

OFFICE OF INSPECTOR GENERAL

SEMIANNUAL REPORT TO THE CONGRESS Number 20

OCTOBER 1, 1998 TO MARCH 31, 1999

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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April 30, 1999

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 October 1, 1998 – March 31, 1999. 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.

I look forward to continuing working with you and agency managers, Congress, and NEH's various stakeholders to help ensure that NEH develops the grant products in an economical and efficient manner.

Thank you for your continued support.

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.

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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 completed the first audit of the NEH panel process. We issued a final report on the Division of Public Programs. We also issued two pre-award accounting system surveys, and a final report on Staff Travel Outside of the Continental United States. In addition, we received and reviewed 164 OMB Circular A-133 audit reports and issued twelve memorandum reports containing findings (see Single Audit Act Reviews).

Status of Previously Reported Assignments

We are continuing our review of the NEH panel process. As mentioned, the report for the Division of Public Programs has been issued. Fieldwork for the Division of Research and Education, the Office of Challenge Grants and the Division of Preservation and Access have been completed. We plan to issue individual audit reports for each division and the office by June 30, 1999. In addition we will issue a memorandum highlighting "best practices."

LIST OF AUDIT REPORTS ISSUED

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
Audit of Travel Outside of the Continental United States	OIG-99-01 (IA)	02/11/99
Limited Audit of Peer Panel Review Process Division of Public Programs	OIG-99-02 (LIA)	03/24/99
Preaward Accounting System Survey - Arcadia Pictures	OIG-99-01 (TS)	11/16/98
Preaward Accounting System Survey - City Lore	OIG-99-02 (TS)	01/13/99

SINGLE AUDIT ACT REVIEWS

Minnesota Humanities Commission	OIG-99-01 (CAA)	03/30/99
Iowa Humanities Board	OIG-99-02 (CAA)	03/30/99
Arkansas Humanities Council	OIG-99-03 (CAA)	03/30/99
New Hampshire Humanities Council	OIG-99-04 (CAA)	03/30/99
ETV Endowment of South Carolina	OIG-99-05 (CAA)	03/30/99
Alabama Humanities Foundation	OIG-99-06 (CAA)	03/30/99
Southern Illinois University (Edwardsville)	OIG-99-07 (CAA)	03/30/99
City Lore, Inc.	OIG-99-08 (CAA)	03/30/99
Virgin Island Humanities Council	OIG-99-09 (CAA)	03/30/99
Amerika Samoa Humanities Council	OIG-99-10 (CAA)	03/30/99
Amerika Samoa Humanities Council	OIG-99-11 (CAA)	03/30/99
Trustees of Amherst College (Folger Library)	OIG-99-12 (CAA)	03/30/99

SUMMARY OF REPORTS ISSUED

Audit of Travel Outside of the Continental United States

OIG-99-01 (IA)

We performed this audit to determine the adequacy of 1) management controls over travel outside the continental United States, 2) reporting procedures for travel results and benefits to NEH, and 3) the planning process used for proposing travel.

Several recommendations to correct the findings we noted were made and the Endowment has taken steps to implement them.

Limited Audit of Peer Panel Review Process Division of Public Programs

OIG-99-02 (LIA)

The objectives of the Limited Audit were:

- To determine if verbal instructions on Conflict of Interest and Confidentiality were consistent with written instructions sent to panelists and in compliance with NEH written policy.
- To assess the adequacy of the verbal instructions.
- To determine if opening remarks were complete, covering all of the main points in the Division's script. In the Division of Public Programs, the panel chairs wrote their own scripts.
- Assess the panel discussions to determine if the proposals are adequately debated (Our observations were to see if the debates covered the criteria as set forth in the guidelines, not to judge the scholarly content of the debates).
- To assess the staffs' role during the panel discussions. This assessment was designed to answer two questions. Did staff act as moderators and raise questions that would help the panelists debate the applications within the framework of NEH's stated criteria? Or did staff sway or influence the debate?

Our limited Audit showed that the Peer Panel Review Process in the Division met the audit objectives. We did note several findings that the Division acknowledged and already has implemented corrective action.

Preaward Accounting System Survey Arcadia Pictures

OIG-99-01 (TS)

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

We found that Arcadia had several weaknesses that required corrective action. We decided to either schedule an audit or have Arcadia arrange with a CPA to perform an OMB Circular A-133 audit. Arcadia has been given until May 31, 1999, to produce the applicable audit reports.

Preaward Accounting System Survey City Lore

OIG-99-02 (TS)

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

We found that City Lore could adequately manage and account for grant funds. However, we also noted several conditions that need to be corrected before NEH makes another grant award to City Lore. We are working with the grantee to help them implement our recommendations.

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 164 audit reports. Twelve 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. Several organizations do not have sufficient funds for audits by independent public accountants. The OIG is working with them and their independent public accountants to develop an appropriate cost-effective audit approach. We expect to receive all the reports by June 30, 1999.

To ensure that we receive OMB Circular A-133 audit reports from the State Humanities Councils in a timely manner, we sent an e-mail message to all of the executive directors and chairmen of the boards.

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 for several months with OMB in developing a compliance supplement for state humanities councils that will be part of the government-wide guidance. We understand that OMB has accepted our supplement for inclusion for government-wide distribution.

Y2K

NEH has established an agency Year 2000 compliance program to develop and implement a structured approach for identifying and resolving potential Y2K issues. The OIG is monitoring NEH's efforts to ensure that the agency's computer system will continue to support the mission into the new millennium. 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 basically handling the Y2K projects in a expeditious and effective manner, with that said, we believe more effort needs to be placed on contingency plans to cover unforeseen issues. We are also concerned with the progress to date of the grants management system. Our auditors will continue to monitor the agency's Y2K situation.

Federal Manager's Financial Integrity Act Review

The Federal Manager's Financial Integrity Act (FMFIA), Section 2, requires federal agency's management to provide assurance to the President and Congress that the agency resources are protected from fraud, waste, mismanagement, and misappropriation. We reviewed the NEH FMFIA process to assess its completeness in reporting known weaknesses and deficiencies. No material weaknesses were disclosed; however, the OIG has followed-up with any comment made by a NEH manager. We also reviewed NEH's efforts in carrying-out Section 4 of the Act by evaluating the FY 1998 assurance statement concerning financial management systems. The statements appeared complete and adequate.

INVESTIGATION ACTIVITY

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 related to the programs and operations of the NEH. 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, and other investigative entities as applicable.

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.

As of October 1, 1998, five matters were open. Two of these are currently open. During the six months ending March 31, 1999, we received seven "Hotline": contacts and closed four.

Two Cases Open at Beginning and Ending of Period

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 understand that the case will be brought to the grand jury by July 1999.

A grantee "completed" a grant for \$170,000, but did not submit final narrative or financial reports. The person moved to Europe and we have contacted the person and obtained all the final reports. The matter is open pending receipt of a film that was produced by the grantee. The grantee has promised to send the film to us by the end of April 1999.

Three New Matters Open at End of Period

An allegation that an employee was given an illegible "early out" is being looked into. Also, that a specific job announcement was written specifically for a person.

An allegation that a grantee did not complete its project and file accurate reports is being investigated.

An allegation that a subcontractor of an NEH grantee stole funds. The stolen funds are not from the NEH grant. However, our grantee is prevented from completing the project until this matter is settled. We are monitoring this case because it is being investigated by state and local law enforcement agencies.

MATTERS REFERRED TO PROSECUTION AUTHORITIES

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 continued issuing agencywide E-mail messages 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>
Southeastern Library Network, Inc.	OIG-99-01	10-01-98
GWETA, Inc.	OIG-99-02	10-08-98
Modern Poetry Association	OIG-99-03	10-22-98
Virginia Historical Society	OIG-99-04	12-18-98
Conservation Center for Historic Artifacts	OIG-99-05	12-21-98
National Video Resources	OIG-99-06	01-08-99
The Jewish Theological Seminary	OIG-99-07	01-14-99
St. John's College, Santa Fe	OIG-99-08	03-25-99

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. Primary concerns are improved protections for IGs, such as removal for cause and term limits.

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>.

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 IGNET.

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. We expect a written opinion by the end of May 1999.

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.	- 0 -	\$ 0 -	\$ - 0 -
B. Which were issued during the reporting period	- 0 -	- 0 -	- 0 -
Subtotals (A+B)	0	\$ - 0 -	\$ - 0 -
C. For which a management decision was made during the reporting period.			
<i>i.</i> Dollar value of disallowed costs.	0	\$ - 0 -	\$ - 0 -
<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.**

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Involving NEH programs, operations, or employees**

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National Endowment for the Humanities
1100 Pennsylvania Ave. N.W., Room 419
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