



NATIONAL ENDOWMENT FOR THE

Humanities

Office of Inspector General

**SEMIANNUAL
REPORT TO
CONGRESS**

For the Period October 1, 2011 through March 31, 2012

Report No. 46

**“Democracy demands wisdom and vision in its citizens”
National Foundation on the Arts and Humanities Act of 1965**

THE OFFICE OF INSPECTOR GENERAL

serves American taxpayers
by investigating reports of waste, fraud,
mismanagement, abuse, integrity violations or
unethical conduct involving Federal funds.

To report any suspected activity
involving NEH programs, operations, or employees

Call the OIG Hotline

1 (877) 786-7598

Mailing Address

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

Fax

(202) 606-8329

Electronic Mail Hotline

oig@neh.gov

Government employees are protected from reprisal

Caller can remain anonymous

Information is confidential



NATIONAL ENDOWMENT FOR THE
Humanities

OFFICE OF INSPECTOR GENERAL

May 10, 2012

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

Dear Chairman Leach:

I am pleased to provide you with the Office of Inspector General's Semiannual Report to Congress for the first half of the fiscal year 2012. This report is submitted in accordance with the Inspector General Act of 1978, as amended. Section 5 of the Act requires that you submit this report, with your Report of Final Action, to the appropriate committee or subcommittee of the Congress within 30 days of its receipt. The report provides a summary of the activities of the Office of Inspector General (OIG) during the six-month period ended March 31, 2012.

During the reporting period, we completed two internal reviews; one internal inspection; one external audit; one pre-award accounting system survey; ten desk reviews of Office of Management and Budget (OMB) Circular A-133 audit reports, as issued by non-Federal auditors concerning NEH grantees; and one quality control review involving an audit of an NEH grantee, which was conducted in accordance with OMB Circular A-133. We also issued letters to seven recipients of NEH challenge grants, advising them of the applicability of the special provision set forth in OMB Circular A-133 concerning Federal awards for endowment funds. Lastly, the audit of the NEH financial statements for fiscal year 2011 was completed during the current reporting period, which was monitored by the OIG.

In our investigations program, one matter was open as of the beginning of the reporting period. We received 9 "Hotline" contacts during the period, and four matters remain open as of March 31, 2012.

I greatly appreciate your support and look forward to working with you and all agency staff to further our common purpose of assuring the effectiveness, efficiency and integrity of NEH's vital contributions to the humanities in the United States.

Sincerely,

Laura Davis
Acting Inspector General

TABLE OF CONTENTS

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

EXECUTIVE SUMMARY

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

We issued a report communicating the results of our inspection of the agency's administration of the legislated matching requirement related to general operating support grants awarded to state humanities councils. We made a recommendation to align certification requirements applicable to unreimbursed, allowable expenditures incurred by grantees for council-supported projects (i.e., grantee cost-share) with the restricted certification requirements currently applicable to contributions raised by grantees. NEH management has not formally responded to our recommendation.

We completed our first review pursuant to the *Improper Payments Elimination and Recovery Act of 2010* (IPERA), as prescribed by guidance issued by the Office of Management and Budget (OMB). We determined that the NEH is compliant with the IPERA concerning fiscal year 2011.

We continued to perform desk reviews of audit reports issued by non-Federal auditors pursuant to OMB Circular A-133. These reviews have revealed areas wherein recipients and independent public accountants (IPAs) are still lacking subsequent to the issuance of the Report on National Single Audit Sampling Project issued by the President's Council on Integrity and Efficiency and the Executive Council on Integrity and Efficiency in June 2007 and efforts by the public accounting community to improve audit quality in response to the report. We also completed a quality control review (QCR) of IPA working papers associated with the Single Audit of an NEH grantee. We concluded that the IPA generally met auditing standards and OMB Circular A-133 requirements; however, the results of the QCR raised questions relative to a significant NEH award, therefore we planned a limited audit of the grant to expand testing for greater assurance. The results of the limited audit will be included in the next semi-annual report.

The OIG engaged the services of Leon Snead & Company (IPA) to conduct the annual audit of the NEH financial statements, as required by the Accountability of Tax Dollars Act of 2002. The OIG monitored the work of the auditors and examined audit working papers and the draft report to ensure compliance with the applicable requirements. For the seventh consecutive year, the NEH received an unqualified opinion on the audited financial statements for fiscal year ended September 30, 2011. No internal control deficiencies or instances of noncompliance with applicable laws and regulations were noted by the IPA.

Investigative efforts have been active over the past six months. OIG staff continues to work closely with the National Science Foundation OIG concerning one matter. Four additional matters were active as of the end of the reporting period.

OIG staff participated on the Council of Inspectors General on Integrity and Efficiency (CIGIE) Grant Reform Working Group, providing comments in response to the OMB Advanced Notice of Proposed Guidance entitled, *Reform of Federal Policies Relating to Grants and Cooperative Agreements; Cost Principles and Administrative Requirements (Including Single Audit Act)*.

THE NATIONAL ENDOWMENT FOR THE HUMANITIES

In order to promote progress and scholarship in the humanities and the arts in the United States, Congress enacted the National Foundation on the Arts and the Humanities Act of 1965. This Act established the National Endowment for the Humanities (NEH) as an independent grant-making agency of the Federal government to support research, education, and public programs in the humanities. According to the Act, "The term 'humanities' includes, but is not limited to, the study of the following: language, both modern and classical; linguistics; literature; history; jurisprudence; philosophy; archaeology; comparative religion; ethics; the history, criticism, and theory of the arts; those aspects of social sciences which have humanistic content and employ humanistic methods; and the study and application of the humanities to the human environment with particular attention to reflecting our diverse heritage, traditions, and history and to the relevance of the humanities to the current conditions of national life."

The NEH is directed by a Chairman, who is appointed by the President and confirmed by the U.S. Senate, for a term of four years. Advising the Chairman is the National Council on the Humanities, a board of 26 distinguished private citizens who are also appointed by the President and confirmed by the Senate. The National Council members serve staggered six-year terms.

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

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

THE OFFICE OF INSPECTOR GENERAL

The NEH Office of Inspector General (OIG) was established April 9, 1989, in accordance with the Inspector General Act Amendment of 1988, (Public Law 100-504). In this legislation, Congress established Offices of Inspector General in several departments and in thirty-three agencies, including the NEH. The NEH Inspector General (IG) is appointed by the Chairman. The independence of the IG is an important aspect of the Inspector General Act. For example, the IG: cannot be prevented from initiating, carrying out, or completing an audit or investigation, or from issuing any subpoena; has access to all records of the agency; reports to the National Council on the Humanities through the NEH Chairman, and can only be removed by the National Council on the Humanities, which must give Congress 30 days notice of the reasons for the removal; and reports directly to Congress.

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

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

AUDIT AND REVIEW ACTIVITIES

LIST OF REPORTS ISSUED

The OIG is responsible for external and internal audits. External efforts include on-site grant audits, limited scope desk audits, pre-award accounting system surveys, review of OMB Circular A-133 audit reports, and on-site quality control reviews of CPA workpapers. Internal efforts consist of audits, inspections, and reviews/evaluations of NEH administrative, programmatic, and financial operations. The OIG is also responsible for monitoring the work of the independent public accountant (IPA) that conducts the annual audit of the NEH financial statements as required by the Accountability of Tax Dollars Act of 2002, and examining the IPA's audit workpapers and reports to ensure compliance with applicable requirements.

Following is a list of reports issued by the OIG during this reporting period. The Inspector General Act of 1978, as amended, requires us to report on the "Total Dollar Value of Questioned Costs" (including a separate category for the "Dollar Value of Unsupported Costs") and the "Dollar Value of Recommendations that Funds Be Put to Better Use", [see Tables II and III].

	<u>Report Number</u>	<u>Date Issued</u>
<u>INTERNAL AUDITS/REVIEWS/INSPECTIONS</u>		
NEH FY 2011 Review of Internal Control in Accordance with the Federal Managers' Financial Integrity Act (FMFIA)	OIG-12-01 (IR)	10/28/2011
Final Audit Report NEH Financial Statement Audit ~ FY 2011	N/A	11/08/2011
NEH's Compliance with the Improper Payments Elimination and Recovery Act of 2010 ~ FY 2011	OIG-12-02 (IR)	03/14/2012
General Operating Support Grants: Cost-Share Inspection	OIG-12-01 (I)	12/19/2011
<u>EXTERNAL AUDIT</u>		
Limited Audit — Filmmakers Collaborative	OIG-12-01 (EA)	01/10/2012
<u>PRE-AWARD ACCOUNTING SYSTEM SURVEY</u>		
The Dr. Haing S. Ngor Foundation	OIG-12-01 (TS)	02/10/2012
<u>DESK REVIEWS</u>		
Review of American Council of Learned Societies Challenge Grant	OIG-12-01 (DR)	01/17/2012
Review of Chemical Heritage Foundation Challenge Grant	OIG-12-02 (DR)	01/17/2012
Review of Minneapolis Institute of Arts Challenge Grant	OIG-12-03 (DR)	01/17/2012
Review of New Bedford Whaling Museum Challenge Grant	OIG-12-04 (DR)	01/17/2012
Review of Southern Ute Cultural Center and Museum Challenge Grant	OIG-12-05 (DR)	01/17/2012
Review of Walters Art Museum Challenge Grant	OIG-12-06 (DR)	01/17/2012

AUDIT AND REVIEW ACTIVITIES

LIST OF REPORTS ISSUED

	<u>Report Number</u>	<u>Date Issued</u>
<u>DESK REVIEWS (con't.)</u>		
Review of Yakima Valley Museum Challenge Grant	OIG-12-07 (DR)	01/17/2012
Desk Review of the Single Audit Report for Year Ended October 31, 2009 — Arkansas Humanities Council	OIG-12-08 (DR)	01/25/2012
Desk Review of the Single Audit Report for Year Ended October 31, 2010 — Kansas Humanities Council	OIG-12-09 (DR)	01/25/2012
Desk Review of the Single Audit Report for Year Ended October 31, 2009 — New York Council for the Humanities	OIG-12-10 (DR)	01/25/2012
Desk Review of the Single Audit Report for Year Ended October 31, 2009 — Hawaii Council for the Humanities	OIG-12-11 (DR)	01/27/2012
Desk Review of the Single Audit Report for Year Ended October 31, 2009 — Nevada Humanities, Inc.	OIG-12-12 (DR)	01/31/2012
Desk Review of the Single Audit Report for Year Ended December 31, 2009 — Humanities Washington	OIG-12-13 (DR)	02/03/2012
Desk Review of the Single Audit Report for Year Ended October 31, 2010 — Maryland Humanities Council	OIG-12-14 (DR)	03/16/2012
Desk Review of the Single Audit Report for Year Ended October 31, 2009 — Humanities Council of Washington, DC	OIG-12-15 (DR)	03/21/2012
Desk Review of the Single Audit Report for Year Ended October 31, 2010 — Massachusetts Foundation for the Humanities	OIG-12-16 (DR)	03/30/2012
Desk Review of the Single Audit Report for Year Ended October 31, 2010 — Louisiana Endowment for the Humanities	OIG-12-17 (DR)	03/30/2012
<u>QUALITY CONTROL REVIEW</u>		
Quality Control Review of KPMG LLP — FY 2010 Single Audit of the Asia Society	OIG-12-01 (QCR)	03/06/2012
<u>SINGLE AUDIT ACT REVIEWS</u>		
OMB Circular A-133 Reports	— See Page 9 —	

AUDIT AND REVIEW ACTIVITIES

SUMMARY OF REPORTS ISSUED

INTERNAL AUDITS/REVIEWS/INSPECTIONS

NEH FY 2011 Review of Internal Control In Accordance with The Federal Managers' Financial Integrity Act (FMFIA) October 28, 2011; OIG-12-01 (IR)

The *Federal Managers' Financial Integrity Act* (FMFIA), P.L. 97-255, 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 systems (budget formulation, accounting, cash management, information management, procurement, property control, grant administration, audit, or personnel) are also responsible for (a) ensuring that systems are established, maintained, improved, and reviewed; and (b) reporting any exceptions to the NEH Chairman.

We made a limited review of the evaluations conducted by NEH Division/Office Directors. Based on our limited independent assessment of the process, the OIG concluded that the NEH management control evaluation was conducted in accordance with OMB and FMFIA requirements. Further, based on the results of audits, inspections, and investigations conducted by the OIG during fiscal year 2011, we concurred with the assertion that the NEH had no material weaknesses during the reporting cycle.

Final Audit Report NEH Financial Statement Audit ~ Fiscal Year 2011 November 8, 2011

The Office of Inspector General (OIG) engaged Leon Snead & Company, P.C., (IPA) to perform the Fiscal Year 2011 Financial Statement Audit 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 reports to ensure compliance with *Government Auditing Standards*, OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements* (as amended), and the *Financial Audit Manual* issued jointly by the Government Accountability Office (GAO) and the President's Council on Integrity and Efficiency (PCIE); and other procedures deemed necessary to oversee the contract and the audit.

The IPA expressed an unqualified opinion on the NEH financial statements as of and for the years ended September 30, 2011 and 2010. Fiscal year 2011 marks the seventh year that NEH has received an unqualified opinion. The IPA's testing of internal control identified no deficiencies considered to be material weaknesses and the results of the IPA's tests of compliance with certain provisions of laws and regulations disclosed no instances of noncompliance required to be reported. There were no prior year unresolved findings.

AUDIT AND REVIEW ACTIVITIES

INTERNAL AUDITS/REVIEWS/INSPECTIONS (con't.)

NEH's Compliance with the Improper Payments Elimination and Recovery Act of 2010 ~ FY 2011 March 14, 2012; OIG-12-02 (IR)

The *Improper Payments Elimination and Recovery Act of 2010* (IPERA) requires the head of each agency to periodically review and identify all programs and activities it administers that may be susceptible to significant improper payments, based on guidance provided by the Director of the Office of Management and Budget (OMB). For each program and activity identified, the agency is required to produce a statistically valid estimate of the improper payments and include such estimates in the accompanying materials to the annual financial statements of the agency. The agency is further required under IPERA to prepare a report on actions taken to reduce improper payments for programs or activities with significant improper payments. With respect to improper payments identified in recovery audits required by IPERA, the agency is required to report on all actions taken to recover improper payments.

In addition, guidance issued by the OMB specifies that each agency's Inspector General should review agency improper payment reporting in the agency's annual Performance and Accountability Report (PAR) or Annual Financial Report (AFR), and accompanying materials, to determine whether the agency complied with IPERA.

We determined that the NEH is compliant with IPERA concerning fiscal year 2011. Specifically, the agency published a PAR for fiscal year 2011 and posted the report and accompanying materials required by OMB on the agency website. NEH management conducted a risk assessment for improper payments in accordance with the steps outlined in the revised OMB Circular A-123, Appendix C, Part I; and concluded that NEH programs and activities were not susceptible to significant improper payment. This information was properly reported in the PAR. Furthermore, nothing came to the attention of the OIG during fiscal year 2011 that would indicate the agency is susceptible to significant improper payments.

General Operating Support Grants: Cost-Share Inspection December 19, 2011; OIG-12-01 (I)

The General Operating Support Grant (GOSG) represents the major funding mechanism used by the NEH to support state humanities councils ("Councils"). By law, the NEH cannot support more than fifty percent of the costs of a Council's activities. To document compliance, each Council must submit a final financial report demonstrating that the Council's share of expenditures equaled or exceeded the NEH award amount. The OIG completed an inspection of this process.

The objectives of our inspection were to:

1. Evaluate procedures used by NEH management to review the validity and allowability of the GOSG cost-share amounts reported by Councils.
2. Identify the underlying components of the total cost-share reported by Councils and determine if the regrantee cost-share amount represents a material portion of the total.
3. Obtain a supporting schedule that substantiates the total regrantee cost-share amount.
4. Evaluate the impact to Councils if a regrantee cost-share restriction is enforced.

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

AUDIT AND REVIEW ACTIVITIES

INTERNAL AUDITS/REVIEWS/INSPECTIONS (con't.)

General Operating Support Grants: Cost-Share Inspection (con't.) December 19, 2011; OIG-12-01 (I)

We determined that the NEH relies upon the Councils' annual Single Audits, which are conducted by non-Federal auditors, to verify the validity and allowability of the underlying cost-share transactions. All ten Councils included in our sample self-reported that they met the required cost-share, and in most cases, the Councils relied heavily upon the re-grantee cost-share component to fulfill this requirement. Furthermore, all Councils included in our sample reported re-grantee cost-share amounts in excess of 200 percent for many individual grants.

Since the NEH allows and/or encourages Councils' use of re-grantee cost-share as a means of fulfilling the legislated cost-share requirement, we recommended that consistent treatment (i.e., establishing a cap) should apply to both cash contributions raised by a re-grantee and unreimbursed allowable expenditures incurred by a re-grantee for council-supported projects. Currently, the NEH has only established a cap on the amount of cash contributions raised by a re-grantee that a Council may certify for matching purposes. However, NEH guidance is currently silent on any re-grantee cost-share limitation.

NEH management has not formally responded to our recommendation.

EXTERNAL AUDIT

Limited Audit — Filmmakers Collaborative January 10, 2012; OIG-12-01 (EA)

We performed a limited audit of the Filmmakers Collaborative's (the "Collaborative") records as they relate to NEH grant TR-50093-09. The Collaborative submitted a final financial report to the NEH and conveyed that the related expenditures conform to the intended grant purpose, as stipulated in the individual NEH grant award. The principal objectives of our limited audit were to determine that (1) grant expenditures were made in accordance with applicable provisions of NEH's *General Terms and Conditions for Awards to Organizations*, NEH's guide entitled *America's Media Makers: Production Grants*, and the terms of the approved grant award; (2) the Collaborative 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). Our review was conducted in accordance with *Generally Accepted Government Auditing Standards* (GAGAS).

Several deficiencies and questioned costs were identified, as follows:

- The approved budget exceeded actual project costs by almost \$54,000; however, none of the cost savings were shared with the NEH and the related accounting system did not properly identify project expenditures by funding source.
- NEH policy guidelines concerning fees associated with grantee-owned equipment and facilities were not followed, resulting in questioned costs approximating \$7,300.
- Procurement and suspension/debarment rules mandated by OMB Circular A-110 and NEH *General Terms and Conditions for Awards to Organizations* were not followed by the subrecipient.
- The Collaborative did not identify a material internal control weakness relating to the subrecipient.

AUDIT AND REVIEW ACTIVITIES

EXTERNAL AUDIT (con't.)

Limited Audit — Filmmakers Collaborative (con't.) January 10, 2012; OIG-12-01 (EA)

Although the Collaborative did not specifically track project expenditures by funding source, as required by the OMB circulars, and the cumulative project funding (from all sources) was not spent, we accepted the grantee's argument that the NEH funds were fully expended, based upon additional analysis of the detailed transaction activity, (first-in, first-out methodology). The remaining OIG findings have been resolved, and the Collaborative is actively implementing new procedures to address the subrecipient monitoring deficiencies identified.

PRE-AWARD ACCOUNTING SYSTEM SURVEY

The Dr. Haing S. Ngor Foundation Santa Monica, CA February 10, 2012; OIG-12-01 (TS)

We conducted a pre-award accounting system survey of The Dr. Haing S. Ngor Foundation (the "Foundation"). The objective of our survey was to obtain information to determine the adequacy of the organization's accounting system, management controls, and policies and procedures designed to administer NEH grant funds. We concluded that the Foundation's recently upgraded accounting system, management controls, Governance oversight, and formalized policies/procedures will allow the organization to sufficiently manage and account for NEH grant funds. However, we identified several specific areas, in which existing financial management controls could be improved. We also identified a potential cash flow issue that warrants further scrutiny and continuous monitoring by NEH management. We advised that the Foundation's liquidity situation should be actively monitored by NEH management and the inclusion of certain safeguards in the approved grant award (especially a subsequent production grant) should be considered, as suggested by OMB Circular A-110, Subpart B, Paragraph .14, *Special award conditions*.

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

DESK REVIEWS

Desk Review Letters Concerning OMB Circular A-133 Provision Applicable to Endowment Funds

OMB Circular A-133, Section 205(e) provides that the cumulative balance of Federal awards for endowment funds are considered awards expended in each year in which the funds are still restricted. We identified recipients of active NEH challenge grants supporting the creation of endowments and assessed the extent of each recipient's compliance with the special provision. We issued a letter to each recipient, as appropriate, noting current conditions of noncompliance or the pending applicability of the special provision based on future Federal support related to their challenge grant. Letters were issued to the following recipients of NEH challenge grants:

American Council of Learned Societies	OIG-12-01 (DR)	01/17/2012
Chemical Heritage Foundation	OIG-12-02 (DR)	01/17/2012
Minneapolis Institute of Arts	OIG-12-03 (DR)	01/17/2012
New Bedford Whaling Museum	OIG-12-04 (DR)	01/17/2012
Southern Ute Cultural Center and Museum	OIG-12-05 (DR)	01/17/2012
Walters Art Museum	OIG-12-06 (DR)	01/17/2012
Yakima Valley Museum	OIG-12-07 (DR)	01/17/2012

AUDIT AND REVIEW ACTIVITIES

DESK REVIEWS (con't.)

OMB Circular A-133 Audit Reports

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

During the reporting period, we issued ten (10) letters communicating the results of our desk reviews of OMB Circular A-133 audit reports. The objectives of the desk reviews were to: (1) determine whether the audit reports are acceptable under the reporting requirements of OMB Circular A-133; (2) identify any quality issues that may warrant follow-up work and/or revisions to the audit report; (3) identify audits for potential Quality Control Reviews (QCR) of the independent auditors' workpapers; and (4) identify issues that may require the attention of NEH management. We used the *Guide for Desk Reviews of OMB Circular A-133 Audit Reports*, issued by the Council of Inspectors General on Integrity and Efficiency (CIGIE), to determine if the reports were in conformance with the core reporting requirements stipulated by OMB Circular A-133.

We determined that four (4) reports were acceptable and six (6) reports were acceptable with deficiencies. A recurring deficiency noted during our desk reviews concerned the lack of disclosure of subrecipient awards in the Schedule of Expenditures of Federal Awards, as required by OMB Circular A-133.310(b)(5).

QUALITY CONTROL REVIEW

Quality Control Review of KPMG LLP FY 2010 Single Audit of the Asia Society

We performed a quality control review of the KPMG (the "IPA") single audit and supporting working papers for the fiscal year ended June 30, 2010 audit of the Asia Society and Museum. The purpose of our review was to determine whether the audit was conducted in accordance with auditing standards, and the auditing and reporting requirements promulgated by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

We concluded that the IPA generally met auditing standards and OMB Circular A-133 requirements. However, we (1) identified working paper documentation issues that required supplemental verbal explanation; and (2) encountered a professional difference of opinion concerning the reporting of a procurement, suspension/debarment compliance finding.

SINGLE AUDIT ACT REVIEWS

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

During the reporting period ended March 31, 2012, we reviewed 26 OMB Circular A-133 audit reports. None of the reports contained findings that required action by NEH management.

AUDIT AND REVIEW ACTIVITIES

WORK IN PROGRESS (as of March 31, 2012)

Limited Audit ~ Marquette Historical Society

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

Limited Audit ~ University of California Press Foundation

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

Limited Audit ~ Southeastern Library Network and Lyasis

The principal objectives of this limited audit are to determine that 1) expenditures related to NEH grant PE-50012-08 were made in accordance with applicable provisions of NEH's *General Terms and Conditions for Awards to Organizations*, NEH's *Preservation and Access Education and Training* guidelines, and the terms of the approved grant award; 2) the grantee properly tracked and met the anticipated cost-sharing associated with the grant; and 3) proper controls over the use of the Federal funds existed in accordance with minimum standards prescribed in the OMB Circulars A-110 (2 CFR part 215) and A-122 (2 CFR Part 230).

Limited Audit ~ Asia Society

The Asia Society (the "Society") underwent an OMB Circular A-133 audit (Single Audit) for fiscal year ended June 30, 2010. The audited Schedule of Expenditures of Federal Awards (SEFA) for FY 2010 reported expenditures related to NEH grant GI-50066-09 equal to the full award amount (\$1,000,000). As the Federal oversight agency, we conducted a *Quality Control Review* (QCR) of the FY 2010 Single Audit. The QCR results raised questions in two areas and we planned a limited audit to expand testing in those areas. The objectives of the limited audit are to determine 1) if the Society's procurement policies and procedures are sufficient to ensure compliance with Federal procurement, suspension/debarment compliance standards; and 2) whether the filmmaker's expenses, as charged to the NEH grant, are allowable and were expended in accordance with grant objectives, OMB cost circulars, and the approved budget.

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

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

INVESTIGATIVE ACTIVITIES

BACKGROUND

The Inspector General Act provides the authority for the Office of Inspector General to investigate possible violations of criminal or civil laws, administrative regulations, and agency policies, which impact the programs and operations of the NEH. The OIG Hotline, e-mail address, and regular mail are efficient and effective means of receiving allegations or complaints from employees, grantees, contractors, and the general public. We have obtained assistance from other OIGs, the Federal Bureau of Investigation (FBI), the Postal Inspection Service, and other investigative entities in the past.

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

During the past several years, the OIG has frequently received Hotline contacts and did not have sufficient resources to complete the inquiry or investigation in a timely manner. Therefore, to remedy this problem, we have been inquiring of other OIGs concerning their willingness and ability to assist us on an “as needed” basis under a reimbursable agreement. Several OIGs responded they would consider performing work for us on a case-by-case basis, depending on the availability of their staff. However, this assistance would be for criminal cases only and we have no guarantee that the OIGs would have staff available when needed.

OPEN AT OCTOBER 1, 2011

One matter was open as of October 1, 2011, which remains open as of the end of this reporting period.

CONTACTS DURING THE SIX-MONTH PERIOD ENDED MARCH 31, 2012

We received nine (9) contacts during the current reporting period.

One contact concerned allegations that the outreach activities conducted by a particular state humanities council are limited and ineffective and that regrant awards are typically made to entities on a recurring basis and to entities with which Board members have close relationships. This matter remains open.

One contact was forwarded from the Government Accountability Office (GAO) FraudNet. The complaint concerned comments made by a recipient of an NEH fellowship award asserting non-performance of research required by the fellowship award. An investigation is currently being planned. This matter remains open.

One contact was initiated by an NEH grantee upon discovering a financial irregularity impacting an endowment supported by an NEH challenge grant. The extent of the impact is still being determined. This matter remains open.

One contact concerned the denial of an individual’s request for emergency assistance from the Social Security Administration (SSA). This matter was referred to the SSA-OIG.

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

INVESTIGATIVE ACTIVITIES

OPEN AT MARCH 31, 2012

Four matters are open as of March 31, 2012.

MATTERS REFERRED TO PROSECUTIVE AUTHORITIES

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

HOTLINE AND PREVENTION ACTIVITIES

We maintain a toll-free Hotline number, an agency e-mail address, and an internet address to provide additional confidentiality for individuals bringing matters to the attention of the OIG. We periodically issue agency-wide e-mail messages informing NEH staff of violations that are reportable to the OIG. We also send e-mail messages several times during the year to inform NEH staff about the OIG operations. Posters advising staff to contact the OIG are displayed throughout the agency's facilities.

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

SUMMARY OF INVESTIGATION ACTIVITY

Open at beginning of period	1
Matters brought to the OIG during the reporting period	9
Total investigative contacts	10
Closed, referred, or no action deemed necessary during the reporting period	6
Open at end of period	4

OTHER ACTIVITIES

REGULATORY AND LEGISLATIVE REVIEWS

The Inspector General Act of 1978, as amended, requires the Office of Inspector General to review proposed legislation and regulations. The reviews are to assess whether proposed legislation and/or regulations (1) affect the economy and efficiency of agency programs and operations, and (2) contain adequate internal controls to prevent and detect fraud and abuse. During this period, OIG staff reviewed the Advanced Notice of Proposed Guidance published in the Federal Register on February 28, 2012 by the OMB entitled, *Reform of Federal Policies Relating to Grants and Cooperative Agreements; Cost Principles and Administrative Requirements (Including Single Audit Act)*. We submitted comments concerning the proposed reforms that were incorporated in the consolidated response drafted by the CIGIE Grant Reform Working Group for consideration by OMB.

WORKING WITH THE AGENCY

OIG staff attended various NEH meetings – panel meetings (where grant applications are reviewed by outside consultants), pre-council meetings (where program staff discuss panel review results with the Chairman and his immediate staff), and policy-group meetings. OIG staff may contribute to the discussions, but the OIG does not participate in policymaking.

The Deputy IG made a presentation about the mission, responsibilities, and activities of the NEH Office of Inspector General and the OIG Hotline during meetings held at the NEH involving project directors in receipt of awards through the Division of Education (*NEH Landmarks of American History and Culture Workshops, NEH Summer Seminars and Institutes for 2012, and NEH Humanities Initiatives at Historically Black Colleges and Universities, Institutions with High Hispanic Enrollment, and Tribal Colleges and Universities*).

The Deputy IG also participated with the Chairman, program staff, and grant management staff in the 2011 National Humanities Conference sponsored by the Federation of State Humanities Councils. The Deputy IG was subsequently invited by the Federation of State Humanities Councils to conduct a webinar, wherein information presented during the 2011 National Humanities Conference was re-presented for access by Council staff/Board members that were unable to attend the 2011 Conference.

PARTICIPATION ON THE COUNCIL OF INSPECTORS GENERAL ON INTEGRITY AND EFFICIENCY

The Inspector General Reform Act of 2008 (Public Law 110-409), amended the Inspector General Act of 1978 and established the Council of Inspectors General on Integrity and Efficiency (CIGIE). The CIGIE is comprised of all Inspectors General whose offices are established by the Inspector General Act of 1978 (and subsequent amendments) — those that are Presidentially-appointed/Senate-confirmed and those that are appointed by agency heads (Designated Federal Entities). During the reporting period ending March 31, 2012, the Deputy IG regularly attended monthly CIGIE meetings (and provided input, as requested), bi-monthly meetings of the Federal Audit Executive Council (FAEC), and bi-monthly meetings of a recently established sub-group of the CIGIE representing the “Smaller OIGs”. A staff auditor participated in the Single Audit Roundtable held in November 2011.

INTRA-GOVERNMENTAL ACTIVITY

Collaboration with the National Science Foundation ~ Office of Inspector General

OIG staff is participating in a joint investigative effort concerning a major media grantee. The joint effort involves IG staff from three (3) Federal agencies. NSF ~ OIG is leading the investigation.

OTHER ACTIVITIES

OIG INTERNET AND INTRANET

The OIG has posted several audit/review reports and semiannual reports on the internet and on the NEH intranet. The reports are accessible through the NEH homepage and the OIG homepage (<http://www.neh.gov/whoweare/OIG.html>).

To advance NEH staff awareness and understanding of the OIG mission and responsibilities, we provide hyperlinks to several other Federal agencies such as the Office of Management and Budget, the Government Accountability Office, the Office of Government Ethics, and the IGMET website.

TECHNICAL ASSISTANCE

Throughout the reporting period, OIG staff provided technical help to NEH staff, grantees, and independent public accountants about various matters. We are generally consulted about matters related to the implementation of the audit requirements of OMB Circular A-133. OIG staff also provided technical assistance to the NEH Office of Grant Management (OGM) related to "Organizational Survey" submissions requested and reviewed by OGM staff.

"AUDIT READINESS" AWARENESS CAMPAIGN

The OIG executes an "Audit Readiness" awareness campaign via e-mail. The objective of the campaign is to distribute guidance that would assist recipients of NEH grants in their efforts to preclude unfavorable outcomes should the organizations' NEH grants be selected for audit. The e-mail communication emphasizes the importance of the each recipient's review of and adherence to the specific NEH grant terms and conditions and the administrative requirements applicable to all Federal awards. We remind recipients that they are stewards of Federal funds and therefore must comply with the OMB circulars and the terms and conditions of their grant awards. Highlighted in the communications are specific areas wherein problems are commonly found during audits of NEH grantees and hyperlinks to appropriate guidance materials and resources. We also discuss the importance of effective internal controls. The e-mail communications are sent directly to project directors and grant administrators identified for all non-profit awardees.

During the reporting period ending March 31, 2012, e-mail 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	Number of E-Mails Sent*
Division of Public Programs	41	68
Division of Preservation and Access	10	18
Office of Challenge Grants	6	12
Office of Digital Humanities	8	16
Division of Education Programs	19	35
Division of Research Programs	4	8

*There were several instances where either the project director and the grant administrator were the same or we did not have any contact information for an individual.

TABLE I

REPORTING REQUIREMENTS

The Inspector General Act of 1978, as amended (Public Law 100-504), specifies reporting requirements for semiannual reports. The requirements are listed and cross-referenced to the applicable pages in this report.

<u>IG Act Reference</u>	<u>Reporting Requirements</u>	<u>Page</u>
Section 4(a)(2)	Regulatory and Legislative Reviews.....	13
Section 5(a)(1)	Significant Problems, Abuses, and Deficiencies.....	.*
Section 5(a)(2)	Recommendations for Corrective Action*
Section 5(a)(3)	Prior Significant Recommendations Unimplemented.....	*
Section 5(a)(4)	Matters Referred to Prosecutive Authorities.....	12
Section 5(a)(5)	Instances Where Information Was Refused or Not Provided.....	*
Section 5(a)(6)	List of Reports Issued.....	3-4
Section 5(a)(7)	Summary of Reports Issued.....	5-9
Section 5(a)(8)	Audit Reports - Questioned Costs.....	16
Section 5(a)(9)	Audit Report - Funds To Be Put to Better Use.....	16
Section 5(a)(10)	Prior Audit Reports Unresolved.....	*
Section 5(a)(11)	Significant Revised Management Decisions.....	*
Section 5(a)(12)	Significant Management Decisions with which OIG Disagreed.....	*
Section 5(a)(14-16)	Peer Review Results.....	Appendix A

* None this period

**TABLE II
INSPECTOR GENERAL-ISSUED REPORTS
WITH QUESTIONED COSTS**

	Number Of Reports	Questioned Cost	Unsupported Cost
A. For which no management decision has been made by the commencement of the reporting period.	- 1 -	\$33,294	\$ - 0 -
B. Which were issued during the reporting period.	- 1 -	\$ 6,667	\$ - 0 -
Subtotals (A+B)	- 2 -	\$39,961	\$ - 0 -
C. For which a management decision was made during the reporting period.			
i. Dollar value of disallowed costs.	- 1 -	\$ 6,667	\$ - 0 -
ii. Dollar value of costs not disallowed	- 0 -	\$ - 0 -	\$ - 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.	- 1 -	\$ 33,294	\$ - 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 -
ii. Dollar value of recommendations that were not agreed to by management.		\$ - 0 -
D. For which no management decision was made by the end of the reporting period.	- 0 -	\$ - 0 -

GLOSSARY OF AUDIT TERMINOLOGY

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

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

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

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

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

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

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

APPENDIX A

PEER REVIEW RESULTS

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

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

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

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