



SEMIANNUAL REPORT TO CONGRESS

October 1, 2003 to March 31, 2004



NATIONAL ENDOWMENT FOR THE HUMANITIES

**"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
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Government employees are protected from reprisal

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Information is confidential

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NATIONAL ENDOWMENT FOR THE HUMANITIES



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OFFICE OF INSPECTOR GENERAL

April 28, 2004

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 first half of fiscal year 2004.

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 March 31, 2004.

During this period, we completed and issued reports on two internal reviews, one telephone survey of a grantee's accounting and management system, one quality review of a grantee's independent public accounting firm and five overhead desk reviews. In addition, we processed 89 OMB Circular A-133 audit reports, with four containing findings. The reports on the four will be issued during the next semiannual period. Two reviews are in progress and we expect to issue the reports in the next reporting period. In the investigations program, we received several "Hotline" contacts. Two contacts from this period and one from the prior semiannual report are open.

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

TABLE OF CONTENTS

LETTER TO THE CHAIRMAN	
THE NATIONAL EDOWMENT FOR THE HUMANITIES.....	1
THE OFFICE OF INSPECTOR GENERAL.....	1
AUDIT AND REVIEW ACTIVITIES	2
INVESTIGATIVE ACTIVITIES	6
OTHER ACTIVITIES.....	8
TABLE I - REPORTING REQUIREMENTS.....	10
TABLE II - INSPECTOR GENERAL-ISSUED REPORTS	11
WITH QUESTIONED COSTS	
TABLE III - INSPECTOR GENERAL-ISSUED REPORTS WITH	11
RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE	
GLOSSARY OF AUDIT TERMINOLOGY	12

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. These divisions and offices administer the *We the People*: NEH's American History Initiative.

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

LIST OF REPORTS ISSUED

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

Following is a list of reports issued by the OIG during this reporting period. We also received and processed 89 OMB Circular A-133 audit reports, (see Single Audit Act Reviews). The Inspector General Act of 1978, as amended, 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

	Report Number	Date Issued
Fiscal Year Ended September 30, 2003 Consolidated Review of the Federal Managers' Integrity Act (FMFIA)	OIG-04-01 (IR)	01/12/04
Review of the NEH Purchase Card Program	OIG-04-01 (IA)	03/22/04

EXTERNAL AUDITS/REVIEWS/SURVEYS

New England Historic Genealogical Society Telephone Survey	OIG-2004-01 (TS)	03/09/04
Quality Control Review of Vitale, Caturano & Co., PC Audit of the Northeast Document Conservation Center for the Fiscal Year Ended June 30, 2002	OIG-04-101 (QCR)	03/22/04

SINGLE AUDIT ACT REVIEWS

None issued this period. (See page 5.)

OVERHEAD DESK REVIEWS

Society for American Archivists	NEH-04-01 (ODR)	02/02/04
Mercantile Library	NEH-04-02 (ODR)	02/04/04
New York Foundation for the Arts	NEH-04-03 (ODR)	02/10/04
National Video Resources	NEH-04-04 (ODR)	02/09/04
American Academy in Rome	NEH-04-05 (ODR)	03/22/04

AUDIT AND REVIEW ACTIVITIES (Continued)

SUMMARY OF REPORTS ISSUED

INTERNAL REVIEWS/AUDITS

- We issued report **OIG-04-01 (IR), Fiscal Year Ended September 30, 2003, Consolidated Review of the Federal Managers' Integrity Act (FMFIA)**, on January 12, 2004. The review was conducted to determine whether the information submitted by each division director/office head provided reasonable assurance for the chairman that they complied with FMFIA. We found that the agency generally complied with the Act; thus providing assurance that the chairman can report the results to President Bush.
- We issued report **OIG-04-01 (IA), Review of the NEH Purchase Card Program** on March 22, 2004. The objectives of our review were to (1) determine if the NEH purchase card program is operated in accordance with applicable federal laws, regulations, and NEH policies and procedures, and (2) assess the adequacy of internal/management controls to help prevent fraud, waste and abuse by cardholders or others who may attempt to manipulate the program.

We found several conditions that, in our opinion, compromise the control environment related to the NEH purchase card program.

1. **Lack of Segregation of Duties.** The Contracting Officer is also the Director of the Administrative Services Office, (ASO), the Agency Purchase Card Program Coordinator, and the approving official.

The purchase card program is administered by the Director of the ASO and purchase card transactions are executed by ASO staff. This single individual has control of multiple key aspects of the purchase card process creating a situation wherein improper use or fraud could be committed by that individual and not be detected.

2. **Purchase Card/Account Sharing.** The secretary of the ASO executes purchase card transactions using accounts assigned to other cardholders. This is done at the direction of the Contracting Officer. This practice is contrary to Treasury Department policy that states that only the person assigned the purchase card may use that card. Purchase card account sharing increases the vulnerability of shared accounts to improper use or fraud.
3. **Non-current Written Delegation of Authority.** In response to our request for a copy of the most recent delegation of authority letters for the current cardholders, the Contracting Officer only provided a letter concerning one of the three cardholders. In the letter, dated March 10, 1994, authority was given to the cardholder to purchase gasoline with a single purchase limit not to exceed \$100. In contrast, the Contracting Officer had previously provided information to the OIG indicating that the cardholder's single purchase limit was \$10,000. The Treasury Financial Manual prescribes that a written delegation of authority should be issued to each authorized cardholder.
4. **Results of Transaction Testing.** We found the ASO secretary executed approximately 36 percent of the purchase card charges, excluding charges related to Metro fare cards and Smart Card benefits—these are handled by the Contracting Officer. We identified two transactions wherein sales tax was paid although the federal government is exempt from state and local taxes. In one transaction we found that the cardholder exceeded his single purchase limit of \$10,000. In addition, we found one transaction wherein the purchase card was used for telecommunication services that is contrary to NEH Administrative Directive M-108.

We made specific recommendations advising the agency how to correct these internal control weaknesses.

AUDIT AND REVIEW ACTIVITIES (Continued)

EXTERNAL AUDITS/REVIEWS/SURVEYS/OVERHEAD DESK REVIEWS

- We issued a memorandum report **OIG-2004-01(TS), New England Historic Genealogical Society Telephone Survey**, on March 9, 2004. This review was conducted in accordance with the President's Council on Integrity and Efficiency (PCIE), *Quality Standards for Inspections*. The grantee was selected for this review because in a previous audit, the auditor's found that the grantee did not maintain an accounting and management system that provided reasonable assurance that amounts claimed on the final report for a prior grant could be reconciled and traced back to the Society's books and records. The NEH policy requires a pre-award accounting and management survey for the grantee to obtain a grant because of the prior deficiencies. We determined that the Society understands the federal and NEH regulations governing a new grant award. We informed the grantee that they can expect an OIG audit and that we would recover all amounts questioned in the audit.
- We issued report **OIG-04-01 (QCR), Quality Control Review of Vitale, Caturano & Company, PC, Audit of the Northeast Document Conservation Center for the Fiscal Year Ended June 30, 2002**, on March 22, 2004. Our review was conducted in accordance with General Accepted Government Auditing Standards (GAGAS). The objectives of the review were to ensure that the financial statement and compliance audit was conducted in accordance with GAGAS, and meets the single audit requirements. We found the financial statement audit was conducted in accordance with applicable standards. However, the reports on compliance with requirements applicable to major programs and the Schedule of Findings and Questioned Costs were not acceptable. The compliance audit did not detect material weaknesses in the grantee's accounting system and the fact that salaries allocated to NEH projects were not supported by time and effort reports as required by federal directives.

OVERHEAD DESK REVIEWS

The NEH OIG performs overhead desk reviews (ODRs) for grantees requiring an indirect cost rate. The reviews are done in accordance with the PCIE, *Quality Standards for Inspections*. The OIG sends the results of the ODRs to the NEH Accounting Office, where a member of that staff contacts the grantee and negotiates an indirect cost rate. During this period we completed five reviews.

AUDIT AND REVIEW ACTIVITIES (Continued)

SINGLE AUDIT ACT REVIEWS

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 March 31, 2004, we reviewed 89 OMB Circular A-133 audit reports. Four of the reports contained audit findings. We will issue a memo outlining the findings in April 2004.

AUDITS/REVIEWS IN PROGRESS

Accounting System/Internal Control Review of Caticus Corporation

The objective of this review is to determine the adequacy of the grantee's accounting system, internal controls, and monitoring procedures related to two subrecipients. In addition, we are reviewing the adequacy of the two subrecipients' accounting system and internal controls. The grantee was selected for this review because the organization received a substantial award from NEH and was not required to have an OMB Circular A-133 audit. The field work has been completed and we expect to issue the report in April 2004. This review has been delayed due to the effort being expended on an investigation.

United States Accountability of Tax Dollars Act of 2002

This law requires NEH, as well as several other small agencies and commissions, to prepare and submit to the Congress and the Director of the U.S. Office of Management and Budget an audited financial statement. NEH received a waiver for fiscal year 2003, but will be required to implement the law in fiscal year 2004. During this period staff have written a Request for Quotation and taken some training to provide adequate management of the audit. The OIG has continued to invest time and resources to effectively manage its oversight responsibilities in the process.

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 October 1, 2003 one case was open. During the six months ended March 31, 2004, we received 10 "Hotline" contacts. We are holding three matters open at March 31, 2004.

OPEN AT OCTOBER 1, 2003

As reported in our prior report we received an anonymous contact concerning a grantee in the New England area. The person made many allegations and our investigation found that there were indeed several problem areas. We uncovered that the gifts certified by the grantee for matching on an NEH challenge grant were not eligible for matching according to the NEH guidelines. We found that almost all of the "gifts" were not gifts, but grants or contracts for specific projects. We found the same problem on two other NEH grants that had matching components. In addition, we found that final Financial Status Reports, submitted by the grantee for NEH project grants, reflected budgeted amounts in lieu of actual amounts. The grantee's books and records could not support the costs claimed. On a preliminary basis, we contacted the U.S. Attorney's Office and expect to have this closed during the next reporting period.

CONTACTS DURING THIS PERIOD

During this reporting period, the OIG received 10 hotline contacts, of which five were internal, three concerned grantees, one related to a former high level NEH official and one that we referred to another agency. After preliminary investigations, the five internal and two grantee investigations were closed. Two matters have resulted in full investigations and remain open.

One matter concerns the unauthorized release of confidential, non-public information relating to the agency's internal policies and practices in its assessment of grant applications to a newspaper by a former employee. The other open case involves a grantee institution and project director that may have provided false information in grant applications.

INVESTIGATIVE ACTIVITIES (Continued)

MATTERS REFERRED TO PROSECUTIVE AUTHORITIES

No new cases were referred for criminal prosecution during this reporting period. However, we made contact with the U.S. Attorney's Office concerning one case and are completing the file to present to the U.S. Attorney.

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 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

Open at beginning of period	1
Matters brought to the OIG during the reporting period	10
Total investigative contacts	11
Closed or referred during the reporting period	8
Open at end of period	3

OTHER ACTIVITIES

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. During the current period, the NEH OIG participated with the Department of Housing and Urban Development OIG, as co-hosts for the PCIE and ECIE joint annual conference.

PRIOR AUDIT REPORTS UNRESOLVED

<u>Report Name</u>	<u>Report Number</u>	<u>Date Issued</u>
Limited Review of the Grants Management System under the Government Information Security Reform Act	OIG-02-07 (IR)	09/10/02

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 and/or regulations (1) impact on the economy and efficiency of agency programs and operations, and (2) contain adequate internal controls to prevent and detect fraud and abuse. During this period we provided the ECIE with comments on various matters affecting the Inspector General.

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 staff person attended monthly NEH Employee Association meetings. OIG staff was 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.

STRATEGIC PLAN

In the last semiannual report, the OIG completed the strategic plan that we will be using for the next several years. During this period, we issued the plan to agency personnel. A complete review of the plan will be done every three years.

OTHER ACTIVITIES (Continued)

PEER REVIEW OF NEH ~ OIG AUDIT FUNCTION

During the prior reporting period, the NEH OIG audit function was reviewed by the United States International Trade Commission OIG. The objective of the review was to assess whether the OIG's internal quality control system was designed in accordance with the quality standards established by the President's Council on Integrity and Efficiency (PCIE) and was being complied with for the year ended March 31, 2003 to provide reasonable assurance of material compliance with professional auditing standards in the conduct of audits. The review was conducted in conformity with standards and guidelines established by the PCIE. A final report was issued January 14, 2004.

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/whowere/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 IGMET.

INVESTIGATION ASSISTANCE GIVEN TO IMLS

Under agreement with Institute of Museum and Library Services, (IMLS), the NEH OIG provides investigative services to IMLS. During this period, the OIG performed investigative work for IMLS concerning a grantee in Connecticut. The investigation is ongoing at March 31, 2004.

TECHNICAL ASSISTANCE

Throughout the reporting period, OIG staff provided telephone technical assistance to NEH grantees and independent public accountants concerning various matters including the preparation of indirect cost proposals and the implementation of federal audit requirements.

TABLE I

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>IG Act Reference</u>	<u>Reporting Requirements</u>	<u>Page</u>
Section 4(a)(2)	Regulatory and Legislative Reviews.....	*
Section 5(a)(1)	Significant Problems, Abuses, and Deficiencies.....	*
Section 5(a)(2)	Recommendations for Corrective Action	*
Section 5(a)(3)	Prior Significant Recommendations Unimplemented.....	*
Section 5(a)(4)	Matters Referred to Prosecutive Authorities.....	8
Section 5(a)(5)	Instances Where Information Was Refused or Not Provided.....	*
Section 5(a)(6)	List of Audit Reports Issued.....	2
Section 5(a)(7)	Summary of Significant Reports.....	3-5
Section 5(a)(8)	Audit Reports - Questioned Costs.....	*
Section 5(a)(9)	Audit Report - Funds To Be Put to Better Use.....	*
Section 5(a)(10)	Prior Audit Reports Unresolved.....	9
Section 5(a)(11)	Significant Revised Management Decisions.....	*
Section 5(a)(12)	Significant Management Decisions with which OIG Disagreed.....	*

* None this period

**TABLE II
INSPECTOR GENERAL-ISSUED REPORTS
WITH QUESTIONED COSTS**

	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. 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**

	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. 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).