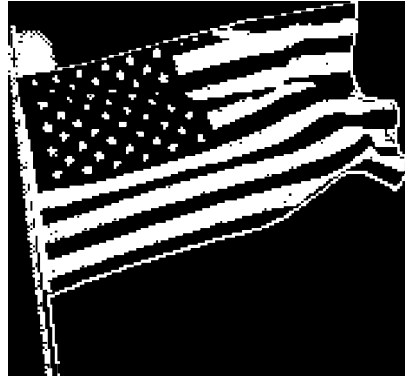


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SEMIANNUAL
REPORT
TO THE
CONGRESS

NATIONAL ENDOWMENT FOR THE HUMANITIES

APRIL 1, 2001 TO SEPTEMBER 30, 2001

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

Inspector General's Message

On behalf of the OIG staff, I wish to express our heartfelt sorrow to all Americans who suffered from the events of September 11, 2001, and the recent bio-terrorism attacks. It will take a while to recover emotionally from these events, but we believe the American spirit and courage will not be destroyed. Not surprisingly, these events have made us stronger and brought all Americans closer.

The humanities teach us about human civilization. It teaches us about the American spirit and courage. Many nations are saying we should study their history and culture to learn why they do not like America. While this may have some truth, it is equally important that these people and American people learn more about United States history. Everyone should know about our country's Constitution, Bill of Rights and how we live in a free society. As President Abraham Lincoln stated, the United States is a "... government of the people, by the people, for the people." When one has an understanding and appreciation of our government, no one, from wherever they are, will be able to really believe that there is any logical reason for the horrific events of September 11, 2001.

God Bless America.

Sheldon L. Bernstein

NATIONAL ENDOWMENT FOR THE HUMANITIES

WASHINGTON, D.C. 20506



Phone 202/606-8350 Fax 202/606-8329 E-mail oig@neh.gov

October 30, 2001

Honorable William R. Ferris
Chairman
National Endowment for the Humanities
Washington, DC 20506

Enclosed is the Semiannual Report for the Office of Inspector General (OIG) for the period April 1, 2001 – September 30, 2001. The report, which is required by the Inspector General Act as amended, provides an overview of the activities of the OIG during this six-month period. The Act requires that you transmit this report, with your Report of Final Action, to the appropriate congressional committees within 30 days of receipt.

I look forward to working with the new Chairman, agency managers, the NEH employees Union, Congress, and NEH's various stakeholders to help ensure that NEH delivers grant awards in an economical and efficient manner.

As this is the last report during your term as Chairman, I want to thank you for your support.

Respectfully,

Sheldon L. Bernstein
Inspector General

Enclosure

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REPORTING REQUIREMENTS

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

<u>IG Act Reference</u>	<u>Reporting Requirements</u>	<u>Page</u>
Section 4(a)(2)	Regulatory and Legislative Reviews.....	13
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* None this period

INTRODUCTION

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, Enterprise, and Federal-State Partnership.

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 on April 9, 1989, in accordance with the Inspector General Act Amendments of 1988, (Public Law 100-504). In this legislation, Congress established Offices of Inspector General in several departments and in thirty-three agencies, including NEH. The NEH Inspector General (IG) is appointed by the Chairman. The independence of the IG is an important aspect of the Act. For example, the IG:

- cannot be prevented from initiating, carrying out, or completing an audit or investigation, or from issuing any subpoena;
- has access to all records of the agency;
- reports directly to the Chairman, and can only be removed by the Chairman, who must promptly advise Congress of the reasons for the removal; and

- reports directly to Congress.

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

The OIG staff consists of the Inspector General, a Deputy Inspector General for Audits, two auditors, and a secretary. The OIG and the Office of General Counsel (OGC) have a Memorandum of Understanding detailing the procedures for the OIG to be provided with OGC legal services. Investigations are handled by the Inspector General, an auditor and as required by the agency's Assistant General Counsel.

AUDIT, SURVEY, AND INSPECTION ACTIVITIES

This office is responsible for external and internal audits. External auditing includes grants, pre-award accounting system surveys, review of OMB Circular A-133 reports, and on-site quality assurance reviews of CPA work papers. Internal efforts consist of audits, inspections, and

reviews/evaluations of the NEH administrative, programmatic, and financial operations.

During this reporting period, the OIG received and processed 152 OMB Circular A-133 audit reports and issued nineteen memorandum reports containing findings (see Single Audit Act Reviews).

LIST OF AUDIT REPORTS ISSUED

The following is a list of audit/survey reports issued by the OIG during the reporting period. The Act requires us to report on the "Dollar Value of Recommendations that Funds Be Put to Better Use," and the "Total

Dollar Value of Questioned Costs" (including a separate category for the "Dollar Value of Unsupported Costs"). None are reported during this period.

INTERNAL AUDITS/REVIEWS

	Report Number	Date Issued
Final Report on the Use of Cookies	OIG-01-01 (IR)	04/19/01
Review of the OIRM Strategic Information Technology Plan	OIG-01-02 (IR)	04/19/01
Interim Report on Government Information Security Reform Act (GISRA) Review	OIG-01-03 (IR)	08/10/01
Report on Government Information Security Reform Act (GISRA) Review	OIG-01-04 (IR)	09/10/01

EXTERNAL AUDITS/REVIEWS

Review of Independent Public Accountant (IPA) Workpapers for 1999 Financial Statement and Compliance Audit of the Humanities Council of Washington, D.C.	OIG-01-101 (QAR)	04/03/01
Review of Independent Public Accountant (IPA) Workpapers for 1999 Financial Statement and Compliance Audit of the Delaware Humanities Council	OIG-01-102 (QAR)	06/14/01
Quality Control Review of Albin, Randall & Bennett, CPA Audit of the Maine Humanities Council for the Year Ended October 31, 2000	OIG-01-103 (QCR)	08/05/01
Quality Control Review of Vachon, Clukay, & Co., PC Audit of the New Hampshire Humanities Council for the Year Ended October 31, 2000	OIG-01-104 (QCR)	09/25/01

EXTERNAL AUDITS/REVIEWS (Continued)	Report Number	Date Issued
Quality Control Review of Gordon and Hale, PC Audit of the New Mexico Endowment for the Humanities for the Year Ended October 31, 2000	OIG-01-105 (QCR)	09/28/01

SINGLE AUDIT ACT REVIEWS

Mississippi Humanities Council	OIG-01-07 (CAA)	09/28/01
Georgia Humanities Council, Inc.	OIG-01-08 (CAA)	09/28/01
Montana Committee for the Humanities	OIG-01-09 (CAA)	09/28/01
New Jersey Council for the Humanities	OIG-01-10 (CAA)	09/28/01
Massachusetts Foundation for the Humanities	OIG-01-11 (CAA)	09/28/01
Wyoming Council for the Humanities	OIG-01-12 (CAA)	09/28/01
Humanities Iowa	OIG-01-13 (CAA)	09/28/01
Delaware Humanities Council, Inc.	OIG-01-14 (CAA)	09/28/01
Minnesota Humanities Commission	OIG-01-15 (CAA)	09/28/01
Unicorn Projects, Inc.	OIG-01-16 (CAA)	09/28/01
Hawaii Council for the Humanities	OIG-01-17 (CAA)	09/28/01
Brown University	OIG-01-18 (CAA)	09/28/01
Vermont Council on the Humanities, Inc.	OIG-01-19 (CAA)	09/28/01
New Mexico Endowment for the Humanities	OIG-01-20 (CAA)	09/28/01
New Mexico Endowment for the Humanities	OIG-01-21 (CAA)	09/28/01
WGBH Educational Foundation	OIG-01-22 (CAA)	09/28/01
Alaska Humanities Forum	OIG-01-23 (CAA)	09/28/01
Humanities Council of Washington, DC	OIG-01-24 (CAA)	09/28/01
Amerika Samoa Humanities Council	OIG-01-25 (CAA)	09/28/01

SUMMARY OF REPORTS ISSUED

INTERNAL AUDITS

NEH PLACES COOKIES ON VISITORS' COMPUTERS

Final Report on the Use of Cookies
April 19, 2001 **OIG-01-01 (IR)**
(Draft issued during prior period)

On December 21, 2000, Congress passed legislation that required the IGs from each department and agency to report to Congress on any collection of personally identifiable information on Internet sites. Such information could be collected either on agency web sites or through third party agreements.

The Office of Inspector General performed a review of internet privacy and NEH's use of cookies on its web sites. A cookie is a short string of text - not a program - that is sent to your browser when you access a web site. The use of cookies allows the server to recognize returning users. There are two types of cookies "persistent cookies" and "session cookies." Persistent cookies is a more permanent line of text that tract information over time and remains stored on the user's computer until the specified expiration date. Session cookies are used only during a single browsing session and do not collect information in ways that raise privacy concerns. Session cookies are stored temporarily in the computer's ram.

NEH has three web sites [NEH, EDSITEment, & [My History is America's](#)

[History \(My History\)\]](#) available for public access. The objectives of the OIG review were to determine 1) if NEH places persistent cookies on visitors' computers, 2) whether NEH tracks information obtained from the cookies, and 3) the adequacy of the privacy statements included on each website. To test the placement of cookies, we accessed the home pages for the three NEH web sites using a computer outside of the .gov and .neh domain.

Our review disclosed that persistent cookies are placed on visiting computer hard drives when the NEH and My History web sites are accessed. The EDSITEment web site places no cookies on visiting computer hard drives. Privacy statements on both the NEH and My History web sites states that "if you do nothing during your visit but browse through the website, ... we will gather and store information about your visit automatically...that the information does not identify you personally." The statement does not indicate that NEH will place persistent cookies on visiting computer hard drives to identify visitors.

Our recommendation was for NEH to discontinue the use of the "cookies" in order to comply with government regulations.

COMPUTER PLANS NEED TO BE INCLUDED IN AGENCY'S STRATEGIC PLAN

Review of the OIRM Strategic Information Technology Plan
April 19, 2001 **OIG-01-02 (IR)**
(Draft report issued in prior period)

The OIG performed a review of the Office of Information Resources Management (OIRM)

Strategic Information Technology Plan and the process used to develop the plan. The purpose of the review was to determine whether OIRM was doing strategic planning and the adequacy of the documentation of the planning process.

Our review disclosed that 1) there is no procedure in place at NEH to ensure that issues and opportunities identified in the information technology long-range strategic plan are reflected in NEH's strategic plan, 2) OIRM is not in compliance with NEH Administrative Directive M-600 to develop annual plans. (We also noted that the Directive was issued in 1985 and it does not reflect the client/server environment in which NEH currently operates).

The NEH Chief Information Officer concurred with our recommendation that NEH develop a written Strategic Plan for OIRM based on the NEH Strategic Plan and the OIRM plan should be incorporated in the NEH Strategic Plan. We agreed to provide assistance as required to implement the recommendations.

SECURITY CONTROL WEAKNESS - MISSION CRITICAL SYSTEM

Interim Report on Government Information Security Reform Act (GISRA) August 10, 2001 OIG-01-03 (IR)

GISRA requires the OIG to perform an independent review of the information security program and practices and report the results of the review to the Office of Management and Budget (OMB) with the agency's budget submission. OMB set the date of report submission as September 10, 2001. During the review we discovered a security control weakness in a mission critical system. Therefore, we issued a special report prior to the date set by OMB.

Our review disclosed a weakness in the way general support system users are added to and removed from NEH 2000. No central point of contact (POC) exists to inform the Office of Information Resource

Management (OIRM) to add employees and contractors/ temporary employees to NEH 2000. We also found a similar problem when employees separate from the agency. The general support system, (NEH 2000) is also used by the Institute of Museum and Library Services (IMLS) and the President's Committee on the Arts and Humanities (PCAH), therefore, this security control weakness also affects them.

Our recommendations included 1) that OIRM institute a formal/written system of supervisory controls on the removal, addition or disabling of accounts on the NEH information system; that OIRM explore the installation of an audit trail to show these events; and, 3) that NEH, IMLS, and PCAH set up a centralized point of contact to notify NEH's OIRM of a reportable event.

NO WRITTEN SECURITY PLANS FOR MISSING CRITICAL SYSTEMS

Report on Government Information Security Reform Act (GISRA) Review September 10, 2001 OIG-01-04 (IR)

As stated under OIG-01-03 (IR) page 5, the Government Information Security Reform Act (GISRA) requires the OIG to perform an independent review of the agency's information security program and practices and report the results to OMB. This report is the second in a series of reviews of selected information systems at NEH. We submitted this report to OMB.

The objective of the review was to identify the security controls and to review the effectiveness of selected controls over information resources that support NEH's operations and assets. We chose to test the security control techniques for three of the agency's five systems. The three most critical systems chosen were:

- Accounting - Used to manage agency funds. Located on the WANG computer.
- NEH 2000 - Office automation system, including word processing and e-mail. A client server, Windows NT-based system.
- GMS - SQL Server-based application slated to replace Augustus (Grants Management System) and Prism (Panelist System). Currently both systems reside on the WANG computer.

Our review revealed that NEH did not have an overall security plan or security plans for each of the mission critical systems. We found the CIO does not have a written risk assessment and that users are not aware of their security responsibilities and expected

behavior on the systems. In addition, there was no incident response capability as described in OMB Circular No. A-130 Appendix III, at the time of our review.

We made twelve recommendations to improve the deficiencies identified. Several important recommendations are:

- An overall formal risk-based security plan for NEH must be prepared as well as formal risk-based security plans for each of the mission critical systems.
- A written risk assessment should be done of the mission critical systems identified and policies need to be established to conduct on-going risk assessments.
- That OIRM institute a continuing training program for NEH staff to make users aware of their security responsibilities and expected behavior.
- The security officer is provided with training.

We are pleased that the NEH CIO has been cooperating fully with the OIG and has taken several steps to implement some of the recommendations.

EXTERNAL AUDITS/REVIEWS

QUALITY CONTROL REVIEWS (QCR) OF INDEPENDENT PUBLIC ACCOUNTANTS (IPA's)

See Pages 2-3 for the list of the five IPAs reviewed. The objectives of the QCRs were to ensure that the audits were conducted in accordance with "Government Auditing Standards (GAS)" and meet the single audit requirements; identify any follow-up work needed; and identify issues that may require the attention of NEH management.

We found that the audits were generally conducted in accordance with applicable standards. However, the audits did not, in all respects, meet the single audit requirements. Several exceptions are listed:

- There was no evidence in the working papers to substantiate that testing had been performed on 1) disbursements; and 2) information reported on the Federal Cost Transactions Reports or the Financial Status Reports.
- There was no indication that the current work paper files contained the OMB compliance supplement or that information applicable to the NEH major program, Federal/State Partnership, was reviewed.
- There was no evidence in the working papers that the IPAs tested amounts reported by the Council as cost sharing in order to determine compliance with the specific requirements pertaining to matching.
- There was no evidence in the working papers that the IPAs tested or reviewed the eligibility of gifts certified by the Council to release Federal matching funds.

- There was inadequate testing of Council policies concerning subrecipient monitoring.
- There were errors in the Schedule of Expenditures of Federal Awards and the Data Collection Forms.

We made recommendations to IPAs on how to perform the audits according to the single audit requirements. We plan on issuing a reminder to the IPAs from all 56 state humanities councils that more care has to be made on these audits. We found that most of the IPAs were performing preliminary year-end accounting work in order to make the councils books and records auditable. Therefore, they were expending most of their agreed upon time fixing the records rather than auditing. The work on the financial statements was adequate, however, the IPA's did not expend sufficient time on the compliance component.

During one review, we noted four regrants that were awarded under a prior closed grant with outstanding balances as of the completion date of the grant. We recommended that NEH recover funds associated with regrants awarded under the grant that were not liquidated within 90 days after the completion date of the grant period, (as prescribed in the NEH General Grant Provisions for General Support Grants to State Humanities Councils). This recommendation remained open at September 30, 2001.

SINGLE AUDIT ACT REVIEWS

We receive audit reports on NEH grantee organizations from other federal agencies, state and local government auditors, and independent public accountants. These reports are the result of OMB Circular A-133 audits. The single audits report on financial activities, compliance with laws and regulations, and grantee management (internal) controls over federal expenditures. In most instances, the cognizant agency is the Department of Health and Human Services (the federal agency with the predominant financial interest).

During this six-month period we reviewed 152 OMB A-133 audit reports. Nineteen of the reports contained audit findings. Sixteen of the reports with findings were associated with state humanities councils.

In addition, we expended considerable effort in determining which grantees have not submitted OMB Circular A-133 audit reports. We have discovered that several organizations do not have sufficient funds for audits by independent public accountants. The OIG is working with these organizations and their independent public accountants to develop an appropriate cost-effective audit approach.

To ensure that we receive OMB Circular A-133 audit reports from the state humanities councils in a timely manner, we sent an e-mail message to all of the executive directors and Board chairpersons. We will continue to send reminders to the state councils. We are providing some of the findings pertaining to the Councils. The Councils should:

- Put procedures in place requiring the development of a schedule of reporting due dates and adequate monitoring of compliance with the due dates in the schedule.
- Create a complete set of fiscal policies which should include, but not be limited to, policies on fixed asset capitalization thresholds, travel advances, receipts

and reimbursements, credit card usage and documentation, cash drawdown procedures, financial management procedures, expenditure allocations and responsibility for accounting and internal control functions.

- Prepare bank reconciliations monthly, with review by someone other than the person responsible for performing the reconciliation to ensure the accuracy of the recording of cash transactions.
- Develop a formal, written procurement policy that adheres to the requirements set forth in OMB Circular A-110.
- Request cash advances on the same day of each month and the methodology for anticipating federal expenditures be reviewed to ensure that time is minimized between receipt and disbursement of federal funds.
- Develop a sexual harassment policy that the State regulates and distribute the policy annually.
- Develop a written asset capitalization policy. Once approved, all capitalized items should be properly recorded and depreciated.
- Account for vacation days earned and used by employees.
- Maintain cash at local banks and ensure that account balances do not exceed the FDIC insured limitation.
- Consistently obtain audit reports from subrecipients.
- Review current policies and procedures for monitoring subrecipients and consider making any necessary revisions to ensure compliance with federal laws and regulations.

-
- Properly void unused checks and stop writing checks from the wrong account.
 - Properly deface voided checks to prevent misuse and take necessary steps to protect assets against potential loss.
 - Correctly record lobbying time as administrative or joint expenses, which is then potentially allocated to federal award programs. Lobbying expenses in an account that is not allocated to federal grant programs are considered unallowable for federal grants.
 - Recognize the need for more frequent consultation with individuals having technical accounting expertise if it is not possible or cost effective to hire and retain an individual with the necessary accounting expertise.
 - Ensure timely submission of financial reports. In addition, if such reports are to be filed after the due date, ensure that management request the appropriate extensions.
 - Put additional procedures in place since the only approval for disbursements was the executive director's signature on each check. Invoices should be cancelled.
 - Take steps to ensure federal reports are supported by accounting records.
 - Implement reconciliation procedures between the primary accounting records and supporting spreadsheets used by Council personnel.
 - Provide additional training for personnel to understand the federal reporting requirements, the relationships between Council records and systems and the

extent of documentation required for federal reporting.

- Develop and implement procedures to inform subrecipients of Federal award information and compliance requirements, provide reasonable assurance that the subrecipients obtain required audits and take appropriate corrective action on audit findings, and evaluate the impact of any subrecipient noncompliance on the Council.
- Review and update personnel files to include all information regarding hiring, firing, pay rates, withholding and evaluations.
- Put control procedures in place to ensure that all reports are reviewed by someone in management before submission to the appropriate Federal agency.
- Design a checklist and use it to account for all documentation necessary to support the approval and monitoring process of the regrants.
- Complete the conversion of the accounting system and to make sure internal controls are in place and enforced.
- Implement procedures requiring staff to deduct payroll taxes and report the payroll taxes even if they are for short-term contract employees.
- Establish travel policy and procedures for staff to follow in filing an expense and trip report.
- Establish procedures consistent with generally accepted accounting principles.

INVESTIGATION ACTIVITY

BACKGROUND

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

When the OIG receives a complaint or allegation of a criminal or administrative violation, we make a determination of the appropriate action to take. This can be an audit, an investigation, a referral to another NEH office or division, or a referral to another federal agency.

As of April 1, 2001, two matters were open. During the six months ending March 31, 2001, we received 13 "Hotline" contacts. One case was open at September 30, 2001.

CASES OPEN AT APRIL 1, 2001

- Allegation concerning the use of a vehicle by a board member of a grantee was closed. We found that the board member did use the vehicle for personal use and had the grantee terminate the person's membership on the board. In addition, the person was issued Internal Review Form 1099 for the value of the use of the vehicle.
- Allegation that an applicant for an NEH grant was being investigated by the OIG of the Corporation for National Service (CNS) was closed. CNS informed us that an indictment was made against the executive director for the applicant organization. NEH decided not to make the award to the applicant.

CONTACTS DURING THIS PERIOD

We received nine internal contacts during this period.

- One anonymous e-mail complaint that a SES staff member went on a conference with the main purpose of assisting the staff member's wife to do her research. In addition, several other matters regarding this SES staff member were included in the anonymous e-mail. Our investigation revealed that the allegations had no merit.
- One allegation complaint that an NEH employee had forged several letters from doctors stating that the individual had cancer. The person asked NEH for advance sick leave for medical appointments and treatment. Our investigation concluded that the employee provided NEH with falsified letters. The person voluntarily resigned from the agency. In addition, we reported this matter to the supervisor of individual who assisted the NEH employee. The accomplice was not a federal employee.
- One allegation concerned a SES staff member's travel. The allegation stated that the SES staff person used government funds to go on a job interview. The allegation stated that the purpose of the trip was fabricated. We were unable to look into this matter because of our workload. We expect to perform an investigation in October 2001.

- Six contacts concerned unwanted e-mail, i.e., business opportunity scams, the Nigerian unclaimed money scam, etc. All were forwarded to the Federal Trade Commission, and if applicable the Federal Bureau of investigation.

- One allegation from an NEH employee stated that a grant applicant was going to use the grant for something other than the stated objective in the application. Our inquiry did not substantiate the allegation.

We received two allegations concerning grantees and applicants for NEH grants.

Two other matters brought to our attention were forwarded to other federal agencies, as they did not impact upon on NEH funds.

- One allegation involved a bookkeeper stealing funds from a grantee. Our inquiry revealed that the bookkeeper stole some minor amount of funds from the organization. The grantee's attorney was handling the matter.

MATTERS REFERRED TO PROSECUTIVE AUTHORITIES

No new cases were referred for criminal prosecution.

HOTLINE AND PREVENTION ACTIVITIES

We maintain a local Hotline phone number, agency e-mail address, and an Internet address. We maintain all three to provide additional confidentiality for those persons bringing matters to the attention of the OIG.

We continue to issue agency-wide e-mail messages to NEH staff informing them of the violations that should be reported to the OIG. We use e-mail messages to inform NEH staff about the OIG operations several times during the year. Posters advising staff to contact the OIG are posted throughout the agency building.

ANONYMOUS E-MAIL

We now have on the NEH Intranet and the Internet a system for staff, grantees, contractors, etc., to report waste, fraud, abuse,

and mismanagement in an anonymous manner. Two contacts were received this period via this system.

INVESTIGATION ACTIVITY

Open at beginning of period	2
Matters brought to the OIG during the reporting period	13
Total Investigative contacts	15
Closed or referred during reporting period	14
Open at end of period	1

OTHER ACTIVITIES

INDIRECT COST RATE NEGOTIATIONS/REVIEWS

Grantees are entitled to recover total project costs, both direct and indirect. Indirect costs are those costs of an organization or institution that are not readily identifiable with a particular project or activity but are nevertheless necessary to the general operation of the organization or institution and the conduct of the activities it performs.

The cost of office supplies, general telephone, postage, accounting, and administrative salaries are types of expenses usually considered as indirect costs. In theory, all such costs might be charged directly; practical

difficulties, however, preclude such an approach. Therefore, they are usually grouped into a common pool(s) and distributed to those organizational or institutional activities that benefit from them through the expedient of an indirect cost rate(s).

Cognizant federal agencies approve the rates after reviewing cost allocation plans submitted by grantees. The approved rate will generally be recognized by other federal agencies.

During this period, we negotiated indirect cost rates with two grantees.

INDIRECT COST RATE DESK REVIEW REPORTS ISSUED

<u>Grantee</u>	<u>Report Number</u>	<u>Date Issued</u>
Society for the Preservation of New England Antiquities	OIG-01-06 (IDC)	04-12-2001
The History Institute for Education and Media	OIG-01-07 (IDC)	08-23-2001

INTRA-AGENCY COOPERATION

In this period, OIG staff attended and engaged in various NEH meetings - panel meetings (where grant applications are reviewed by outside consultants), pre-council meetings (where the program divisions discuss the panel review results with the chairman and his immediate staff), and the National Council meeting. In addition, the IG and Deputy IG attended the chairman's monthly policy group

meetings. An OIG staffperson attended monthly NEH Employee Association Meetings. The staff were also involved in the review of NEH administrative directives.

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

CONGRESSIONAL REQUESTS

We received and responded to several requests from both Senators and Congressmen.

PARTICIPATION ON THE EXECUTIVE COUNCIL ON INTEGRITY AND EFFICIENCY

The Executive Council on Integrity and Efficiency (ECIE) was established by the President in 1992 to coordinate and implement

government-wide activities to combat fraud and waste in federal programs and operations. OIG staff regularly attend ECIE meetings and provide information to the ECIE.

REGULATORY AND LEGISLATIVE REVIEWS

The Inspector General Act of 1978, as amended, requires the Office of Inspector General to review proposed legislation and regulations. The reviews are made to assess whether the proposed legislation or regulation

(1) impacts on the economy and efficiency of agency programs and operations, and (2) contains adequate internal controls to prevent and detect fraud and abuse. During this period we provided the ECIE with comments on various matters affecting the OIG community.

OIG INTERNET AND INTRANET

The OIG has listed several semiannual reports on the Internet. The reports are accessible through the Inspectors General homepage (<http://www.ignet.gov/ignet/internal/neh/html>). The reports link to the NEH homepage (<http://www.neh.gov/html/oig/>). To access the semiannual reports from outside the NEH, enter the URL <http://www.ignet.gov>.

To enhance the NEH staff's recognition of the OIG mission and responsibilities, we provide links to several other federal agencies such as the Office of Management and Budget, the General Accounting Office, the Office of Government Ethics, and the IGMET.

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

	Number Of Reports	Questioned Cost	Unsupported Cost
A. For which no management decision has been made by the commencement of the reporting period.	- 0 -	\$ - 0 -	\$ - 0 -
B. Which were issued during the reporting period.	- 0 -	- 0 -	- 0 -
Subtotals (A+B)	- 0 -	\$ - 0 -	\$ - 0 -
C. For which a management decision was made during the reporting period.			
<i>i.</i> Dollar value of disallowed costs.	- 0 -	\$ - 0 -	\$ - 0 -
<i>ii.</i> Dollar value of costs not disallowed (grantee subsequently supported all costs).	- 0 -	\$ - 0 -	\$ - 0 -
D. For which no management decision has been made by the end of the reporting period.	- 0 -	\$ - 0 -	\$ - 0 -
E. Reports for which no management decision was made within six months of issuance.	- 0 -	\$ - 0 -	\$ - 0 -

**TABLE II
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.		
<i>i.</i> Dollar value of recommendations that were agreed to by management.	- 0 -	\$ - 0 -
<i>ii.</i> Dollar value of recommendations that were not agreed to by management.	- 0 -	\$ - 0 -
D. For which no management decision was made by the end of the reporting period.	- 0 -	\$ - 0 -

GLOSSARY OF AUDIT TERMINOLOGY

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

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

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

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

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

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

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

THE OFFICE OF INSPECTOR GENERAL

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