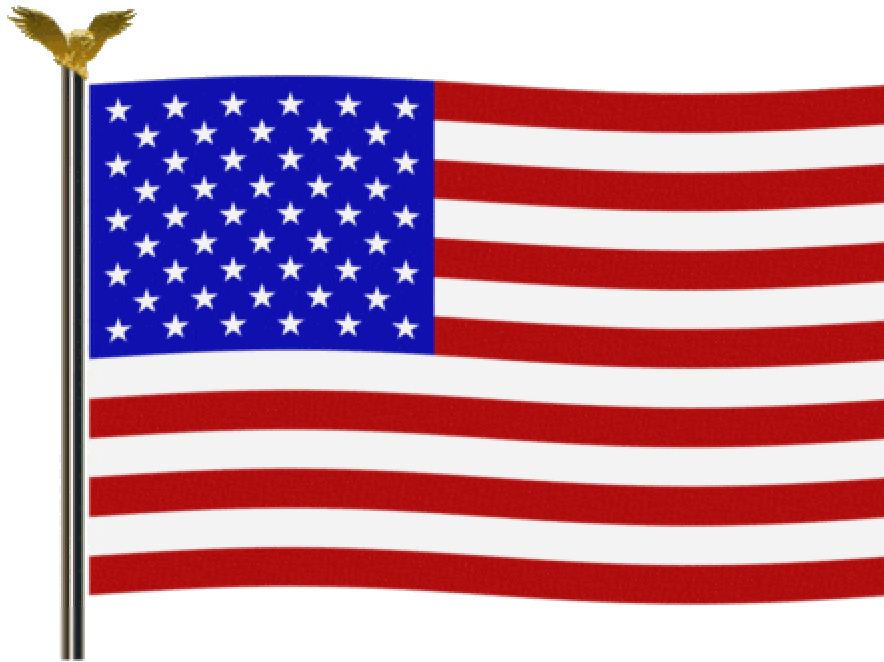




SEMIANNUAL REPORT TO CONGRESS

April 1, 2004 to September 30, 2004



NATIONAL ENDOWMENT FOR THE HUMANITIES

**"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

(202) 606-8423

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

This report is also available on the NEH/OIG Website at <http://www.neh.gov/whoweare/oig.html>



NATIONAL
ENDOWMENT
FOR THE
HUMANITIES

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October 29, 2004

Honorable Bruce Cole
Chairman
National Endowment for the Humanities
Washington, D.C. 20506

Dear Chairman Cole:

I am pleased to provide you with the Office of Inspector General's Semiannual Report to Congress for the second half of fiscal year 2004.

The 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 OIG during the six-month period ended September 30, 2004.

During this period, we completed and issued reports on one internal review; one inspection report on the accounting and management systems of a grantee and its two subcontractors; and two overhead desk reviews. In addition, we processed 105 OMB Circular A-133 audit reports, with 15 containing findings. We also issued a special management advisory memorandum informing the agency of an internal control weakness. Two inspections of grantee accounting and management systems, one audit of costs claimed by a grantee, five overhead desk reviews, and one quality review of a grantee's accounting firm are in progress. In the investigations program, we received several "Hotline" contacts. Three contacts from this period and two from the prior semiannual report are open.

I appreciate your support and look forward to working with you and all agency staff to help ensure that NEH delivers grant awards in an economical, effective and efficient manner.

Sincerely,

Sheldon L. Bernstein
Inspector General

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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 two offices -- Challenge Grants and Federal-State Partnership. The divisions and offices also administer the *We the People: NEH's American History* initiative.

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 Office of Inspector General 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 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, two auditors, and a secretary. The OIG and the Office of the 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 Assistant General Counsel.

AUDIT AND REVIEW ACTIVITIES

LIST OF REPORTS ISSUED

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

Following is a list of reports issued by the OIG during this reporting period. We also received 105 OMB Circular A-133 audit reports and processed fifteen containing findings (see Single Audit Act Reviews). The Inspector General Act of 1978, as amended, 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.

INTERNAL AUDITS/REVIEWS	Report Number	Date Issued
Federal Information Security Management Act Review	OIG-04-02(IR)	09/30/04
Accounting System Internal Control Weakness (Management Advisory Memorandum)	MAM	07/21/04
EXTERNAL AUDITS/REVIEWS/SURVEYS		
Inspection of the Caticus Corporation	OIG-04-01 (I)	07/12/04
SINGLE AUDIT ACT REVIEWS		
La Fundación Puertorriqueña de las Humanidades	OIG-04-01 (CAA)	09/16/04
New York Foundation for the Arts	OIG-04-02 (CAA)	09/16/04
Oregon Council for the Humanities	OIG-04-03 (CAA)	09/16/04
St. Thomas Foundation	OIG-04-04 (CAA)	09/16/04
The Filmmakers Collaborative	OIG-04-05 (CAA)	09/22/04
Humanities Council of Washington	OIG-04-06 (CAA)	09/22/04
Ohio Humanities Council	OIG-04-07 (CAA)	09/22/04
Rhode Island Council for the Humanities	OIG-04-08 (CAA)	09/22/04
Vermont Humanities Council	OIG-04-09 (CAA)	09/22/04
Florida Humanities Council	OIG-04-10 (CAA)	09/30/04
Humanities Tennessee	OIG-04-11 (CAA)	09/30/04
Kentucky Humanities Council	OIG-04-12 (CAA)	09/30/04
Minnesota Humanities Commission	OIG-04-13 (CAA)	09/30/04
Montana Committee for the Humanities	OIG-04-14 (CAA)	09/30/04
New Mexico Endowment for the Humanities	OIG-04-15 (CAA)	09/30/04
OVERHEAD DESK REVIEWS		
Ways of Knowing	NEH-04-06 (ODR)	08/25/04
Virginia Historical Society	NEH-04-07 (ODR)	08/31/04

AUDIT AND REVIEW ACTIVITIES (Continued)

SUMMARY OF REPORTS ISSUED

INTERNAL REVIEWS/AUDITS

- We issued report **OIG-04-02 (IR), Federal Information Security Management Act Review (FISMA)** on September 30, 2004. This review was conducted to determine NEH's compliance with FISMA, Office of Management and Budget guidance on FISMA and E-Authentication, and National Institute of Standards and Technology (NIST) guidance on information security. Our scope was limited to NEH IT security policies that were in force for fiscal year 2004.

We found these deficiencies:

- The NEH Accounting System was not certified and accredited prior to operating in accordance with OMB Circular A-130. This system still has not been certified and accredited. The OIG considers this a reportable condition as defined by OMB's FISMA reporting guidance.
- The security tests and testing schedule recommended by the NEH Security Officer (SO) are not in compliance with NIST guidance.

Several recommendations were made to correct the deficiencies.

- We issued a **Management Advisory Memorandum** concerning an accounting system internal control weakness, on July 21, 2004. We reported on a problem related to segregation of duties in the NEH requisition process.

We made recommendations that are necessary to improve the internal control system. Our understanding is that management agrees to make the necessary changes.

AUDIT AND REVIEW ACTIVITIES (Continued)

EXTERNAL AUDITS/REVIEWS/SURVEYS/OVERHEAD DESK REVIEWS

- We issued report **OIG-04-01 (I), Inspection Report on Catticus Corporation** (a California corporation) on July 12, 2004. NEH awarded Catticus a grant that was subcontracted out to two other organizations. Catticus was in fact the fiscal agent for Videoline Productions, and Two Dollars and A Dream, both located in New York City.

The objective of this review was to determine the adequacy of the grantee's accounting system, internal controls, and monitoring procedures related to the two subrecipients. In addition, we reviewed the adequacy of the two subrecipients' accounting system and internal controls. The grantee was selected for this review because the organization received a substantial award from NEH and was not required to have an OMB Circular A-133 audit.

We found that for all three organizations, the accounting system and the procedures in use at the time of the review were adequate for controlling and monitoring costs incurred by the organizations. However, we did make several recommendations to further improve the systems for the accounting of federal funds.

OVERHEAD DESK REVIEWS

The NEH OIG performs overhead desk reviews (ODRs) for grantees requiring an indirect cost rate. The reviews are done in accordance with the PCIE, Quality Standards for Inspections. The OIG sends the results of the ODRs to the NEH Accounting Office, where a member of that staff negotiates the indirect cost rates with the grantees. We completed two reviews during this period,

AUDIT AND REVIEW ACTIVITIES (Continued)

SINGLE AUDIT ACT REVIEWS

In fiscal year 2004, the NEH spent approximately 85% of its annual expenditures on grantees. Many of NEH's grantees are covered by the Single Audit Act Amendments of 1996. Grantees expending \$300,000 or more in federal dollars per annum are required to obtain an OMB Circular A-133 audit. The OIG receives A-133 reports from other federal agencies (mainly the Department of Health and Human Services), state and local government auditors, and independent public accountants. The objective of the audit is to determine whether federal funds are expended in accordance with applicable laws and regulations.

During the six-month period ended September 30, 2004, we reviewed 105 OMB Circular A-133 audit reports. Fifteen of the reports contained audit findings and summaries of these reports were issued to NEH for action and follow-up. The most common deficiencies noted were that the organizations:

1. did not adequately monitor subrecipient activities;
2. failed to adhere to federal reporting requirements; and
3. lacked satisfactory internal control/segregation of duty policies and procedures such as:
 - a. bank reconciliations were not reviewed by anyone other than the person doing the reconciliation,
 - b. invoices paid were not stamped "paid" to avoid using the invoice twice,
 - c. travel policies were not formalized in writing,
 - d. executive director's expenditures were not approved by a board member,
 - e. approval on invoices were lacking, and
 - f. purchase orders were not used.

The OIG will be increasing our efforts to monitor these single audit reviews because we continually find deficiencies during our quality control reviews (QCRs) of independent auditor workpapers.

AUDIT AND REVIEW ACTIVITIES (Continued)

AUDITS/REVIEWS IN PROGRESS

United States Accountability of Tax Dollars Act of 2002

This law requires NEH, as well as several other small agencies and commissions, to prepare and submit to the Congress and the Director of the U.S. Office of Management and Budget an audited financial statement. NEH received a written waiver from OMB for fiscal year 2003, and a verbal waiver for fiscal year 2004. During this period, staff took training to provide adequate management of the audit.

Inspection of Grantee's Accountability and Management Systems

The objective of this review is to determine the adequacy of the grantee's accounting system, internal controls, and management policies to provide reasonable assurance that NEH grant projects are accounted for and managed in accordance with NEH requirements.

Two inspections are in progress:

- Southeastern Library Network, Inc., Atlanta, GA
- AMIGOS Library Services, Inc., Dallas, TX

Audit of Grantee Costs Claimed

The objective of this audit is to determine if the costs charged to the grant awarded to the Theolonius Monk Institution of Jazz, Washington, DC are allowable in accordance with NEH requirements and applicable OMB Circulars.

Overhead Desk Reviews

Grantee	City, State
The Center for Research Libraries, Inc.	Chicago, IL
The Huntington Library	San Marino, CA
Southeastern Library Network	Atlanta, GA
Amigos Library Services	Dallas, TX
Oxford University Press	New York, NY

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 relate to 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. The OIG has obtained assistance from other OIGs, the Federal Bureau of Investigation, the Postal Inspection Service, and other investigative entities as necessary.

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, an investigation, a referral to another NEH office or division, or a referral to another federal agency.

As of April 1, 2004, three cases were open. During the six months ended September 30, 2004, we received seventeen "Hotline" contacts. We are holding five matters open at September 30, 2004.

OPEN AT APRIL 1, 2004

One matter concerning the unauthorized release of confidential information was sent to the Department of Justice (DOJ) for further review. The DOJ declined prosecution and the case was resolved administratively.

The second case involving a grantee institution and project director that may have provided false information in grant applications has been referred to senior level officials at the institution. The case is being handled under the NEH Policy of Research Misconduct. The organization will provide an internal investigative report to the NEH OIG. The IG has the authority to accept, reject, or perform additional work as necessary. The organization is expected to report to the NEH OIG in December 2004.

The third matter concerns a grantee in the New England area that submitted a number of incorrect financial reports. This case remains active. The attorneys for the grantee, NEH, and the OIG are working on a settlement.

CONTACTS DURING THE PERIOD

We received seventeen contacts during this six-month period. Eight concerned internal NEH matters, three of which were closed after the OIG made inquiry into the matters and found they were unsubstantiated. One internal issue involved ethical conduct and this was referred to the NEH ethics official.

Two contacts concerned the new NEH accounting system and one involved the use of gift funds received by NEH. These three complaints were combined with one contact received from the General Accountability Office (GAO) in August 2004 which referenced similar issues. We have closed the respective files for the three contacts since the subject complaints are addressed as part of our investigation of the complaints forwarded by GAO. The GAO letter stated that they received an anonymous e-mail that contained six allegations of wrong doing by NEH management. This investigation is still in process.

Another matter involved an EEO allegation, by a prospective grant applicant, that NEH discriminates against a minority group. Since the NEH EEO official was not in town, the OIG handled the case. We gathered information from several NEH offices that provided the basis for our conclusion that the complaint had no merit. We closed the file.

INVESTIGATIVE ACTIVITIES (Continued)

Five contacts involved NEH grantees:

- ◆ One contact included a charge that an employee at a grantee organization forged checks and used NEH funds to purchase personal items. The organization's attorneys contracted with an independent public accountant (IPA) to audit the books and records. The IPA determined that NEH funds were misappropriated. We requested and received a refund.
- ◆ One complaint was referred to the OIG Audit Division and an audit was initiated in late September 2004.
- ◆ One grantee matter concerned misuse of funds; however, the allegation did not specifically state that federal funds were involved. We intend to pursue this in the next semi-annual period.
- ◆ One complaint concerned an NEH challenge grant. We were unable to look into this matter during this period due to other priorities.
- ◆ One complaint concerned a charge of misappropriation of funds by a grantee that has discontinued operations. We were unable to look into this matter during this period due to other priorities.

Three other contacts were found not to be NEH issues, and were referred to other agencies.

MATTERS REFERRED TO PROSECUTIVE AUTHORITIES

One new case was referred for criminal prosecution during this reporting period. The U.S. Attorney's Office declined prosecution. The matter has been settled administratively.

HOTLINE AND PREVENTION ACTIVITIES

We maintain a local Hotline phone number, agency e-mail address, and an Internet address 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 violations that should be reported 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.

ANONYMOUS E-MAIL

We have on the NEH Intranet and the Internet a system for staff, grantees, contractors, etc. to report waste, fraud, abuse, and mismanagement in an anonymous manner.

INVESTIGATIVE ACTIVITIES (Continued)

SUMMARY OF INVESTIGATION ACTIVITY

Open at beginning of period	3
Matters brought to the OIG during the reporting period	17
Total investigative contacts	20
Closed or referred during the reporting period	15 (a)
Open at end of period	5

(a) Three cases were combined with the GAO contact.

OTHER ACTIVITIES

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 and provide information to the ECIE.

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 and/or regulations (1) impact on 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 we provided the ECIE with comments on various matters affecting the Inspector General.

WORKING WITH THE AGENCY

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 program staff discuss panel review results with the chairman and his immediate staff), and the National Council meeting. In addition, the IG and Deputy IG attended the Chairman's monthly policy group meetings. An OIG staff person attended monthly NEH Employee Association meetings. OIG staff was also involved in the review of NEH administrative directives.

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

PEER REVIEW OF THE U.S. COMMODITY FUTURES TRADING COMMISSION ~ OIG AUDIT FUNCTION

During this period, the OIG reviewed the audit function of the U.S. Commodity Futures Trading Commission ~ Office of Inspector General (CTFC-OIG). Our review covered the year ended September 30, 2003 and was conducted in conformity with standards and guidelines established by the President's Council on Integrity and Efficiency. We issued our report to the CTFC-OIG on August 27, 2004.

OIG INTERNET AND INTRANET

The OIG has listed several semiannual reports on the Internet. The reports are accessible through the NEH homepage and the OIG homepage (<http://www.neh.gov/whoware/OIG.html>).

To enhance the NEH staff's recognition of the OIG 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.

OTHER ACTIVITIES (Continued)

INVESTIGATION ASSISTANCE GIVEN TO IMLS

Under an agreement with the Institute of Museum and Library Services, (IMLS), the NEH OIG provides investigative services to IMLS. During this period, the OIG performed investigative work for IMLS concerning a grantee in Connecticut. A draft report has been issued to the IMLS general counsel.

TECHNICAL ASSISTANCE

Throughout the reporting period, OIG staff provided telephone technical assistance to NEH grantees and independent public accountants concerning various matters including the preparation of indirect cost proposals and the implementation of federal audit requirements.

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.....	10
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.....	8
Section 5(a)(5)	Instances Where Information Was Refused or Not Provided.....	*
Section 5(a)(6)	List of Audit Reports Issued.....	2
Section 5(a)(7)	Summary of Significant Reports.....	3-6
Section 5(a)(8)	Audit Reports - Questioned Costs.....	*
Section 5(a)(9)	Audit Report - Funds To Be Put to Better Use.....	*
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.....	*

* 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.	- 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. Dollar value of disallowed costs.	- 0 -	\$ - 0 -	\$ - 0 -
ii. 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 III
INSPECTOR GENERAL-ISSUED REPORTS
WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE**

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

GLOSSARY OF AUDIT TERMINOLOGY

Questioned Cost - A cost that is questioned by the OIG because of 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).