



NATIONAL ENDOWMENT FOR THE

**Humanities**

**Office of Inspector General**

**SEMIANNUAL  
REPORT TO  
CONGRESS**

**For the Period April 1, 2011 through September 30, 2011**

**Report No. 45**

---

**“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

November 9, 2011

Honorable James Leach  
Chairman, National Council on the Humanities  
National Endowment for the Humanities  
Washington, DC 20506

Dear Chairman Leach:

I am pleased to provide you with the Office of Inspector General's Semiannual Report to Congress for the second half of the fiscal year 2011. This 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 Office of Inspector General (OIG) during the six-month period ended September 30, 2011.

During the current reporting period, we completed one internal inspection; one external audit; three pre-award accounting system surveys; and seven desk reviews of Office of Management and Budget (OMB) Circular A-133 audit reports, as issued by non-Federal auditors concerning NEH grantees.

In our investigations program, two matters were open as of the beginning of the reporting period. We received 13 "Hotline" contacts during the period, and one matter remains open as of September 30, 2011.

I greatly 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,

Laura Davis  
Acting Inspector General

# TABLE OF CONTENTS

---

LETTER TO THE CHAIRMAN	
EXECUTIVE SUMMARY.....	1
THE NATIONAL ENDOWMENT FOR THE HUMANITIES.....	2
THE OFFICE OF INSPECTOR GENERAL.....	2
AUDIT AND REVIEW ACTIVITIES.....	3
INVESTIGATIVE ACTIVITIES .....	11
OTHER ACTIVITIES .....	13
TABLE I - REPORTING REQUIREMENTS.....	15
TABLE II - INSPECTOR GENERAL-ISSUED REPORTS..... WITH QUESTIONED COSTS	16
TABLE III - INSPECTOR GENERAL-ISSUED REPORTS WITH..... RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE	16
GLOSSARY OF AUDIT TERMINOLOGY.....	17
PEER REVIEW RESULTS.....	Appendix A

## EXECUTIVE SUMMARY

---

This has been a productive reporting period for the National Endowment for the Humanities (NEH) Office of Inspector General (OIG). I sincerely thank the OIG staff for their dedication and continued commitment to the mission of this office.

During the period covered by this report, we issued a report communicating the results of our inspection of the NEH grant monitoring function. We made several recommendations that would strengthen current monitoring activities of program and grant administrative staff. NEH management has completed implementation of most of our recommendations and has initiated action to address other observations noted in our report.

We continued to perform desk reviews of audit reports issued by non-Federal auditors pursuant to OMB Circular A-133. These reviews have revealed areas wherein recipients and independent public accountants are still lacking subsequent to the issuance of the Report on National Single Audit Sampling Project issued by the President's Council on Integrity and Efficiency and the Executive Council on Integrity and Efficiency in June 2007 and efforts by the public accounting community to improve audit quality in response to the report.

The OIG engaged the services of Leon Snead & Company (IPA) to conduct the annual audit of the NEH financial statements for fiscal year 2011, as required by the Accountability of Tax Dollars Act of 2002. The final report will be issued in November 2011.

Investigative efforts have been active over the past six months. OIG staff have been working closely with the U.S. Department of Justice and the National Science Foundation OIG. A criminal case initiated during the prior semiannual reporting period was closed during this reporting period upon the agency's recovery of a portion of grant funds fraudulently diverted from the NEH and subsequently seized by the Federal Bureau of Investigation. One case remains active as of the end of the reporting period.

In August 2011, a Settlement Agreement between the NEH and a challenge grant recipient was executed by the U.S. Department of Justice in the amount of \$125,000, which represents a portion of the amount determined by the OIG to be returned to the NEH due to the grantee's failure to comply with the terms and conditions applicable to the NEH challenge grant.

Administratively, the OIG executed a Memorandum of Understanding with the NEH General Counsel which sets forth the procedures to be followed when processing Freedom of Information Act (FOIA) requests involving OIG records. The established procedures are designed to preserve the independence of the OIG and the confidentiality of OIG records as determined by the Inspector General. The OIG also responded to several FOIA requests during the reporting period.

---

## 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 (NEH) as an independent grant-making agency of the Federal government to support research, education, and public programs in the humanities. According to the Act, "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 NEH is directed by a Chairman, who is appointed by the President and confirmed by the U.S. Senate, for a term of four years. Advising the Chairman is the National Council on the Humanities, a board of 26 distinguished private citizens who are also appointed by the President and confirmed by the Senate. The National Council members serve staggered six-year terms.

Grants are awarded through four divisions - Research Programs, Education Programs, Preservation and Access, and Public Programs -- and three offices - Challenge Grants, Federal/State Partnership, and Digital Humanities. The divisions and offices also administer the *We the People* initiative.

The NEH's most recently launched initiative, *Bridging Cultures*, is designed to bridge both space and time to help American citizens gain a deeper understanding of their own varied cultural heritage, as well as the history and culture of other nations. This initiative encourages the exploration of ways in which cultures from around the globe, as well as the myriad subcultures within America's borders, have influenced American society.

---

## THE OFFICE OF INSPECTOR GENERAL

The NEH Office of Inspector General (OIG) 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 Inspector General 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 to the National Council on the Humanities through the NEH Chairman, and can only be removed by the National Council on the Humanities, which must give Congress 30 days notice of the reasons for the removal; and reports directly to Congress.

The Act states that the OIG 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 IG is also responsible for keeping the Chairman and Congress fully and currently informed of problems and deficiencies in the agency's programs and operations.

The OIG staff consists of the Inspector General, Deputy Inspector General, two auditors, and a secretary. The OIG has a Memorandum of Understanding with the United States Treasury Inspector General for Tax Administration detailing the procedures for the OIG to be provided legal services. Investigations are handled by the IG and an auditor.

# AUDIT AND REVIEW ACTIVITIES

---

## LIST OF REPORTS ISSUED

The OIG is responsible for external and internal audits. External efforts include on-site grant audits, limited scope desk audits, pre-award accounting system surveys, review of OMB Circular A-133 audit reports, 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 (IPA) that conducts the annual audit of the NEH financial statements as required by the Accountability of Tax Dollars Act of 2002, and examining the IPA's 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 "Total Dollar Value of Questioned Costs" (including a separate category for the "Dollar Value of Unsupported Costs") and the "Dollar Value of Recommendations that Funds Be Put to Better Use", [see Tables II and III].

	<u>Report Number</u>	<u>Date Issued</u>
<b><u>INTERNAL AUDITS/REVIEWS/INSPECTIONS</u></b>		
Inspection of the Grant Monitoring Function	OIG-11-01 (I)	06/09/2011
<b><u>EXTERNAL AUDITS/REVIEWS</u></b>		
Limited Audit — NEH Grant Awards to the Medieval Academy of America	OIG-11-03 (EA)	09/30/2011
<b><u>PRE-AWARD ACCOUNTING SYSTEM SURVEYS</u></b>		
Cahokia Mounds Museum Society	OIG-11-01 (TS)	07/19/2011
Internet Archive	OIG-11-02 (TS)	09/06/2011
Endangered Language Alliance, Inc.	OIG-11-03 (TS)	09/30/2011
<b><u>DESK REVIEWS</u></b>		
Desk Review of the Single Audit Report for Year Ended October 31, 2009 — Humanities Texas.	OIG-11-11 (DR)	04/05/2011
Desk Review of the Single Audit Report for Year Ended October 31, 2010 — Utah Humanities Council	OIG-11-12 (DR)	04/26/2011
Desk Review of the Single Audit Report for Year Ended October 31, 2010 — Florida Humanities Council	OIG-11-13 (DR)	04/26/2011
Desk Review of the Single Audit Report for Year Ended October 31, 2010 — North Dakota Humanities Council	OIG-11-14 (DR)	05/25/2011

# AUDIT AND REVIEW ACTIVITIES

---

## LIST OF REPORTS ISSUED

	<u>Report Number</u>	<u>Date Issued</u>
<b><u>DESK REVIEWS (con't.)</u></b>		
Desk Review of the Single Audit Report for Year Ended October 31, 2009 — Mississippi Humanities Council	OIG-11-15 (DR)	05/31/2011
Desk Review of the Single Audit Report for Year Ended October 31, 2009 — Kentucky Humanities Council	OIG-11-16 (DR)	06/09/2011
Desk Review of the Single Audit Report for Year Ended October 31, 2009 — California Council for the Humanities	OIG-11-17 (DR)	08/26/2011
<b><u>SINGLE AUDIT ACT REVIEWS</u></b>		
OMB Circular A-133 Reports	— See Page 9	—



# **AUDIT AND REVIEW ACTIVITIES**

---

## **SUMMARY OF REPORTS ISSUED**

### **INTERNAL AUDITS/REVIEWS/INSPECTIONS**

#### **Inspection of the Grant Monitoring Function June 9, 2011; OIG-11-01 (I)**

Each year, the NEH awards approximately 1,000 grants which are administered by four divisions, two offices, and the Federal/State Partnership. The monitoring of grant activities is a key management tool to help ensure that funds awarded to grantees are being properly spent. We conducted an inspection of the grant monitoring function. The objectives of our inspection were to:

1. Determine if there are agency-wide policies and procedures for monitoring grants, and if so, whether the divisions and offices responsible for the monitoring function are complying with the policies and procedures.
2. Determine if the program divisions and offices, Accounting Office, and the Office of Grant Management (OGM) have specific policies and procedures concerning grant monitoring, and the extent of compliance with those policies and procedures.
3. Determine the factors used to select awards for monitoring (risk-based, award size, new grantee to NEH, etc.). Also, to determine how grant program officials or grant administrators assess the effectiveness and/or adequacy of monitoring activities.

Our inspection was conducted in accordance with the *Quality Standards for Inspections*, as issued by the President's Council on Integrity and Efficiency/Executive Council on Integrity and Efficiency.

We determined that the agency-wide policy for grant administration is documented in the NEH Grant Administration Manual (GAM), which outlines the monitoring responsibilities of program, Accounting, and Office of Grant Management staff. According to the GAM, the main tool for monitoring grants is the review of interim and final reports submitted by grantees. Our inspection concluded that grant monitoring responsibilities, as outlined in the GAM, are generally being executed.

We also determined that NEH management does not routinely employ formal risk assessment procedures to identify which grant recipients/awards should be subject to focused oversight/monitoring activities; and there is no formal mechanism to assess the effectiveness or adequacy of monitoring activities.

We noted opportunities wherein grant monitoring activities would be enhanced relative to: 1) training and guidance for staff directly responsible for monitoring grants; 2) the delinquent report follow-up process; and 3) program staff access to grant financial information.

NEH management has implemented procedures to address most of our recommendations.

# **AUDIT AND REVIEW ACTIVITIES**

---

## **EXTERNAL AUDITS/REVIEWS**

### **Limited Audit — Medieval Academy of America Cambridge, MA September 30, 2011; OIG-11-03 (EA)**

We performed a limited audit of records maintained by the Medieval Academy of America (the “Academy”) related to NEH grants FS-50176-08 and RQ-50325-08. The principal objectives of our limited audit were to determine if (1) grant expenditures were made in accordance with applicable provisions of the NEH’s *General Terms and Conditions for Awards to Organizations* and the terms of the approved grant awards; and 2) proper controls over the use of the Federal funds exist in accordance with minimum standards prescribed in OMB Circulars A-110 and A-122. Our limited audit was conducted in accordance with *Generally Accepted Government Auditing Standards* (GAGAS).

We concluded that the Academy needs to strengthen its policies and procedures and implement corrective actions to improve its management of Federal funds. Specifically, we found that the Academy did not:

- Maintain required personnel activity reports;
- Develop or implement written procurement procedures, as required by the applicable Federal circulars;
- Have adequate internal controls in place.

We questioned expenditures totaling \$33,294 [\$27,975 is related to personnel costs, (the grantee used budget estimates to calculate these costs); and \$5,319 is due to the improper application of the organization’s approved indirect cost rate].

The grantee essentially concurred with our findings and has initiated efforts to implement corrective action. In response to our finding concerning personnel costs, the grantee reconstructed effort allocations to substantiate salary charges to the two NEH grants, based on information ascertained through staff interviews and review of project files. A final decision concerning allowability of the personnel charges will be made by NEH management.

## **PRE-AWARD ACCOUNTING SYSTEM SURVEYS**

### **Cahokia Mounds Museum Society Collinsville, IL July 19, 2011; OIG-11-01 (TS)**

We conducted a pre-award accounting system survey of the Cahokia Mounds Museum Society (the “Society”). The objective of this 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. We concluded that the Society’s accounting system, management controls, Governance oversight, and formalized policies/procedures will allow the organization to sufficiently manage and account for NEH grant funds. However, we identified several specific areas, in which existing financial management controls can be improved. We also identified an error within the NEH-approved budget and a potential procurement compliance deficiency, and advised NEH management to ensure that the matters are resolved prior to the release of Federal funds to the grantee.

# AUDIT AND REVIEW ACTIVITIES

---

## PRE-AWARD ACCOUNTING SYSTEM SURVEYS (con't.)

### **Cahokia Mounds Museum Society (con't.)**

**Collinsville, IL**

**July 19, 2011; OIG-11-01 (TS)**

We noted the following conditions that should be monitored on an ongoing basis to ensure proper implementation.

- The organization's accounting system must provide accurate, current, and complete disclosure of all financial transactions related to each federally-sponsored project, which includes the value of contributions made by third parties in accomplishing the objectives of the NEH award during the project period. Unallowable expenditures must be separately tracked in the general ledger and excluded from charges to the NEH award.
- Procurement procedures, consistent with the minimum requirements of OMB Circular A-110, should be established and documented in writing.

We obtained written assurances from the principals of the organization that they will abide by the terms of the NEH award.

### **Internet Archive**

**San Francisco, CA**

**September 6, 2011; OIG-11-02 (TS)**

We conducted a pre-award accounting system survey of Internet Archive. The objective of this 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. We concluded that the accounting system, management controls, and administrative policies and procedures, as implemented by Internet Archive, provide assurance that the organization will be able to sufficiently manage and account for NEH grant funds. However, we noted the following condition that should be monitored on an ongoing basis to ensure proper implementation.

- The organization's accounting system must provide accurate, current, and complete disclosure of all financial transactions related to each federally-sponsored project, which includes the value of contributions made by third parties in accomplishing the objectives of the NEH award during the project period. Unallowable expenditures must be separately tracked in the general ledger and excluded from charges to the NEH award.

We obtained written assurances from the principals of the organization that they will abide by the terms of the NEH award.

# AUDIT AND REVIEW ACTIVITIES

---

## PRE-AWARD ACCOUNTING SYSTEM SURVEYS (con't.)

**Endangered Language Alliance, Inc.**  
**New York, NY**  
**September 30, 2011; OIG-11-03 (TS)**

We conducted a pre-award accounting system survey of the Endangered Language Alliance (the “Alliance”). The objective of this 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. We concluded that the accounting system, management controls, Governance oversight, and formalized policies/procedures will allow the organization to sufficiently manage and account for NEH grant funds. However, we identified several specific areas, in which existing financial management controls can be improved. We also identified a potential cash flow issue that warrants further scrutiny and continuous monitoring by NEH management. We determined that the following conditions should also be monitored on an ongoing basis to ensure proper implementation.

- The organization’s accounting system must provide accurate, current, and complete disclosure of all financial transactions related to each federally-sponsored project, which includes the value of contributions made by third parties in accomplishing the objectives of the NEH award during the project period. Unallowable expenditures must be separately tracked in the general ledger and excluded from charges to the NEH award.
- Charges to awards for salaries and wages, whether treated as direct or indirect costs, must be based on documented payrolls approved by a responsible official of the organization. The distribution of salaries and wages to the NEH award must be supported by personnel activity reports, as required by OMB Circular A-122.
- Procurement procedures, consistent with the minimum requirements of OMB Circular A-110, should be established and documented in writing.
- As the sponsor of an NEH-supported media project, the Alliance must ensure proper procedures are implemented to oversee the primary subrecipient, as stipulated in NEH’s *Requirements for Grant Recipients that Serve as Sponsors of Projects*.
- Arrangements with consultants must be documented in writing.
- The Alliance must undergo a Single or program-specific audit in accordance with the requirements of OMB Circular A-133, if Federal expenditures during the organization’s fiscal year exceed \$500,000.
- Financial records, supporting documentation, statistical records, and all other records pertinent to the NEH award must be retained by the Alliance for three years from the date of submission of the final *Federal Financial Report*.

We obtained written assurances from the principals of the organization that they will abide by the terms of the NEH award.

# AUDIT AND REVIEW ACTIVITIES

---

## DESK REVIEWS

OMB Circular A-133 establishes audit requirements for state and local governments, colleges and universities, and non-profit organizations receiving Federal awards. Covered entities, as defined by the Circular, that expend \$500,000 or more a year in Federal awards must obtain an annual organization-wide audit that includes the entity's financial statements and compliance with Federal award requirements. The audits are conducted by non-Federal auditors, such as public accounting firms and state auditors.

During the reporting period, we issued seven (7) letters communicating the results of our desk reviews of OMB Circular A-133 audit reports. The objectives of the desk reviews were to: (1) determine whether the audit reports are acceptable under the reporting requirements of OMB Circular A-133; (2) identify any quality issues that may warrant follow-up work and/or revisions to the audit report; (3) identify audits for potential Quality Control Reviews (QCR) of the independent auditors' workpapers; and (4) identify issues that may require the attention of NEH management. We used the *Guide for Desk Reviews of OMB Circular A-133 Audit Reports*, issued by the Council of Inspectors General on Integrity and Efficiency (CIGIE) to determine if the reports were in conformance with the core reporting requirements stipulated by OMB Circular A-133.

We determined that two (2) reports were acceptable; four (4) reports were acceptable with deficiencies; and one (1) report was technically deficient. The audit report determined to be technically deficient required corrective action and resubmission. A recurring deficiency noted during our desk reviews concerned the lack of disclosure of subrecipient awards in the Schedule of Expenditures of Federal Awards, as required by OMB Circular A-133.310(b)(5).

The following desk reviews were in progress as of September 30, 2011:

- \* Arkansas Humanities Council (FYE October 31, 2009)
- \* Humanities Council of Washington, DC (FYE October 31, 2009)
- \* Humanities Washington (FYE December 31, 2009)
- \* New York Council for the Humanities (FYE October 31, 2009)
- \* Hawaii Council for the Humanities (FYE October 31, 2009)
- \* Nevada Humanities (FYE October 31, 2009)

## SINGLE AUDIT ACT REVIEWS

The OIG receives Single Audit reports directly from state and local government auditors and NEH grantees. We also receive communications from other Federal agencies regarding Single Audit findings, (primarily the Department of Health and Human Services) and we routinely perform queries of the Federal Audit Clearinghouse to determine the reporting of Single Audit findings applicable to NEH awards.

During the reporting period ended September 30, 2011, the OIG referred findings noted in eleven (11) Single Audit reports to NEH management for resolution, [OIG-11-02 (CAA) dated July 7, 2011]. The independent, non-Federal auditors identified 60 findings at eleven NEH grantees. Many of the findings concerned grantee non-compliance with applicable Federal procurement requirements and lack of timeliness when submitting required financial and/or performance reports.

# AUDIT AND REVIEW ACTIVITIES

---

## WORK IN PROGRESS

### Limited Audit ~ Marquette Historical Society

The principal objectives of this limited audit are to determine if (1) the gifts certified by the Marquette Historical Society under NEH challenge grant CH-50604-09 are eligible to release Federal matching funds; (2) grant expenditures are made in accordance with applicable provisions of NEH's *General Terms and Conditions for Awards to Organizations* and the approved challenge grant budget; and (3) construction work complied with Davis-Bacon Act requirements.

### Limited Audit ~ University of California Press Foundation

The principal objectives of this limited audit are to determine if (1) the gifts certified by the University of California Press Foundation under NEH challenge grant CH-50213-06 are eligible to release Federal matching funds; (2) grant expenditures are made in accordance with applicable provisions of NEH's *General Terms and Conditions for Awards to Organizations* and the approved challenge grant budget; and (3) proper controls over the use of the endowment funds and the related earnings exist.

### Limited Audit ~ Filmmakers Collaborative

The objective of this limited audit is to determine if expenditures reported by Filmmakers Collaborative for NEH grant TR-50093-09 are accurate and represent allowable and allocable costs in accordance with the provisions of the approved budget (and subsequent revisions) and applicable OMB circulars.

### Inspection ~ Grant Application In-take Process and Panel Development Process

For purposes of this inspection, activities of NEH program staff and management from receipt of a grant application to presentation of the application for peer review/evaluation represent the grant application in-take process. The objectives of this inspection are to determine: (1) how applications are screened for eligibility and completeness, and when this screening takes place; (2) the scope of the review of draft proposals by NEH program staff and the criteria used during the review; (3) the extent of conformity to established guidance pertaining to the review of draft proposals; (4) the extent that program officials use agency guidance, *NEH Principles and Considerations for Recruiting Panelists*, when a panel is put together; and (5) the existence of any division/office-specific guidance on panel recruitment and/or composition, and the extent of its use.

### Inspection ~ Cost-Sharing Related to NEH General Operating Support Grants

The principal objectives of this inspection are to (1) evaluate procedures used by NEH management to review the validity and allowability of the cost-share amounts reported by recipients of general operating support grants; (2) identify the underlying components of the total cost-share reported by recipients and determine if the regrantee cost-share amount represents a material portion of the total; (3) obtain supporting schedules that substantiate the total regrantee cost-share amount claimed by recipients; and (4) evaluate impact to recipients if a regrantee cost-share restriction is enforced.

### FY 2011 Federal Information Security Management Act (FISMA) Evaluation

Each year, the OIG conducts an independent evaluation of the information security program maintained by the NEH, pursuant to the requirements of the Federal Information Security Management Act.

# **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 impact 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. We have obtained assistance from other OIGs, the Federal Bureau of Investigation (FBI), the Postal Inspection Service, and other investigative entities in the past.

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 decision could result in the initiation of an audit or an investigation; a referral to another NEH office/division or another Federal agency; or no further action. When we determine that a case involves a crime, we will ask the Federal Bureau of Investigations (FBI), another Federal Inspector General, or the United States Department of Justice for assistance.

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 remedy 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. However, this assistance would be for criminal cases only and we have no guarantee that the OIGs would have staff available when needed.

## **OPEN AT APRIL 1, 2011**

Two matters were open as of April 1, 2011. One matter involved grant funds fraudulently diverted from the NEH and we were working with an Assistant United States Attorney and a Department of Justice Special Agent. We closed this case upon receipt of a determination letter from the FBI that the NEH would recover funds seized by the FBI in the amount of \$25,622, which represents a portion of the funds fraudulently diverted. The other matter concerns an NEH employee and remains open as of the end of this reporting period.

## **CONTACTS DURING THE SIX-MONTH PERIOD ENDED SEPTEMBER 30, 2011**

We received thirteen (13) contacts during the current reporting period.

One contact concerned the legitimacy of information presented in a grant application recently submitted to the NEH. The application was properly subjected to the NEH peer review process; however it was not recommended for funding. This matter is considered closed by the OIG.

Three contacts were complaints alleging the retention of a portion of participant stipends by a host organization (NEH grantee) for inappropriate purposes. The participant stipends were funded by an NEH summer seminar award. This matter has been referred to the OIG audit operations.

One contact was initiated by NEH management upon becoming aware of a publicly-reported financial irregularity involving an NEH grantee. By the time the OIG was notified, the local authority and other Federal investigative and prosecutive entities were actively involved with the matter. The OIG has been advised by the Federal agent in charge of the investigation that the financial irregularity did not directly impact NEH awards. This matter has been closed.

One contact was a FOIA matter, which was referred to the NEH Office of General Counsel.

Seven contacts concerned matters that lacked sufficient attributes of criminal or administrative violations impacting the programs and operations of the NEH.

# INVESTIGATIVE ACTIVITIES

---

## OPEN AT SEPTEMBER 30, 2011

One matter is open as of September 30, 2011.

## MATTERS REFERRED TO PROSECUTIVE AUTHORITIES

No matters were referred to the U.S. Department of Justice during this period.

## HOTLINE AND PREVENTION ACTIVITIES

We maintain a toll-free Hotline number, an agency e-mail address, and an internet address to provide additional confidentiality for individuals 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.

An OIG staff person also makes a brief presentation during meetings convened by NEH program management involving project directors of new awardees. The presentations include an overview of OIG operations and emphasize the importance of the recipients' efforts to understand the administrative requirements and specific terms and conditions applicable to their respective awards.

## SUMMARY OF INVESTIGATION ACTIVITY

Open at beginning of period	2
Matters brought to the OIG during the reporting period	13
Total investigative contacts	15
Closed, referred, or no action deemed necessary during the reporting period	14
Open at end of period	1



# 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 for the NEH.

## 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 policy-group meetings. OIG staff may contribute to the discussions, but the OIG does not participate in policymaking.

The Deputy IG made a presentation about the mission, responsibilities, and activities of the NEH Office of Inspector General and the OIG Hotline during a meeting held at the NEH involving project directors in receipt of awards through the Office of Digital Humanities. An OIG auditor also moderated a session during an orientation meeting convened by the NEH Federal/State Partnership staff for new Executive Directors of state humanities councils wherein topics such as the mission/responsibilities of the OIG, the OIG Hotline, implementation of effective internal controls, and other accountability expectations were discussed.

During the summer, NEH management conducted an exercise to test recent updates to the agency's continuity of operations plan (COOP). An OIG auditor participated in the exercise as an independent observer and utilized a Continuity Evaluation Tool to facilitate an extensive evaluation of the exercise, which was submitted to NEH management. The Continuity Evaluation Tool was provided to the OIG by NEH management prior to the exercise.

## PARTICIPATION ON THE 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 (and subsequent amendments) — those that are Presidentially-appointed/Senate-confirmed and those that are appointed by agency heads (Designated Federal Entities). During the six-month period ending September 30, 2011, the Deputy IG regularly attended monthly CIGIE meetings (and provided input, as requested), bi-monthly meetings of the Federal Audit Executive Council (FAEC), monthly meetings of the Financial Statement Audit Network (a subcommittee of the FAEC), and the inaugural meeting of a recently established sub-group of the CIGIE representing the “Smaller OIGs”. The Deputy IG also attended the annual CIGIE conference in May 2011. A staff auditor attended the Single Audit Roundtable held in the Spring.

## INTRA-GOVERNMENTAL ACTIVITY

### **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.

## **OTHER ACTIVITIES**

---

### **OIG INTERNET AND INTRANET**

The OIG has posted several audit/review reports and 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 awareness and understanding of the OIG mission and responsibilities, we provide hyperlinks 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 website.

### **TECHNICAL ASSISTANCE**

Throughout the reporting period, OIG staff provided technical help to NEH staff, grantees, and independent public accountants about various matters. We are generally consulted about matters related to the implementation of the audit requirements of OMB Circular A-133.

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

The OIG executes an “Audit Readiness” 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 each recipient’s review of and adherence to the specific NEH grant terms and conditions and the administrative requirements applicable to all Federal awards. We remind recipients that they are stewards of Federal funds and therefore must comply with the OMB circulars and the terms and conditions of their grant awards. Highlighted in the communications are specific areas wherein problems are commonly found during audits of NEH grantees and hyperlinks to appropriate guidance materials and resources. We also mention the importance of effective internal controls. The e-mail communications are sent directly to project directors and grant administrators identified for all non-profit awardees.

During the reporting period ending September 30, 2011, 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>
Division of Public Programs	44	69
Division of Preservation and Access	109	175
Office of Challenge Grants	23	41
Office of Digital Humanities	4	7
Division of Education Programs	5	10
Division of Research Programs	5	8

\*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.

# 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.....	13
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.....	12
Section 5(a)(5)	Instances Where Information Was Refused or Not Provided.....	*
Section 5(a)(6)	List of Reports Issued.....	3-4
Section 5(a)(7)	Summary of Reports Issued.....	5-10
Section 5(a)(8)	Audit Reports - Questioned Costs.....	16
Section 5(a)(9)	Audit Report - Funds To Be Put to Better Use.....	16
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.....	*
Section 5(a)(14-16)	Peer Review Results.....	Appendix A

\* 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 -	\$491,667	\$ - 0 -
B. Which were issued during the reporting period.	- 1 -	\$ 33,294	\$ - 0 -
<b>Subtotals (A+B)</b>	- 2 -	\$524,961	\$ - 0 -
C. For which a management decision was made during the reporting period.			
i. Dollar value of disallowed costs.	- 1 -	\$125,000*	\$ - 0 -
ii. Dollar value of costs not disallowed	- 0 -	\$366,667*	\$ - 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 -	\$ 33,294	\$ - 0 -
E. Reports for which no management decision was made within six months of issuance.	- 0 -	\$ - 0 -	\$ - 0 -

\* This matter was resolved via a Settlement Agreement executed by the U.S. Department of Justice. The difference between the amount stipulated in the Settlement Agreement and the total questioned in the OIG report is reflected in Table II as "Dollar value of costs not disallowed".

**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).

## APPENDIX A

---

### PEER REVIEW RESULTS

The following information is provided pursuant to the requirements of Section 989C of Public Law 111-203 (July 21, 2010), the Dodd-Frank Wall Street Reform and Consumer Protection Act, amending the Inspector General Act of 1978 (the IG Act), 5 U.S.C. App. This appendix complies with Section 5(a)(14 - 16) of the IG Act of 1978, as amended.

**(14)(A) Peer Review of the Audit Function.** On December 9, 2010, the U.S. Consumer Product Safety Commission (CPSC) issued a System Review Report on the audit organization of the NEH OIG in effect for the year ended March 31, 2010. The CPSC found that the system of quality control for the audit organization of the NEH OIG had been suitably designed and complied with to provide reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Federal audit organizations can receive a rating of *pass*, *pass with deficiencies*, or *fail*. The NEH OIG received a peer review rating of *pass*.

**( 15 ) Outstanding Recommendations from any Peer Review of the NEH OIG.** There are no outstanding recommendations from any peer review of the NEH OIG conducted by another Office of Inspector General that have not been fully implemented.

**( 16 ) Peer Review Conducted by the NEH OIG.** On January 27, 2011, the NEH OIG issued a System Review Report on the United States Capitol Police (USCP) Office of Inspector General audit organization in effect for the year ended September 30, 2010. We found that the system of quality control for the audit organization of the USCP OIG had been suitably designed and complied with to provide USCP OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The USCP OIG received a peer review rating of *pass*.