



Office of Inspector General

**SEMIANNUAL
REPORT TO
CONGRESS**

For the Period April 1, 2009 through September 30, 2009

Report No. 41

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

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National Endowment for the Humanities
1100 Pennsylvania Ave. N.W., Room 419
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(202) 606-8329

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Government employees are protected from reprisal

Caller can remain anonymous

Information is confidential



NATIONAL
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FOR THE
HUMANITIES

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October 30, 2009

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

Dear Chairman Leach:

It is a pleasure to welcome you to the National Endowment for the Humanities and respectfully submit the Office of Inspector General's Semiannual Report to Congress for the second half of fiscal year 2009. 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, 2009.

We did not complete any internal reviews or audits during the current reporting period. We began our review of the agency's effort related to the Federal Managers' Financial Integrity Act (FMFIA) and reviews to satisfy Federal Information Security Management Act (FISMA) requirements. The annual audit of the agency's financial statements was also started during the current reporting period. The results of these efforts will be reported during the next reporting period. External effort consisted of two audits; ten overhead rate desk reviews; and review of 97 OMB Circular A-133 audit reports.

In our investigations program, we had two matters open as of the beginning of the reporting period. Both were closed during this period. We received eight "Hotline" contacts during the period, and only one remains open at September 30, 2009.

Last reporting period, we launched an awareness campaign wherein we distribute guidance to recipients of NEH grants that would assist in their efforts to preclude unfavorable outcomes should their grants be selected for audit. We are continuing this initiative which will reach all non-profit grantees.

I 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,

A handwritten signature in cursive script that reads "Sheldon L. Bernstein".

Sheldon L. Bernstein
Inspector General

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MESSAGE FROM THE INSPECTOR GENERAL

Over the past several years, our workload has constantly increased in volume and complexity and, as a consequence, OIG oversight of the Endowment's grantees is diminishing.

The OIG is responsible for engaging and reviewing the work of an independent public accountant that conducts the annual financial statements audit. The audit is required by the Accountability of Tax Dollars Act of 2002, and applies to many small agencies including the Endowment. The Federal Information Security Management Act (FISMA) review has been performed for several years as required. Each year the Office of Management and Budget (OMB) issues guidance for the review. The National Institute for Standards and Technology (NIST) Computer Security Division issues publications that the agency is responsible for implementing. The OIG is responsible for reviewing the agency's implementation. The Government Accountability Office and the Council of Inspectors General on Integrity and Efficiency periodically update guidance on auditing, inspections and reviews, and investigations. This increases the burden on the OIG.

OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, issued pursuant to the Single Audit Act of 1984, (as amended), sets forth audit guidance applicable to the expenditure of Federal awards by non-Federal entities. The threshold for an audit is the expenditure of \$500,000 or more in a fiscal year. Consequently, the threshold level eliminates audits for a significant number of non-profit organizations that receive grants from the Endowment, including approximately 17 of the 56 state humanities councils. The President's Council on Integrity and Efficiency issued a report on the single audits. The report disclosed that a majority of the work performed on OMB Circular A-133 audits did not meet professional standards. Thus, besides having fewer NEH grantees subject to the OMB A-133 audit, the reports issued are not totally reliable. This clearly indicates that the OIG needs more resources to provide adequate coverage of grantees. In addition, monitoring by program offices is not, in our opinion, adequate.

Another impact on our oversight of grantees is internal and grantee investigations. Opening an investigation has a significant impact on our audit plan because we do not have staff dedicated to investigation work. Therefore, it becomes necessary to reassign audit staff trained in investigation work to perform the investigation. With significant fluctuations on a yearly basis, it is difficult to be proactive concerning investigations or realistically budget staff time for this effort.

During the last semi-annual report period, the Deputy Inspector General retired. This person worked in the OIG and it's predecessor, the NEH Audit Office for twenty-five years. In the current period, we promoted an auditor, with 16 years experience at NEH and 6 years at the Defense Contract Audit Agency. We also interviewed for an auditor position and will be bringing a person on-board mid-November 2009.

In accordance with the Inspector General Act of 2008, Public Law 110-409, we signed a service agreement with the United States Treasury Inspector General for Tax Administration's General Counsel in fiscal year 2009. They are providing legal counsel for the NEH OIG. A new agreement was signed for fiscal year 2010.

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, Federal-State Partnership, and Digital Humanities Office. The divisions and offices also administer the *We the People: NEH's American History* initiative.

Picturing America is a part of the *We the People Program*. This program "... provides an innovative way for citizens of all ages to explore the history and character of American through some of our nation's greatest works of art. Images of people, places and events from American history give citizens everywhere a chance to better understand our country's past and the principles for which it stands." Information can be found at PicturingAmerica.neh.gov.

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 give Congress 30 days notice of the reasons for the removal; 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, Deputy Inspector General, one auditor, 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 Inspector General and an auditor.

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, limited scope desk reviews, 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 that conducts the annual audit of the NEH financial statements as required by the Accountability of Tax Dollars Act of 2002, and examining the 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 "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"), [see Table II].

	<u>Report Number</u>	<u>Date Issued</u>
<u>EXTERNAL AUDITS/REVIEWS</u>		
Limited Audit Report on Gifts Certified Under Challenge Grant to the National Yiddish Book Center	OIG-09-02 (EA)	06/26/09
Results of Follow-up to Limited Report on Gifts Certified under Challenge Grant to the National Yiddish Book Center	OIG-09-03 (EA)	08/28/09
<u>OVERHEAD DESK REVIEWS</u>		
Gilder Lehrman Institute of American History	NEH-09-02 (ODR)	04/02/09
Library of America	NEH-09-03 (ODR)	08/17/09
Medieval Academy of America	NEH-09-04 (ODR)	08/17/09
Center for Research Libraries	NEH-09-05 (ODR)	09/14/09
Northeast Document Conservation Center	NEH-09-06 (ODR)	09/21/09
Newberry Library	NEH-09-07 (ODR)	09/22/09
Newberry Library	NEH-09-08 (ODR)	09/22/09
American Antiquarian Society	NEH-09-09 (ODR)	09/21/09
Conservation Center for Art and Historic Artifacts	NEH-09-10 (ODR)	09/24/09
Bessemer Historical Society	NEH-09-11 (ODR)	09/24/09
<u>SINGLE AUDIT ACT REVIEWS</u>		
97 OMB Circular A-133 Reports		See Page 4

AUDIT AND REVIEW ACTIVITIES

SUMMARY OF REPORTS ISSUED

EXTERNAL AUDITS/REVIEWS

Limited Audit Report on Gifts Certified Under Challenge Grant to the National Yiddish Book Center June 26, 2009; OIG-09-02 (EA)

The principal objectives of this limited audit were to determine that 1) the gifts certified under the challenge grant were eligible to release Federal matching funds; and 2) endowment expenditures are made in accordance with the terms of the budget as approved by NEH and any amendments. Our review was conducted in accordance with *Government Auditing Standards* as promulgated by the Comptroller General of the United States. The scope of our review was limited to the gifts included in the first certification report submitted by the National Yiddish Book Center (NYBC) for the challenge grant.

Based on the results of our review, we concluded that all of the gifts certified failed to meet the criteria for eligibility as established by the NEH. The documentation provided by the NYBC to support gifts included in the certification report did not completely satisfy the internal recordkeeping requirements for matching gifts. Also, the NYBC did not have accounting procedures to specifically identify NEH challenge grant funds, matching gifts, and related expenditures in the general ledger. We made specific recommendations to address the findings noted.

Follow-up to Limited Audit Report on Gifts Certified under Challenge Grant to the National Yiddish Book Center August 28, 2009; OIG-09-03 (EA)

We completed a follow-up review of the response submitted by the National Yiddish Book Center (NYBC) to the limited audit report on gifts certified under challenge grant CH-50435-08 [OIG-09-02 (EA)]. The NYBC revised and resubmitted Certification Report No. 1 to include a single gift. We concluded, based on the results of our follow-up review, that the gift certified meets the criteria for eligibility as established by NEH to match the challenge grant. We also determined that accounting procedures developed by NYBC in response to the limited audit are adequate and have been implemented to effect the tracking of revenue and expenditures associated with the NEH challenge grant.

OVERHEAD DESK REVIEWS

During the six-month period ended September 30, 2009, the OIG completed 10 overhead desk reviews (ODRs) for NEH grantees requiring indirect cost rates, (see page 3). The reviews were done in accordance with the PCIE/ECIE *Quality Standards for Inspections*. The results of the ODRs were transmitted to the Assistant Chairman for Planning and Operations, who negotiated the indirect cost rates with the grantees.

The OIG will no longer be performing overhead desk reviews. This function has been transferred to NEH management.

SINGLE AUDIT ACT REVIEWS

For the past several years, the budget for grants amounted to approximately 82 percent of the total NEH budget. The Single Audit Act Amendment of 1996 covers many NEH grantees. Grantees expending \$500,000 or more in Federal dollars per annum are required to obtain an OMB Circular A-133 audit. The objective of the audit is to determine whether the recipients expend Federal funds according to applicable laws and regulations. The OIG receives OMB Circular A-133 reports from other Federal agencies (primarily the Department of Health and Human Services), state and local government auditors, independent public accountants, and grantees.

During the six-month period ended September 30, 2009, we reviewed 97 OMB Circular A-133 audit reports. None of the reports contained findings that required reporting by the OIG to NEH management.

AUDIT AND REVIEW ACTIVITIES

WORK IN PROGRESS

Limited Audit ~ Humanities Texas

The principal objectives of this limited audit are to determine (1) that the gifts included in the organization's first certification report under an NEH challenge grant are eligible to release Federal matching funds; and (2) that a system is in place to monitor wage rates in accordance with the NEH Challenge Grant guidelines for compliance with the Davis-Bacon Act. The challenge grant provides support for the restoration of a historic building.

Limited Audit ~ Museo de Las Americas

The principal objectives of this limited audit are to determine (1) that gifts included in the organization's certification reports are eligible to release Federal matching funds; and (2) that endowment expenditures are made in accordance with the terms and conditions of the budget as approved by NEH and any amendments.

This audit was requested by the Office of Challenge Grants and the Office of Grant Management because the grantee did not provide final reports.

Limited Audit ~ Reginald F. Lewis Museum

The principal objectives of this limited audit are to determine (1) that gifts included in the organization's certification reports are eligible to release Federal matching funds; and (2) that endowment expenditures are made in accordance with the terms and conditions of the budget as approved by NEH and any amendments.

This audit was requested by the Office of Challenge Grants and the Office of Grant Management because the grantee did not provide final reports.

Limited Audit ~ Wyoming Humanities Council

The objective of this limited audit is to determine if the cost-sharing requirement applicable to NEH grant SO-50059-04 was satisfied and that the Council's share of outlays, as reported to the NEH, is substantiated and complies with the applicable NEH guidelines.

Cost Incurred Audit ~ Medieval Academy of America

The principal objective of this audit is to determine if expenditures were in compliance with the terms and conditions of NEH grant RO-50325-08.

Federal Managers' Financial Integrity Act (FMFIA) Review

We are conducting this review to determine if NEH is complying with the Act. FMFIA requires Federal managers to establish a continuous process for evaluating, improving, and reporting on the internal controls and accounting system for which they are responsible. In addition, FMFIA requires that each year the agency head report to the President and Congress on the status of management financial controls.

Pre-Award Survey ~ Center for Independent Documentary

The objective of this review is to obtain information to determine the adequacy of the organization's accounting system, management controls and policies and procedures designed to administer grant funds.

AUDIT AND REVIEW ACTIVITIES

WORK IN PROGRESS (Continued)

FISMA Review ~ Securing PII Collected in Background Investigations and/or NACI for HSPD-12

The objectives of this review are to:

- (1) Determine that the NEH ~ Office of Human Resources (OHR) has a system in place to secure the personally identifiable information (PII) collected from the background investigation form and the National Agency Check with Written Inquiry (NACI); and
- (2) Determine that the system is in compliance with applicable Federal law, regulations, and NEH and OHR policies and procedures.

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. The result could be an audit, an investigation, a referral to another NEH office or division, a referral to another Federal agency, or no action.

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 alleviate 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 to assist us.

OPEN AT APRIL 1, 2009

Two files were open at April 1, 2009.

1. An NEH employee performing timekeeping duties falsified her personal timesheets over a period of five years. The amount stolen from NEH amounted to approximately \$35,000. The NEH Office of Human Resources discovered the problem. Administrative action was taken and the employee was terminated. The OIG presented information concerning this matter to the Department of Justice Criminal Division (DOJ). The DOJ did not accept the case and we closed the file.
2. A former employee of a recipient of an NEH fellowship grant alleged that the project director only spent about 20 hours on the project and received \$40,000 from the NEH. The person stated that he and the project director only made copies of material previously worked on by the project director. We reviewed the grantee's file and determined that the case would be cost-prohibitive to pursue.

CONTACTS DURING THE SIX-MONTH PERIOD ENDED SEPTEMBER 30, 2009

We received eight Hotline contacts during the current reporting period. Three contacts were not applicable to NEH. Three were referred to the appropriate NEH division/general counsel and subsequently closed. Two concerned the same state humanities council. We investigated the first case and determined it had no merit. Later, we received additional information on the same matter and initiated another case. We are still working on this matter.

OPEN AT SEPTEMBER 30, 2009

One matter is open as of September 30, 2009.

MATTERS REFERRED TO PROSECUTIVE AUTHORITIES

We did not refer any matters to prosecutive authorities during the current reporting period.

INVESTIGATIVE ACTIVITIES (Continued)

HOTLINE AND PREVENTION ACTIVITIES

We maintain a toll-free Hotline phone number, an agency e-mail address, and an internet address to provide additional confidentiality for those persons 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.

SUMMARY OF INVESTIGATION ACTIVITY

Open at beginning of period	2
Matters brought to the OIG during the reporting period	8
Total investigative contacts	10
Closed, referred, or no action needed during the reporting period	9
Open at end of period	1

INVESTIGATION MANUAL

We have been developing an investigation manual that will meet the standards of the President's Council on Integrity and Efficiency. The manual has been drafted, however, it needs to be edited since we do not have any criminal investigators on our staff. If we determine a case involves a crime, we will ask the Federal Bureau of Investigations or another Federal Inspector General for assistance. We plan to have the manual completed and put into operation within the next several months.

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, no legislative reviews were required.

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 the National Council meeting. Also, the IG or Deputy IG attends the Chairman’s monthly policy group meetings. The Office of Inspector General contributes to the discussions but does not participate in policymaking.

During the last semiannual period, the Inspector General initiated a meeting with the Assistant Chairman for Programs and the Division Directors to discuss the involvement of OIG staff in meetings convened by NEH with grant project directors. As a result, the OIG made it’s first presentation about the OIG and the OIG Hotline during a meeting with grant project directors that received awards from the Office of Digital Humanities.

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, those that are Presidentially-appointed/Senate-confirmed, and those that are appointed by agency heads (designated Federal entities). During the six-month period ending September 30, 2009, OIG staff regularly attended CIGIE meetings and provided input. The Inspector General is a member of the Grant Fraud Committee (a subcommittee of the National Procurement Fraud Task Force) and participates in the Misconduct in Research meetings. The Deputy IG attends meetings of the Federal Audit Executive Council (FAEC) and the monthly meetings of the Financial Statement Audit Network (a subcommittee of the FAEC). One senior auditor regularly attends the Assistant Inspector General for Investigations (AIGI) meetings.

INTRA-GOVERNMENTAL ACTIVITY

Congressional Inquiry

In May 2009, we responded to an inquiry from the Honorable Darrell E. Issa, Ranking Member of the United States House of Representatives, Committee on Oversight and Government Reform. The inquiry was a follow-up to information provided to former Chairman Henry A. Waxman. The subject matter concerned open recommendations made by NEH auditors. The NEH and the OIG work diligently to resolve these recommendations.

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 (Continued)

OIG INTERNET AND INTRANET

The OIG has posted several 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 recognition of the OIG mission and responsibilities, we provide links 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.

TECHNICAL ASSISTANCE

Throughout the reporting period, OIG staff provided technical help to NEH grantees and independent public accountants about various matters. Generally, these involve the preparation of indirect cost proposals and implementation of the audit requirements of OMB Circular A-133.

“AUDIT READINESS” AWARENESS CAMPAIGN

The Office of Inspector General executes an 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 recipients' review of and adherence to the specific NEH grant terms and conditions as well as the laws and regulations applicable to all Federal awards. We remind the recipients that they are stewards of Federal government funds and that they must comply with the OMB Circulars and the terms and conditions of the grant award. Highlighted in the e-mail communications are specific areas wherein problems are commonly found during audits of NEH grantees and links to appropriate guidance materials and resources. We also mention the importance of effective internal controls and the President's Council on Integrity and Efficiency, *Report on National Single Audit Sampling Project*. The e-mail communications are sent to project directors and grant administrators identified for all non-profit awardees.

During the six-month period ending September 30, 2009, 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	34	55
Division of Education Programs	30	53
Division of Research Programs	7	12
Division of Preservation and Access	6	10
Office of Digital Humanities	4	8
Office of Challenge Grants	2	4

* 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.

OTHER ACTIVITIES (Continued)

OBSERVATION OF NEH COOP EXERCISE

An OIG auditor observed the NEH exercise to test the agency's new Continuity of Operations Plan (COOP). The test had the following limited objectives:

1. Exercise the NEH alert, notification, and deployment procedures;
2. Exercise the NEH continuity implementation and operational procedures;
3. Review and update the viable elements of the NEH continuity capability; and
4. Assess NEH's ability to identify and prioritize functions and conduct operations from pre-planned alternate locations.

The exercise was produced based on guidance set forth in the Federal Emergency Management Agency Eagle Horizon Exercise Plan. A "post-exercise" discussion was held in which participant and observer comments were gathered in order for the Exercise Director to produce a report and a COOP improvement plan.

The OIG auditor noted that the limited objectives for the exercise were generally met and provided comments during the "post-exercise" discussion concerning the limitations of the COOP that need to be addressed.

FY 2009 MANAGEMENT CHALLENGES AS OF SEPTEMBER 30, 2009

BACKGROUND

For the past several years in the September 30th Semi-Annual Report, the Office of Inspector General has submitted an annual statement of what we consider to be the most important management and performance challenges requiring action by the National Endowment for the Humanities.

The agency has made significant improvements in several areas and we are happy to note that the financial management system is not on this year's list of challenges. Grants Management was added last year to emphasize that monitoring of the grants needs to be strengthened and consistent throughout the NEH.

The most serious challenges for the agency continue to be:

- Strengthening Information Security
- Developing Outcome-Based Performance Measurements in Accordance with the Results Act
- Strategic Management of Human Capital
- Continuity of Operations Planning
- Grants Management

Strengthening Information Security

NEH has taken positive action to improve the security of the agency's information system. During the past couple of years, the agency has followed OMB and NIST guidance more vigorously. NEH is currently providing computer hardware and software to the National Archives and Records Administration (NARA) for use in managing their grant administration program. NEH has determined that security features, such as firewalls, minimize the security risks associated with these additional responsibilities. NEH has also implemented the Federal Desktop Core Configuration initiative, which includes guidance on password strength and complexity; therefore this is no longer a challenge for the agency.

While the OIG continues to deem the agency would benefit from a full penetration test (including social engineering) to determine system weaknesses, the agency has considered the issue and is willing to accept the risks of not having a full penetration test. The OIG also considers employment of a log management system to monitor intrusions as a necessary activity to strengthen information security. Log management and review would be a first step to provide a reasonable level of assurance that security incidents are detected, resolved, and reported in a timely manner. In conjunction with log management and review, the OIG believes that there is a need for the agency to assess the feasibility of an intrusion detection system.

While the agency has not had many security incidents, we believe that OIRM needs to continue to verify the accuracy of any incident that occurs and report these incidents to the proper authorities in accordance with NEH policy.

NEH, like most Federal agencies, is currently investigating moving toward cloud computing. This is an area where we believe future challenges will be found. The OIG is working with the Office of Information Resources Management (OIRM) to assist in this move. We have offered to review plans that the agency will be developing to ensure that internal and security controls are in place and are based on NEH's risk assessment. The OIG will also work with OIRM to ensure that any contracts with outside parties contain what we deem to be acceptable and verifiable security measures based on the accepted risks.

Without strong IT security, the confidentiality, integrity and availability of the agency's information are threatened. The agency needs to continue their comprehensive security review of the IT security program. This review should encompass prioritizing and assessing implementation of existing requirements as shown on the *Plan of Action and Milestones* that the agency compiles, and updating this document accordingly.

FY 2009 MANAGEMENT CHALLENGES AS OF SEPTEMBER 30, 2009 (Continued)

The agency is currently evaluating the effectiveness of the IT security organizational structure and policy enforcement efforts through FISMA and the independent IT reviews done by OIRM. We believe this needs to continue.

We will continue to report IT security as a management challenge and potential risk to allow NEH management to continue focus on this area.

Developing Outcome-Based Performance Measurements in Accordance with the Results Act

NEH has made progress over the past several years. However, more effort is required to make the case for justifying NEH as a positive results-oriented organization. In the past, NEH has relied heavily on anecdotal examples of success. NEH currently measures outputs rather than outcomes. The OIG recognizes that measuring the benefits of many NEH programs is difficult. However, program offices and divisions should gradually collect outcome-related data from grantees. As an example, while we have learned that a high school teacher uses knowledge gained at a summer seminar during instruction to approximately 250 students a year, we do not know how the students are affected. Do they read more books on the topic, are they thinking about taking more courses on the same topic in college? What is the actual effect of a summer seminar on the students of the teacher attending the seminar? Further, what does the school principal and the department chair see as the outcome of the teacher taking the seminar? These measurements would have to be tracked several years after the teacher attended the seminar.

We believe obtaining outcome-based data from grantees would be more indicative for performance measurement than collecting output data. We recognize that relying on data quality and evaluating program effectiveness based on information generated by grantees does not provide a comfort level of accurate information. The GAO and other OIGs have noted numerous incidences of high error rates in grantee-reported performance data and this raises concerns about the use of such data for decision-making. Nevertheless, obtaining outcome information would be a significant improvement. However, the agency needs to develop measurements that are not solely dependent on data generated by grantees. Possibly, the NEH can develop on a statistical basis, a methodology to gather information after the grant is completed to measure the objective outcome of a program, not just a grant.

Although the agency is making some progress, especially concerning the Digital Humanities Start-up grants, we are not convinced that the "White Paper" that all grantees will submit upon project completion, including lessons learned, will be transferable to other programs, (i.e., larger long-term projects). However, we acknowledge that the agency is attempting to move in the right direction.

Strategic Management of Human Capital

Human capital is a high-risk for the Federal government due to the large number of baby-boomers that are expected to retire in the next three or four years. NEH will face the same situation. NEH recognized this problem when four staff from the Office of Grant Management (OGM) indicated they would retire within a one-year period. All four staff had over 30 years of experience in that office. NEH was proactive and brought replacement staff on board before three of the four staff retired. Because of this succession planning strategy, the new staff, under the guidance of some of the remaining long-term staff, has done well in processing grant actions and applications. NEH deserves much credit for their approach to address the human capital challenge.

The NEH responded last year that they sent new staff to several training courses and provided on-the-job training. We applaud NEH and the OGM for this action. However, the OIG has noticed errors in NEH award documents, (i.e., omission of pertinent IDC restrictions and instructions).

FY 2009 MANAGEMENT CHALLENGES AS OF SEPTEMBER 30, 2009 (Continued)

Additional Action Needed

- NEH can ensure that the next wave of OGM staff retirements will go smoothly by providing grant management training to the recently hired employees. Off-site training would afford the new staff the benefit of learning how other agencies handle problems while strengthening their knowledge and understanding of the Office of Management and Budget Circulars that pertain to and effect grant administration. This will advance the recent hires towards becoming efficient grant administrators.
- The OGM has well-written procedure manuals with standard forms and language used in the letters to applicants and grantees. However, many of the program offices and divisions do not have comparable operations manuals. Therefore, it would be beneficial for program offices to document procedures and processes that are necessary to perform their work. This would be useful for the next generation of program staff and would facilitate consistent processing of grant applications. The NEH stated that the program offices and divisions are using generic forms and letters and are standardizing and sharing office policy procedures. This is very commendable; however, more progress needs to be made in this area.
- The OIG recommends that NEH develop a comprehensive five-year strategic human capital plan. The plan should identify human capital goals and human capital initiatives, including knowledge management and succession planning. Knowledge management involves capturing critical information and making the right information available to the right people at the right time to assure that knowledge and experience of the current staff is passed on to the next generation of NEH staff. This includes mentoring, early replacement hiring, and rehiring annuitants. (NEH has initiated some of these actions and we commend them for their efforts). One of the first steps would be to develop a measurement system (workload analysis tool) to determine the FTE needs of the agency, especially in the program offices and divisions.
- A critical component in implementing the human capital plan is provision for management succession. Individuals with the potential to become managers should be identified, provided on-the-job and formal management/leadership developmental opportunities. This would strengthen organizational stability, the retention of institutional knowledge, and the infusion of new talent. Then when the occasion occurs, these staff can be promoted to higher positions. This, as part of a human capital plan, should be linked to the agency's Strategic Plan for long-term achievement of the agency's mission.

Continuity of Operations Planning

The agency has developed a Continuity of Operations Plan (COOP). One part of the plan pertains only to information technology, and while extremely important, the agency relies on paper documents in conducting its business. In fiscal year 2009, the agency developed and performed a high level test of the COOP. A more extensive test of the COOP is planned for 2010. However, there still remains the need to fine-tune the COOP to include an out-of-area site, with training and testing of the actual ability to process transactions that are deemed essential. So this challenge still exists, but at a different level.

The plan now contains an agreement with the Institute of Museum and Library Services wherein either agency will assist the other in case a disaster occurs. The agreement only covers a disaster if it occurs in either one of the buildings occupied by each organization. The IMLS is located in Washington DC. If the downtown area of DC were closed, then execution of the agreement would not be viable. The agreement covers the assistance of Information Technology Equipment and it appears reasonable for a building disaster. One major area that it does not cover is payments to staff, suppliers, grantees, and contractors where payments are made through the U.S. Treasury system.

FY 2009 MANAGEMENT CHALLENGES AS OF SEPTEMBER 30, 2009 (Continued)

Having a formal, inclusive (covering all NEH operations), and tested COOP is a valuable tool for NEH readiness for a sudden event where the staff may not be able to work in the Old Post Office building for several weeks or more. NEH needs a plan that will have staff working within an acceptable timeframe if a manufactured or natural disaster prevented employees' admission to the building. NEH has taken positive action by obtaining the services of a software program where staff can work from home and access the NEH computer system. However, if no NEH staff has access to the building, staff may not be able to remotely access the computer system.

The plan must take into consideration the agency's heavy reliance on paper files and documentation. If the building is lost, NEH would lose those documents and records, as they are not adequately secured. In addition, the agency needs a plan that will allow it to make payments through the U.S. Treasury system.

The OIG understands that the agency has a committee working on finalization of the plan.

Grants Management

We are including grants management as a challenge because of the inherent nature of a grant. A grant is financial assistance for an approved activity with performance responsibility resting primarily on the grantee, with little or no Government involvement in the funded activity. Although NEH has few incomplete grants (determined based on the grantee submitting a final financial and narrative report), grant oversight and monitoring is a concern of OIG. NEH does not have agency-wide standard operating procedures concerning grant oversight and monitoring. For example, some program officials visit grantees on a regular basis, while others do not. The agency would benefit from an agency-wide policy wherein adverse conditions that may delay completion of a grant-funded project are identified, thus requiring more oversight and monitoring. The additional monitoring can be accomplished with site visits, telephone and teleconference, email, and by requesting specific documentation be sent to NEH.

The Single Audit Act (OMB Circular A-133 audits) was enacted to provide audit coverage for grant-making agencies. Originally, grantees receiving \$25,000 or more were subject to limited audit requirements; and grantees receiving \$100,000 or more were subject to the Circular. These audits were to give agencies such as NEH, oversight of more than grant expenditures. The law has been amended wherein the requirement for an audit is now \$500,000 or more of Federal expenditures by a grantee in its fiscal year. This threshold is high for NEH grantees, and consequently, a significant number of non-profit organizations do not receive audit coverage. Single Audits of colleges and universities, and state and local governments "include NEH" awards; however, NEH grants are too small to be included in audit testing. To further compound this situation, the OIG is troubled about the adequacy and reliability of information being reported in these audits. Public accountants or state auditors perform the audits. When the OIG conducted Quality Control Reviews of public accountants, we found many deficiencies in their work. In June 2007, the President's Council on Integrity and Efficiency issued a report stating that almost half of the audit reports had serious deficiencies making many unreliable.

We continue to include this as management challenge because of NEH's reliance on the grantee's self-monitoring reports. In addition, the divisions do some on-site monitoring, but not all monitoring is done on a risk-based approach. We strongly suggest each program develop written policies, procedures, and guidance on the selection of grantees to visit based on the risk involved.

PRIOR AUDIT REPORTS UNRESOLVED

- Several recommendations from prior FISMA and Information Technology Security reviews remain to be addressed. The staff of the NEH Office of Information Resources Management is currently working on implementing some of the recommendations.

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.....	9
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.....	7
Section 5(a)(5)	Instances Where Information Was Refused or Not Provided.....	*
Section 5(a)(6)	List of Reports Issued.....	3
Section 5(a)(7)	Summary of Reports Issued.....	4-6
Section 5(a)(8)	Audit Reports - Questioned Costs.....	18
Section 5(a)(9)	Audit Report - Funds To Be Put to Better Use.....	18
Section 5(a)(10)	Prior Audit Reports Unresolved.....	16
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.	- 1 -	\$363,747	\$ - 0 -
B. Which were issued during the reporting period.	- 1 -	\$37,213	\$ - 0 -
Subtotals (A+B)	- 2 -	\$400,960	\$ - 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).	- 1 -	\$37,213	\$ - 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 -	\$363,747	\$ - 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).