



40TH ANNIVERSARY



Office of Inspector General

**SEMIANNUAL  
REPORT TO  
CONGRESS**

For the Period October 1, 2005 through March 31, 2006

Report No. 34

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**"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](mailto: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>**



NATIONAL  
ENDOWMENT  
FOR THE  
HUMANITIES

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April 27, 2006

Honorable Bruce Cole  
Chairman  
National Endowment for the Humanities  
Washington, DC 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 2006. On September 29, 1965, President Johnson signed the National Foundation for the Arts and Humanities Act; and during the fiscal year 2006, you are leading NEH's 40th Anniversary celebration. The OIG staff congratulates you since, on December 17, 2005, the Senate unanimously confirmed your nomination for a second term.

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, 2006.

During the current period, we completed and issued final reports concerning two internal reviews and one internal audit. We issued one draft internal audit report. In addition, we completed and issued one pre-award accounting system telephone survey, 60 OMB Circular A-133 reports were reviewed, and thirteen overhead desk reviews were completed. In our investigations program, we received ten "Hotline" contacts. Four matters remain open at the end of this period. We also monitored, reviewed and released the first annual audited financial statements. Although NEH received a clean opinion, NEH staff and contractors had to work diligently to implement the new accounting system with problems continuing. With new leadership in the Accounting Office, it appears the fiscal year 2006 effort will be more effective and certainly less costly.

I appreciate your support and look forward to working with you and all agency staff to further our common purpose of assuring the effectiveness, efficiency and integrity of NEH's contributions to the humanities.

Sincerely,

Sheldon L. Bernstein  
Inspector General

# TABLE OF CONTENTS

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LETTER TO THE CHAIRMAN	
THE NATIONAL ENDOWMENT FOR THE HUMANITIES.....	1
THE OFFICE OF INSPECTOR GENERAL.....	1
AUDIT AND REVIEW ACTIVITIES .....	2
INVESTIGATIVE ACTIVITIES .....	7
OTHER ACTIVITIES.....	9
TOP MANAGEMENT CHALLENGES .....	10
TABLE I - REPORTING REQUIREMENTS.....	12
TABLE II - INSPECTOR GENERAL-ISSUED REPORTS..... WITH QUESTIONED COSTS	13
TABLE III - INSPECTOR GENERAL-ISSUED REPORTS WITH ..... RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE	13
GLOSSARY OF AUDIT TERMINOLOGY .....	14

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## 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 divisions and offices also 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."

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## THE OFFICE OF INSPECTOR GENERAL

The NEH Office of Inspector General was established 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, 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, overhead desk reviews, and on-site quality control reviews of CPA workpapers. 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. 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"), (see Table II).

	Report Number	Date Issued
<b>INTERNAL AUDITS/REVIEWS</b>		
Fiscal Year Ended September 30, 2005 Consolidated Review of the Federal Managers' Financial Integrity Act (FMFIA)	OIG-06-01 (IR)	10/12/05
Federal Information Security Management Act (FISMA) Review	OIG-06-02 (IR)	10/20/05
Audit of National Endowment for the Humanities Use of Donated Funds	OIG-06-01 (IA)	02/03/06
Audit of the NEH Selection, Purchase and Implementation of the Oracle Accounting System (Draft Report)	OIG-06-02 (IA)	03/30/06
Audit of NEH's Financial Statements for the Fiscal Year Ended September 30, 2005 (Report issued by Independent Public Accountant)	- - -	11/07/05
<b>EXTERNAL AUDITS/REVIEWS</b>		
American Jewish Historical Society Telephone Survey Memorandum Report	OIG-06-01 (TS)	03/17/06
<b>OVERHEAD DESK REVIEWS</b>		
Canal Corridor Association	NEH-06-01 (ODR)	11/23/05
Oxford University Press	NEH-06-02 (ODR)	12/09/05
Massachusetts College of Art	NEH-06-03 (ODR)	12/12/05
Conservation Center for Art and Historic Artifacts	NEH-06-04 (ODR)	12/12/05
Western Reserve Historical Society	NEH-06-05 (ODR)	12/12/05
Film Odyssey, Inc.	NEH-06-06 (ODR)	01/06/06
The Huntington Library	NEH-06-07 (ODR)	01/06/06
American Antiquarian Society	NEH-06-08 (ODR)	01/23/06
American Historical Association	NEH-06-09 (ODR)	02/13/06
American Library Association	NEH-06-10 (ODR)	02/09/06
Jewish Theological Seminary	NEH-06-11 (ODR)	03/03/06
Shelburne Museum	NEH-06-12 (ODR)	03/17/06
George Marshall Research Foundation	NEH-06-13 (ODR)	03/16/06
<b>SINGLE AUDIT ACT REVIEWS</b>	60 Reviews	See Page 6

# AUDIT AND REVIEW ACTIVITIES

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## SUMMARY OF REPORTS ISSUED

### INTERNAL AUDITS/REVIEWS

#### **Fiscal Year Ended September 30, 2005 Consolidated Review of the Federal Managers' Financial Integrity Act (FMFIA), October 12, 2005, OIG-06-01 (IR)**

We performed a limited review of the information submitted by each office head/division director. Our review covered fiscal year ended September 30, 2005. We found that the agency's reviews were carried out in a reasonable and prudent manner according to guidelines issued by the Office of Management and Budget.

The OIG found that the new accounting system did not produce: (1) a reliable trial balance, (2) reports to U.S. Treasury, (3) reports to OMB, and (4) reports to division and office heads, (which we find to be a material weakness). The cause of the problems with the Oracle accounting system was that a person having no accounting knowledge and experience led the implementation. It appears that errors made in the first several months after the implementation date of October 1, 2003, caused most problems. As of September 30, 2005, NEH staff made significant progress; however, the NEH was not ready for the IPAs to complete the financial statement audit.

#### **Federal Information Security Management Act (FISMA) Review, October 20, 2005, OIG-06-02 (IR)**

The objectives of this review were to determine NEH's compliance with FISMA, OMB guidance on FISMA, and NIST guidance on information security. Our scope was limited to NEH IT security policies that were in effect for fiscal year 2005. NEH has three mission critical IT systems as identified in the Office of Information Resources Management (OIRM) Security Operations and Architecture dated August 29, 2005 - the NEH General Support System/Network, the Oracle Accounting System, and the Grants Management System. Our review concentrated on NEH's Plan of Action and Milestones, certain general controls/areas, and mission critical systems and/or subsystems of a mission critical system.

The OIG reported the following deficiencies in several mission critical systems or subsystems:

- OIRM lacked documentation supporting the risk assessment process and the certification and accreditation process;
- OIRM is not in compliance with the policies on Network Testing and Passwords;
- OIRM does not have distinct policies for Security Configuration and Change Control for the Grants Management System and the Patch Management policy does not allow for the collection of supporting evidence;
- OIRM does not frequently review the logs for the General Support System/Network and was unaware if the system administrator's activities for the Oracle accounting system were being logged and reviewed; and
- OIRM does not test for wireless networks at NEH, however the OIG's limited testing found wireless networks in the building.

The NEH OIRM developed a plan to correct the findings.

# AUDIT AND REVIEW ACTIVITIES

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## **Audit of National Endowment for the Humanities Use of Donated Funds February 3, 2006, OIG-06-01 (IA)**

The objectives of the audit were to:

1. Assess the adequacy of internal management controls as they pertain to the administration of donated funds; and,
2. Determine if disbursements of donated funds were made in accordance with applicable laws, regulations, and internal NEH policies. The audit period was October 1, 2003 through October 26, 2004.

We found that internal management controls pertaining to the administration of donated funds are adequate as designed. However, our audit revealed several instances of noncompliance with documented policy and procedures.

- Disbursements of donated funds which were not approved by the Accounting Officer as required by NEH Administrative Directive M-104, *Acquisition Policy and Procedures*.
- Disbursements of donated funds which were not approved by the Accounting Officer, the General Counsel, and the Deputy Chairman as required by NEH Administrative Directive M-104, *Acquisition Policy and Procedures*.
- Disbursements of donated funds that included sales tax. This represents a noncompliance with NEH Administrative Directive M-108, *U.S. Government Credit Card Program* and the terms and conditions of the *GSA Smart Pay® Master Contract*.

We also noted that there were insufficient gift funds restricted and coded in the accounting system to specifically cover expenses associated with the National Humanities Medalists events. Expenditures exceeded funds restricted and coded in the accounting system for the project by approximately \$36,355.

A decision has been made by senior management to give the new Accounting Officer, who was hired in March 2006, the opportunity to develop a response. We concur with this decision.

## **Audit of the NEH Selection, Purchase and Implementation of the Oracle Accounting System (Draft Report) March 30, 2006, OIG-06-02 (IA)**

The objectives of the audit were to determine 1) whether the selection methodology and supporting documentation indicates that the system selected would deliver the most functionality (reports generated directly from the system, user friendly, the best system for NEH) and would provide the information needed to adequately manage NEH's funding for programs and operations; 2) if the system complied with Federal financial management system requirements, generally accepted accounting principles, the U.S. Standard General Ledger at the transaction level, and met all of the former Joint Financial Management Improvement Program's (JFMIP) mandatory requirements at the time that NEH contracted for the system; 3) whether the pre-award and post-award contracts were managed adequately; and 4) total costs, including contract/agreements with Oracle Corporation, Department of Interior's National Business Center, and various contractors hired to implement and integrate existing subsystems [Grants Management for NEH and Institute for Museum and Library Services (IMLS) and the payroll information received from the National Finance Center for both agencies], as well as contractors hired after the system was implemented to resolve system problems. We were also interested in determining the costs for NEH and IMLS staff associated with the implementation and testing of the system.

# AUDIT AND REVIEW ACTIVITIES

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We found that: 1) the Oracle system was not providing management, the divisions and offices, with monthly reports; 2) there was an internal control weakness during the implementation process due to one person having too much control over the monitoring of the contracts and the person lacked accounting system expertise; 3) the implementation process took substantially longer than anticipated with significant cost-overruns; and 4) the purchase may have violated the "Augmentation Rule" of the Principles of Federal Appropriations Law in fiscal year 2002.

We gave the NEH sixty days from issuance of the report to provide a response.

## **Audit of NEH's Financial Statements for the Fiscal Year Ended September 30, 2005 (Report issued by Independent Public Accountant on November 7, 2005)**

The Accountability of Tax Dollars Act of 2002 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 annual audited financial statements. NEH received a written waiver from OMB for fiscal year 2003 and a verbal waiver for fiscal year 2004.

For the fiscal year ended September 30, 2005, independent public accountants performed the first annual audit of NEH's financial statements. The objectives of the audit were to ensure that the NEH was meeting its responsibilities for (1) preparing the financial statements in conformity with generally accepted accounting principles; (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objective of the Federal Managers' Financial Integrity Act are met; (3) ensuring that the NEH's financial management systems substantially comply with statutory requirements; and (4) complying with other generally applicable laws and regulations.

The independent public accountants (IPA) reported that in their opinion, the financial statements present fairly, in all material respects, the financial position, net cost, changes in net position, budgetary resources, and financing of the NEH, as of and for the year ended September 30, 2005, in conformity with accounting principles generally accepted in the United States of America.

The IPA's opinion is known as an unqualified opinion, which is exemplary for a first-ever audit of an entity's financial statements. In addition, this was the first audit with the new Oracle accounting system. However, the IPAs noted reportable conditions involving internal control and its operations. The IPAs also considered "... matters concerning financial policies, procedures, and processes; funds control; and separation of incompatible duties to be material weaknesses."

In addition, the IPAs reported an instance of noncompliance with laws and regulations. They discovered a violation of the Anti-deficiency Act which occurred as a result of year-end accruals for fiscal year 2004. Reports of the violation were not sent to the President, Congress and the General Accountability Office as required. The Assistant Chairman for Operations and Planning sent a draft of the required letter to the Office of Management and Budget for approval and clearance. As of March 31, 2006, OMB has not responded.

The NEH management concurred with the facts and conclusions in the IPA's report. NEH is currently taking action to remedy the areas reported on by the IPAs. The most significant action was the hiring of a new accounting officer who along with the systems accountant, should be able to operate the new system efficiently and effectively.

# AUDIT AND REVIEW ACTIVITIES

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## EXTERNAL AUDITS/REVIEWS

### **American Jewish Historical Society Telephone Survey Memorandum Report March 17, 2006, OIG-06-01(TS)**

The purpose of the telephone survey was to obtain information to determine the adequacy of the organization's accounting system, management controls, and policies and procedures designed to administer NEH grant funds.

Based on the telephone survey and written assurance from officials of the organization, we determined that the organization would be capable of accounting and managing NEH grant funds.

#### **Overhead Desk Reviews**

The OIG performs overhead desk reviews (ODRs) for grantees requiring indirect cost rates. The reviews are done in accordance with the President's Council on Integrity and Efficiency, *Quality Standards for Inspections*. The OIG sends the results of the ODRs to the Assistant Chairman for Planning and Operations, who negotiates the indirect cost rates with the grantees. We completed thirteen reviews during this period, (see page 2).

#### **Single Audit Act Reviews**

In fiscal year 2005, the NEH spent approximately 85 percent of its annual expenditures on grantees. Many of the NEH grantees are covered by the Single Audit Act Amendment of 1996. Grantees expending \$500,000 or more in Federal dollars per annum are required to obtain an OMB Circular A-133 audit.<sup>1</sup> The OIG receives OMB Circular A-133 reports from other Federal agencies (mainly the Department of Health and Human Services), state and local government auditors, and independent public accountants. The objective of the audit is to determine whether Federal funds are expended in accordance with applicable laws and regulations.

During the six-month period ended March 31, 2006, we reviewed sixty OMB Circular A-133 audit reports. None of the reports contained findings that needed to be reported to NEH management.

## WORK IN PROGRESS

### **Desk Reviews of Documentation Related To Salaries and Wages Charged to NEH Grants**

- Educational Broadcasting Corporation
- WGBH Educational Foundation
- The Bill of Rights Institute
- Fine Arts Museum of San Francisco
- Connecticut Historical Society
- Mid-America Arts Alliance

### **Overhead Desk Reviews**

- Washington Educational Television Association

<sup>1</sup> Effective for years ending after December 31, 2003, the threshold was increased from \$300,000 to \$500,000. An audit is mandatory when a grantee expends \$500,000 of Federal funds, cumulative from all Federal sources, in its fiscal year.

# INVESTIGATIVE ACTIVITIES

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## 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, a referral to another Federal agency, or no action is needed.

As of October 1, 2005, two files were open. During the six months ended March 31, 2006, we received ten "Hotline" contacts. We are holding four matters open as of March 31, 2006.

## OPEN AT OCTOBER 1, 2005

Two matters were open at October 1, 2005, one of which remains open at March 31, 2006. The open matter involves an allegation that the agency used appropriated funds in anticipation of receiving donated/gift funds at a later date. The NEH General Counsel has informed us that documentation would be provided to the OIG showing that the allegation is incorrect. We had not received the documentation as of March 31, 2006.

## CONTACTS DURING THE PERIOD

We received ten "Hotline" contacts during this reporting period. Six concerned internal matters and four concerned external matters. Three concerns were referred to other offices and/or divisions within the NEH. Three internal matters and one external matter were closed after preliminary questions were raised. The three open matters concern internal issues.

## MATTERS REFERRED TO PROSECUTIVE AUTHORITIES

None during this period.

## 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 informing NEH staff 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's facilities.

## 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.

# INVESTIGATIVE ACTIVITIES

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## SUMMARY OF INVESTIGATION ACTIVITY

Open at beginning of period	2
Matters brought to the OIG during the reporting period	10
Total investigative contacts	12
Closed, referred, or no action needed during the reporting period	8
Open at end of period	4

# OTHER ACTIVITIES

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## **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 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, no reviews were necessary.

## **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.

## **OIG INTERNET AND INTRANET**

The OIG has listed several semiannual reports on the internet. The reports are accessible through the NEH homepage and the OIG 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 Accountability Office, the Office of Government Ethics, and the IGMET.

## **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.

# TOP MANAGEMENT CHALLENGES

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As of Fiscal Year Ended September 30, 2005

## Successfully Implement an Agency Financial Management System

On October 1, 2003, NEH began using a web-based accounting system developed by the Oracle Corporation. Oracle was one of several companies that had been approved by the Joint Financial Management Improvement Program (JFMIP) at the time NEH purchased the system. NEH encountered many problems implementing the new system and, to date, is not operating the state-of-the-art system that was purchased in an efficient manner. The main problem was that NEH began implementation of the system without any of the accounting staff having knowledge and experience with the U.S. Standard General Ledger. For almost twenty-five years, the accounting staff controlled all of NEH's transactions through an allotment ledger. This ledger did not meet JFMIP requirements and preparing financial statements based on this system would have been very labor intensive and costly. NEH selected the Director of Administrative Services to manage the implementation project. Instead of hiring a systems accountant several months prior to the actual implementation, one was not hired until the project was a few months in progress. Initially, competent accountants were not active in the implementation project. Consequently, NEH had to hire various contractors and expended close to double the amount originally budgeted to complete the system implementation. During the approximately twenty months spent on the project, NEH staff put forth an exemplary effort to bring the system to a point where auditable financial statements could be produced.

Some of the problems that will have to be addressed in fiscal year 2006 are:

- The financial systems are not integrated with the grants management system.
- The agency's failure to adhere to Federal accounting standards.
- The accounting system does not fully comply with the U.S. Standard General Ledger.
- Failure to perform reconciliations in a timely manner.
- Inadequate internal controls between the procurement/contracting function and the accounting office.
- Untimely and inaccurate recording of transactions.

Several of these problems were addressed as the FY 2005 financial statements were being prepared and audited. NEH has hired an accounting officer that is knowledgeable and qualified to supervise the accounting staff and manage the financial operation.

## Strengthen Information Security

- As E-commerce increases, i.e., Grants.Gov, NEH will be more susceptible to outside and *inside* risks. In addition, telecommuting is also bringing additional security concerns. NEH's Office of Information Resource Management (OIRM) must proactively monitor system intrusions to determine if user accounts and passwords have been compromised.

# TOP MANAGEMENT CHALLENGES

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## **Continue to Improve Planning and Performance Measurement in Accordance with the Results Act.**

- The Endowment has made progress in the past several years. However, more needs to be accomplished. The OIG recognizes that measuring the benefits of many programs is difficult. In many areas, NEH places more emphasis on outputs than outcomes. NEH should gradually have the divisions collect outcome-type data from grantees. For instance, while we learn that a high school teacher is imparting his/her new summer seminar knowledge to 250 students a year (guestimate), we should try to learn the effect on the students. Do they read more books on the topic, are they thinking about taking more courses on the same topic in college? What real effect does a summer seminar have on the students of the person attending the seminar? In addition, what does the school principal and the department chair see as the outcome of the teacher taking the seminar?

## **Information Resource Management**

- NEH has made and continues to make significant progress on e-gov and is moving towards the eventual goal of having grantees submit complete proposals, reviewing the proposals on-line, and processing proposals electronically. This is a long-term government project being developed by several agencies working together. We will be listing this as a management challenge until a significant amount of grants are processed completely through e-gov.

## **Human Capital**

- The Comptroller General of the United States has cited human capital as a high-risk area. Similar to many Federal agencies, NEH will be facing the retirement of a large amount of staff within the next several years. One office, the Office of Grant Management, has the possibility of having a complete turnover of staff within the next three to six years. NEH's challenge is to evaluate how retirements will change the agency. Now would also be a good time to review workflow of all offices and divisions and determine if any workload and mission realignments are necessary.

# 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.....	9
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.....	7
Section 5(a)(5)	Instances Where Information Was Refused or Not Provided.....	**
Section 5(a)(6)	List of Reports Issued.....	2
Section 5(a)(7)	Summary of Reports Issued.....	3-6
Section 5(a)(8)	Audit Reports - Questioned Costs.....	13
Section 5(a)(9)	Audit Report - Funds To Be Put to Better Use.....	13
Section 5(a)(10)	Prior Audit Reports Unresolved.....	*
Section 5(a)(11)	Significant Revised Management Decisions.....	*
Section 5(a)(12)	Significant Management Decisions with which OIG Disagreed....	*

\* None this period

\*\* While no information was refused or not provided, the audits of the Oracle Accounting System and Use of Donated Funds were seriously delayed because of the effort expended by NEH's accounting staff to prepare for the agency's financial statement audit.

**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.	- 1 -	\$ - 0 -	\$ - 0 - <sup>1/</sup>
B. Which were issued during the reporting period.	- 0 -	\$ - 0 -	\$ - 0 -
<b>Subtotals (A+B)</b>	- 1 -	\$ - 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 -
iii. Dollar value of costs not disallowed based on the "Value of Services Received."	- 0 -	\$ - 0 -	\$ - 0 -
D. For which no management decision has been made by the end of the reporting period.	- 1 -	\$ - 0 -	\$ - 0 -
E. Reports for which no management decision was made within six months of issuance.	- 1 -	\$ - 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 -
ii. Dollar value of recommendations that were not agreed to by management.		\$ - 0 -
D. For which no management decision was made by the end of the reporting period.	- 0 -	\$ - 0 -

<sup>1/</sup> *Corrections to prior semiannual: We previously reported that the period opened and closed with \$92,998 of questioned costs and \$55,506 Unsupported Costs. However, a management decision was made allowing the costs based on the "Value of Services Received. Therefore, the ending balances were zero.*

## 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).