



**Office of Inspector General**

**SEMIANNUAL  
REPORT TO  
CONGRESS**

For the Period October 1, 2008, through March 31, 2009

**Report No. 40**

**"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**

**1 (877) 786-7598**

## **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**



NATIONAL  
ENDOWMENT  
FOR THE  
HUMANITIES

OFFICE OF INSPECTOR GENERAL  
1100 PENNSYLVANIA AVE., NW  
WASHINGTON, D.C. 20506  
ROOM 419  
TELEPHONE (202) 606-8350  
FACSIMILE (202) 606-8329  
1-(877) 786-7598 (HOTLINE)  
E-mail [oig@neh.gov](mailto:oig@neh.gov)

April 30, 2009

Honorable Carole Watson  
Acting Chairman  
National Endowment for the Humanities  
Washington, DC 20506

Dear Acting Chairman Watson:

I am pleased to provide you with the Office of Inspector General's Semiannual Report to Congress for the first half of fiscal year 2009. 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, 2009.

Internally, we reviewed the agency's effort related to the Federal Managers' Financial Integrity Act and we transmitted the final report issued by Leon Snead and Company, P.C. in which an unqualified opinion was expressed on NEH fiscal year 2008 financial statements. External effort consisted of one audit; two desk reviews of grantee compliance with OMB Circular A-122 concerning support of salaries and wages; one overhead rate review; and review of 42 OMB Circular A-133 audit reports.

In our investigations program, we had seven matters open as of the beginning of the reporting period. We received seven "Hotline" contacts during the period; however, they were not NEH matters. We concluded action on five cases and two cases remain open as of March 31, 2009.

In the interest of outreach, we have launched an awareness campaign wherein we are distributing guidance via email to recipients of NEH grants that would assist in their efforts to preclude unfavorable outcomes should their grants be selected for audit. We have also completed and published a revised *Accounting System Manual for State Humanities Councils* which is accessible through the OIG homepage.

On a personal note, I would like to recognize the significant contributions of Charles Garfinkel, our Deputy Inspector General, who retired on April 3, 2009. He has served 37 years in the OIG community, first at the Department of the Treasury and then with NEH. His efforts have, without a doubt, clearly demonstrated his commitment to improving government operations. At NEH, his exemplary work has greatly assisted many state humanities councils to account and manage federal funds efficiently and effectively. In addition, through his efforts, NEH has implemented several important policy changes. The NEH and OIG staff will miss his commitment to making the government work better. We wish him health and happiness in his life's new adventure.

Acting Chairman Watson  
Page 2

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 vital contributions to the humanities in the United States.

Sincerely,

A handwritten signature in cursive script that reads "Sheldon L. Bernstein".

Sheldon L. Bernstein  
Inspector General

# TABLE OF CONTENTS

---

LETTER TO THE CHAIRMAN	
MESSAGE FROM THE INSPECTOR GENERAL.....	1
THE NATIONAL ENDOWMENT FOR THE HUMANITIES.....	2
THE OFFICE OF INSPECTOR GENERAL.....	2
AUDIT AND REVIEW ACTIVITIES .....	3
INVESTIGATIVE ACTIVITIES .....	7
OTHER ACTIVITIES.....	10
PRIOR AUDIT REPORTS UNRESOLVED.....	13
TABLE I - REPORTING REQUIREMENTS.....	14
TABLE II - INSPECTOR GENERAL-ISSUED REPORTS..... WITH QUESTIONED COSTS	15
TABLE III - INSPECTOR GENERAL-ISSUED REPORTS WITH ..... RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE	15
GLOSSARY OF AUDIT TERMINOLOGY .....	16

# MESSAGE FROM THE INSPECTOR GENERAL

Over the past several years, our workload has constantly increased in volume and complexity and, as a consequence, oversight of the Endowment's grantees by the OIG is diminishing.

The OIG is responsible for contracting with and reviewing the work of an independent public accountant that conducts the annual financial statements audit. The audit is required by the Accountability of Tax Dollars Act of 2002, and applies to many small agencies as well as the Endowment. The Federal Information Security Management Act (FISMA) review has been performed for several years as required. Each year the Office of Management and Budget (OMB) issues guidance for the review. The National Institute for Standards and Technology (NIST) Computer Security Division issues publications that the agency is responsible for implementing. The OIG is responsible for reviewing the agency's implementation. The Government Accountability Office and the President's Council on Integrity and Efficiency periodically update their various guidance on auditing, inspections and reviews, and investigations. This increases the burden on the OIG.

OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, issued pursuant to the Single Audit Act of 1984, (as amended), sets forth audit guidance applicable to the expenditure of Federal awards by non-Federal entities. The threshold for an audit is the expenditure of \$500,000 or more in a fiscal year. Consequently, the threshold level eliminates audits for a significant number of non-profit organizations that receive grants from the Endowment, including approximately 17 of the 56 state humanities councils. The President's Council on Integrity and Efficiency issued a report on the single audits. The report disclosed that a majority of the work performed on OMB Circular A-133 audits did not meet professional standards. Thus, besides having fewer NEH grantees subject to the OMB A-133 audit, the reports issued are not totally reliable. This clearly indicates that the OIG needs more resources to provide adequate coverage of grantees. In addition, monitoring by program offices is not, in our opinion, adequate.

Another impact on our oversight of grantees is internal and grantee investigations. Opening an investigation has a significant impact on our audit plan because we do not have staff dedicated to investigation work. Therefore, it becomes necessary to reassign audit staff trained in investigation work to perform the investigation. With significant fluctuations on a yearly basis, it is difficult to be proactive concerning investigations or realistically budget staff time for this effort.

In our last semiannual report, we noted that the OIG needs a part-time auditor. NEH agreed to provide this position and we began the recruitment process to fill the slot. We received applications for the position; however, we did not select anyone. The previous message from the Inspector General also stated that we need a part-time attorney. The Inspector General Reform Act of 2008, Public Law 110-409, provides that each Inspector General will have independent counsel. The law states:

“(4) Each Inspector General shall-

- (A) in accordance with applicable laws and regulations governing appointments within the designated Federal entity, appoint a Counsel to the Inspector General who shall report to the Inspector General;
- (B) obtain the services of a counsel appointed by and directly reporting to another Inspector General on a reimbursable basis; or
- (C) obtain the services of appropriate staff of the Council of Inspectors General on Integrity and Efficiency on a reimbursable basis.

( c ) Rule of Construction — Nothing in the amendments made by this section shall be construed to alter the duties and responsibilities of the counsel for any establishment or designated Federal entity, except for the availability of counsel as provided under sections 3(g) and 8G(g) of the Inspector General Act of 1978 (5 U.S.C. App.) (as amended by this section). The Counsel to the Inspector General shall perform such functions as the Inspector General may prescribe.”

We have been discussing a service agreement with the General Counsel of the Treasury Inspector General for Tax Administration. Therefore, when we sign the agreement in May 2009, we will have an independent General Counsel.

---

## 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 NEH's newest initiative is *Picturing America*. This program "... provides an innovative way for citizens of all ages to explore the history and character of American through some of our nation's greatest works of art. Images of people, places and events from American history give citizens everywhere a chance to better understand our country's past and the principles for which it stands." Information can be found at [PicturingAmerica.neh.gov](http://PicturingAmerica.neh.gov).

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 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 Deputy 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, limited scope 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. The OIG is also responsible for monitoring the work of the independent public accountant that conducts the annual audit of the NEH financial statements as required by the Accountability of Tax Dollars Act of 2002, and examining the audit workpapers and reports to ensure compliance with applicable requirements.

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].

	<u>Report Number</u>	<u>Date Issued</u>
<b><u>INTERNAL AUDITS/REVIEWS</u></b>		
Fiscal Year Ended September 30, 2008 Consolidated Review of the Federal Managers' Financial Integrity Act (FMFIA)	OIG-09-01 (IR)	10/15/08
Final Audit Report Financial Statement Audit FY 2008	Transmittal Memorandum	11/14/08
<b><u>EXTERNAL AUDITS/REVIEWS</u></b>		
<b>EXTERNAL AUDIT</b>		
Newport Historical Society	OIG-09-01 (EA)	11/06/08
<b>DESK REVIEWS</b>		
Museum of Northern Arizona	OIG-09-01 (DR)	03/26/09
Gilder Lehrman Institute of American History	OIG-09-02 (DR)	03/31/09
<b>OVERHEAD DESK REVIEW</b>		
American Library Association	NEH-09-01 (ODR)	03/13/09
<b>SINGLE AUDIT ACT REVIEWS</b>		
42 OMB Circular A-133 Reports		See Page 6

# AUDIT AND REVIEW ACTIVITIES

---

## SUMMARY OF REPORTS ISSUED

### INTERNAL AUDITS/REVIEWS

**Fiscal Year Ended September 30, 2008  
Consolidated Review of the Federal Managers'  
Financial Integrity Act (FMFIA)  
October 15, 2008; OIG-09-01 (IR)**

We made a limited review of the evaluations conducted by NEH division directors and office heads in accordance with Office of Management and Budget (OMB), *Guidelines for the Evaluation and Improvement of and Reporting on Internal Control Systems in the Federal Government*, and *Guidelines for Evaluating Financial Management/Accounting Systems*, for the fiscal year ended September 30, 2008.

We made our review to determine if the evaluations appear to be reasonable and prudent. Nothing came to our attention that would indicate that the evaluations reviewed did not comply with the applicable guidelines.

**Final Audit Report  
Financial Statement Audit ~ Fiscal Year 2008  
November 14, 2008; Transmittal Memorandum**

We issued a memorandum transmitting the final report on the audit of the fiscal year 2008 financial statements of the National Endowment for the Humanities. The OIG engaged Leon Snead & Company, P.C., (IPA) to perform the audit as required by the Accountability of Tax Dollars Act of 2002. The OIG was responsible for 1) evaluating the qualifications and independence of the auditors; 2) reviewing the auditors' approach and planning of the audit; 3) monitoring the work of the auditors; 4) examining audit workpapers and reports to ensure compliance with *Government Auditing Standards*, OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, and the *Financial Audit Manual* issued jointly by the Government Accountability Office (GAO) and the President's Council on Integrity and Efficiency (PCIE); and 5) other procedures deemed necessary to oversee the contract and the audit.

The IPA expressed an unqualified opinion on the NEH financial statements as of and for the years ended September 30, 2008 and 2007. The IPA's testing on internal controls identified no material weaknesses in financial reporting and the results of the IPA's tests of compliance with certain provisions of laws and regulations disclosed no instances of noncompliance required to be reported.

However, the IPA identified a significant deficiency in internal control related to the NEH continuity of operations (COOP) plan. The IPA noted that the agency drafted the plan in April 2006 but it has never been approved. Further, the IPA found no evidence of any testing of the COOP plan. The IPA acknowledged that the agency has put in place the measures necessary to continue operations in the event that the agency's normal office space and systems become available. However, without an approved, tested COOP plan that has been communicated to appropriate individuals in the agency, the agency could find that its plan is not viable during a disruption of service.

The IPA recommended that that the agency finalize and test the COOP plan, record the results and recommendations resulting from the test, update the COOP plan as necessary based on test results, and establish policies and procedures for on-going periodic testing and updating of the plan.

The IPA also reported that the agency completed corrective action concerning the prior year finding related to system access authorities on March 31, 2008. The finding was originally reported as a material weakness in the IPA's report on the fiscal year 2005 financial statements.

# AUDIT AND REVIEW ACTIVITIES

---

## SUMMARY OF REPORTS ISSUED

### EXTERNAL AUDITS/REVIEWS

#### External Audit

##### **Newport Historical Society November 6, 2008; OIG-09-01 (EA)**

We conducted a limited audit of documentation supporting nonfederal funds certified for NEH challenge grant CH-20890-02 awarded to the Newport Historical Society, (Society). The Society was awarded this \$500,000 challenge grant for the purpose of building an endowment for humanities staff positions and humanities programming. To complete the challenge grant, the Society was required to raise three times the Federal offer or \$1.5 million of eligible nonfederal funds.

The principle objectives of our limited audit were to determine 1) if the amounts claimed on the challenge grant certification statements met the eligibility criteria of the challenge grant; and 2) whether the Society's accounting records support disbursement of income in accordance with the grant budget. Our review was conducted in accordance with *Government Auditing Standards* as promulgated by the Comptroller General of the United States.

The Society reported \$1,502,069 as eligible donations to release matching funds under the challenge grant. We questioned the eligibility of \$363,747 in certified donations. We also noted that the Society did not have audits as required by OMB Circular A-133. We recommended that the Society obtain donor transmittal letters and other documentation to support the eligibility of the donations questioned. If sufficient documentation cannot be obtained, the Society should substitute other donations that meet the eligibility requirements as established by the NEH.

#### Desk Reviews

During the six-month period ending March 31, 2009, we completed two (2) desk reviews of grantee effort reporting and accounting systems. The objective of each review was to assess the adequacy of the respective organization's time and effort accounting policies and procedures to ensure compliance with OMB Circular A-122, *Cost Principles for Non-Profit Organizations*. The desk reviews were performed in accordance with PCIE/ECIE *Quality Standards for Inspections*.

The results of each review are noted below.

##### **Museum of Northern Arizona March 26, 2009; OIG-09-01 (DR)**

We concluded that the procedures in effect for the period covered by our review were not adequate to ensure compliance with the requirements set forth in OMB Circular A-122 concerning support of salaries and wages. During the period covered by our review, salary and wage charges not directly supported by Federal funds but related to projects supported by Federal funds were based on predetermined allocation factors. During the course of our review, the organization asserted that the policies and procedures had been modified and all salary and wage charges to projects supported by Federal funds would be based on effort reported in employee timesheets. We did not expand our review to properly test implementation of the modified procedures and therefore could not attest to the sufficiency of the modifications.

# AUDIT AND REVIEW ACTIVITIES

---

## SUMMARY OF REPORTS ISSUED

### Desk Reviews (continued)

#### **Gilder Lehrman Institute of American History (GLI) March 31, 2009; OIG-09-02 (DR)**

We concluded that the organization's time and effort accounting policies and procedures are not adequate to ensure compliance with the requirements set forth in OMB Circular A-122 concerning support of salaries and wages. Timesheets are prepared for some employees of GLI, specifically for those involved in projects supported by Federal grants. The timesheets are prepared quarterly, but represent effort expended on a bi-weekly basis. The employees are paid monthly. Also, salary expenses allocable to the project supported by the NEH grant are not posted to the general ledger until the end of the fiscal year. We have requested a written response from GLI describing actions that will be taken to address our observations. We will schedule a follow-up review as deemed appropriate based on the organization's response.

### Overhead Desk Reviews

The OIG performs overhead desk reviews (ODRs) for NEH grantees requiring indirect cost rates. The reviews are done in accordance with the PCIE/ECIE *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 one overhead desk review during this period. (See page 3).

### Single Audit Act Reviews

In the past several years, the budget for grants amounted to approximately 82 percent of the total NEH budget. The Single Audit Act Amendment of 1996 covers many NEH grantees. Grantees expending \$500,000 or more in Federal dollars per annum are required to obtain an OMB Circular A-133 audit. The objective of the audit is to determine whether the recipients expend Federal funds according to applicable laws and regulations. The OIG receives OMB Circular A-133 reports from other Federal agencies (primarily the Department of Health and Human Services), state and local government auditors, independent public accountants, and grantees.

During the six-month period ended March 31, 2009, we reviewed 42 OMB Circular A-133 audit reports. None of the reports contained findings that required reporting by the OIG to NEH management.

## WORK IN PROGRESS

### Limited Audit ~ National Yiddish Book Center

The principal objectives of this limited audit are to determine 1) that the gifts included in the organization's first certification report under an NEH challenge grant are eligible to release Federal matching funds; and 2) that endowment expenditures are made in accordance with the terms of the budget as approved by NEH and any amendments. The challenge grant provides support for an endowment.

### Limited Audit ~ Humanities Texas

The principal objectives of this limited audit are to determine 1) that the gifts included in the organization's first certification report under an NEH challenge grant are eligible to release Federal matching funds; and 2) that a system is in place to monitor wage rates in accordance with the NEH Challenge Grant guidelines for compliance with the Davis-Bacon Act. The challenge grant provides support for the restoration of a historic building.

# 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. The result could be an audit, an investigation, a referral to another NEH office or division, a referral to another Federal agency, or no action.

During the past several years, the OIG has frequently received Hotline contacts and did not have sufficient resources to complete the inquiry or investigation in a timely manner. Therefore, to alleviate this problem, we have been inquiring of other OIGs concerning their willingness and ability to assist us on an "as needed" basis under a reimbursable agreement. Several OIGs responded they would consider performing work for us on a case-by-case basis, depending on the availability of their staff to assist us.

## OPEN AT OCTOBER 1, 2008

Seven files were open at October 1, 2008.

1. An NEH employee performing timekeeping duties falsified her own timesheets over a period of five years. The amount stolen from NEH amounted to approximately \$35,000. The NEH Office of Human Resources discovered the problem. Administrative action was taken, and the employment of the person was terminated. The OIG presented information concerning this matter to the Department of Justice Criminal Division (DOJ). DOJ and the OIG will be meeting to finalize action.
2. The U.S. Government Accountability Office (GAO), received an allegation concerning improper actions by a former executive director of a state humanities council. GAO referred the matter to the NEH OIG. The OIG received information from the Council concerning the allegation. The Council has a new executive director, new staff, and significant changes in Board membership. The OIG review determined that the allegations contain no merit and we have closed the case.
3. A former employee of an organization in receipt of an NEH fellowship grant alleged that the project director only spent about 20 hours on the project while receiving \$40,000 from the NEH. The person stated that he and the project director only made copies of material previously worked on by the project director. Due to other work requirements we were unable to open an investigation. We plan to begin work on this during the first week in May 2009.
4. We received a call on our Hotline from an employee of the National Aeronautics and Space Administration (NASA) OIG informing the NEH that a grantee, in receipt of funds from several federal agencies, was allegedly changing the scope of the project. The allegation also stated that the project director was using funds for personal matters. The Assistant United States Attorney in Atlanta, Georgia is working with several OIGs on this case. We reviewed our files and found that the project director received a \$25,000 grant in 1992, a year prior to the period being investigated for other federal grants. We have determined that some of the allegations regarding the other federal agencies have merit. However, we decided not to pursue this case since: 1) the grant concluded prior to the period being investigated by the other OIG's; 2) our grant was for \$25,000 while the other grants exceeded \$100,000; and 3) the NEH program staff were satisfied with the work done on the project. We have closed our file.

## **INVESTIGATIVE ACTIVITIES (Continued)**

---

5. A rejected applicant for an NEH grant alleged that the panel process is flawed and the justification for the rejection of the application shows lack of knowledge on the part of the panelists and NEH staff. The OIG did some preliminary work and found no merit to the allegation. The person making the allegation then claimed that the OIG reviewed the wrong application. We reviewed the correct application and found no merit to the allegation. We have closed our file.

6. We received a Hotline letter from a former board member of a state humanities council alleging mismanagement by the Council. The contact further alleged that some current Board members are professors at colleges and universities in the state and vote on applications submitted by their respective employers. We looked into this matter and found that the Council has a conflict of interest policy that is enforced. Professors are not in attendance at meetings when applications from their institutions are discussed and voted upon. The new executive director is reviewing old policies and procedures with the board of directors. We have closed our file.

7. An NEH division director informed the OIG that an award was made to an association that conducts business on a university campus. The project director passed away and the association and the university are in a legal battle to control the project. The situation has been resolved and the NEH funds were safeguarded during the legal process. We have therefore closed our file.

### **CONTACTS DURING THE SIX-MONTH PERIOD ENDED MARCH 31, 2009**

During the current reporting period, we received seven Hotline contacts. However, they were not NEH matters.

### **OPEN AT MARCH 31, 2009**

As of March 31, 2009, two matters that were open at the beginning of the period remain open.

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

We did not refer any matters to prosecutive authorities during the current reporting period.

### **HOTLINE AND PREVENTION ACTIVITIES**

We maintain a toll-free Hotline phone number, an agency e-mail address, and an internet address to provide additional confidentiality for those persons bringing matters to the attention of the OIG. We periodically issue agency-wide e-mail messages informing NEH staff of violations that are reportable 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.

# INVESTIGATIVE ACTIVITIES (Continued)

---

## SUMMARY OF INVESTIGATION ACTIVITY

Open at beginning of period	7
Matters brought to the OIG during the reporting period	- 0 - <sup>1/</sup>
Total investigative contacts	7
Closed, referred, or no action needed during the reporting period	5
Open at end of period	2

<sup>1/</sup> 7 contacts were received but were not related to NEH

## INVESTIGATION MANUAL

During this period, we have been developing an investigation manual that will meet the standards of the President's Council on Integrity and Efficiency. We plan to have the manual completed and to put it into operation within the next several months.

# OTHER ACTIVITIES

---

## 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 to assess whether proposed legislation and/or regulations (1) affect 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 legislative reviews were required.

## WORKING WITH THE AGENCY

OIG staff attended 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. Also, the IG or Deputy IG attends the Chairman's monthly policy group meetings. The Office of Inspector General contributes to the discussions but does not participate in policymaking.

The Inspector General initiated a meeting with the Assistant Chairman for Programs and the Division Directors to discuss the involvement of OIG staff in meetings convened by NEH with grant project directors. As a result, the OIG will be given the opportunity to make a presentation about the OIG and the OIG Hotline during all meetings scheduled with grant project directors.

The Office of Inspector General participated with the NEH Chairman, NEH program staff, and grant management staff in the 2008 National Humanities Conference sponsored by the Federation of State Humanities Councils. OIG staff conducted a workshop discussing accountability matters applicable to state council organizations. The workshop was attended by Board members, executive directors, and council personnel charged with fiscal responsibilities. OIG staff also conducted an accountability session during the Federal/State orientation for new state council executive directors.

## PARTICIPATION ON THE EXECUTIVE COUNCIL ON INTEGRITY AND EFFICIENCY/COUNCIL OF INSPECTORS GENERAL ON INTEGRITY AND EFFICIENCY

The Inspector General Reform Act of 2008, Public Law 110-409, amended the Inspector General Act of 1978 and established the Council of Inspectors General on Integrity and Efficiency (CIGIE). The CIGIE is comprised of all Inspectors General whose offices are established by the Inspector General Act of 1978, those that are Presidentially-appointed/Senate-confirmed, and those that are appointed by agency heads (designated Federal entities). Prior to the establishment of the CIGIE, two separate councils -- the President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE), operated to coordinate and implement government-wide activities to combat fraud and waste in Federal programs and operations. During the six-month period ending March 31, 2009, OIG staff regularly attended ECIE and CIGIE meetings and provided input to the respective councils. The Inspector General participated in an ECIE ad hoc committee on implementing the compensation for IGs at designated federal agencies. The Inspector General is a member of the Audit Committee of the CIGIE and the Grant Fraud Committee (a subcommittee of the National Procurement Fraud Task Force). The Inspector General also participates in the Misconduct in Research meetings. The Deputy IG participated in the Single Audit Roundtable and the Federal Audit Executive Council (FAEC). One senior auditor attends the monthly meetings of the Financial Statement Audit Network, a subcommittee of the FAEC, and one senior auditor regularly attends the Assistant Inspector General for Investigations (AIGI) meetings.

## **OTHER ACTIVITIES (Continued)**

---

### **INTRA-GOVERNMENTAL ACTIVITY**

#### **Congressional Inquiry**

We responded to a follow-up inquiry from the Honorable Henry A. Waxman, Chairman of the House of Representatives ~ Committee on Oversight and Government Reform concerning recommendations made by the OIG from January 1, 2001 through September 30, 2008 that have not been implemented.

#### **Collaboration with the National Science Foundation ~ Office of Inspector General**

OIG staff is participating in a joint investigative effort concerning a major media grantee. The joint effort involves IG staff from three (3) Federal agencies. NSF ~ OIG is leading the investigation.

### **OIG INTERNET AND INTRANET**

The OIG has posted several semiannual reports on the internet and on the NEH intranet. The reports are accessible through the NEH homepage and the OIG homepage (<http://www.neh.gov/whoweare/OIG.html>).

To advance NEH staff recognition of the OIG mission and responsibilities, we provide links to several other Federal agencies such as the Office of Management and Budget, the Government Accountability Office, the Office of Government Ethics, and the IGMET.

### **TECHNICAL ASSISTANCE**

Throughout the reporting period, OIG staff provided telephone technical help to NEH grantees and independent public accountants about various matters. Generally, these involve the preparation of indirect cost proposals and implementation of the audit requirements of OMB Circular A-133.

During the six-month period ending March 31, 2009, the OIG completed and published a revised *Accounting System Manual for State Humanities Councils*, which describes a generic accounting system specifically designed for the needs of state council organizations. The manual was last revised in September 1999. This manual is a significant working resource for new staff at the Councils, independent public accountants engaged by the Councils, and new OIG staff. The manual is accessible through the OIG homepage (<http://www.neh.gov/whoweare/OIG.html>) and will be accessible through the Grant Management page for Organizations maintained by the NEH ~ Office of Grant Management, (<http://www.neh.gov/manage/OrganizationAwards.html>).

### **“AUDIT READINESS” AWARENESS CAMPAIGN**

The Office of Inspector General launched an awareness campaign via e-mail. The objective of the campaign is to distribute guidance that would assist recipients of NEH grants in their efforts to preclude unfavorable outcomes should the organizations' NEH grants be selected for audit. The e-mail communication emphasizes the importance of the recipients' review of and adherence to the specific NEH grant terms and conditions as well as the laws and regulations applicable to all Federal awards. We remind the recipients that they are stewards of Federal government funds and that they must comply with the OMB Circulars and the terms and conditions of the grant award. Highlighted in the e-mail communications are specific areas wherein problems are commonly found during audits of NEH grantees and links to appropriate guidance materials and resources. We also mention the importance of the effective internal controls and the President's Council on Integrity and Efficiency, *Report on National Single Audit Sampling Project*. The e-mail communications are sent to project directors and grant administrators identified for NEH awardees.

## **OTHER ACTIVITIES (Continued)**

---

During the six-month period ending March 31, 2009, e-mail communications were sent as noted below. We have reasonable assurance that all of the awardees received a copy of the communication.

<b>NEH Office or Division</b>	<b>Number of Awardees</b>	<b>Number of E-mails Sent*</b>
Office of Challenge Grants	18	33
Division of Public Programs	17	27
Division of Preservation and Access	11	21
Office of Digital Humanities	2	3

\* There were several instances where either the project director and the grant administrator were the same or we did not have any contact information for an individual.

## PRIOR AUDIT REPORTS UNRESOLVED

---

- Several recommendations from prior FISMA and Information Technology Security reviews remain to be addressed. The staff of the NEH Office of Information Resources Management is currently working on implementing some of the recommendations.

# 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.....	10
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 Reports Issued.....	3
Section 5(a)(7)	Summary of Reports Issued.....	4-6
Section 5(a)(8)	Audit Reports - Questioned Costs.....	15
Section 5(a)(9)	Audit Report - Funds To Be Put to Better Use.....	15
Section 5(a)(10)	Prior Audit Reports Unresolved.....	13
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.	- 1 -	\$100,000	\$ - 0 -
B. Which were issued during the reporting period.	- 1 -	\$363,747	\$ - 0 -
<b>Subtotals (A+B)</b>	- 2 -	\$463,747	\$ - 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).	- 1 -	\$100,000	\$ - 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 -	\$363,747	\$ - 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 -
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 -

## 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).