



NATIONAL ENDOWMENT FOR THE

Humanities

Office of Inspector General

**SEMIANNUAL
REPORT TO
CONGRESS**

For the Period October 1, 2013 through March 31, 2014

Report No. 50

**“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
concerning NEH programs, operations, or employees

Contact the OIG Hotline

1 (877) 786-7598

Mailing Address

Office of Inspector General — Hotline
National Endowment for the Humanities
Constitution Center
400 7th Street, SW
Washington, DC 20506

Fax

(202) 606-8329

Electronic Mail Hotline

oig@neh.gov

OIG Hotline Form

www.neh.gov/about/oig

Government employees are protected from reprisal

Contacts can remain anonymous

Information is treated as confidential

TABLE OF CONTENTS

EXECUTIVE SUMMARY.....	1
THE NATIONAL ENDOWMENT FOR THE HUMANITIES.....	2
THE OFFICE OF INSPECTOR GENERAL.....	2
AUDIT AND REVIEW ACTIVITIES.....	3
INVESTIGATIVE ACTIVITIES.....	10
HOTLINE ACTIVITIES.....	11
OTHER ACTIVITIES.....	12
TABLE I - REPORTING REQUIREMENTS.....	14
TABLE II - INSPECTOR GENERAL-ISSUED REPORTS..... WITH QUESTIONED COSTS	15
TABLE III - INSPECTOR GENERAL-ISSUED REPORTS WITH..... RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE	15
GLOSSARY OF AUDIT TERMINOLOGY.....	16
PEER REVIEW RESULTS.....	Appendix A

EXECUTIVE SUMMARY

This Semiannual Report to Congress highlights the activities of the National Endowment for the Humanities — Office of Inspector General for the period October 1, 2013 through March 31, 2014. OIG activities completed during this reporting period addressed NEH programs/operations and grantee operations/compliance, including oversight of non-Federal audits of NEH grantees. We also continued our monitoring of the audit activities of Leon Snead & Company, P.C., the independent auditors engaged to conduct the annual audit of the NEH financial statements for fiscal year ending September 30, 2013.

During this reporting period, we completed and issued inspection reports concerning the NEH Application Intake and Panel Development processes and the NEH information security program and practices, pursuant to the Federal Information Security Management Act of 2002 (FISMA). We also completed and issued a limited audit report on one NEH grantee and completed desk reviews of Single Audit reports issued for two NEH grantees.

The OIG engaged the services of Leon Snead & Company, P.C. (IPA) to conduct the annual audit of the NEH financial statements for fiscal year ending September 30, 2013, as required by the Accountability of Tax Dollars Act of 2002. During this reporting period, we continued to monitor the work of the auditors and we examined the audit working papers and draft report to ensure compliance with applicable requirements. The NEH received an unmodified opinion on the audited financial statements as of and for the years ended September 30, 2013 and 2012. No material internal control deficiencies or instances of non-compliance with applicable laws and regulations were noted by the IPA.

We received three Hotline complaints during this reporting period, one of which remains open as of the end of this reporting period.

Investigative activities during this reporting period include the continuation of a joint investigative effort with the National Science Foundation — Office of Inspector General and the initiation of a separate matter that has a nexus to the joint investigation.

We completed a review of the system of quality control for the audit organization of the Peace Corps Office of Inspector General (OIG) in effect for the year ended September 30, 2013. A system of quality control encompasses the Peace Corps OIG's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming with *Government Auditing Standards*. We determined that the system of quality control for the audit organization of the Peace Corps OIG in effect for the year ended September 30, 2013 was suitably designed and complied with to provide the Peace Corps OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The Peace Corps OIG received a peer review rating of "Pass".

We continue to enhance our capability to perform effective independent oversight and to foster mutually beneficial working relationships among OIG, NEH leadership and management, the Congress, and other stakeholders. The number of audits, inspections, and other oversight activities continue to increase. As of the end of this reporting period, we have several audits and inspections in process, the results of which we anticipate including in our semiannual report for the period ending September 30, 2014.

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. 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, Digital Humanities, and Federal/State Partnership.

The NEH recently launched an initiative entitled, *Standing Together*. This initiative encourages humanities programs that focus on the history, experience, or meaning of war and military service. It is designed to support programs that explore war and its aftermath through advanced research in the humanities; and public programs that promote discussion and understanding of the experiences of Americans affiliated with the armed services, whether active duty or veterans, and have clear potential to involve the nation's veterans and their families.

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 of the National Council on the Humanities. 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, 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 NEH programs and operations.

The OIG staff currently consists of the Inspector General, two auditors, and an administrative officer. The Deputy Inspector General position is vacant. 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.

AUDIT AND REVIEW ACTIVITIES

LIST OF REPORTS ISSUED

The OIG is responsible for external and internal audits, reviews, and inspections. External efforts include on-site grant audits, limited-scope desk audits, 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 and programmatic operations, inclusive of the NEH information security program. The OIG is also responsible for monitoring the work of the independent public accountant (IPA) engaged to conduct 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 draft reports to ensure compliance with applicable requirements.

Below 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 on page 15].

	<u>Report Number</u>	<u>Date Issued</u>
<u>INTERNAL REVIEW</u>		
NEH FY 2013 Review of Internal Controls in Accordance with the Federal Managers' Financial Integrity Act (FMFIA)	OIG-14-01 (IR)	11/06/2013
<u>FINANCIAL STATEMENT AUDIT</u>		
Final Audit Report NEH Financial Statement Audit ~ FY 2013 (Outsourced)	N/A	12/03/2013
<u>INSPECTIONS</u>		
Federal Information Security Management Act (FISMA) Reporting Document: Inspector General Section— Fiscal Year 2012	OIG-14-01 (I)	10/25/2013
Inspection of Application Intake and Panel Development	OIG-14-02 (I)	12/16/2013
<u>EXTERNAL AUDIT</u>		
Limited Audit — Eastern Michigan University	OIG-14-01 (EA)	02/13/2014
<u>DESK REVIEWS</u>		
Desk Review of the Single Audit Report for Year Ended October 31, 2012 — Georgia Humanities Council	OIG-14-01 (DR)	10/28/2013
Desk Review of the Single Audit Report for Year Ended October 31, 2012 — Michigan Humanities Council	OIG-14-02 (DR)	03/27/2014
<u>SINGLE AUDIT ACT REVIEWS</u>		
OMB Circular A-133 Reports	— See Page 7 —	

AUDIT AND REVIEW ACTIVITIES

SUMMARY OF REPORTS ISSUED

INTERNAL REVIEW/AUDIT/INSPECTIONS

NEH FY 2013 Review of Internal Controls in Accordance with the Federal Managers' Financial Integrity Act (FMFIA) November 6, 2013; OIG-14-01 (IR)

The *Federal Managers' Financial Integrity Act* (FMFIA), P.L. 97-255, as well as 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 ahead, 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, and personnel) are also responsible for (i) ensuring that systems are established, maintained, improved, and reviewed; and (ii) reporting any exceptions to the NEH Chairman.

We completed a limited review of the evaluations conducted by NEH Division/Office directors. Based on our independent assessment of the process, the OIG concluded that the fiscal year 2013 management control evaluation was conducted in accordance with OMB and FMFIA requirements. Further, based on the results of audits and inspections conducted by the OIG during fiscal year 2013, the IG concurred with the assertion that the NEH had no material weaknesses during the reporting cycle. However, we issued a separate memorandum to NEH management wherein we highlighted opportunities for existing management controls to be strengthened, and control objectives that should be addressed by future management evaluations.

Final Audit Report NEH Financial Statement Audit ~ Fiscal Year 2013 December 3, 2013

The Office of Inspector General (OIG) engaged Leon Snead & Company, P.C., (IPA) to perform the annual audit of the NEH financial statements, 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 draft report/management letter to ensure compliance with *Government Auditing Standards*, OMB Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*, and the *Financial Audit Manual*, issued jointly by the Government Accountability Office (GAO) and the President's Council on Integrity and Efficiency (PCIE); and (5) executing other procedures deemed necessary to oversee the contract and the audit.

The IPA issued an unmodified opinion on the NEH financial statements as of and for the years ended September 30, 2013 and 2012. The IPA's testing of internal control did not identify any material weaknesses in financial reporting 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 under *Government Auditing Standards* and OMB Bulletin 14-02. There are no prior year unresolved findings.

AUDIT AND REVIEW ACTIVITIES

INTERNAL REVIEW/AUDIT/INSPECTIONS (con't.)

Federal Information Security Management Act (FISMA) Reporting Document: Inspector General Section — Fiscal Year 2012 October 25, 2013; OIG-14-01 (I)

We completed the annual evaluation of NEH's information security program and practices pursuant to the Federal Information Security Management Act of 2002 (FISMA) for Fiscal Year (FY) 2012. The Inspector General Section of the 2012 Annual FISMA Report was transmitted to the Office of Management and Budget (OMB) on November 15, 2012 via the CyberScope portal. We subsequently issued a memorandum report to NEH management to summarize the results of the FY 2012 evaluation and discuss the status of the exceptions noted during our FY 2011 evaluation.

We determined that NEH's information security program and practices were generally consistent with FISMA requirements for FY 2012. However, we noted several areas that require management's attention based upon our responses to the FY 2012 Department of Homeland Security IG metrics used to evaluate the Agency's compliance with FISMA. We also noted that our FY 2011 comments related to Risk Management, Incident Response and Reporting, and Security Training were addressed by the Agency during FY 2012. Efforts were still outstanding during FY 2012 concerning Continuous Monitoring Management and Contingency Planning. We will report on the status of the outstanding matters when we issue the FY 2013 FISMA report.

Inspection of Application Intake and Panel Development December 16, 2013; OIG-14-02 (I)

The NEH accomplishes its mission by awarding grants for top-rated proposals examined by panels of independent, external reviewers. Application intake and panel development is the first step in the NEH application review process, and is a key activity in setting the stage for the selection of the most qualified proposals for support. We completed an inspection of the NEH application intake and panel development processes. 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 were considered part of the grant application intake process. Our inspection also included program staff review of draft proposals.

The objectives of our inspection were to determine:

1. How applications are screened for eligibility and completeness and the timing of this screening;
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 with established guidance pertaining to the review of draft proposals;
4. Whether program officials use Agency guidance, *NEH Principles and Considerations for Recruiting Panelists* when a panel is put together; and
5. Whether there is any division- and/or office-specific guidance concerning panel recruitment and/or composition, and the extent of its use.

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

We found that overall, the application intake and panel development processes are adequately designed to ensure fair and consistent treatment of applications submitted for funding consideration, and the risk of process manipulation is deemed to be low.

AUDIT AND REVIEW ACTIVITIES

INTERNAL REVIEW/AUDIT/INSPECTIONS (con't.)

Inspection of Application Intake and Panel Development (con't.)

December 16, 2013; OIG-14-02 (I)

During our inspection, we learned that panel development represents a challenging aspect of the application review process due to the time expended in researching and recruiting reviewers in order to achieve conformity with Agency (and in some instances, division-specific) guidance concerning panel composition. We recommended that Agency management investigate ways in which the functionality of the NEH Panelist/Reviewer Information System (PRISM) may be enhanced to facilitate the identification of prospective reviewers consistent with criteria defined by Agency and division-specific criteria.

EXTERNAL AUDIT

Limited Audit — Eastern Michigan University

February 13, 2014; OIG-14-01 (EA)

We completed a limited audit of Eastern Michigan University (the “University”) records as they relate to NEH grant PD-50002-06. The University submitted a final financial report to the NEH and conveyed that the related expenditures conform to the intended grant purpose, as stipulated by the NEH grant award. The principal objectives of this limited audit were to determine (1) whether grant expenditures were made in accordance with applicable provisions of the NEH *General Terms and Conditions for Awards to Organizations* (GTAC), joint NEH/NSF *Documenting Endangered Languages Program* guidelines, and the terms of the approved grant award; (2) the underlying reasons that led to the delinquent filing of the final financial and performance reports and the reduction in project scope; and (3) whether proper controls over the use of the Federal funds existed in accordance with minimum standards prescribed by OMB Circulars A-110 (2 CFR Part 215) and A-21 (2 CFR Part 220). Our limited audit was conducted in accordance with *Generally Accepted Government Auditing Standards* (GAGAS).

The following summary level issues were identified during our limited audit:

- Grant expenditure testing identified questioned costs totaling \$3,800;
- The University missed filing deadlines associated with final grant reports (both performance and financial). In fact, submission of the reports did not take place until the NEH-OIG became involved. Furthermore, the University failed to notify the NEH of the change in the Institutional Grant Administrator, therefore the related delinquency notices generated by the NEH were sent to an inactive email address and never acted upon by University management; and
- Several unfortunate events prevented the grantee from completing the defined project deliverables, resulting in the deobligation of approximately \$62,000 in grant funds.

The University concurred with our findings and has implemented the necessary corrective action.

AUDIT AND REVIEW ACTIVITIES

EXTERNAL AUDIT (con't.)

Limited Audit — Eastern Michigan University (con't.) February 13, 2014; OIG-14-01 (EA)

We also identified several areas for improvement within NEH internal operations concerning the following:

- Development of new automated tools to improve the monitoring of delinquency notices.
- Development of a tool within the Agency's grant management system (eGMS) to track incomplete project deliverables.
- Implementation of requirement for a grantee to notify the NEH of a change in the Institutional Grant Administrator.

DESK REVIEWS

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 undergo 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 this reporting period, we issued letters to governance officials for two NEH grantees, communicating the results of our desk reviews of audit reports issued in accordance with OMB Circular A-133. The objectives of the desk reviews were to: (1) determine whether the audit reports are acceptable based on 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 one report was "Acceptable" and one report was "Technically Deficient". The report deemed to be technically deficient had to be corrected by the non-Federal auditor and resubmitted to the Federal Audit Clearinghouse.

SINGLE AUDIT ACT REVIEWS

We receive communications from other Federal agencies regarding Single Audit findings and desk review results, (primarily the Department of Health and Human Services OIG and the National Science Foundation OIG) and we routinely perform queries of the Federal Audit Clearinghouse to determine the reporting of Single Audit findings applicable to NEH awards. We occasionally receive Single Audit reports directly from NEH grantees.

During the period ended March 31, 2014, we reviewed 29 OMB Circular A-133 audit report communications. Twelve audit reports contained findings affecting NEH programs. We issued a memorandum to NEH management summarizing the independent auditor (IPA) findings, [OIG-14-01 (CAA); dated March 4, 2014], wherein we advised management to gain an understanding of the deficiencies reported by the IPAs and to follow-up with the grantees, as appropriate.

AUDIT AND REVIEW ACTIVITIES

WORK IN PROGRESS (as of March 31, 2014)

Inspection ~ NEH Government Charge Card/Travel Card Programs

On October 5, 2012, the President signed into law the Government Charge Card Abuse Prevention Act of 2012 (“Charge Card Act”) [P.L. 112-194], which reinforced the Administration’s efforts to prevent waste, fraud, and abuse of government-wide charge card programs. Consistent with existing guidance contained in OMB Circular A-123, Appendix B, *Improving the Management of Government Charge Card Programs*, the Charge Card Act requires all executive branch agencies to establish and maintain safeguards and internal controls for purchase cards, travel cards, and centrally-billed accounts.

The Charge Card Act also requires agency Inspectors General to (1) conduct periodic risk assessments of agency charge card programs to analyze the risks of illegal, improper, or erroneous purchases; and (2) submit an annual purchase and travel card audit recommendation status report to the OMB for compilation and transmission to Congress and the Government Accountability Office. Due to this new mandate and fact that the NEH-OIG last reviewed the NEH purchase card program approximately ten years ago, an inspection of the NEH Government Charge Card and Travel Card programs was initiated. The results of this inspection will establish a baseline for the required risk assessments that must be performed by the OIG (as least annually) moving forward.

Inspection ~ Federal Information Security Management Act (FISMA) — Fiscal Year 2013

The Federal Information Security Management Act of 2002 (FISMA) requires each agency to develop, document, and implement an agency-wide information security program. Each year, the OIG conducts an independent evaluation of the NEH information security program, pursuant to the requirements of FISMA.

Limited Audit ~ Film Forum, Inc.

The principal objectives of this limited audit are to determine that (1) grant expenditures related to NEH grant TR-50071-09 were made in accordance with applicable provisions of NEH’s *General Terms and Conditions for Awards to Organizations*, and the specific terms of the grant award; (2) Film Forum, Inc. properly implemented a comprehensive subrecipient monitoring program; and (3) proper controls over use of Federal funds exist in accordance with minimum standards prescribed by OMB Circulars A-110 (2 CFR Part 215) and A-122 (2 CFR Part 230).

Inspection ~ Utah Humanities

The principal objective of this inspection is to verify the propriety of financial and performance reporting related to NEH grant BC-50562-10. OMB Circular A-110 requires recipients of Federal awards to maintain a financial management system that provides for the accurate, current, and complete disclosure of the financial results of each federally-sponsored project or program. The Circular also requires the maintenance of records that adequately identify the source and application of funds for federally-sponsored activities.

AUDIT AND REVIEW ACTIVITIES

WORK IN PROGRESS (as of March 31, 2014) [con't.]

Inspection ~ Amherst College

The principal objective of this inspection is to verify the propriety of financial reporting related to NEH grant FV-50284-11. OMB Circular A-110 requires recipients of Federal awards to maintain a financial management system that provides for the accurate, current, and complete disclosure of the financial results of each federally-sponsored project or program. The Circular also requires the maintenance of records that adequately identify the source and application of funds for federally-sponsored activities.

Limited Audit ~ University of Chicago

The principal objectives of this limited audit are to determine whether (1) grant expenditures related to NEH grant PF-50089-10 were made in accordance with applicable provisions of the NEH *General Terms and Conditions for Awards to Organizations*, and the specific terms of the grant award; and (2) proper controls over use of Federal funds exist in accordance with minimum standards prescribed by OMB Circulars A-110 (2 CFR Part 215) and A-21 (2 CFR Part 220).

Quality Control Review ~ Delaware Humanities Council

The primary objective of this quality control review is to determine whether the Single Audits for the Council's fiscal years ended October 31, 2010, October 31, 2011, and October 31, 2012 were conducted in accordance with the auditing and reporting requirements promulgated by Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

CIGIE Cloud-Computing Project

Cloud computing offers the potential for significant cost savings through faster deployment of computing resources, a decreased need to buy hardware or build data centers, and enhanced collaboration capabilities. To accelerate the Federal Government's use of cloud-computing strategies, OMB requires agencies to adopt a 'Cloud First' policy when considering IT purchases and evaluate secure, reliable, and cost-effective cloud-computing alternatives when making new IT investments.

Effectively managing the delivery of cloud-computing services requires agencies to develop contracts that address business and security risks, as well as properly define and provide a mechanism to monitor agency and cloud service providers' responsibilities. Additionally, agencies must have strong governance practices in place, including organizational control and oversight policies, procedures, and standards for IT service acquisition and for monitoring the use of IT/cloud services.

The NEH-OIG volunteered to participate in the CIGIE collaborative cloud-computing project. The objective of the project is to complete an evaluation of each participating agency's efforts to adopt cloud-computing technologies, and includes a review of contracts issued by participating agencies for cloud services, as they transitioned to a cloud-computing model, for compliance with applicable standards.

INVESTIGATIVE ACTIVITIES

BACKGROUND

The Inspector General Act of 1978, as amended, provides the authority for the Office of Inspector General to investigate possible violations of criminal or civil laws, administrative regulations, and agency policies that impact the programs and operations of the NEH. In the past, we have obtained assistance from other OIGs, the Federal Bureau of Investigation (FBI), the Postal Inspection Service, and other investigative entities.

Over the years, the OIG has received allegations via the OIG Hotline and did not have sufficient resources to initiate an investigation. To address this challenge, we continue to inquire of other OIGs concerning their willingness and ability to assist us on an “as needed” basis under a reimbursable agreement. A few OIGs have responded that 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.

INVESTIGATIVE ACTIVITIES

During this reporting period, we continued in a joint investigative effort with the National Science Foundation — Office of Inspector General (NSF OIG). The NSF OIG is leading the investigation. In addition to the joint investigative effort with the NSF OIG, there is one other matter, that has a nexus to the joint investigation, currently being investigated by the NEH OIG.

MATTERS REFERRED TO PROSECUTIVE AUTHORITIES

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

HOTLINE ACTIVITIES

We maintain a toll-free Hotline number and a dedicated agency e-mail address to provide additional confidentiality for individuals bringing matters to the attention of the OIG. We also have an interactive, web-based template to facilitate the submission of complaints to the OIG. The complaint template is accessible via the OIG homepage, (www.nih.gov/about/oig). The toll-free Hotline number, facsimile, web-based complaint form, e-mail address, and ground mail services are efficient and effective means for NEH employees, NEH grantees and contractors, and the general public to communicate allegations of fraud, waste, abuse, mismanagement, and misconduct concerning NEH programs/operations to the OIG.

When the OIG receives a complaint or allegation of a criminal or administrative violation, a preliminary inquiry is conducted to determine the appropriate action to take. This decision could result in the initiation of an investigation or an audit; referral to an NEH office/division or another Federal agency; or no further action. Upon determining that a matter represents a criminal violation, we seek assistance from the Federal Bureau of Investigations (FBI), another Federal Inspector General, or the United States Department of Justice.

We received three hotline contacts during the reporting period. One matter was rescinded by the contact to allow for internal resolution of the issue and one matter was determined to lack merit. There is one hotline contact open as of the end of the reporting period.

SUMMARY OF HOTLINE ACTIVITY

Open at beginning of period	0
Matters brought to the OIG during the reporting period	3
Total Hotline Contacts	3
Closed, referred, or no action deemed necessary during the reporting period	2
Open at end of period	1

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 reporting period, no legislative reviews were required for the NEH.

WORKING WITH THE AGENCY

OIG staff attended various NEH meetings – panel meetings (where grant applications are reviewed by outside consultants), meetings of the National Council on the Humanities, and monthly senior staff meetings. OIG staff occasionally contribute to the discussions, but the OIG does not participate in policymaking.

The IG delivered a presentation about the mission, responsibilities, and activities of the NEH Office of Inspector General during Project Directors’ meetings convened by the NEH Division of Education (*NEH Summer Programs for 2014* and *NEH Humanities Initiatives at Historically Black Colleges and Universities, Hispanic-Serving Institutions, and Tribal Colleges and Universities*). The meetings were held in November 2013 and February 2014, respectively.

The IG also participated with the NEH Deputy Chairman, program staff, and grant management staff in the 2013 National Humanities Conference sponsored by the Federation of State Humanities Councils. The IG moderated a conference session wherein various accountability and compliance topics applicable to state council organizations were discussed. The session was attended by executive directors and council staff charged with fiscal responsibilities.

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 ended March 31, 2014, the IG regularly attended monthly CIGIE meetings (and provided responses to various CIGIE inquiries) and bi-monthly meetings of the CIGIE sub-group representing the “Smaller OIGs”.

The Inspector General and a senior auditor also participated in the Single Audit Roundtable held in October 2013.

OTHER ACTIVITIES

OIG INTERNET

OIG audit/review reports and semiannual reports are posted on the internet. The reports are accessible through the OIG homepage on the NEH website (www.neh.gov/about/oig).

To promote 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 Council of Inspectors General on Integrity and Efficiency website (IGNET).

TECHNICAL ASSISTANCE

Throughout this reporting period, OIG staff provided technical help to NEH staff, grantees, and independent public accountants about various non-profit accounting and compliance-related matters. We are generally consulted about matters related to implementation of the audit and reporting requirements of OMB Circular A-133.

“AUDIT READINESS” AWARENESS CAMPAIGN

The OIG executes an “Audit Readiness” awareness campaign via e-mail, that corresponds with NEH grant award cycles. The objective of the campaign is to proactively promote accountability and to disseminate guidance that would assist NEH grant recipients in their efforts to preclude unfavorable outcomes should the organizations’ NEH grant awards be selected for audit. The e-mail communication emphasizes the value of each recipient’s understanding of the NEH terms and conditions specific to their award 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 the NEH grant awards. Highlighted in the communications are specific areas wherein problems are commonly found during audits of NEH grant recipients 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 ended March 31, 2014, 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	Total Value of Awards
Office of Challenge Grants	15	\$6,100,000
Division of Preservation and Access	6	\$1,337,500
Division of Education Programs	4	\$ 395,625
Division of Public Programs	4	\$1,023,528

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.....	12
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.....	10
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.....	4-7
Section 5(a)(8)	Audit Reports - Questioned Costs.....	15
Section 5(a)(9)	Audit Report - Funds To Be Put to Better Use.....	15
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 -	\$ 63,868	\$ - 0 -
B. Which were issued during the reporting period.	- 1 -	\$ 3,800	\$ - 0 -
Subtotals (A+B)	- 1 -	\$ 67,668	\$ - 0 -
C. For which a management decision was made during the reporting period.			
i. Dollar value of disallowed costs.	- 2 -	\$ 30,010	\$ - 0 -
ii. Dollar value of costs not disallowed	- 0 -	\$ 12,088	\$ - 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 -	\$ 25,570	\$ - 0 -
E. Reports for which no management decision was made within six months of issuance.	- 0 -	\$ 25,570	\$ - 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 September 30, 2013, the Federal Elections Commission Office of Inspector General (FEC OIG) issued a System Review Report on the audit organization of the NEH OIG in effect for the year ended March 31, 2013. The FEC OIG 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 with deficiency*.

(15) Outstanding Recommendations from any Peer Review of the NEH OIG. The FEC OIG recommended that the NEH should adhere to the requirements specified in the IG Act, as amended by Dodd-Frank, which stipulates that the NEH IG shall report only to the National Council on the Humanities. Corrective action had not been fully implemented in response to this recommendation as of March 31, 2014. Full implementation is anticipated by April 30, 2014. There are no other 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 March 27, 2014, the NEH OIG issued a System Review Report on the Peace Corps (PC) Office of Inspector General audit organization in effect for the year ended September 30, 2013. We found that the system of quality control for the audit organization of the PC OIG had been suitably designed and complied with to provide PC OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The PC OIG received a peer review rating of *pass*.