

OFFICE OF INSPECTOR GENERAL

SEMIANNUAL REPORT TO THE CONGRESS

Number 19

APRIL 1, 1998 TO SEPTEMBER 30, 1998

NATIONAL ENDOWMENT FOR THE HUMANITIES

"Democracy demands wisdom and vision in its citizens"
- National Foundation on the Arts and the Humanities Act of 1965

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October 30, 1998

Honorable William R. Ferris
Chairman
National Endowment for the Humanities
Washington, DC 20506

Dear Chairman Ferris:

Enclosed is the Semiannual Report for the Office of Inspector General (OIG) for the period April 1, 1998 – September 30, 1998. The report, which is required by the Inspector General Act as amended, provides an overview of the activities of the OIG during this six-month period. The Act requires that you transmit this report, with your Report of Final Action, to the appropriate congressional committees within 30 days of its receipt.

During this period, the OIG completed a major investigation/audit of a foundation that was the fundraising arm of a college in New York State. The result is that \$1.2 million will be returned to the U.S. Treasury. We sincerely appreciate the effort of Nancy Weiss, NEH's acting general counsel, and Richard Hayes, assistant United States attorney, for their efforts in support of our audit and investigation activities.

I look forward to continuing to work with senior management and all NEH employees to insure that the American taxpayer receives the most economical and efficient work from the Endowment.

Sincerely,

Sheldon L. Bernstein
Inspector General

Enclosure

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>Citation</u>	<u>Reporting Requirements</u>	<u>Page</u>
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* None this period.

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INTRODUCTION

THE NATIONAL ENDOWMENT FOR THE HUMANITIES

In order "to promote progress and scholarship in the humanities and the arts in the United States," Congress enacted the National Foundation on the Arts and the Humanities Act of 1965. This act established the National Endowment for the Humanities as an independent grant-making agency of the federal government to support research, education, and public programs in the humanities. Grants are made through three divisions - Research and Education Programs, Preservation and Access, and Public Programs -- and three offices -- Challenge Grants, Enterprise, and Federal-State Partnership.

The act that established the National Endowment for the Humanities says "The term `humanities' includes, but is not limited to, the study of the following: language, both modern and classical; linguistics; literature; history; jurisprudence; philosophy; archaeology; comparative religion; ethics; the history, criticism, and theory of the arts; those aspects of social sciences which have humanistic content and employ humanistic methods; and the study and application of the humanities to the human environment with particular attention to reflecting our diverse heritage, traditions, and history and to the relevance of the humanities to the current conditions of national life.

THE OFFICE OF INSPECTOR GENERAL

The NEH's Office of Inspector General was established on April 9, 1989, in accordance with the Inspector General Act Amendments of 1988, Public Law 100-504. In this legislation, Congress established Offices of Inspector General in several departments and in thirty-three agencies, including NEH. The NEH inspector general (IG) is appointed by the Chairman. The independence of the IG is an important aspect of the Act. For example, the IG:

- cannot be prevented from initiating, carrying out, or completing an audit or investigation, or from issuing any subpoena;
- has access to all records of the agency;
- reports directly to the Chairman, and can only be removed by the Chairman, who must promptly advise Congress of the reasons for the removal; and
- reports directly to Congress.

The Act states that the Office of Inspector General is responsible for (1) conducting audits and investigations; (2) reviewing legislation; (3) recommending policies to promote efficiency and effectiveness; and (4) preventing and detecting fraud, waste, and abuse in the operations of the agency. The Inspector General is also responsible for keeping the Chairman and Congress fully and currently informed of problems and deficiencies in the programs and operations.

The OIG staff consists of the Inspector General, a Deputy Inspector General for Audits, two auditors, and a secretary. The OIG and the Office of General Counsel have a Memorandum of Understanding detailing the procedures for the OIG to be provided with OGC legal services. Investigations are handled by the Inspector General, an auditor and as required by the agency's Deputy General Counsel.

AUDIT, SURVEY, AND INSPECTION ACTIVITIES

The audit work that the office is responsible for consists of external and internal audits. External auditing consists of grants, pre-award accounting system surveys, reviewing OMB Circular A-133 reports, on-site quality reviews of CPA working papers of OMB Circular A-133 audits. Internal auditing consists of audits, inspection, reviews/evaluations of the NEH administrative, programmatic, and financial operations.

During this reporting period, the OIG issued three pre-award accounting system surveys, a draft audit report on Staff Travel Outside the Continental United States, a desk review of an OMB Circular A-133 audit report of a State Humanities Council, received 126 OMB Circular A-133 audit reports and issued eight memorandum reports containing findings. (See Single Audit Act Reviews).

We are continuing our review of the NEH panel process. Fieldwork for the Division of Research and Education, the Division of Public Programs, and the Office of Challenge Grants have been completed. During October 1998, we will begin the fieldwork for the Division of Preservation and Access. Our on-site fieldwork will continue through December 1998. We expect to issue a report for each division and the office shortly thereafter.

LISTING OF AUDIT REPORTS

The following is a list of audit/survey reports issued by the OIG during the reporting period. The Act requires us to report on the "dollar value of recommendations that funds be put to better use," and "the total dollar value of questioned costs (including a separate category for the dollar value of unsupported costs)." None are reported during this period.

Subject of Audit	Number Report	Date Issued
Preaward Accounting System Survey Wheelwright Museum of the American Indian	OIG-98-01 (TS)	04/10/98
Preaward Accounting System Survey Society for the Preservation of New England Antiquities	OIG-98-02 (TS)	04/10/98
Desk Review of OMB Circular A-133 Audit Reports for the American Samoa Humanities Council	OIG-98-01 (DR)	06/12/98
Preaward Accounting System Survey Clarity Educational Products, Inc.	OIG-98-03 (TS)	09/01/98

SINGLE AUDIT ACT REVIEWS

American Library Association	OIG-98-09 (CAA)	09/30/98
The American Film Institute, Inc.	OIG-98-10 (CAA)	09/30/98
Shelburne Museum, Inc.	OIG-98-11 (CAA)	09/30/98
Carnegie Institute	OIG-98-12 (CAA)	09/30/98
Newberry Library	OIG-98-13 (CAA)	09/30/98
Princeton University	OIG-98-14 (CAA)	09/30/98
Rhode Island Comm. for the Humanities	OIG-98-15 (CAA)	09/30/98
Rhode Island Comm. for the Humanities	OIG-98-16 (CAA)	09/30/98

SUMMARY OF REPORTS ISSUED

**Preaward Accounting System Survey
Wheelwright Museum of the American Indian**

OIG-98-01 (TS)

We performed this survey by fax, telephone, and mail. The purpose of the survey was to determine whether the museum's accounting system, management controls, and policies were adequate to manage and account for grant funds.

We determined that the museum management accounting system can provide reasonable assurance they can account and manage NEH funds. We did not have any findings.

**Preaward Accounting System Survey
Society for the Preservation of New England Antiquities**

OIG-98-02 (TS)

We performed this survey by fax, telephone, and mail. The purpose of the survey was to determine whether museum's accounting system, management controls, and policies were adequate to manage and account for grant funds.

We determined that the society, after implementing several recommendations, can provide reasonable assurances that they can account and manage NEH funds. At the time we issued our report, no findings were outstanding.

**Desk Review of OMB Circular A-133 Audit Report for the
American Samoa Humanities Council**

OIG-98-01 (DR)

We performed a desk review of the council's audit report to determine whether it met the standards of OMB Circular A-133. The period was for the year ended October 31, 1995. We did not examine the related working papers. We found that the audit report did not fully meet the requirement of the circular and asked the council to return the report to their independent public accountants for correction.

**Preaward Accounting System Survey
Clarity Educational Products, Inc.**

OIG-98-03 (TS)

We performed this survey by fax, telephone and mail. The purpose of the survey was to determine what if the museum's accounting system, management controls, and policies were adequate to manage and account for grant funds.

Clarity Educational Productions, Inc. is a one-person operation that hires staff and/or contractors on an as-needed basis. We assisted the owner of the organization in making necessary changes to meet federal guidelines. We expect to follow-up with the grantee in several months.

SINGLE AUDIT ACT REVIEWS

We receive audit reports on NEH grantee organizations from other federal agencies, state and local government auditors, and independent public accountants. These reports generally are the result of OMB Circular A-133 audits. These single audits report on financial activities, compliance with laws and regulations, and the grantee's management (internal) controls over federal expenditures. In most instances, the cognizant agency is the Department of Health and Human Services, the federal agency with the predominant financial interest.

During this period we received and processed 126 audit reports. Eight reports contained findings. We are continuing our follow-up work on these. In addition, we expended considerable effort in determining which grantees have not submitted OMB Circular A-133 audit reports. At least two organizations do not have sufficient funds for audits by independent public accountants. The OIG will, therefore, conduct the audits.

A-133 COMPLIANCE SUPPLEMENT

State humanities councils that receive at least \$300,000 per year and are subject to Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." In the past, we would provide the independent and public accountants a copy of a compliance supplement that the OIG developed. This supplement was not included in the OMB Compliance Supplement. This year we decided to have the supplement included as part of the OMB issued booklet. We have been working with the assistance of OMB in developing a compliance supplement for state humanities councils that will be part of the government-wide guidance.

Y2K

We are looking at NEH's efforts to ensure that the agency's computer system will continue to support the mission into the new millennium. We issued an initial questionnaire to the agency's Office of Information Resource Management to determine the status of Y2K implementation. Currently the agency's accounting, grants management, panelist data, and other significant data are on a WANG System. The agency has purchased an off the shelf accounting system from the U.S. Treasury and OIRM expects this to be operating by the summer of 1999. In addition, we have a contractor programming a new grants management system that will be available in September 1999. The agency's OIRM and senior NEH management gave the OIG assurance that problems, if any, will be inconsequential. We found that the agency is handling the Y2K projects in a expeditious and effective manner. Our auditors will continue to monitor the agency's Y2K situation.

INVESTIGATION ACTIVITY

The Inspector General Act provides the authority for the Inspector General to receive and investigate allegations of fraud, waste, abuse, or mismanagement. The OIG Hotline phone number, E-mail address, and regular mail are efficient, effective means of receiving allegations or complaints from employees, grantees, contractors, or the general public. The OIG has obtained assistance from other OIGs, the Federal Bureau of Investigation and the Postal Inspection Service.

When the OIG receives a complaint or allegation of a criminal or administration violation, it makes a determination of the appropriate action to take. This can be an audit, investigation, or a referral to another NEH office or division.

The period opened with four grantee investigations open and one concerning the former chairman of NEH. During the six months ending September 30, 1998, we received seven "Hotline" contacts.

Two investigations that were open at April 1, 1998 were closed. An allegation was made that the NEH erroneously awarded a grant to an applicant, and that the applicant falsified the application. During the previous reporting period, we stated that our investigation concluded that the NEH did not erroneously award the grant and the application process was not compromised. A scholar that the OIG contracted with visited the grantee in April 1998, and concluded the application did not contain false information.

In the other open case, we learned that a nonprofit organization that had been awarded several NEH grants had "temporarily" ceased operations. Two grant projects were not completed with the federal funds expended. The OIG performed an accounting system survey in November 1998 and determined that the books and records were not adequate for an audit. Since that time, we and other NEH offices have been working with the organizations' executive director to get the books ready for an audit. The problem has been exacerbated because the executive director now lives in Paris, France and commutes to the United States occasionally. Under our guidance, the grantee has hired a CPA to audit the books and records.

The second closed investigation concerns an embezzlement of NEH funds and the filing of false financial and narrative reports. The OIG audit staff conducted a review of the organization's books and records and worked with an assistant United States attorney in New York City to bring the matter to a settlement. The grantee falsified four NEH challenge grant certification reports claiming that they raised over \$1.2 million dollars. We found that the records could not substantiate the amounts claimed. The organization agreed to a settlement of \$1.2 million dollars and are currently finalizing the agreement with the United States attorney. The Endowment awarded \$400,000 dollars to the organization.

An allegation that the former chairman may have violated the Corporation Control Act is still open. The former chairman may have been instrumental in establishing a not for profit corporation that was established to support and extend programs of the National Endowment for the Humanities. General counsel has looked into this matter and we have raised additional concerns. In the interim, counsel has written to the former chairman and provided him with ethics advice.

Two other serious matters concerning grantees: A grantee located in the Pacific rim area overspent its fiscal year 1997 appropriations. We helped the grantee with obtaining the services of a major firm of certified public accountants. From the audit, we learned that the bookkeeper embezzled federal funds. We have asked for assistance from the Department of Interior's Office of Inspector General and the Federal Bureau of Investigation. They are working with the U.S. Attorney's Office.

We received seven contacts during this period. Two contacts were referred immediately. One investigation involved a temporary employee who obtained another employee's American Express Card and used it to purchase adult web site material. The NEH Office of Information Resources, working under our direction, located the person through the dedicated logon password. We had the agency terminate this person's employment.

Two contacts concerned grantees that did not submit final reports. In one situation we obtained the report and the NEH closed the grant file. In the other, the person moved to Europe. This grant was for \$170,000 and the person did not meet the project's goals. We have made contact and are utilizing contracted sources to locate the person's assets. Another contact concerning a grantee was referred to the program division with OIG advice on how to proceed. This matter is now closed.

An employee contacted the OIG concerning several issues in the employee's office. We are looking into one matter concerning a possible mishandling of an EEO matter.

MATTERS REFERRED TO PROSECUTION AUTHORITIES

We have completed our case where we were working with the assistant United States attorney located in New York City involving the filing of fraudulent financial reports. In another matter we are being assisted by the Department of Interior's Office of the Inspector General and the Federal Bureau of Investigation. This concerns an embezzlement of federal funds.

HOTLINE AND PREVENTION ACTIVITIES

We maintain a local Hotline phone number, agency E-mail address, and an Internet address. We maintain all three to provide additional confidentiality for those persons bringing matters to the attention of the OIG.

We issued an agencywide E-mail message to NEH staff informing them of the violations that should be reported to the OIG. We are using E-mail messages to inform NEH staff about the OIG operations several times during the year. Posters informing staff to contact the OIG are posted throughout the agency building.

Investigation Activity

Open at beginning of period	5
Matters brought to the OIG	7
	—
Total Investigative contacts	12
Closed or referred during reporting period	7
	—
Open at end of period	5
	=

OTHER ACTIVITIES

INDIRECT COST RATE NEGOTIATIONS/REVIEWS

Grantees are entitled to recover total project costs, both direct and indirect. Indirect costs are those costs of an organization or institution that are not readily identifiable with a particular project or activity but are nevertheless necessary to the general operation of the organization or institution and the conduct of the activities it performs.

The cost of office supplies, general telephone, postage, accounting, and administrative salaries are types of expenses usually considered as indirect costs. In theory, all such costs might be charged directly; practical difficulties, however, preclude such an approach. Therefore, they are usually grouped into a common pool(s) and distributed to those organizational or institutional activities that benefit from them through the expedient of an indirect cost rate(s).

Cognizant federal agencies approve the rates after reviewing cost allocation plans submitted by grantees. The approved rate will generally be recognized by other federal agencies.

During this period, we negotiated indirect cost rates with two grantees.

INDIRECT COST RATE DESK REVIEW REPORTS ISSUED

<u>Grantees</u>	<u>Report Number</u>	<u>Date Issued</u>
Conservation Center for Art and Historic Preservation	OIG-98-07	06-18-98
New York Foundation for the Arts	OIG-98-08	06-26-98

INTRA-AGENCY COOPERATION

In this period OIG staff attended and engaged in various NEH meetings - panel meetings (where grant applications are reviewed by outside consultants), pre-council meetings (where the program divisions discuss the panel review results with the chairman and his immediate staff), and the National Council meetings. In addition, the IG attended the chairman's monthly meetings and a monthly travel/outreach policy meeting. The Deputy Inspector General is a member of the NEH Internal Technology Committee and is engaged in the agency's review of new system for grants management and accounting. Two OIG staff attended monthly NEH Employee Association Meetings; one is on the executive committee. The staff were also involved in the review of NEH administrative directives: Internet/IRM; EEO Program; and the policy regarding sexual harassment.

The Office of Inspector General contributes to the discussions; however, the office does not participate in the policy making.

PARTICIPATION ON THE EXECUTIVE COUNCIL ON INTEGRITY AND EFFICIENCY

The Executive Council on Integrity and Efficiency (ECIE) was established by the President in 1992 to coordinate and implement governmentwide activities to combat fraud and waste in federal programs and operations. OIG staff regularly attends ECIE meetings.

REGULATORY AND LEGISLATIVE REVIEWS

The Inspector General Act of 1978, as amended, requires the Office of Inspector General to review proposed legislation and regulations. The reviews are made to assess whether the proposed legislation or regulation (1) impacts on the economy and efficiency of Endowment programs and operations, and (2) contains adequate internal controls to prevent and detect fraud and abuse. During this period we provided the ECIE with comments on various matters effecting the OIG.

OIG INTERNET AND INTRANET

The OIG has listed several semiannual reports on the www. The reports are accessible through the Inspectors General homepage (<http://www.ignet.gov/ignet/internal/neh/html>). The reports link up with the NEH homepage (<http://www.neh.gov/html/oig/>). To access the semiannual reports from outside the NEH, enter the URL <http://www.ignet.gov>.

During this period, we continued to expend effort on updating the Internet and Intranet site for NEH employees. To enhance NEH staffs' recognition of our mission and responsibilities we provide links to several other federal agencies such as the Office of Management and Budget, the General Accounting Office, the Office of Government Ethics, and the IGET.

A-133 WAIVER ISSUED BY NEH

NEH has waived the A-133 audit requirement for grants awarded in the Centers program and the International Programs. The reasons for dropping the A-133 requirement for Centers grants ".... was the fact that our support of these projects was limited to publicity, selection costs, and the actual fellowship stipends, with the majority of funding going to stipends. Since we know who are selected as fellows, what their projects are, and how much they receive in the way of NEH support, we saw no reason to insist on an audit of these grants. We are now recommending the same approach for the International Program because, except for a small amount of funding for administrative costs, the use of NEH funds is limited to publicity, selection costs and stipends." 1/

OMB Circular A-133 is guidance on how to implement The Single Audit Act Amendments of 1996. It is the OIG's position that NEH does not have any provision in its reauthorizing legislation or its annual appropriation that gives it authority to waive A-133. We have requested that the NEH Office of General Counsel provide the OIG with an opinion on the propriety of the waiver of A-133.

1/ Memorandum of Director of Grants Office to Deputy Chairman.

**TABLE I
INSPECTOR GENERAL-ISSUED REPORTS
WITH QUESTIONED COSTS DOLLAR VALUE**

	Number of Reports	Questioned Cost	Unsupported Cost
A. For which no management decision has been made by the commencement of the reporting period.	1	\$ 20,000	\$ 20,000
B. Which were issued during the reporting period	\$ - 0 -	\$ - 0 -	\$ - 0 -
Subtotals (A+B)	1	\$ 20,000	\$ 20,000
C. For which a management decision was made during the reporting period.			
<i>i.</i> Dollar value of disallowed costs.	1	\$ 20,000-	\$ 20,000
<i>ii.</i> Dollar value of costs not disallowed (grantee subsequently supported all costs).		\$ -	\$ -
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 II
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.		
<i>i.</i> Dollar value of recommendations that were agreed to by management.		\$ 0
<i>ii.</i> Dollar value of recommendations that were not agreed to by management.	0	\$ 0
D. For which no management decision was made by the end of the reporting period.	0	\$ 0

GLOSSARY OF AUDIT TERMINOLOGY

Questioned Cost - A cost that is questioned by the OIG because of an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds; because such cost is not supported by adequate documentation; or because the expenditure of funds for the intended purpose is unnecessary or unreasonable.

Unsupported Cost - A cost that is questioned because of the lack of adequate documentation at the time of the audit.

Disallowed Cost - A questioned cost that management, in a management decision, has sustained or agreed should not be charged to the government.

Funds Be Put To Better Use - Funds, which the OIG has disclosed in an audit report, that could be used more efficiently by reducing outlays, de-obligating program or operational funds, avoiding unnecessary expenditures, or taking other efficiency measures.

Management Decision - The evaluation by management of the audit findings and recommendations and the issuance of a final decision by management concerning its response to such findings and recommendations.

Final Action - The completion of all management actions, as described in a management decision, with respect to audit findings and recommendations. When management concludes no action is necessary, final action occurs when a management decision is made.

Source: Excerpt from Section 106(d) of the Inspector General Act Amendments of 1988 (P.L. 100-504).

THE OFFICE OF INSPECTOR GENERAL

**serves American taxpayers
by investigating reports of waste, fraud,
mismanagement, or abuse
involving federal funds.**

**To report any suspected activity
Involving NEH programs, operations, or employees**

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**Office of Inspector General-Hotline
National Endowment for the Humanities
1100 Pennsylvania Ave. N.W., Room 419
Washington, DC 20506**

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OIG@neh.fed.gov**

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