</td>
<td>OIG-02-09 (IDC)</td>
<td>09/30/02</td>
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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 agency 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 NEH homepage and the Inspectors General homepage (http://www.neh.gov/whoweare/OIG.html).

To enhance the NEH staff’s recognition of the OIG 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 IGNET.

WORKING WITH THE AGENCY

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 program staff discuss panel review results with the chairman and his immediate staff), and the National Council meeting. In addition, the IG and Deputy IG attended the chairman’s monthly policy group meetings. An 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.
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.

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<tr>
<td>Section 5(a)(2)</td>
<td>Recommendations for Corrective Action</td>
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<td>Section 5(a)(3)</td>
<td>Prior Significant Recommendations Unimplemented</td>
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<td>Matters Referred to Prosecutive Authorities</td>
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<td>Summary of Significant Reports</td>
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<td>Audit Reports - Questioned Costs</td>
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<td>Section 5(a)(9)</td>
<td>Audit Report - Funds To Be Put to Better Use</td>
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<td>Section 5(a)(10)</td>
<td>Prior Audit Reports Unresolved</td>
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<td>Section 5(a)(11)</td>
<td>Significant Revised Management Decisions</td>
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<tr>
<td>Section 5(a)(12)</td>
<td>Significant Management Decisions with which OIG Disagreed</td>
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* None this period
TABLE II
INSPECTOR GENERAL-ISSUED REPORTS
WITH QUESTIONED COSTS

| 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. | - 0 - | $ - 0 - | $ - 0 - |
| i. Dollar value of disallowed costs. | - 0 - | $ - 0 - | $ - 0 - |
| ii. 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 III
INSPECTOR GENERAL-ISSUED REPORTS
WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE

| 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. Dollar value of recommendations that were agreed to by management. | - 0 - | $ - 0 - |
| ii. 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).