



Office of Inspector General

SEMIANNUAL REPORT TO CONGRESS

For the Period October 1, 2014 through March 31, 2015

Report No. 52

**“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
concerning NEH programs, operations, or employees

Contact the OIG Hotline

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Contacts may remain anonymous

Information is treated as Confidential

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EXECUTIVE SUMMARY

This Semiannual Report to Congress highlights the activities of the National Endowment for the Humanities — Office of Inspector General (OIG) for the period October 1, 2014 through March 31, 2015. OIG activities completed during this reporting period addressed NEH operations and grantee operations/compliance, including oversight of non-Federal audits of NEH grantees. We also continued our monitoring of the audit activities of Leon Snead & Company, P.C., independent auditors engaged to conduct the annual audit of the NEH financial statements for fiscal year ending September 30, 2014.

During this reporting period, we issued a report concerning the Agency's compliance with the *Federal Managers' Financial Integrity Act (FMFIA)* for FY 2014 and transmitted the consolidated report on the Council of the Inspectors General on Integrity and Efficiency (CIGIE) Cloud Computing Initiative, to which the NEH-OIG contributed via a survey of the Agency's cloud computing efforts. We also completed and issued inspection reports concerning two NEH grantees and completed desk reviews of Single Audit reports issued by non-Federal auditors for five NEH grantees. As of the end of this reporting period, we have several audits and inspections in process, the results of which we anticipate including in our semiannual report for the period ending September 30, 2015.

We engaged the services of Leon Snead & Company, P.C. (IPA) to conduct the annual audit of the NEH financial statements for fiscal year ending September 30, 2014, as required by the Accountability of Tax Dollars Act of 2002. During this reporting period, we continued to monitor the work of the auditors and we completed a final examination of the audit working papers, draft report, and draft management letter to ensure compliance with applicable requirements. The NEH received an unmodified opinion on the audited financial statements as of and for the years ended September 30, 2014 and 2013. No material internal control deficiencies or instances of noncompliance with applicable laws and regulations were noted by the IPA. However, the IPA reported a significant deficiency concerning the allotment of Agency administrative funds in excess of the amount approved by the Office of Management and Budget (OMB) to be spent. This condition did not result in an Antideficiency Act violation.

We received twenty-seven Hotline complaints during this reporting period, none of which remain open as of the end of this reporting period.

No investigations were initiated during this reporting period. Our joint investigative effort with the National Science Foundation-OIG and the related NEH-OIG independent investigation was concluded during this reporting period and a recommendation for administrative action was made to the NEH.

OIG staff continued participation in several projects and workgroups convened within the Federal accountability community to include an OMB working group formed to update the current OMB Circular A-133 Compliance Supplement to align with requirements established by recently issued Uniform Grant Guidance, and participation in a Single Audit Roundtable, (which involves audit and accountability representatives from the non-Federal audit community, and Federal and State government communities).

The NEH-OIG will continue to enhance and strengthen our capability to perform effective independent oversight and to foster mutually beneficial working relationships with NEH leadership and management, the Congress, other stakeholders (both public and private), and our colleagues within the Inspector General community.

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. 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, Digital Humanities, and Federal/State Partnership.

The NEH recently launched an initiative entitled, *The Common Good*. This initiative is designed to demonstrate the critical role humanities scholarship can play in our public life. Through NEH's traditional grant-making programs and several special initiatives, *The Common Good* will encourage humanities scholars to turn their attention to topics that have widespread resonance with the American people and that lend themselves to the methods and concerns of the humanities.

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 of the National Council on the Humanities. 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, 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 Inspector General is also responsible for keeping the Chairman and Congress fully and currently informed of problems and deficiencies concerning NEH programs and operations.

The OIG staff currently consists of the Inspector General, and two auditors. The Deputy Inspector General position is vacant. 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 Inspector General.

AUDIT AND REVIEW ACTIVITIES

LIST OF REPORTS ISSUED

The OIG is responsible for external and internal audits, reviews, and inspections. External efforts include on-site grant audits, limited-scope desk audits, 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 and programmatic operations, inclusive of the NEH information security program. The OIG is also responsible for monitoring the work of the independent public accountant (IPA) engaged to conduct 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 draft reports to ensure compliance with applicable requirements.

Below 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 on page 16].

INTERNAL REVIEW

	<u>Report Number</u>	<u>Date Issued</u>
NEH FY 2014 Review of Internal Controls in Accordance with the Federal Managers' Financial Integrity Act (FMFIA)	OIG-15-01 (IR)	11/04/2014

FINANCIAL STATEMENT AUDIT

Final Audit Report NEH Financial Statement Audit ~ FY 2014	N/A (Outsourced)	11/13/2014
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INSPECTIONS

External Inspection — Amherst College	OIG-15-01 (I)	12/10/2014
External Inspection — Utah Humanities Council	OIG-15-02 (I)	02/09/2015

DESK REVIEWS

Desk Review of the Single Audit Report for Year Ended December 31, 2013 — Humanities Tennessee	OIG-15-01 (DR)	12/17/2014
Desk Review of the Single Audit Report for Year Ended December 31, 2013 — Cal Humanities	OIG-15-02 (DR)	01/08/2015
Desk Review of the Single Audit Report for Year Ended December 31, 2013 — Vermont Humanities Council	OIG-15-03 (DR)	01/22/2015
Desk Review of the Single Audit Report for Year Ended December 31, 2013 — Humanities Washington	OIG-15-04 (DR)	02/06/2015
Desk Review of the Single Audit Report for Year Ended December 31, 2013 — Alabama Humanities Foundation	OIG-14-05 (DR)	02/18/2015

AUDIT AND REVIEW ACTIVITIES

LIST OF REPORTS ISSUED

	<u>Report Number</u>	<u>Date Issued</u>
<u>SURVEY</u>		
The Council of the Inspectors General on Integrity and Efficiency (CIGIE) Cloud Computing Initiative	OIG-15-01 (S)	10/15/2014
<u>SINGLE AUDIT ACT REVIEWS</u>		
OMB Circular A-133 Reports	— See Page 8 —	

AUDIT AND REVIEW ACTIVITIES

SUMMARY OF REPORTS ISSUED

INTERNAL REVIEW

NEH FY 2014 Review of Internal Controls in Accordance with the Federal Managers' Financial Integrity Act (FMFIA) November 4, 2014; OIG-15-01 (IR)

The *Federal Managers' Financial Integrity Act* (FMFIA), P.L. 97-255, as well as Office of Management and Budget (OMB) Circular A-123, *Management Accountability and Control*, and OMB Circular A-127, *Financial Management Systems* establish specific requirements for management control. FMFIA further requires each executive agency head, on the basis of an evaluation conducted in accordance with applicable guidelines, to prepare and submit a signed statement to the President assuring that the agency's systems of internal accounting and administrative control fully comply with the requirements established in FMFIA. Internal NEH directives require each Division/Office director to report on the status of controls against waste, fraud, and abuse within their area of responsibility. Managers of NEH's various financial and financial-related systems (budget formulation, accounting, cash management, information management, procurement, property control, grant administration, audit, and personnel) are also responsible for (i) ensuring that systems are established, maintained, improved, and reviewed; and (ii) reporting any exceptions to the NEH Chairman.

We completed a limited review of the evaluations conducted by NEH Division/Office directors. Based on our independent assessment of the process, the OIG concluded that the fiscal year 2014 management control evaluation was conducted in accordance with OMB and FMFIA requirements. Further, based on the results of audits and inspections conducted by the OIG during fiscal year 2014, the IG concurred with the assertion that the NEH had no material weaknesses during the reporting cycle. However, we issued a separate memorandum to NEH management wherein we highlighted opportunities for existing management controls to be strengthened. Matters related to staff compliance with Conflict of Interest regulations, segregation of duties, and physical access to the main computer area were highlighted in the OIG Letter of Comment.

Final Audit Report NEH Financial Statement Audit ~ Fiscal Year 2014 November 13, 2014

The Office of Inspector General (OIG) engaged Leon Snead & Company, P.C., (IPA) to perform the annual audit of the NEH financial statements, 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 audit approach and planning; (3) monitoring the work of the auditors; (4) examining audit workpapers and draft report/management letter to ensure compliance with *Government Auditing Standards*, OMB Bulletin No. 14-02, *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) executing other procedures deemed necessary to oversee the audit.

The IPA issued an unmodified opinion on the NEH financial statements as of and for the years ended September 30, 2014 and 2013. The IPA's testing of internal control did not identify any 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 on noncompliance required to be reported under *Government Auditing Standards* and OMB Bulletin 14-02. The IPA reported a significant deficiency concerning the allotment of NEH administrative funds in excess of the amount approved by the OMB to be spent. However, the condition did not result in an Antideficiency Act violation. There are no prior year unresolved findings.

AUDIT AND REVIEW ACTIVITIES

INSPECTIONS

External Inspection — Amherst College December 10, 2014; OIG-15-01 (I)

We completed an inspection of Amherst College (the “College”) records as they relate to NEH grant FV-50284-11. The NEH award supported a five-week seminar entitled, “Punishment, Politics, and Culture”, which examined the nature and limits of punishment, as well as its place in the “American story”. The College initially submitted a final Federal Financial Report (SF-425) for the grant, certifying total project expenditures of \$115,114. Upon being notified by the NEH Accounting Office concerning a discrepancy in the amount disbursed to the grantee, the College re-submitted the final Federal Financial Report certifying total project expenditures of \$153,114.

The principal objective of the OIG inspection was to verify the propriety of financial reporting related to the grant. OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, requires grantees to maintain a financial management system that provides for the accurate, current, and complete disclosure of the financial results of each federally-sponsored project or program. The Circular also requires the maintenance of records that adequately identify the sources and application of funds for federally-sponsored activities. Our inspection was conducted in accordance with the *Quality Standards for Inspection and Evaluation*, as issued by the Council of the Inspectors General on Integrity and Efficiency.

We found salary charges that were not substantiated by time and effort documentation and questioned \$33,324 due to a discrepancy between actual salary charges to the NEH award and allocable salary based on the time and effort report confirmed by the employee for the period to which the charges relate. As reflected in Table II on page 16 of this report, NEH management did not disallow these questioned costs based on a subsequent assertion made by the grantee and thus determined that it was unnecessary to seek a return of these funds.

External Inspection — Utah Humanities Council February 9, 2015; OIG-15-02 (I)

We completed an inspection of Utah Humanities Council (the “Council”) records as they relate to NEH grant BC-50562-10. According to the final Performance Report submitted by the Council, the grant award supported a diverse array of activities in Utah during 2011 and 2012, including locally-generated projects exploring significant themes and events in American history (which encouraged grass roots involvement in the NEH *We the People* initiative). The Council submitted a final Federal Financial Report (SF-425) for the award certifying total Federal expenditures of \$94,200. The Council also received and expended non-Federal contributions for this project totaling \$26,081.

The principal objective of the OIG inspection was to verify the propriety of financial reporting related to the NEH grant. OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, requires grantees to maintain a financial management system that provides for the accurate, current, and complete disclosure of the financial results of each federally-sponsored project or program. The Circular also requires the maintenance of records that adequately identify the sources and application of funds for federally-sponsored activities. Our inspection was conducted in accordance with the *Quality Standards for Inspection and Evaluation*, as issued by the Council of the Inspectors General on Integrity and Efficiency.

We concluded that financial reporting related to NEH grant BC-50562-10 is supported by the Council’s financial management system, as required by OMB Circular A-110 (2 CFR Part 215) and is materially consistent with related performance reporting.

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 undergo 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 this reporting period, we issued letters to governance officials for five NEH grantees, communicating the results of our desk reviews of audit reports issued in accordance with OMB Circular A-133. The objectives of the desk reviews were to: (1) determine whether the audit reports are acceptable based on 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* (2010 Edition), issued by the Council of the 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. Audit reports determined to be "Technically Deficient" or "Unacceptable" require corrective action.

We determined that two reports were "Acceptable", two reports were "Acceptable with Deficiencies", and one report was "Unacceptable".

SURVEY

The Council of the Inspectors General on Integrity and Efficiency (CIGIE) Cloud Computing Initiative October 15, 2014; OIG-15-01 (S)

Federal agencies have looked to leverage the benefits of cloud computing by incorporating cloud computing systems into their overall information technology (IT) environment. Accordingly, the Council of the Inspectors General on Integrity and Efficiency's (CIGIE) IT Committee began a Government-wide initiative to evaluate participating agencies' efforts when adopting cloud computing technologies. As part of this consolidated cloud computing review, the 19 participating Offices of Inspector General (inclusive of the NEH-OIG) selected a sample of 77 commercial cloud contracts that Federal agencies issued as they transitioned to a cloud system. The objectives of this CIGIE initiative were to evaluate participating agencies' efforts when adopting cloud computing technologies and to review cloud service contracts for compliance with applicable standards.

The CIGIE initiative identified three top-level issues:

- ◆ All 77 cloud contracts reviewed lacked certain best practice clauses associated with comprehensive service level agreements, data preservation responsibilities, non-disclosure agreements, roles and responsibilities of the contractual parties, compliance with Federal requirements, and audit and investigative access for OIGs. NEH-OIG concluded, based on our review of 2 cloud contracts executed by the NEH, that the impact of this CIGIE finding on the NEH is minimal since the Agency based the two cloud procurements on GSA-issued blanket purchase agreements (BPAs), which were specifically designed to assist Federal agencies with the purchase of cloud services. However, we determined that the BPAs failed to incorporate certain key provisions. In particular, the BPAs fail to address (1) the need for audit and investigative access for OIGs and legal counsel (forensic investigations, electronic discovery, FOIA requests, and physical access to facilities); and (2) specific penalties to be assessed if the cloud service provider fails to meet the required system uptime percentage.

AUDIT AND REVIEW ACTIVITIES

The Council of the Inspectors General on Integrity and Efficiency (CIGIE) Cloud Computing Initiative (con't.) October 15, 2014; OIG-15-01 (S)

- ◆ 59 of the seventy-seven cloud contracts reviewed were not executed with FEDRAMP compliant vendors as of the required implementation date of June 5, 2014. The NEH-OIG concluded that the impact of this CIGIE finding on the NEH is negligible. Concerning the 2 contracts reviewed by the NEH-OIG, the cloud service providers were either fully FEDRAMP compliant or in the advanced stages of receiving their initial FEDRAMP certification.
- ◆ 9 of the nineteen Federal agencies included in the CIGIE initiative lacked a comprehensive inventory of their cloud systems. The NEH-OIG determined that NEH management maintains a current and complete inventory of the Agency's cloud systems; therefore, this CIGIE finding does not impact the NEH.

SINGLE AUDIT ACT REVIEWS

We receive communications from other Federal agencies regarding Single Audit findings and desk review results, (primarily the Department of Health and Human Services OIG and the National Science Foundation OIG) and we routinely perform queries of the Federal Audit Clearinghouse to determine the reporting of single audit findings applicable to NEH awards. We occasionally receive Single Audit reports directly from NEH grantees.

During the six-month period ending March 31, 2015, we reviewed 28 OMB Circular A-133 audit report communications. No findings were noted that affected NEH programs.

WORK IN PROGRESS (as of March 31, 2015)

Inspection ~ NEH Government Charge Card/Travel Card Programs

On October 5, 2012, the President signed into law the Government Charge Card Abuse Prevention Act of 2012 ("Charge Card Act") [P.L. 112-194], which reinforced the Administration's efforts to prevent waste, fraud, and abuse of government-wide charge card programs. Consistent with existing guidance contained in OMB Circular A-123, Appendix B, *Improving the Management of Government Charge Card Programs*, the Charge Card Act requires all executive branch agencies to establish and maintain safeguards and internal controls for purchase cards, travel cards, and centrally-billed accounts.

The Charge Card Act also requires agency Inspectors General to (1) conduct periodic risk assessments of agency charge card programs to analyze the risks of illegal, improper, or erroneous purchases; and (2) submit an annual purchase and travel card audit recommendation status report to the OMB for compilation and transmission to Congress and the Government Accountability Office. Due to this new mandate and fact that the NEH-OIG last reviewed the NEH purchase card program approximately ten years ago, an inspection of the NEH Government Charge Card and Travel Card programs was initiated. The results of this inspection will establish a baseline for the required risk assessments that must be performed by the OIG (as least annually) moving forward.

AUDIT AND REVIEW ACTIVITIES

WORK IN PROGRESS (as of March 31, 2015) [con't.]

Inspection ~ Federal Information Security Management Act (FISMA) — Fiscal Year 2014

The Federal Information Security Management Act of 2002 (FISMA) requires each agency to develop, document, and implement an agency-wide information security program. Each year, the OIG conducts an independent evaluation of the NEH information security program, pursuant to the requirements of FISMA.

Limited Audit ~ University of Chicago

The principal objectives of this limited audit are to determine whether (1) expenditures related to NEH grant PF-50089-10 were made in accordance with applicable provisions of the NEH *General Terms and Conditions for Awards to Organizations*, and the specific terms of the grant award; and (2) proper controls over use of Federal funds exist in accordance with minimum standards prescribed by OMB Circulars A-110 (2 CFR Part 215) and A-21 (2 CFR Part 220).

Limited Audit ~ Fundación Puertorriqueña de las Humanidades

The principal objectives of this limited audit are to determine whether (1) expenditures related to NEH grant BC-50554-10 were made in accordance with applicable provisions of NEH's *General Terms and Conditions for Awards to Organizations*, and the terms of the approved grant award; and (2) proper controls over the use of Federal funds exist in accordance with minimum standards prescribed in OMB Circulars A-110 (2 CFR Part 215) and A-122 (2 CFR Part 230).

Limited Audit ~ Northeast Document Conservation Center

The principal objectives of this limited audit are to determine whether (1) expenditures related to NEH grant PE-50058-11 were made in accordance with applicable provisions of NEH's *General Terms and Conditions for Awards to Organizations*, and the terms of the approved grant award; and (2) proper controls over the administration of Federal awards exist in accordance with minimum standards prescribed in OMB Circulars A-110 (2 CFR Part 215) and A-122 (2 CFR Part 230).

Limited Audit ~ Catticus Corporation

The principal objectives of this limited audit are to determine whether (1) expenditures related to NEH grant TR-50158-10 were made in accordance with applicable provisions of NEH's *General Terms and Conditions for Awards to Organizations*, and the terms of the approved grant award; (2) Catticus Corporation properly implemented a comprehensive subrecipient monitoring program; and (3) proper controls over the use of Federal funds exist in accordance with minimum standards prescribed in OMB Circulars A-110 (2 CFR Part 215) and A-122 (2 CFR Part 230).

AUDIT AND REVIEW ACTIVITIES

WORK IN PROGRESS (as of March 31, 2015) [con't.]

Limited Audit ~ Harvard University

The principal objectives of this limited audit are to determine whether (1) the matching gifts certified by Harvard University related to NEH grant CZ-50178-08 meet the eligibility requirements; and (2) grant expenditures were made in accordance with the applicable provisions of NEH's *General Terms and Conditions for Awards to Organizations*, guidelines issued by the NEH Office of Challenge Grants, and the terms of the approved grant budget.

Limited Audit ~ Wright on the Park, Inc.

The principal objectives of this limited audit are to determine whether (1) expenditures related to NEH grant BH-50497-12 were made in accordance with applicable provisions of NEH's *General Terms and Conditions for Awards to Organizations*, and the specific terms of the grant award; and (2) proper controls over use of Federal awards exist in accordance with minimum standards prescribed in OMB Circulars A-110 (2 CFR Part 215) and A-122 (2 CFR Part 230).

Inspection ~ NEH Grant Close-out Process

The objectives of this inspection are to (1) assess the efficiency and effectiveness of NEH's grant close-out procedures; and (2) identify improvements to further enhance the process.

Quality Control Review ~ Delaware Humanities Council

The primary objective of this quality control review is to determine whether the Single Audits for the Council's fiscal years ended October 31, 2010, October 31, 2011, and October 31, 2012 were conducted in accordance with the auditing and reporting requirements promulgated by Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

INVESTIGATIVE ACTIVITIES

BACKGROUND

The Inspector General Act of 1978, as amended, provides the authority for the Office of Inspector General to investigate possible violations of criminal or civil laws, administrative regulations, and agency policies that impact the programs and operations of the NEH. In the past, we have obtained assistance from other OIGs, the Federal Bureau of Investigation (FBI), the Postal Inspection Service, and other investigative entities.

Over the years, the OIG has received allegations via the OIG Hotline and did not have sufficient resources to initiate an investigation. To address this challenge, we continue to inquire of other OIGs concerning their willingness and ability to assist us on an “as needed” basis under a reimbursable agreement. A few OIGs have responded that 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 investigative staff would be available when needed.

INVESTIGATIVE ACTIVITIES

During the reporting period, the joint investigative effort with the National Science Foundation OIG (NSF-OIG) and the related independent investigation initiated by the NEH-OIG concluded. Since the two matters essentially involved the same Subject, a single recommendation for administrative action was made to the NEH.

No new investigations were initiated by the NEH-OIG during this reporting period.

MATTERS REFERRED TO PROSECUTIVE AUTHORITIES

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

HOTLINE ACTIVITIES

We maintain a toll-free Hotline number and a dedicated Agency e-mail address to provide additional confidentiality for individuals bringing matters to the attention of the OIG. We also have an interactive, web-based template to facilitate the submission of complaints to the OIG. The complaint template is accessible via the OIG homepage, (www.neh.gov/about/oig). The toll-free Hotline number, facsimile, web-based complaint form, e-mail address, and ground mail services are efficient and effective means for NEH employees, NEH grantees and contractors, and the general public to communicate allegations of fraud, waste, abuse, mismanagement, and misconduct concerning NEH programs/operations to the OIG.

When the OIG receives a complaint or allegation of a criminal or administrative violation, a preliminary inquiry is conducted to determine the appropriate action to take. This decision could result in the initiation of an investigation or an audit; referral to an NEH office/division or another Federal agency; or no further action. Upon determining that a matter represents a criminal violation, we seek assistance from the Federal Bureau of Investigations (FBI), another Federal Inspector General, or the United States Department of Justice.

There were no Hotline matters open as of the beginning of the reporting period. We received 27 Hotline contacts during the reporting period — twenty-six contacts concerned an internet scam (via Facebook) purporting to represent an NEH financial assistance program; and one matter represented an inquiry about the requirements for ADA compliance by recipients of NEH funding. There are no Hotline contacts open as of March 31, 2015.

SUMMARY OF HOTLINE ACTIVITY

Open at beginning of period	0
Matters brought to the OIG during the reporting period	27
Total Hotline Contacts	27
Closed, referred, or no action deemed necessary during the reporting period	27
Open at end of period	0

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.

No legislative reviews were required for the NEH during this reporting period.

WORKING WITH THE AGENCY

OIG staff attended various NEH meetings – panel meetings (where grant applications are reviewed by outside consultants), meetings of the National Council on the Humanities, and monthly senior staff meetings. OIG staff occasionally contribute to the discussions, but the OIG does not participate in policymaking.

The Inspector General delivered a presentation about the mission, responsibilities, and activities of the NEH-OIG during Project Directors’ meetings convened by the NEH Division of Education (*NEH Summer Programs for 2015* and *NEH Humanities Initiatives at Historically Black Colleges and Universities, Hispanic-Serving Institutions, and Tribal Colleges and Universities*). The meetings were held in October 2014 and February 2015, respectively.

The Inspector General also participated with the NEH Chairman, program staff, and grant management staff in the 2014 National Humanities Conference sponsored by the Federation of State Humanities Councils. The Inspector General moderated a conference session wherein accountability and compliance topics applicable to state council organizations were discussed. The session was attended by Council Board members, executive directors, and other Council staff charged with fiscal responsibilities.

PARTICIPATION ON THE COUNCIL OF THE 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 the 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 reporting period ending March 31, 2015, the Inspector General regularly attended monthly CIGIE meetings (and provided responses to various CIGIE inquiries) and meetings of the CIGIE sub-group representing the “Smaller OIGs”. The Inspector General also continued participation in a working group of Inspectors General formed to develop a response to a draft bill (Discussion Draft) crafted to address IG oversight of certain small Federal entities currently without oversight by an Office of Inspector General (OIG). The Discussion Draft was released in April 2014.

PARTICIPATION IN OTHER ACTIVITIES WITHIN THE FEDERAL ACCOUNTABILITY COMMUNITY

The Inspector General participated in the Single Audit Roundtable held in October 2014. The Single Audit Roundtable involves audit and accountability representatives from the non-Federal audit community, and Federal and State government communities.

OTHER ACTIVITIES

The Inspector General also continued participation in an Office of Management and Budget (OMB) working group formed to update the current OMB Circular A-133 Compliance Supplement to align with requirements established by the recently issued Uniform Grant Guidance. The working group consisted of National Single Audit Coordinators and other Federal officials affiliated with the single audit process. The working group was convened in July 2014.

OIG INTERNET

OIG audit reports and semiannual reports are posted on the internet. The reports are accessible through the OIG homepage on the NEH website (www.neh.gov/about/oig).

To promote 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 Council of the Inspectors General on Integrity and Efficiency website (IGNET).

TECHNICAL ASSISTANCE

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

“AUDIT READINESS” AWARENESS CAMPAIGN

The OIG executes an email-based “Audit Readiness” awareness campaign, that corresponds with NEH grant award cycles. The objective of the campaign is to proactively promote accountability and to disseminate guidance that would assist NEH grant recipients in their efforts to preclude unfavorable outcomes should the organizations’ NEH grant awards be selected for audit. The email communication emphasizes the value of each recipient’s understanding of the NEH terms and conditions specific to their award 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 the NEH grant awards. Highlighted in the communications are specific areas wherein problems are commonly found during audits of NEH grant recipients and hyperlinks to appropriate guidance materials and resources. We also discuss the importance of effective internal controls. The email communications are sent directly to project directors and grant administrators identified for all non-profit awardees.

During the reporting period ending March 31, 2015, email communications were sent as noted below. We have reasonable assurance that all of the awardees received a copy of the communication.

NEH Office or Division	Number of Awardees	Total Value of Awards
Office of Challenge Grants	16	\$6,932,524
Division of Public Programs	6	\$2,345,778
Division of Preservation and Access	3	\$ 889,254
Division of Education Programs	1	\$ 350,000

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.....	11
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 - 8
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.	- 2 -	\$ 43,559	\$ - 0 -
B. Which were issued during the reporting period.	- 1 -	\$ 33,324	\$ - 0 -
Subtotals (A+B)	- 3 -	\$ 76,883	\$ - 0 -
C. For which a management decision was made during the reporting period.			
i. Dollar value of disallowed costs.	- 2 -	\$ 43,559	\$ - 0 -
ii. Dollar value of costs not disallowed	- 1 -	\$ 33,324	\$ - 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.	- 0 -	\$ - 0 -	\$ - 0 -
E. Reports for which no management decision was made within six months of issuance.	- 0 -	\$ - 0 -	\$ - 0 -

**TABLE III
INSPECTOR GENERAL-ISSUED REPORTS
WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE**

	Number Of Reports	Dollar Value
A. For which no management decision has been made by the commencement of the reporting period.	- 0 -	\$ - 0 -
B. Which were issued during the reporting period.	- 0 -	\$ - 0 -
C. For which a management decision was made during the reporting period.	- 0 -	\$ - 0 -
i. Dollar value of recommendations that were agreed to by management.	- 0 -	\$ - 0 -
ii. Dollar value of recommendations that were not agreed to by management.	- 0 -	\$ - 0 -
D. For which no management decision was made by the end of the reporting period.	- 0 -	\$ - 0 -

GLOSSARY OF AUDIT TERMINOLOGY

Questioned Cost: A cost that is questioned by the OIG because of (1) an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds; (2) a finding that, at the time of the audit, such cost is not supported by adequate documentation; or (3) a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable.

Unsupported Cost: A cost that is questioned by the OIG because, at the time of the audit, such cost is not supported by adequate documentation.

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: A recommendation by the OIG that funds could be used more efficiently if management of an establishment took actions to implement and complete the recommendation, including (1) reductions in outlays; (2) deobligation of funds from programs or operations; (3) withdrawal of interest subsidy costs on loans or loan guarantees, insurance, or bonds; (4) costs not incurred by implementing recommended improvements related to the operations of the establishment, a contractor or grantee; (5) avoidance of unnecessary expenditures noted in preaward reviews of contract or grant agreements; or (6) any other savings which are specifically identified.

Management Decision: The evaluation by the management of an establishment of the findings and recommendations included in an audit report and the issuance of a final decision by management concerning its response to such findings and recommendations, including actions concluded to be necessary.

Final Action: The completion of all actions that the management of an establishment has concluded, in its management decision, are necessary with respect to the findings and recommendations included in an audit report. In the event that management concludes no action is necessary, final action occurs when a management decision has been made.

Source: Excerpt from Section 5(f) of the Inspector General Act of 1978, as amended (through Pub. L. 113-126, enacted July 7, 2014).

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 September 30, 2013, the Federal Elections Commission Office of Inspector General (FEC-OIG) issued a System Review Report on the audit organization of the NEH-OIG in effect for the year ended March 31, 2013. The FEC-OIG 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 with deficiency*.

(15) Outstanding Recommendations from any Peer Review of the NEH-OIG. The FEC-OIG recommended that the NEH should adhere to the requirements specified in the IG Act, as amended by Dodd-Frank, which stipulates that the NEH IG shall report only to the National Council on the Humanities. Corrective action has been fully implemented in response to this recommendation. There are no other outstanding recommendations from any peer review of the NEH-OIG, as conducted by another Office of Inspector General, that have not been fully implemented.

(16) Peer Review Conducted by the NEH-OIG. On March 27, 2014, the NEH-OIG issued a System Review Report on the Peace Corps (PC) Office of Inspector General audit organization in effect for the year ended September 30, 2013. We found that the system of quality control for the audit organization of the PC-OIG had been suitably designed and complied with to provide PC-OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The PC-OIG received a peer review rating of *pass*.