



NATIONAL ENDOWMENT FOR THE

Humanities

Office of Inspector General

**SEMIANNUAL
REPORT TO
CONGRESS**

For the Period April 1, 2012 through September 30, 2012

Report No. 47

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

THE OFFICE OF INSPECTOR GENERAL

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

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

Call the OIG Hotline

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EXECUTIVE SUMMARY

Sincere thanks to the Office of the Inspector General (OIG) staff for all of their efforts and commitment to the mission of this office. Without their professionalism and dedication, the effectiveness of this office would deteriorate. OIG activities during this reporting period addressed internal agency operations, grantee operations/compliance, and oversight of non-Federal audit of NEH grantees.

The OIG issued a report detailing exceptions taken during our annual evaluation of the agency's information security program and practices for FY 2011, pursuant to the Federal Information Security Management Act of 2002 (FISMA). We specifically identified the need for improvements concerning Risk Management, Incident Response and Reporting, Security Training, Continuous Monitoring Management, and Contingency Planning. As of the end of this reporting period, NEH management has implemented corrective action in response to our comments concerning Risk Management, Incident Response and Reporting, and Security Training. We will complete our FY 2012 FISMA evaluation and issue a report during the next semi-annual reporting period.

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, 2012, as required by the Accountability of Tax Dollars Act of 2002. The final report will be issued in November 2012.

Investigative efforts have been steady over the past six months. The Deputy Inspector General continues to work closely with the National Science Foundation OIG concerning one matter. Two additional matters were active as of the end of the reporting period.

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

THE NATIONAL ENDOWMENT FOR THE HUMANITIES

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

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

Grants are awarded through four divisions - Research Programs, Education Programs, Preservation and Access, and Public Programs -- and three offices - Challenge Grants, Digital Humanities, and Federal/State Partnership.

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

THE OFFICE OF INSPECTOR GENERAL

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

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

The OIG staff currently consists of the Deputy Inspector General and two auditors. The 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 and an auditor.

AUDIT AND REVIEW ACTIVITIES

LIST OF REPORTS ISSUED

The OIG is responsible for external and internal audits. External efforts include on-site grant audits, limited scope desk audits, accounting system surveys, review of OMB Circular A-133 audit reports, and on-site quality control reviews of CPA workpapers. Internal efforts consist of audits, inspections, and reviews/evaluations of NEH administrative, programmatic, and financial operations. The OIG is also responsible for monitoring the work of the independent public accountant (IPA) 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 reports to ensure compliance with applicable requirements.

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

	<u>Report Number</u>	<u>Date Issued</u>
<u>INTERNAL AUDITS/REVIEWS/INSPECTIONS</u>		
Federal Information Security Management Act (FISMA) Inspector General Section of the Reporting Document to the Office of Management and Budget — Fiscal Year 2011	OIG-12-02 (I)	05/18/2012
<u>EXTERNAL AUDITS</u>		
Limited Audit — Southeastern Library Network (SOLINET)/ Lyasis	OIG-12-02 (EA)	07/17/2012
Limited Audit — Asia Society and Museum	OIG-12-03 (EA)	06/08/2012
<u>ACCOUNTING SYSTEM SURVEYS</u>		
American Association for State and Local History	OIG-12-02 (TS)	07/13/2012
Open Knowledge Commons	OIG-12-03 (TS)	09/12/2012
<u>QUALITY CONTROL REVIEW</u>		
Modified Quality Control Review of Deloitte & Touche LLP — FY 2009 and FY 2010 Single Audits of the Asian Art Museum of San Francisco	OIG-12-02 (QCR)	07/20/2012
<u>SINGLE AUDIT ACT REVIEWS</u>		
OMB Circular A-133 Reports	— See Page 6 —	
<u>ADVISORY MEMORANDUM</u>		
NEH Challenge Grant Award to the Historic Preservation Trust of Lancaster County	N/A	05/03/2012

AUDIT AND REVIEW ACTIVITIES

SUMMARY OF REPORTS ISSUED

INTERNAL AUDITS/REVIEWS/INSPECTIONS

**Federal Information Security Management Act (FISMA)
Inspector General Section of the Reporting Document to the
Office of Management and Budget — Fiscal Year 2011
May 18, 2012; OIG-12-02 (I)**

We completed the fiscal year 2011 evaluation of the NEH's information security program and practices, pursuant to the Federal Information Security Management Act of 2002 (FISMA). The results of our evaluation were documented in the Inspector General Section of the NEH 2011 Annual FISMA Report to the Office of Management and Budget, and submitted on November 15, 2011 via the Cyberscope portal. We used the FY 2011 Department of Homeland Security metrics to evaluate NEH's compliance with FISMA.

We determined that NEH's security program and practices were generally consistent with FISMA requirements for FY 2011. However, we specifically identified the need for improvements concerning the areas of Risk Management, Incident Response and Reporting, Security Training, Continuous Monitoring Management, and Contingency Planning.

EXTERNAL AUDITS

**Limited Audit — Southeastern Library Network (SOLINET)/Lyrasis
July 17, 2012; OIG-12-02 (EA)**

We performed a limited audit of the Southeastern Library Network/Lyrasis (the "Entity") records as they relate to NEH grant PE-50012-08. The Entity submitted a final financial report to the NEH and conveyed that the related expenditures and cost-share conform to the intended grant purpose, as stipulated in the individual NEH grant award. The principal objectives of our limited audit were to determine that (1) grant expenditures were made in accordance with applicable provisions of NEH's *General Terms and Conditions for Awards to Organizations*, NEH's *Preservation and Access Education and Training* guidelines, and the terms of the approved grant award; (2) the Entity properly tracked and met the anticipated cost-sharing; and (3) proper controls over the use of Federal funds existed in accordance with minimum standards prescribed in OMB Circulars A-110 (2 CFR Part 215) and A-122 (2 CFR Part 230). Our limited audit was conducted in accordance with *Generally Accepted Government Auditing Standards* (GAGAS).

Overall, the Entity provided the expected regional preservation field services to libraries, archives, and other cultural repositories throughout the southeastern United States. However, we identified the following compliance findings during our testing:

- Payroll costs charged to the grant were based upon the approved budget rather than an actual "after-the-fact" determination, which violates salary/wage substantiation rules articulated in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*.
- The Entity's record retention guidelines do not fully comply with Federal administrative requirements.
- The Entity neglected to report income earned during the award period on the final Financial Status Report submitted to the NEH.

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

AUDIT AND REVIEW ACTIVITIES

EXTERNAL AUDITS (con't.)

Limited Audit — Asia Society and Museum June 8, 2012; OIG-12-03 (EA)

In 2009, the NEH awarded the Asia Society and Museum, (the “Society”) a million dollar, multi-year grant entitled, “*The Buddha and Pilgrimage and Buddhist Art*” (GI-50066-09). The Society underwent an OMB Circular A-133 audit (Single Audit) for fiscal year ended June 30, 2010. The audited Schedule of Expenditures of Federal Awards (SEFA) for FY 2010 reported expenditures related to NEH grant GI-50066-09 equal to the full award amount, (\$1,000,000). As the Federal oversight agency, we elected to “piggyback” off of the related work performed by the independent auditor (IPA) and we conducted a modified *Quality Control Review* (QCR) of the FY 2010 single audit [OIG-12-01 (QCR) dated March 6, 2012]. Based on the results of the QCR, we decided to expand testing in two areas. The objectives of the resulting limited audit were to:

- Review the Society’s existing procurement policies and procedures to determine whether they are sufficient to ensure compliance with Federal procurement and suspension/debarment compliance standards; and
- Determine whether the subrecipient’s expenses were allowable and expended in accordance with grant objectives, OMB cost circulars, and the approved budget.

Our limited audit was conducted in accordance with *Generally Accepted Government Auditing Standards* (GAGAS).

Overall, the NEH grant resulted in the successful production of a video documentary and museum exhibitions that were well received. We did not identify any questioned or unallowable expenses; however, several areas for improvement were noted. Specifically:

- We determined that the Society limits competition in certain areas and recommended that the organization expand their existing *Purchasing Policies and Procedures* to ensure compliance with applicable Federal procurement and suspension/debarment requirements.
- Our detailed testing of the subrecipient expenditures and review of the related controls revealed two compliance-related findings at the subrecipient level — (1) lack of formalized procedures to ensure entities receiving contracts in excess of \$25,000 have not been suspended or debarred by the Federal government; and (2) failure to utilize a time-and-effort reporting system to track effort expended on the NEH project. We recommended that the Society strengthen subrecipient monitoring procedures to ensure conformance with the terms and conditions of the NEH award.

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

AUDIT AND REVIEW ACTIVITIES

ACCOUNTING SYSTEM SURVEYS

American Association for State and Local History Nashville, TN

July 13, 2012; OIG-12-02 (TS)

We were informed about a financial irregularity perpetuated by a former employee of the American Association for State and Local History (AASLH). The AASLH currently administers grants awarded by the Institute of Museum and Library Services (IMLS) and the NEH. In collaboration with the IMLS, we conducted an accounting system survey of the AASLH to determine whether the organization adopted corrective measures in response to the fraud, and improved its financial management system and related controls.

We concluded that, upon implementation of the NEH-OIG recommendations, the organization's upgraded accounting system, management controls, Governance oversight, and formalized policies/procedures should allow the organization to sufficiently manage and account for NEH grant funds moving forward. We specifically identified several areas in which existing financial management controls must be improved and made several suggestions to further segregate duties, which would ultimately improve internal controls. We also identified a potential cash flow issue that warrants further scrutiny and continuous monitoring by both IMLS and NEH management and advised that the inclusion of certain safeguards in future grant awards should be considered, as suggested by OMB Circular A-110, Subpart B, Paragraph .14, *Special award conditions*.

Open Knowledge Commons Cambridge, MA September 12, 2012; OIG-12-03 (TS)

We conducted a pre-award accounting system survey of Open Knowledge Commons (the "Commons"). The Commons was recently approved for a substantial NEH Digital Humanities grant, representing support for the incorporation and launch of the Digital Public Library of America (DPLA) — a groundbreaking project that seeks to digitize and bring together the contents of our nation's libraries and archives, and make them freely available to all online. The objective of our survey was to obtain information to determine the adequacy of the organization's accounting system, management controls, and policies and procedures designed to administer NEH grant funds.

We concluded that, upon implementation of the NEH-OIG recommendations, the organization's upgraded accounting system, management controls, Governance oversight, and formalized administrative policies/procedures should allow the organization to sufficiently manage and account for NEH grant funds. We specifically identified several areas in which existing financial management controls required improvement and obtained written assurances from the principals of the Commons that they will abide by the terms of the NEH award.

SINGLE AUDIT ACT REVIEWS

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

During the period ended September 30, 2012, we reviewed 28 OMB Circular A-133 audit reports. None of the reports contained findings that required action by NEH management.

AUDIT AND REVIEW ACTIVITIES

QUALITY CONTROL REVIEW

Modified Quality Control Review of Deloitte & Touche LLP FY 2009 and FY 2010 Single Audits of the Asian Art Museum of San Francisco July 20, 2012; OIG-12-02 (QCR)

As the Federal oversight agency for the Asian Art Museum of San Francisco (the “Museum”), we performed a modified quality control review of the June 30, 2009 and June 30, 2010 single audits conducted by Deloitte & Touche LLP (the “IPA”). The overarching goals of this engagement were to (1) determine whether the single audits 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*; (2) determine the sufficiency of the audit coverage of NEH grant MI-50070-07 by performing a focused review of the IPA’s Federal compliance testing related to the award; and (3) ensure additional NEH challenge grant audit procedures were properly executed, as required by our previously issued desk review report, [OIG-11-06 (DR)].

We concluded that the IPA generally met auditing standards and OMB Circular A-133 requirements, and properly addressed concerns raised by our previous desk review; therefore, no additional audit work was required of the IPA. However, we identified (1) working paper documentation issues that required supplemental verbal explanation; and (2) several working paper inconsistencies, which were shared with the audit partner. The first item was satisfactorily resolved and the working paper inconsistencies were limited to minor quality deficiencies that did not necessitate corrective action. We determined that the IPA detail tested over 75 percent of the total expenditures associated with the NEH grant and no unallowable costs were identified. Museum management subsequently addressed the compliance findings (as documented in the FY 2011 audit report). Based upon these facts, we decided that no further testing of NEH grant MI-50070-07 was necessary.

WORK IN PROGRESS (as of September 30, 2012)

Inspection ~ Grant Application In-take Process and Panel Development

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

Inspection ~ Federal Information Security Management Act (FISMA) — Fiscal Year 2012

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 the FISMA.

INVESTIGATIVE ACTIVITIES

BACKGROUND

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

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

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

OPEN AT MARCH 31, 2012

Four matters were open as of March 31, 2012, two of which remain open as of the end of this reporting period.

CONTACTS DURING THE SIX-MONTH PERIOD ENDED SEPTEMBER 30, 2012

We received three (3) contacts during the current reporting period.

One matter was disclosed to the OIG by the Executive Director of a state humanities council. The Executive Director reported a financial irregularity that occurred at the organization, which was perpetrated by a former fiscal officer. This matter remains open as details concerning the irregularity are being assessed by the OIG.

One contact was initiated by a participant in an NEH-funded summer seminar. The participant reported inappropriate and humiliating treatment extended to the participant by the director of the summer seminar. Subsequent to a preliminary interview with the participant, the matter was referred to the NEH Division of Education.

One contact represented a complaint received from a detainee at the Nye County Detention Center. The complaint was referred to the U.S. Department of Justice, Office of Inspector General — Civil Rights and Civil Liberties Complaints.

OPEN AT SEPTEMBER 30, 2012

Three matters are open as of September 30, 2012.

INVESTIGATIVE ACTIVITIES

MATTERS REFERRED TO PROSECUTIVE AUTHORITIES

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

HOTLINE AND PREVENTION ACTIVITIES

We maintain a toll-free Hotline number, an agency e-mail address, and an internet address to provide additional confidentiality for individuals bringing matters to the attention of the OIG. During this reporting period, we implemented an interactive, web-based template designed to facilitate the submission of complaints to the OIG. The complaint template is accessible via the OIG homepage, (www.neh.gov/about/oig). We periodically issue agency-wide e-mail messages informing NEH staff of violations that are reportable to the OIG. Posters advising staff to contact the OIG are displayed throughout the agency's facilities.

The Deputy Inspector General also delivers a brief presentation during meetings convened by NEH program officials involving project directors affiliated with new NEH grant awards. The presentation includes an overview of OIG operations (including the OIG Hotline) and emphasizes the importance of the recipients' efforts to understand the administrative requirements and specific terms and conditions applicable to their respective awards.

SUMMARY OF INVESTIGATION ACTIVITY

Open at beginning of period	4
Matters brought to the OIG during the reporting period	3
Total investigative contacts	7
Closed, referred, or no action deemed necessary during the reporting period	4
Open at end of period	3

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, OIG staff continued to actively participate in the efforts of the CIGIE Grant Reform Working Group. This working group was organized to review the Advanced Notice of Proposed Guidance published in the Federal Register on February 28, 2012 by the Office of Management and Budget (OMB) entitled, *Reform of Federal Policies Relating to Grants and Cooperative Agreements; Cost Principles and Administrative Requirements (Including Single Audit Act)*, and to develop comments for consideration by the OMB. We submitted comments concerning the proposed reforms that were incorporated in the consolidated response submitted by the CIGIE Grant Reform Working Group.

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), National Council meetings, and monthly senior staff meetings. OIG staff may contribute to the discussions, but the OIG does not participate in policymaking.

The Deputy IG delivered a presentation about the mission, responsibilities, and activities of the NEH Office of Inspector General and the OIG Hotline during the Digital Humanities Project Directors’ meeting held at the NEH in September 2012.

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 September 30, 2012, the Deputy IG regularly attended monthly CIGIE meetings (and provided input, as requested), bi-monthly meetings of the Federal Audit Executive Council (FAEC), bi-monthly meetings of a recently established sub-group of the CIGIE representing the “Smaller OIGs”, and the annual IG Conference held in May 2012. The Deputy Inspector General and a staff auditor participated in the Single Audit Roundtable held in May 2012.

INTRA-GOVERNMENTAL ACTIVITY

Collaboration with the National Science Foundation ~ Office of Inspector General

The Deputy Inspector General is participating in a joint investigative effort concerning a major media grantee. The joint effort involves OIG staff from three (3) Federal agencies, (inclusive of the NEH). The National Science Foundation ~ OIG is leading the investigation.

OTHER ACTIVITIES

OIG INTERNET AND INTRANET

The OIG has posted audit/review reports and semiannual reports on the internet and on the NEH intranet. The reports are accessible through the NEH homepage and the OIG homepage (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 IGMET website.

TECHNICAL ASSISTANCE

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

“AUDIT READINESS” AWARENESS CAMPAIGN

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

During the reporting period ended September 30, 2012, e-mail communications were sent as noted below. We have reasonable assurance that all of the awardees received a copy of the communication.

NEH Office or Division	Number of Awardees	Total Value of Awards
Division of Public Programs	45	\$12,920,316
Division of Preservation and Access	28	\$5,028,874
Office of Challenge Grants	27	\$9,825,250
Office of Digital Humanities	9	\$2,106,057
Division of Education Programs	33	\$6,596,725
Division of Research Programs	11	\$2,705,931

TABLE I

REPORTING REQUIREMENTS

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

<u>IG Act Reference</u>	<u>Reporting Requirements</u>	<u>Page</u>
Section 4(a)(2)	Regulatory and Legislative Reviews.....	10
Section 5(a)(1)	Significant Problems, Abuses, and Deficiencies.....	*
Section 5(a)(2)	Recommendations for Corrective Action	*
Section 5(a)(3)	Prior Significant Recommendations Unimplemented.....	*
Section 5(a)(4)	Matters Referred to Prosecutive Authorities.....	9
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.....	13
Section 5(a)(9)	Audit Report - Funds To Be Put to Better Use.....	13
Section 5(a)(10)	Prior Audit Reports Unresolved.....	*
Section 5(a)(11)	Significant Revised Management Decisions.....	*
Section 5(a)(12)	Significant Management Decisions with which OIG Disagreed.....	*
Section 5(a)(14-16)	Peer Review Results.....	Appendix A

* None this period

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

	Number Of Reports	Questioned Cost	Unsupported Cost
A. For which no management decision has been made by the commencement of the reporting period.	- 1 -	\$33,294	\$ - 0 -
B. Which were issued during the reporting period.	- 0 -	\$ - 0 -	\$ - 0 -
Subtotals (A+B)	- 1 -	\$33,294	\$ - 0 -
C. For which a management decision was made during the reporting period.			
i. Dollar value of disallowed costs.	- 1 -	\$ 1,444*	\$ - 0 -
ii. Dollar value of costs not disallowed	- 0 -	\$ - 0 -	\$ - 0 -
iii. Dollar value of costs not disallowed based on the "Value of Services Received."	- 0 -	\$31,850*	\$ - 0 -
D. For which no management decision has been made by the end of the reporting period.	- 0 -	\$ - 0 -	\$ - 0 -
E. Reports for which no management decision was made within six months of issuance.	- 0 -	\$ - 0 -	\$ - 0 -

* Of the total questioned (\$33,294), NEH management allowed \$31,850, which represents salary/fringe costs not supported by employee time and effort reports.

**TABLE III
INSPECTOR GENERAL-ISSUED REPORTS
WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE**

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

GLOSSARY OF AUDIT TERMINOLOGY

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

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

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

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

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

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

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

APPENDIX A

PEER REVIEW RESULTS

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

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

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

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