

OFFICE OF INSPECTOR GENERAL

SEMIANNUAL REPORT TO THE CONGRESS

Number 21

APRIL 1, 1999 TO SEPTEMBER 30, 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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October 28, 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 April 1, 1999 – September 30, 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, the new NEH Union, Congress, and NEH's various stakeholders to help ensure that NEH delivers the grant awards in an economical and efficient manner.

Thank you for your continued support.

Sincerely,

Sheldon L. Bernstein
Inspector General

Enclosure

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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>	Page
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* None this period.

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 four divisions - Research Programs, 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 (OGC) have a Memorandum of Understanding detailing the procedures for the OIG to be provided with OGC legal services. Investigations are handled by the Inspector General, an auditor and as required by the agency's Deputy General Counsel (currently vacant).

AUDIT, SURVEY, AND INSPECTION ACTIVITIES

This office is responsible for external and internal audits. External auditing includes grants, pre-award accounting system surveys, review of OMB Circular A-133 reports, and on-site quality assurance reviews of CPA work papers. Internal efforts consists of audits, inspections, and reviews/evaluations of the NEH administrative, programmatic, and financial operations.

During this reporting period, the OIG completed three audits of the NEH panel process. We issued a final report for the former Division of Research and Education Programs. We also issued a post-award accounting system survey that was originally a "Hotline" call. In addition, we received and processed 127 OMB Circular A-133 audit reports and issued eleven memorandum reports containing findings (see Single Audit Act Reviews).

Status of Previously Reported Assignments

We have completed our review of the NEH panel process. As mentioned, the report for the former Division of Research and Education Programs was issued this period. Draft reports for the Office of Challenge Grants and the Division of Preservation and Access has been issued. 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	Report Number	Date Issued
INTERNAL AUDITS		
Limited Audit of Peer Panel Review Process Former Division of Research and Education	OIG-99-03 (LIA)	09/21/99
POST-AWARD ACCOUNTING SYSTEM SURVEY		
Newport Historical Society	OIG-99-01 (ER)	07/07/99
SINGLE AUDIT ACT REVIEWS		
Southern Illinois University	OIG-99-13 (CAA)	09/28/99
Idaho Humanities Council, Inc.	OIG-99-14 (CAA)	09/28/99
Peabody Essex Museum, Inc.	OIG-99-15 (CAA)	09/28/99
Delaware Humanities Council	OIG-99-16 (CAA)	09/28/99
Maiden Voyage Productions, Inc.	OIG-99-17 (CAA)	09/28/99
The Trustees of Amherst College	OIG-99-18 (CAA)	09/28/99
Nevada Humanities Commission	OIG-99-19 (CAA)	09/28/99
Nevada Humanities Commission	OIG-99-20 (CAA)	09/28/99
The Newberry Library	OIG-99-21 (CAA)	09/28/99
Heritage Films	OIG-99-22 (CAA)	09/29/99
James Agee Film Project	OIG-99-23 (CAA)	09/29/99

LIST OF DRAFT REPORTS

Limited Audit of the Peer Panel Review Process Office of Challenge Grants	OIG-99-04 (LIA)	09/22/99
Limited Audit of the Peer Panel Review Process Division of Preservation and Access	OIG-99-05 (LIA)	09/27/99

SUMMARY OF REPORTS ISSUED

Limited Audit of Peer Panel Review Process Former Division of Research and Education (RED)

OIG-99-03 (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 RED's script/check list.
- To observe 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 staff's 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 the stated criteria? Or did staff sway or influence the debate?

Our limited audit was conducted in accordance with "government auditing standards," issued by the Comptroller General of the United States.

Our limited audit revealed that the peer panel review process in RED met the audit objectives. We made several recommendations to strengthen the panel review process.

Newport Historical Society

OIG-99-01 (ER)

The objective of this review was to determine if the books and records were used to prepare the Final Financial Status Report for NEH Grant GM-24712-92.

Our review revealed that the books and records were deficient in monitoring and controlling total project costs. We recommended that the grantee assemble for our review all accounts and records necessary to support costs claimed in the Final Financial Status Report.

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. The single audits report on financial activities, compliance with laws and regulations, and grantee 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 127 audit reports. Eleven 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, 2000.

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 Board chairmen.

A-133 COMPLIANCE SUPPLEMENT

State humanities councils that receive at least \$300,000 per year 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 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 publication.

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. Our submission has been included in the OMB Compliance Supplement.

Y2K COMPUTING CHALLENGE

NEH has established an agency Year 2000 compliance program to develop and implement a structured approach for identifying and resolving potential Y2K issues. The agency's OIRM and senior NEH management gave the OIG assurance that problems, if any, will be inconsequential. The OIG is monitoring NEH's efforts to ensure that the agency's computer system will continue to support the mission of NEH into the new millennium. We were also informed that the NEH would be discontinuing the use of the Wang system. Unfortunately, the agency's progress with the contractor-developed grants management system is behind schedule. In addition, the off-the-shelf accounting system that was purchased is not producing the desired results. Therefore, the agency incurred additional costs to upgrade the Wang system to handle the Y2K issue.

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 relate to the programs and operations of the NEH. The OIG Hotline, 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, the Postal Inspection Service, and other investigative entities as applicable.

When the OIG receives a complaint or allegation of a criminal or administrative violation, we make 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 April 1, 1999, five matters were open in the Investigation branch of the OIG. One of these is currently open. During the six months ending September 30, 1999, we received ten "Hotline" contacts.

Four Cases Open at Beginning of Period, Closed at End of Period

A grantee located in the Pacific rim area overspent its fiscal year 1997 appropriations. We helped the grantee obtain 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, the Federal Bureau of Investigation, and the U.S. Attorney's Office. The bookkeeper was indicted by a federal grand jury for embezzling federal funds. This case is now closed.

A grantee "completed" a grant for \$170,000, but did not submit final narrative or financial reports. The person moved to Europe. We have contacted the person and obtained all the final reports and a film that was produced by the grantee. Upon receipt of all documents, we completed our work and closed the matter.

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. We are transferring this matter for follow-up action, as no action is necessary by NEH. This is now closed.

An allegation that a grantee did not complete its project and file accurate reports was investigated. We sent an auditor to the grantee location to look at the books and records. We found that the books were unauditible and have requested the grantee to bring them up to date. We are transferring this matter to the Audit Division of the OIG, thereby closing this matter in the Investigation branch.

One Case Open at Beginning and End of Period

An allegation that an employee was given an illegal "early out" is being looked into. Also, that a job announcement was specifically written for a particular person. We have worked expeditiously on this matter and are currently resolving some issues with the agency's General Counsel. The case should be closed within the next 60 days.

Contacts During This Period

During this reporting period we received 10 complaints or allegations, and closed all 10. Two of the contacts concerned unauthorized use of employee government credit cards by unknown sources. The charges were less than \$100 and we had them reversed. We are developing procedures to identify the person(s) who committed the act. Two contacts were referred to the Office of Human Resources. One was referred to the OIG Audit Division. Two were referred to the program Divisions. Three were closed with no action necessary.

MATTERS REFERRED TO PROSECUTIVE AUTHORITIES

No new cases were referred for criminal prosecution. In a case previously referred and reported, the United States Attorney for the District of Guam and the Commonwealth of the Northern Marianas Island informed us that a bookkeeper was indicted by a federal grand jury and charged with embezzling and obtaining by fraud, money from an NEH grantee.

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 continue to issue agency-wide E-mail messages to NEH staff informing them of the violations that should be reported to the OIG. We use 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 during the reporting period	10
	—
Total Investigative contacts	15
Closed or referred during reporting period	14
	—
Open at end of period	1
	=

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 five grantees.

INDIRECT COST RATE DESK REVIEW REPORTS ISSUED

<u>Grantee</u>	<u>Report Number</u>	<u>Date Issued</u>
Pierpont Morgan Library	OIG-99-09	05-24-99
National Humanities Center	OIG-99-10	06-17-99
Old Sturbridge Village	OIG-99-11	06-28-99
The New York Public Library	OIG-99-12	06-17-99
Film Arts Foundation	OIG-99-13	09-14-99

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 meeting. 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 a 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 government-wide activities to combat fraud and waste in federal programs and operations. OIG staff regularly attend 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 affecting the OIG community.

OIG INTERNET AND INTRANET

The OIG has listed several semiannual reports on the internet. The reports are accessible through the Inspectors General homepage (<http://www.ignet.gov/ignet/internal/neh/html>). The reports link to 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 staff's 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 IGMET.

A-133 WAIVER ISSUED BY NEH

NEH has waived the A-133 audit requirement for grants awarded in the Centers Program and the International Program. The reasons for dropping the A-133 audit 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 A-133 waiver. We expected a written opinion by the end of May 1999. We understand it will be available prior to December 31, 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).	- 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 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.	- 0 -	\$ - 0 -
<i>i.</i> Dollar value of recommendations that were agreed to by management.	- 0 -	\$ - 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

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unethical conduct involving federal funds.**

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