



NATIONAL ENDOWMENT FOR THE
Humanities

Office of Inspector General

**SEMIANNUAL
REPORT TO
CONGRESS**

For the Period April 1, 2010 through September 30, 2010

Report No. 43

**“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

1 (877) 786-7598

Mailing Address

Office of Inspector General — Hotline
National Endowment for the Humanities
1100 Pennsylvania Ave. N.W., Room 419
Washington, DC 20506

Fax

(202) 606-8329

Electronic Mail Hotline

oig@neh.gov

Government employees are protected from reprisal

Caller can remain anonymous

Information is confidential



OFFICE OF INSPECTOR GENERAL
1100 PENNSYLVANIA AVE., NW
WASHINGTON, D.C. 20506
ROOM 419
TELEPHONE (202) 606-8350
FACSIMILE (202) 606-8329
1-(877) 786-7598 (HOTLINE)
E-mail oig@neh.gov

October 29, 2010

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

Dear Chairman Leach:

I am pleased to provide you with the Office of Inspector General's Semiannual Report to Congress for the second half of fiscal year 2010. The report is submitted in accordance with the Inspector General Act of 1978, as amended. Section 5 of the Act requires that you submit this report, with your Report of Final Action, to the appropriate committee or subcommittee of the Congress within 30 days of its receipt. The report provides a summary of the activities of the OIG during the six-month period ended September 30, 2010.

During the current reporting period, we completed five external audits, two pre-award surveys, eight desk reviews, and review of 87 OMB Circular A-133 audit reports.

In our investigations program, one matter was open as of the beginning of the reporting period. We received ten "Hotline" contacts during the period, and only one matter remains open at September 30, 2010.

We are continuing our outreach effort wherein we disseminate guidance to recipients of NEH grants that would assist in their efforts to preclude unfavorable outcomes should their grants be selected for audit. This initiative is directed towards all non-profit grantees of the NEH.

I appreciate your support and look forward to working with you and all agency staff to further our common purpose of assuring the effectiveness, efficiency, and integrity of NEH's vital contributions to the humanities in the United States.

Sincerely,

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

Sheldon L. Bernstein
Inspector General

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MESSAGE FROM THE INSPECTOR GENERAL

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

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

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

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

In accordance with the Inspector General Act of 2008, Public Law 110-409, we have signed a service agreement with the United States Treasury Inspector General for Tax Administration's General Counsel for fiscal year 2011. They are providing legal counsel for the NEH OIG.

THE NATIONAL ENDOWMENT FOR THE HUMANITIES

In order to promote progress and scholarship in the humanities and the arts in the United States, Congress enacted the National Foundation on the Arts and the Humanities Act of 1965. This Act established the National Endowment for the Humanities as an independent grant-making agency of the Federal government to support research, education, and public programs in the humanities. Grants are made through four divisions - Research Programs, Education Programs, Preservation and Access, and Public Programs -- and three offices -- Challenge Grants, Federal-State Partnership, and Digital Humanities. The divisions and offices also administer the *We the People* program.

The NEH has launched a new initiative ~ *Bridging Cultures*. The 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 initiative 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.

The Act that established the National Endowment for the Humanities says "The term 'humanities' includes, but is not limited to, the study of the following: language, both modern and classical; linguistics; literature; history; jurisprudence; philosophy; archaeology; comparative religion; ethics; the history, criticism, and theory of the arts; those aspects of social sciences which have humanistic content and employ humanistic methods; and the study and application of the humanities to the human environment with particular attention to reflecting our diverse heritage, traditions, and history and to the relevance of the humanities to the current conditions of national life."

THE OFFICE OF INSPECTOR GENERAL

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

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

The OIG staff consists of the Inspector General, Deputy Inspector General, two auditors, and a secretary. The OIG has a Memorandum of Understanding with the United States Treasury Inspector General for Tax Administration detailing the procedures for the OIG to be provided legal services. Investigations are handled by the Inspector General and an auditor.

AUDIT AND REVIEW ACTIVITIES

LIST OF REPORTS ISSUED

This office is responsible for external and internal audits. External efforts include on-site grant audits, limited scope desk reviews, pre-award 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 that conducts the annual audit of the NEH financial statements as required by the Accountability of Tax Dollars Act of 2002, and examining the audit workpapers and reports to ensure compliance with applicable requirements.

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

	<u>Report Number</u>	<u>Date Issued</u>
<u>EXTERNAL AUDITS/REVIEWS</u>		
Pre-Award Survey ~ API Arts & Outreach, Inc.	OIG-10-02 (TS)	05/05/10
Pre-Award Survey ~ The Kamusi Project, USA	OIG-10-03 (TS)	06/18/10
Limited Audit Report on Gifts Certified Under Challenge Grant to Princeton Public Library Foundation	OIG-10-02 (EA)	04/05/10
Limited Audit Report on Gifts Certified Under Challenge Grant to American Research Institute in Turkey	OIG-10-03 (EA)	04/29/10
Limited Audit Report on Gifts Certified Under Challenge Grant to Museo de las Americas	OIG-10-04 (EA)	06/04/10
Limited Audit Report on Gifts Certified Under Challenge Grant to High Museum of Art	OIG-10-05 (EA)	09/07/10
Limited Audit Report on Gifts Certified Under Challenge Grants to the Colonial Williamsburg Foundation	OIG-10-06 (EA)	09/28/10

SINGLE AUDIT ACT REVIEWS

OMB Circular A-133 Reports

See page 10

AUDIT AND REVIEW ACTIVITIES

LIST OF REPORTS ISSUED (CONTINUED)

<u>DESK REVIEWS</u>	<u>Report Number</u>	<u>Date Issued</u>
Review of Kenyon College Challenge Grant	OIG-10-01 (DR)	06/17/10
Review of Fayetteville Public Library Challenge Grant	OIG-10-02 (DR)	06/23/10
Review of New York Historical Society Challenge Grant	OIG-10-03 (DR)	07/13/10
Review of Dubuque County Historical Society Challenge Grant	OIG-10-04 (DR)	09/30/10
Review of Lancaster County Historical Society Challenge Grant	OIG-10-05 (DR)	09/30/10
Review of Peabody Essex Museum Challenge Grant	OIG-10-06(DR)	09/30/10
Review of the Gilder Lehrman Institute of American History Challenge Grant	OIG-10-07 (DR)	09/30/10
Review of the National Underground Railroad Freedom Center Challenge Grant	OIG-10-08 (DR)	09/30/10

AUDIT AND REVIEW ACTIVITIES

EXTERNAL AUDITS/REVIEWS

Pre-Award Survey ~ API Arts & Outreach, Inc. May 5, 2010; OIG-10-02 (TS)

The objective of this survey was to obtain information to facilitate assessment of the organization's accounting system, management controls, and policies and procedures designed to administer grant funds. We determined that the organization's accounting system and management controls were adequate to ensure compliance with administrative requirements applicable to the NEH grant. We noted the following conditions that should be monitored to ensure complete accountability and compliance with grant terms and conditions.

- Proper segregation of unallowable costs in the accounting system and exclusion of such costs from reports submitted to NEH.
- Accounting for cost-sharing in the general ledger and maintenance of documentation to substantiate cost-sharing.
- Maintenance of time and effort reports, as necessary, in accordance with OMB Circular A-122.

We also obtained written assurances from the principals of the organization that they will abide by the terms of the NEH award.

Pre-Award Survey ~ The Kamusi Project, USA June 18, 2010; OIG-10-03 (TS)

The objective of this survey was to obtain information to facilitate assessment of the organization's accounting system, management controls, and policies and procedures designed to administer grant funds. We determined that the organization would be able to sufficiently manage and account for NEH grant funds. We identified the following conditions that should be monitored to ensure proper implementation of proposed accounting and administrative policies and procedures.

- The organization's accounting system must provide accurate, current, and complete disclosure of all financial transactions related to each Federally-sponsored project, which includes the value of contributions made by third parties in accomplishing the objectives of the NEH award during the project period.
- Unallowable costs must be properly segregated in the accounting system and excluded from reports submitted to NEH.
- The indirect cost rate must be supported by the organization's accounting system. General administrative costs should be tracked and accounted for separately, and not included in direct charges to the NEH grant.
- Charges to awards for salaries and wages, whether treated as direct or indirect costs, must be based on documented payrolls approved by a responsible official of the organization. The distribution of salaries and wages to the NEH award must be supported by personnel activity reports.
- Consultant arrangements must be documented in writing.

We also obtained written assurances from the principals of the organization that they will abide by the terms of the NEH award.

AUDIT AND REVIEW ACTIVITIES

EXTERNAL AUDITS/REVIEWS (CONTINUED)

Limited Audit Report on Gifts Certified Under Challenge Grant to Princeton Public Library Foundation April 5, 2010; OIG-10-02 (EA)

We performed a limited audit of the Princeton Public Library Foundation (the "Foundation") records as they relate to NEH challenge grant CH-50522-08. The Foundation certified that eligible gifts were received and used to meet the matching requirements stipulated by the challenge grant. The principal objectives of our limited audit were to determine that (1) the gifts certified by the Foundation meet the eligibility requirements established by NEH for the release of Federal matching funds; and (2) grant expenditures were made in accordance with applicable provisions of NEH's *General Terms and Conditions for Awards to Organizations* and the terms of the budget approved by NEH. Our review was conducted in accordance with *Generally Accepted Government Auditing Standards (GAGAS)*.

We identified two unallowable matching gifts totaling \$45,000 and noted that three unrestricted matching gifts totaling \$10,300 were not properly identified as such in the certification reports submitted to NEH. We also made several recommendations based on our review of the Foundation's key internal controls over the challenge grant. Our recommendations addressed the following conditions:

- Matching gifts related to the NEH challenge grant were improperly classified in the accounting records and the financial statements, (unrestricted vs. restricted net assets).
- Personnel expenses charged to the NEH challenge grant were based upon management's estimates versus personnel activity reports.
- The Foundation had not implemented the necessary accounting controls/procedures to properly track and allocate investment earnings to the various programs and restriction classes administered by the organization.
- Expansion of the Foundation's chart of accounts to facilitate exclusive tracking of NEH challenge grant activity.

Foundation management has concurred with our findings and has either implemented or is in the process of implementing the OIG recommendations.

Limited Audit Report on Gifts Certified Under Challenge Grant to American Research Institute in Turkey April 29, 2010; OIG-10-03 (EA)

We performed a limited audit of the American Research Institute in Turkey (ARIT) records as they relate to NEH challenge grant CH-50528-08. ARIT certified that eligible gifts were received and used to meet the matching requirements stipulated by the challenge grant. The principal objectives of our limited audit were to determine that (1) the gifts certified by ARIT meet the eligibility requirements established by NEH for the release of Federal matching funds; and (2) grant expenditures were made in accordance with applicable provisions of NEH's *General Terms and Conditions for Awards to Organizations* and the terms of the budget approved by NEH. Our review was conducted in accordance with *Generally Accepted Government Auditing Standards (GAGAS)*.

We identified unallowable matching gifts totaling \$220,000 and allowable gifts that were improperly classified (unrestricted versus restricted) in certification reports submitted to NEH. We also made several recommendations based on our review of key internal controls over the challenge grant. Our recommendations addressed the following conditions:

- Lack of policies and procedures to ensure all earnings generated from the NEH challenge grant endowment are properly identified, appropriately tracked in the accounting records, (i.e., treated as temporarily restricted funds), and specifically used for the approved, restricted purposes defined by the challenge grant.

AUDIT AND REVIEW ACTIVITIES

EXTERNAL AUDITS/REVIEWS (CONTINUED)

- Lack of procedures to ensure all matching gifts affiliated with the NEH challenge grant are properly reported as “restricted” or “board designated” contributions in the accounting records and, ultimately, the audited financial statements to ensure compliance with generally accepted accounting principles and proper tracking of the purpose-restricted NEH challenge grant funds.
- NEH challenge grant activity was not properly incorporated into the Single Audit and reported on the Schedule of Expenditures of Federal Awards.
- Expansion of the organization’s chart of accounts to facilitate exclusive tracking of NEH challenge grant activity, (revenue and expenses).

ARIT management has concurred with our findings and has either implemented or is in the process of implementing the OIG recommendations.

Limited Audit Report on Gifts Certified Under Challenge Grant to Museo de las Americas June 4, 2010; OIG-10-04 (EA)

Due to issues encountered by the NEH Challenge Grant Office, we were asked to perform a limited audit of the Museo de las Americas (Museo) records as they relate to NEH challenge grant CH-20879-02. The Museo certified that eligible gifts were received and used to meet the matching requirements stipulated by the challenge grant. The principal objectives of our limited audit were to determine that (1) the gifts certified by the Museo meet the requirements established by NEH for the release of Federal matching funds; (2) grant expenditures were made in accordance with applicable provisions of NEH’s *General Terms and Conditions for Awards to Organizations* and the terms of the budget approved by NEH; and (3) construction work related to the challenge grant complied with Davis-Bacon Act requirements. Our review was conducted in accordance with *Generally Accepted Government Auditing Standards (GAGAS)*.

Due to significant staff turnover and poor recordkeeping at the Museo, we encountered various scope limitations that prevented us from properly executing our limited audit. We questioned \$491,667 of the \$500,000 disbursed by NEH to the Museo. Considering the complete breakdown in internal controls and financial oversight which essentially led to the audit scope limitation, we recommended that Museo implement new procedures and internal controls to ensure that accounting records and source documents are properly maintained and grant requirements adhered to.

The management of the Museo has concurred with our findings. However, this matter has not been resolved by NEH management.

Limited Audit Report on Gifts Certified Under Challenge Grant to High Museum of Art September 7, 2010; OIG-10-05 (EA)

We performed a limited audit of the High Museum of Art (the “Museum”) records as they relate to NEH challenge grant CH-50491-09. The Museum certified that eligible gifts were received and used to meet the matching requirements stipulated by the challenge grant. The principal objectives of our limited audit were to determine that (1) the gifts certified by the Museum meet the eligibility requirements established by NEH for the release of Federal matching funds; and (2) grant expenditures were made in accordance with applicable provisions of NEH’s *General Terms and Conditions for Awards to Organizations* and the terms of the budget approved by NEH and any amendments. Our review was conducted in accordance with *Generally Accepted Government Auditing Standards (GAGAS)*.

We determined that the Museum failed to disclose unpaid pledges in their certification report to NEH. Accordingly, we recommended that the Museum implement procedures to track and report outstanding challenge grant pledge receivables on the certification forms submitted to NEH.

The Museum has concurred with our findings and has implemented procedures to address the OIG recommendations.

AUDIT AND REVIEW ACTIVITIES

EXTERNAL AUDITS/REVIEWS (CONTINUED)

Limited Audit Report on Gifts Certified Under Challenge Grant to Colonial Williamsburg Foundation September 28, 2010; OIG-10-06 (EA)

We performed a limited audit of the Colonial Williamsburg Foundation (the "Foundation") records as they relate to NEH challenge grants CH-50560-09 and CZ-50176-08. The Foundation certified that eligible gifts were received and used to meet the matching requirements stipulated by each challenge grant. The principal objectives of our limited audit were to determine that (1) the gifts certified by the Foundation meet the eligibility requirements established by the NEH for the release of Federal matching funds; and (2) grant expenditures were made in accordance with applicable provisions of NEH's *General Terms and Conditions for Awards to Organizations* and the terms of the budgets approved by NEH. Our review was conducted in accordance with *Generally Accepted Government Auditing Standards (GAGAS)*.

We identified an unallowable matching gift in the amount of \$12,801. We also noted that challenge grant expenditures were not properly reported in the Schedule of Expenditures of Federal Awards for the past two years.

Desk Review Letters Concerning OMB Circular A-133 Provision Applicable to Endowment Funds

OMB Circular A-133, Section 205(e) provides that the cumulative balance of Federal awards for endowment funds are considered awards expended in each year in which the funds are still restricted. We identified recipients of active NEH challenge grants supporting the creation of endowments and assessed the extent of each recipient's compliance with the special provision. We issued a letter to each recipient as appropriate, noting current conditions of noncompliance or the pending applicability of the special provision based on future Federal support related to their challenge grant. Letters were issued to the following recipients of NEH challenge grants:

Kenyon College	OIG-10-01 (DR)	06/17/10
Fayetteville Public Library	OIG-10-02 (DR)	06/23/10
New York Historical Society	OIG-10-03 (DR)	07/13/10
Dubuque County Historical Society	OIG-10-04 (DR)	09/30/10
Lancaster County Historical Society	OIG-10-05 (DR)	09/30/10
Peabody Essex Museum	OIG-10-06 (DR)	09/30/10
Gilder Lehrman Institute of American History	OIG-10-07 (DR)	09/30/10
National Underground Railroad Freedom Center	OIG-10-08 (DR)	09/30/10

SINGLE AUDIT ACT REVIEWS

For the past several years, approximately 82 percent of the total NEH budget represents grant awards. Grantees expending \$500,000 or more in Federal funds per year are required to obtain an OMB Circular A-133 audit. The objective of the audit is to determine whether the recipient expended Federal funds according to applicable laws and regulations.

During the six-month period ended September 30, 2010, we reviewed 87 OMB Circular A-133 audit reports. None of the reports contained findings that required reporting by the OIG to NEH management.

AUDIT AND REVIEW ACTIVITIES

WORK IN PROGRESS

Limited Audit ~ Wyoming Humanities Council

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

Inspection ~ NEH Grant Monitoring Function

The objectives of this inspection are to determine (1) if there are agency-wide policies and procedures for monitoring grants and if so, whether the offices and divisions responsible for the monitoring function are complying with those policies and procedures; (2) if the program offices, Accounting Office, and the Office of Grant Management have policies and procedures to monitor grants and if so, whether they are complying with those policies and procedures; (3) what factors are used to select awards for monitoring; and (4) what mechanism is used by the offices and divisions responsible for the monitoring function to assess the effectiveness and/or adequacy of their monitoring procedures.

Cost Incurred Audit ~ Medieval Academy of America

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

Limited Audit ~ Christopher Newport University

The principal objectives of this limited audit are to determine that (1) the gifts certified by the Christopher Newport University Education Foundation under NEH challenge grant CZ-50196-09 are eligible to release Federal matching funds; and (2) grant expenditures are made in accordance with applicable provisions of NEH's *General Terms and Conditions for Awards to Organizations*, and the terms of the approved challenge grant budget.

Limited Audit ~ Springfield Library and Museums Association

The principal objectives of this limited audit are to determine that (1) the gifts certified by the Association under NEH challenge grant CH-50569-09 are eligible to release Federal matching funds; (2) grant expenditures are made in accordance with applicable provisions of NEH's *General Terms and Conditions for Awards to Organizations*, and the terms of the approved challenge grant budget; and (3) construction work complied with Davis-Bacon Act requirements.

Limited Audit ~ Marquette Historical Society

The principal objectives of this limited audit are to determine that (1) the gifts certified by the Society under NEH challenge grant CH-50604-09 are eligible to release Federal matching funds; (2) grant expenditures are made in accordance with applicable provisions of NEH's *General Terms and Conditions for Awards to Organizations*, and the terms of the approved challenge grant budget; and (3) construction work complied with Davis-Bacon Act requirements.

AUDIT AND REVIEW ACTIVITIES

Desk Reviews ~ OMB Circular A-133 Audit Reports

The objectives of the desk reviews are to:

- (1) determine whether the audit reports are acceptable under 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); and
- (4) identify issues that may require the attention of NEH management.

The following desk reviews were in progress as of September 30, 2010:

- * La Fundación Puertorriqueña de las Humanidades, Inc. (FYE October 31, 2009)
- * Nebraska Humanities Council (FYE October 31, 2009)
- * Pennsylvania Humanities Council (FYE October 31, 2009)
- * Vermont Humanities Council (FYE October 31, 2009)
- * Hawaii Council for the Humanities (FYE October 31, 2009)
- * Humanities Council of Washington, DC (FYE October 31, 2009)
- * Minnesota Humanities Center (FYE October 31, 2009)

INVESTIGATIVE ACTIVITIES

BACKGROUND

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

When the OIG receives a complaint or allegation of a criminal or administrative violation, we make a determination of the appropriate action to take. The result could be an audit, an investigation, a referral to another NEH office or division, a referral to another Federal agency, or no action.

During the past several years, the OIG has frequently received Hotline contacts and did not have sufficient resources to complete the inquiry or investigation in a timely manner. Therefore, to alleviate this problem, we have been inquiring of other OIGs concerning their willingness and ability to assist us on an "as needed" basis under a reimbursable agreement. Several OIGs responded they would consider performing work for us on a case-by-case basis, depending on the availability of their staff to assist us. However, this assistance would be for criminal cases only and we do not have any guarantee that the OIGs would have staff available.

OPEN AT APRIL 1, 2010

One file was open on April 1, 2010. The matter concerned a board chairman at a state humanities council. The contact alleged that the chairman's personal decision regarding a board member and applicant resulted in a conflict of interest. As a consequence, decisions made by the board chairman are not always in the best interest of the council. The evidence against the chairman appeared to be valid and the individual resigned. We have closed the file.

CONTACTS DURING THE SIX-MONTH PERIOD ENDED SEPTEMBER 30, 2010

We received ten contacts during the current reporting period.

- Three contacts were unrelated to NEH, two of which were referred to other organizations.
- Two contacts were not OIG matters. We referred the matters to NEH Divisions for disposition.
- One matter involved a cybercrime that was immediately taken care of by the NEH Office of Information Resources Management and properly reported to the United States Computer Emergency Readiness Team, (US-CERT).
- One contact concerned a manuscript sent to a former chairman of NEH during 1996. Upon learning that NEH management was unfamiliar with the matter, we determined that no further action was necessary.
- One matter concerned an NEH grantee. We spent considerable time gathering facts and it turned out to be an issue to be resolved by the grantee.
- One matter concerned an executive director of a state humanities council. It was alleged that the executive director was making poor decisions for the Council. We found that the board was divided and closed the file.
- One contact involves criminal activity. We are currently working with an Assistant United States Attorney concerning this matter. This case is active.

INVESTIGATIVE ACTIVITIES (Continued)

OPEN AT SEPTEMBER 30, 2010

One case is open as of September 30, 2010.

MATTERS REFERRED TO PROSECUTIVE AUTHORITIES

We referred one matter during this 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 those persons bringing matters to the attention of the OIG. We periodically issue agency-wide e-mail messages informing NEH staff of violations that are reportable to the OIG. We also send e-mail messages several times during the year to inform NEH staff about the OIG operations. Posters advising staff to contact the OIG are displayed throughout the agency's facilities.

The OIG Deputy Inspector General also makes a brief presentation during meetings convened by NEH program management involving project directors of new awardees. The presentations include an overview of OIG operations and emphasize the importance of recipients understanding the administrative requirements and specific terms and conditions applicable to their respective awards.

SUMMARY OF INVESTIGATION ACTIVITY

Open at beginning of period	1
Matters brought to the OIG during the reporting period	10
Total investigative contacts	11
Closed, referred, or no action needed during the reporting period	10
Open at end of period	1

INVESTIGATION MANUAL

The Investigation Manual is a work in progress due to changes made by statute and opinions from the Department of Justice. The manual has been developed to meet the standards of the Council of Inspectors General on Integrity and Efficiency. Furthermore, since we do not have criminal investigators on our staff, the final draft has not been professionally edited, and time prevents us from making updates to incorporate new developments.

When we determine that a case involves a crime, we will ask the Federal Bureau of Investigations, another Federal Inspector General, or the United States Attorney's office for assistance.

OTHER ACTIVITIES

REGULATORY AND LEGISLATIVE REVIEWS

The Inspector General Act of 1978, as amended, requires the Office of Inspector General to review proposed legislation and regulations. The reviews are to assess whether proposed legislation and/or regulations (1) affect the economy and efficiency of agency programs and operations, and (2) contain adequate internal controls to prevent and detect fraud and abuse. During this period, no legislative reviews were required for NEH. However, we provide responses to the Council of Inspectors General on Integrity and Efficiency on legislation affecting the Inspector General community.

WORKING WITH THE AGENCY

OIG staff attended various NEH meetings – panel meetings (where grant applications are reviewed by outside consultants), pre-council meetings (where program staff discuss panel review results with the Chairman and his immediate staff), and the National Council meetings. Also, the IG or Deputy IG attends the Chairman’s monthly policy group meetings. The Office of Inspector General contributes to the discussions but does not participate in policymaking.

OIG staff made presentations about the NEH Office of Inspector General and the OIG Hotline during meetings held at the NEH with grant project directors in receipt of awards through the Office of Digital Humanities, (FY 2010 Digital Humanities Start-Up Grants).

As a result of our extensive audit coverage of awards made through the NEH Challenge Grant program and recommendations for improvements affecting the Challenge Grant program, NEH management has incorporated changes in the applicable program guidelines and administrative policies to effectively address problem areas identified by the OIG. In addition, the OIG has been reviewing drafts of program guidelines for new NEH award programs and has made recommendations concerning cost-sharing, accountability, and transparency.

PARTICIPATION ON THE COUNCIL OF INSPECTORS GENERAL ON INTEGRITY AND EFFICIENCY

The Inspector General Reform Act of 2008, Public Law 110-409, amended the Inspector General Act of 1978 and established the Council of Inspectors General on Integrity and Efficiency (CIGIE). The CIGIE is comprised of all Inspectors General whose offices are established by the Inspector General Act of 1978, those that are Presidentially-appointed/Senate-confirmed, and those that are appointed by agency heads (designated Federal entities). During the six-month period ending September 30, 2010, OIG staff regularly attended CIGIE meetings and provided input. The Inspector General is a member of the Grant Fraud Committee (a subcommittee of the National Procurement Fraud Task Force). The Deputy IG attends meetings of the Federal Audit Executive Council (FAEC), the monthly meetings of the Financial Statement Audit Network (a subcommittee of the FAEC), and the Single Audit Roundtable. One senior auditor periodically attends the Assistant Inspector General for Investigations (AIGI) meetings.

PEER REVIEWS

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 requires OIGs to report information concerning peer reviews conducted by another CIGIE agency of their audit and investigations operations and peer reviews conducted by the reporting OIG. During the period ended September 30, 2010, the Consumer Product Safety Commission ~ Office of Inspector General began a review of our audit operations.

Likewise, we are scheduled to begin a review of the audit operations of the U.S. Capitol Police ~ Office of Inspector General in October 2010.

INTRA-GOVERNMENTAL ACTIVITY

Collaboration with the National Science Foundation ~ Office of Inspector General

OIG staff is participating in a joint investigative effort concerning a major media grantee. The joint effort involves IG staff from three (3) Federal agencies. NSF ~ OIG is leading the investigation.

OTHER ACTIVITIES (Continued)

OIG staff previously participated in a joint investigative effort with NSF~OIG and NEA~OIG concerning the expenditure of funds under several NSF, NEA, and NEH awards by the Educational Broadcasting Corporation. The matter was referred to the U.S. Attorney's Office for the Southern District of New York. A settlement agreement between the United States, EBC, and WNET.ORG resulted in the return and deobligation of funds related to NEH awards totaling \$368,866. The settlement agreement also subjects EBC and WNET.ORG to a five-year compliance agreement.

OIG INTERNET AND INTRANET

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

To advance NEH staff recognition of the OIG mission and responsibilities, we provide links to several other Federal agencies such as the Office of Management and Budget, the Government Accountability Office, the Office of Government Ethics, and the IGMET.

TECHNICAL ASSISTANCE

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

"AUDIT READINESS" AWARENESS CAMPAIGN

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

During the six-month period ending September 30, 2010, e-mail communications were sent as noted below. We have reasonable assurance that all of the awardees received a copy of the communication.

NEH Office or Division	Number of Awardees	Number of E-mails Sent*
Division of Preservation and Access	17	29
Division of Public Programs	15	26
Office of Digital Humanities	1	2
Division of Research Programs	9	10

* There were several instances where either the project director and the grant administrator were the same or we did not have any contact information for an individual.

FY 2010 MANAGEMENT CHALLENGES AS OF SEPTEMBER 30, 2010

BACKGROUND

The Reports Consolidation Act of 2000 (the "Act") requires the Inspector General of each Federal agency to describe what he or she considers to be the "most serious" management and performance challenges facing their agency and assess the agency's progress in addressing those challenges. In accordance with the Act, the Inspector General has prepared an annual assessment of the major management challenges confronting the National Endowment for the Humanities (NEH).

Congress has left the determination and threshold of what constitutes a "most serious" management challenge to the discretion of the Inspectors General. Accordingly, the following definition has been applied in preparing this statement:

Serious management challenges are mission critical areas or programs that have the potential for a perennial weakness or vulnerability that, without substantial management attention, would seriously impact agency operations or strategic goals.

The Office of Inspector General (OIG) works to promote efficiency, effectiveness, and integrity in the programs and operations of the NEH. Through our audits, surveys, inspections, reviews and investigations, we identify areas of concern within the NEH's programs and operations.

The most serious management challenges facing NEH are the same as we reported in previous years. The challenges that follow are not ranked in any order of magnitude. The most serious challenges for the agency continue to be maintaining progress in improving (1) planning and performance measurement in accordance with the Results Act; (2) the "continuity of operations" plan; (3) information security; (4) grants management; and (5) management of human capital.

For the most part, NEH has initiated important progress in improving the challenges noted by the OIG, but more action is needed. There is an essential need for the NEH to enhance its efforts to ensure that programs are operating efficiently, effectively, and economically to satisfy the President, Congress, and the American taxpayer. The NEH is committed to the continuation of making improvements, including reviewing the agency's internal control environment that naturally may be the underlying cause of a significant amount of the OIG's concerns.

Planning and Performance Measurement in Accordance with the Results Act

NEH has made progress over the past several years and we recognize the difficulty of measuring the benefits of many of the agency's programs. The main obstacle to overcome is that many programs may not realize significant results until several years after a grant project ends. However, extra effort is required to make the case for justifying NEH as a positive, results-oriented organization. NEH has a history of relying seriously on anecdotal examples of success. Program offices and divisions should gradually collect outcome-related data from grantees before the grant ends and several years thereafter. As an illustration, while NEH has learned that a high school teacher uses knowledge gained at a summer seminar during instruction to approximately 250 students a year, we do not know how the students are affected (the outcome). Do they read more books on the topic? Are they thinking about taking more courses on the same topic in college? What is the actual impact of a summer seminar on the students of the teacher attending the seminar? Further, what does the school principal or the department chair see as the outcome of the teacher taking the seminar? These measurements would have to be developed at least a year or more after the teacher attended the seminar.

Obtaining outcome-based data from grantees would be more indicative for performance measurement than collecting output data. However, relying on data quality and evaluation of program effectiveness based on information provided by grantees or sub grantees do not provide a comfort level of accurate information. The Government Accountability Office (GAO) and other OIG's have noted numerous incidences of high error rates in grantee-reported performance data and this raises concerns about the use of such data for decision-making. Even so, obtaining outcome information would be a significant improvement. The agency needs to develop a mechanism to validate the integrity of the grantees' self-reported performance data. Another suggestion is that the NEH utilize a statistical approach, using information collected after a grant is completed to develop an objective outcome of the program versus individual grants.

FY 2010 MANAGEMENT CHALLENGES AS OF SEPTEMBER 30, 2010 (Continued)

We recognize that the agency is making some progress in this complex undertaking; however, it requires more effort. For example, in the Digital Humanities program, recipients of Start-up grants are requested to prepare a "White Paper" upon conclusion of their project that includes lessons learned. This model would be transferable to other NEH programs. This is a good start, but it does not facilitate the collection of outputs. Again, our concern with this approach is that NEH is relying on the grantee to provide the information.

Continuity of Operations

The agency has developed a Continuity of Operations Plan (COOP). It has not been signed by the Chairman and has not been incorporated in the NEH Administrative Directives manual.^{1/} Part of the plan pertains only to information technology, which is very important; however, the agency relies on paper documents in conducting its business. In fiscal year 2009, the agency developed and performed a high level test of the COOP. A more extensive test of the COOP was planned for fiscal year 2010, but was not executed. If the test is performed in fiscal year 2011, there still remains the need to fine-tune the COOP to include an out-of-area site, with training and testing of the actual ability to process transactions that are deemed essential.

At present, the plan contains an agreement with the Millennium Challenge Corporation (MCC) wherein either agency will assist the other in case of a disaster. The agreement only covers a disaster if it occurs in either one of the buildings occupied by each entity. The MCC is located in Washington, DC. If the downtown area of DC were closed, then execution of the agreement would not be viable. The agreement covers the assistance of information technology equipment and it appears to be reasonable for a building disaster. One major area not covered by the plan is payments to suppliers and contractors where payments are made through the U.S. Treasury system. The NEH has to consider other risks in addition to problems that may occur in the Old Post Office (OPO) building. Therefore this challenge continues to exist. The additional risks to be considered are: (1) Improvised Nuclear Device; (2) Aerosol Anthrax; (3) Pandemic Influenza; (4) Toxic Industrial Chemicals; (5) Nerve Agent; (6) Radiological Dispersal Device; and (7) Improvised Explosive Device.

Having a formal, inclusive (covering all NEH operations), and tested COOP is a valuable tool for NEH readiness for a sudden event where the staff may not be in a position to work in the OPO building for several weeks or more. NEH needs a plan that will have staff working within an acceptable timeframe if a manufactured or natural disaster prevented employees' admission to the building. NEH has taken positive action by obtaining the services of a software program where staff can work at home by accessing the NEH computer system. However, if access to the building is restricted for all NEH staff (including IT personnel), staff may not be able to remotely access the computer system. If the problem only affected the OPO building, a remote access server could most likely be built at the MCC location and then staff could work remotely. If the disaster affected the downtown DC area, the NEH may have a problem competing for a place to set up temporary headquarters and obtaining equipment because other federal agencies and private businesses may already have remote work areas in place.

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

The OIG understands that the agency has a committee working on the finalization of the plan. We believe the agency should consider the different types of disasters when finalizing the COOP.

^{1/} The NEH management did not have the COOP signed as they want a "living document" that we understand is a document easily subject to change. However, we believe that there should be an Administrative Directive (AD) for the COOP. The OIG strongly recommends that the Chairman (1) signs an AD for the COOP, which sets the tone that agency personnel should comply with the COOP; and (2) delegates authority to make changes to the plan, as necessary, to the Assistant Chairman for Planning and Operations. The actual COOP document would be an attachment. Therefore, the COOP could be changed but the original cover page in the Administrative Directives would not need to be changed with each update.

FY 2010 MANAGEMENT CHALLENGES AS OF SEPTEMBER 30, 2010 (Continued)

Information Security

The *Federal Information Security Management Act* (FISMA) requires each Federal agency to develop, document, and implement an agency-wide program to provide information security, and develop a comprehensive framework to protect the government's information, operations, and assets. To ensure the adequacy and effectiveness of information security controls, the OIG conducts annual independent evaluations of the agency's information security programs and reports the results to the Office of Management and Budget (OMB). OIG work conducted since 2004 has revealed system security internal control weaknesses, which increase the risk for inappropriate disclosure or unauthorized use of sensitive and personally identifiable information (PII). The agency's challenges in the area of IT security and management involve addressing cyber security threats and administering its IT capital investment portfolio. It is vital that the NEH addresses these challenges to ensure that IT and information security projects are appropriately managed so they meet their technical and functional goals on time and on budget.

The OIG still believes the agency would benefit from a full penetration test (including social engineering) to determine system weaknesses. The NEH has researched the issue and finds it to be expensive and risky. The NEH currently performs monthly passive penetration testing to discover vulnerabilities. NEH is prepared to accept the risks involved of not having a full penetration test. We believe that a full penetration test is needed, and as a minimum, would like NEH to include social engineering when performing passive testing. The OIG also considers employment of a log management system to monitor intrusions as a necessary activity to strengthen information security. Log management and review would be a first step to provide a reasonable level of assurance that security incidents are detected, resolved, and reported in a timely manner. In conjunction with log management and review, the OIG believes that there is a need for the agency to evaluate the feasibility of an intrusion detection system. NEH, similar to most Federal agencies, is currently investigating moving towards cloud computing. This is an area where we believe future challenges will arise. The OIG is willing to work with the Office of Information Resources Management (OIRM) to assist in this transition. We can help by reviewing plans developed by the agency to ensure that internal and security controls are in place and based on NEH's risk assessment. The OIG could also work with OIRM to ensure that any contracts with outside parties contain what we deem to be acceptable and verifiable security measures based on the accepted risks.

Like other Federal departments and agencies, NEH is planning to enter the world of Web 2.0 technologies such as blogs, social networking web sites, and video and multimedia sharing. These have proven to be good tools to communicate with the public, resulting in a greater transparency. Unfortunately, these modern technologies come with risks associated with the proper management and protection of government records and sensitive, personally identifiable information (PII). NEH management should incorporate all necessary defenses to lessen the possibilities of cyber crimes.

GAO reported that several challenges have been identified when agencies use this new technology:

1. Privacy and security. Agencies will be challenged to determine how the Privacy Act of 1974, which provides certain protections to personally identifiable information, applies to information exchanged in the use of Web 2.0 technologies, such as social networking sites. Additionally, the agency could face challenges in determining how to appropriately limit collection and use of personal information as agencies utilize these technologies, and how and when to extend privacy protections to information collected and used by third-party providers of Web 2.0 services. In addition, personal information needs to be safeguarded from security threats, and guidance may be needed for employees on how to use social media web sites properly and how to handle personal information in the context of social media.
2. Records management and freedom of information. Web 2.0 technologies raise issues in the government's ability to identify and preserve Federal records. Agencies may face challenges in assessing whether the information they generate and receive by means of these technologies constitutes Federal records and establish mechanisms for preserving such records, which involves, among other things, determining the appropriate intervals at which to capture constantly changing web content. The use of Web 2.0 technologies can also present challenges in appropriately responding to Freedom of Information Act (FOIA) requests because there are significant complexities in determining whether

FY 2010 MANAGEMENT CHALLENGES AS OF SEPTEMBER 30, 2010 (Continued)

agencies control Web 2.0-generated content, as understood within the context of FOIA. Federal agencies have begun to identify some of the issues associated with Web 2.0 technologies and have taken steps to start addressing them. For example, OMB recently issued guidance intended to (1) clarify when and how the Paperwork Reduction Act of 1995 applies to Federal agency use of social media and web-based interactive technologies; and (2) help Federal agencies protect privacy when using third-party web sites and applications.

Without strong IT security, the confidentiality, integrity, and availability of the agency's information are threatened. The agency needs to continue their comprehensive review of the IT security program. As part of the review process, the OIRM is currently evaluating the effectiveness of the IT security organizational structure and policy enforcement efforts. We believe that comprehensive reviews will continuously be required due to the changing technology.

Again, we commend the Office of Information Resources Management for taking many positive steps regarding IT security; however, we will continue to report IT security as a management challenge and potential risk to allow NEH management to continue to focus on this area.

Grant Administration

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

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

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

NEH needs to enhance its policies to include stronger pre-award through grant closeout procedures for a more effective grant management process. In addition, NEH should develop procedures to monitor internal controls of grantees that provide funds to subrecipients to ensure that funds are spent in accordance with the approved budget.

FY 2010 MANAGEMENT CHALLENGES AS OF SEPTEMBER 30, 2010 (Continued)

Management of Human Capital

Human capital is a high-risk for the Federal government due to the large number of baby-boomers that are expected to retire in the next three or four years. NEH will face the same situation. During the past several years, major changes occurred in the Office of Human Resources and the Office of Grant Management (OGM). NEH was aware of the pending retirements and acted appropriately to bring staff on board while the staff planning retirement was still at NEH.

NEH can ensure that the next wave of staff retirements will go efficiently by asking staff approaching retirement eligibility when they plan to retire. Being aware of staff retirement plans would provide NEH management with a head-start in the hiring and training of new staff.

The OGM has well-written procedure manuals with standard forms and language used in communications to applicants and grantees. In the manual, they have a brief section on the responsibilities of program staff. Generally, the program offices and divisions do not have comparable operations manuals. Program personnel are required to monitor grants following the OGM's general guidelines in the manual. Therefore, it would be beneficial for program offices to document procedures that are necessary to perform their work. This would be useful for the next generation of program staff and would facilitate consistent processing of grant applications. The NEH stated that the program offices and divisions are using generic forms and letters and are standardizing and sharing office policy procedures. This is commendable; however, additional progress needs to be made in this area and the results of this effort should be documented in writing and included in an operations manual.

As we have stated in past years, the OIG recommends that NEH develop a comprehensive five-year strategic human capital plan. The plan should identify human capital goals and human capital initiatives, including knowledge management and succession planning. Knowledge management involves capturing critical information and making the right information available to the right people at the right time to assure that knowledge and experience of the current staff is passed on to the next generation of NEH staff. This includes mentoring, early replacement hiring, and rehiring annuitants. (NEH has already used some of these strategies and we commend them for this accomplishment.) One of the first steps would be to develop a measurement system (workload analysis tool) to determine the FTE needs of the agency, especially in the program offices and divisions.

A significant component in implementing the human capital plan is provision for management succession. Individuals with the potential to become managers should be identified and provided on-the-job and formal management/leadership developmental opportunities. This would strengthen organizational stability, the retention of institutional knowledge, and the infusion of new talent. Then when opportunities arise, the individuals can be promoted to higher positions. This, as part of a human capital plan, should be linked to the agency's Strategic Plan for long-term achievement of the agency's mission.

PRIOR AUDIT REPORTS UNRESOLVED

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

TABLE I

REPORTING REQUIREMENTS

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

<u>IG Act Reference</u>	<u>Reporting Requirements</u>	<u>Page</u>
Section 4(a)(2)	Regulatory and Legislative Reviews.....	13
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.....	12
Section 5(a)(5)	Instances Where Information Was Refused or Not Provided.....	*
Section 5(a)(6)	List of Reports Issued.....	3-4
Section 5(a)(7)	Summary of Reports Issued.....	5-8
Section 5(a)(8)	Audit Reports - Questioned Costs.....	22
Section 5(a)(9)	Audit Report - Funds To Be Put to Better Use.....	22
Section 5(a)(10)	Prior Audit Reports Unresolved.....	20
Section 5(a)(11)	Significant Revised Management Decisions.....	*
Section 5(a)(12)	Significant Management Decisions with which OIG Disagreed....	*

* None this period

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

	Number Of Reports	Questioned Cost	Unsupported Cost
A. For which no management decision has been made by the commencement of the reporting period.	- 1 -	\$25,600	\$ - 0 -
B. Which were issued during the reporting period.	- 3 -	\$756,667	\$ - 0 -
Subtotals (A+B)	- 4 -	\$782,267	\$ - 0 -
C. For which a management decision was made during the reporting period.			
i. Dollar value of disallowed costs.	- 0 -	\$ - 0 -	\$ - 0 -
ii. Dollar value of costs not disallowed (grantee subsequently supported costs).	- 3 -	\$290,600	\$ - 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.	- 1 -	\$491,667	\$ - 0 -
E. Reports for which no management decision was made within six months of issuance.	- 0 -	- 0 -	\$ - 0 -

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

	Number Of Reports	Dollar Value
A. For which no management decision has been made by the commencement of the reporting period.	- 0 -	\$ - 0 -
B. Which were issued during the reporting period.	- 0 -	\$ - 0 -
C. For which a management decision was made during the reporting period.	- 0 -	\$ - 0 -
i. Dollar value of recommendations that were agreed to by management.		\$ - 0 -
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).