



NATIONAL ENDOWMENT FOR THE

Humanities

Office of Inspector General

**SEMIANNUAL
REPORT TO
CONGRESS**

For the Period October 1, 2012 through March 31, 2013

Report No. 48

**“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

Contact the OIG Hotline

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OIG Hotline Form

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EXECUTIVE SUMMARY

OIG activities during this reporting period addressed internal agency operations, grantee operations/compliance, oversight of the NEH financial statement audit, and oversight of non-Federal audits of NEH grantees.

The OIG completed the fiscal year 2012 evaluation of the NEH's information security program and practices, pursuant to the Federal Information Security Management Act of 2002 (FISMA). We documented the results in the Inspector General Section of the NEH 2012 Annual FISMA Report to the Office of Management and Budget (OMB), which was submitted via the Cyberscope portal on November 15, 2012. We determined that NEH's security programs and practices were generally consistent with FISMA requirements for fiscal year 2012. We have drafted a report detailing exceptions taken during our evaluation, which will be included in the next semi-annual report.

We performed a limited, independent assessment of Agency managements' activities pursuant to the *Federal Managers' Financial Integrity Act* (FMFIA) and concluded that the fiscal year 2012 management control evaluation was conducted in accordance with OMB and FMFIA requirements. We also determined that the NEH was compliant with the *Improper Payments Elimination and Recovery Act of 2010* concerning fiscal year 2012.

The OIG engaged the services of Leon Sned & Company, P.C. (IPA) to conduct the annual audit of the NEH financial statements for fiscal year ending September 30, 2012, as required by the Accountability of Tax Dollars Act of 2002. We monitored the work of the auditors and examined audit working papers and the draft report/management letter to ensure compliance with applicable requirements. The NEH received an unqualified opinion on the audited financial statements as of and for the years ended September 30, 2012 and 2011. No material internal control deficiencies or instances of noncompliance with applicable laws and regulations were noted by the IPA.

We concluded our participation in a joint investigative effort concerning a Massachusetts-based public broadcasting company. The joint effort was led by the National Science Foundation OIG and involved OIG staff from three (3) Federal agencies, (inclusive of the NEH). The U.S. Attorney's Office entered into a civil settlement for \$300,173 and the company agreed to implement and adhere to a five-year compliance enhancement plan to strengthen its oversight of Federal funds.

OIG staff continued participation on the Council of Inspectors General on Integrity and Efficiency (CIGIE) Grant Reform Working Group, engaging in discussions related to the grant reforms set forth in proposed guidance recently published by OMB in the Federal Register entitled, *Proposed OMB Uniform Guidance: Cost Principles, Audit, and Administrative Requirements for Federal Awards*.

THE NATIONAL ENDOWMENT FOR THE HUMANITIES

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

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

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

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

THE OFFICE OF INSPECTOR GENERAL

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

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

The OIG staff currently consists of the Inspector General and two auditors. The Deputy Inspector General position is vacant. The OIG has a Memorandum of Understanding with the United States Treasury Inspector General for Tax Administration detailing the procedures for the OIG to be provided legal services. Investigations are handled by the IG.

AUDIT AND REVIEW ACTIVITIES

LIST OF REPORTS ISSUED

The OIG is responsible for external and internal audits. External efforts include on-site grant audits, limited-scope desk audits, accounting system surveys, review of OMB Circular A-133 audit reports, and on-site quality control reviews of CPA workpapers. Internal efforts consist of audits, inspections, and reviews/evaluations of NEH administrative, programmatic, and financial operations. The OIG is also responsible for monitoring the work of the independent public accountant (IPA) engaged to conduct the annual audit of the NEH financial statements as required by the Accountability of Tax Dollars Act of 2002, and examining the IPA's audit workpapers and reports to ensure compliance with applicable requirements.

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

	<u>Report Number</u>	<u>Date Issued</u>
<u>INTERNAL AUDITS/REVIEWS/INSPECTIONS</u>		
NEH FY 2012 Review of Internal Controls in Accordance with the Federal Managers' Financial Integrity Act (FMFIA)	OIG-13-01 (IR)	11/09/2012
Final Audit Report NEH Financial Statement Audit ~ FY 2012	N/A	11/09/2012
National Endowment for the Humanities' Compliance with the <i>Improper Payments Elimination and Recovery Act of 2010</i> (FY 2012)	OIG-13-02 (IR)	03/15/2013
<u>DESK REVIEWS</u>		
Desk Review of the Single Audit Report for Year Ended October 31, 2011 — Missouri Humanities Council	OIG-13-01 (DR)	12/11/2012
Desk Review of the Single Audit Report for Year Ended October 31, 2011 — Colorado Humanities	OIG-13-02 (DR)	01/08/2013
Desk Review of the Single Audit Report for Year Ended October 31, 2011 — North Carolina Humanities Council	OIG-13-03 (DR)	01/29/2013
Desk Review of the Single Audit Report for Year Ended October 31, 2011 — Georgia Humanities Council	OIG-13-04 (DR)	02/06/2013
<u>ACCOUNTING SYSTEM SURVEY</u>		
Educopia Institute	OIG-13-01 (TS)	12/05/2012
<u>SINGLE AUDIT ACT REVIEWS</u>		
OMB Circular A-133 Reports	— See Page 6 —	

AUDIT AND REVIEW ACTIVITIES

SUMMARY OF REPORTS ISSUED

INTERNAL AUDITS/REVIEWS/INSPECTIONS

NEH FY 2012 Review of Internal Controls in Accordance with the Federal Managers' Financial Integrity Act (FMFIA) November 9, 2012; OIG-13-01 (IR)

The *Federal Managers' Financial Integrity Act* (FMFIA), P.L. 97-255, as well as Office of Management and Budget (OMB) Circular A-123, *Management Accountability and Control*, and OMB Circular A-127, *Financial Management Systems* establish specific requirements for management control. FMFIA further requires each executive agency head, on the basis of an evaluation conducted in accordance with applicable guidelines, to prepare and submit a signed statement to the President assuring that the agency's systems of internal accounting and administrative control fully comply with the requirements established in FMFIA. Internal NEH directives require each Division/Office Director to report on the status of controls against waste, fraud, and abuse within their area of responsibility. Managers of NEH's various financial systems (budget formulation, accounting, cash management, information management, procurement, property control, grant administration, audit, and personnel) are also responsible for (a) ensuring that systems are established, maintained, improved, and reviewed; and (b) reporting any exceptions to the NEH Chairman.

We performed a limited review of the evaluations conducted by NEH Division/Office directors. Based on our limited independent assessment of the process, the OIG concluded that the fiscal year 2012 management control evaluation was conducted in accordance with OMB and FMFIA requirements. Further, based on the results of audits and inspections conducted by the OIG during fiscal year 2012, the OIG concurred with the assertion that the NEH had no material weaknesses during the reporting cycle. However, we issued a separate letter of comment to Agency management wherein we made recommendations that, based on our observations of the process, we believed would strengthen the thoroughness of the internal control review process and would ultimately enhance the integrity of NEH programs and operations.

Final Audit Report NEH Financial Statement Audit ~ Fiscal Year 2012 November 9, 2012

The Office of Inspector General (OIG) engaged Leon Snead & Company, P.C., (IPA) to perform the annual audit of the NEH financial statements, as required by the Accountability of Tax Dollars Act of 2002. The OIG was responsible for (1) evaluating the qualifications and independence of the auditors; (2) reviewing the audit approach and planning; (3) monitoring the work of the auditors; (4) examining audit workpapers and draft report/management letter to ensure compliance with *Government Auditing Standards*, OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements* (as amended), and the *Financial Audit Manual*, issued jointly by the Government Accountability Office (GAO) and the President's Council on Integrity and Efficiency (PCIE); and (5) executing other procedures deemed necessary to oversee the contract and the audit.

The IPA expressed an unqualified opinion on the NEH financial statements as of and for the years ended September 30, 2012 and 2011. The IPA's testing of internal control did not identify any material weaknesses in financial reporting and the results of the IPA's tests of compliance with certain provisions of laws and regulations disclosed no instances of noncompliance required to be reported under *Government Auditing Standards* and OMB Bulletin 07-04 (as amended). The IPA noted a control deficiency over financial reporting and its operation that was reported to NEH management and those charged with governance in a separate letter dated November 8, 2012. There are no prior year unresolved findings.

AUDIT AND REVIEW ACTIVITIES

INTERNAL AUDITS/REVIEWS/INSPECTIONS (con't.)

National Endowment for the Humanities' Compliance with the *Improper Payments Elimination and Recovery Act of 2010* — FY 2012 March 15, 2013; OIG-13-02 (IR)

The *Improper Payments Elimination and Recovery Act of 2010* (IPERA) requires the head of each agency to periodically review and identify all programs and activities it administers that may be susceptible to significant improper payments, based on guidance provided by the Director of the Office of Management and Budget (OMB). For each program and activity identified, the agency is required to produce a statistically valid estimate of the improper payments and include such estimates in the accompanying materials to the annual financial statements of the agency. The agency is further required under IPERA to prepare a report on actions taken to reduce improper payments for programs or activities with significant improper payments. With respect to improper payments identified in recovery audits required by IPERA, the agency is required to report on all actions taken to recover improper payments.

Additional guidance issued by the OMB specifies that each agency's Inspector General should review improper payment reporting in the agency's annual Performance and Accountability Report (PAR) or Annual Financial Report (AFR), and accompanying materials, to determine whether the agency complied with IPERA.

We determined that the NEH was compliant with IPERA concerning fiscal year 2012. Specifically, the agency published a PAR for fiscal year 2012 and posted the report and accompanying material required by OMB on the agency website. NEH management conducted a risk assessment for improper payments in accordance with the steps outlined in the revised OMB Circular A-123, Appendix C, Part I. Agency management randomly selected and reviewed a sample of individual grant payments related to major NEH grant programs during fiscal year 2012, which resulted in a sampling error rate of zero percent; and properly reported this information in the PAR. Furthermore, nothing came to the attention of the OIG during fiscal year 2012 that would indicate the agency is susceptible to significant improper payments.

DESK REVIEWS

OMB Circular A-133 establishes audit requirements for state and local governments, colleges and universities, and non-profit organizations receiving Federal awards. Covered entities, as defined by the Circular, that expend \$500,000 or more a year in Federal awards must obtain an annual organization-wide audit that includes the entity's financial statements and compliance with Federal award requirements. The audits are conducted by non-Federal auditors, such as public accounting firms and state auditors.

During the reporting period, we issued four (4) letters communicating the results of our desk reviews of OMB Circular A-133 audit reports. The objectives of the desk reviews were to: (1) determine whether the audit reports are acceptable based on the reporting requirements of OMB Circular A-133; (2) identify any quality issues that may warrant follow-up work and/or revisions to the audit report; (3) identify audits for potential Quality Control Reviews (QCR) of the independent auditors' workpapers; and (4) identify issues that may require the attention of NEH management. We used the *Guide for Desk Reviews of OMB Circular A-133 Audit Reports*, issued by the Council of Inspectors General on Integrity and Efficiency (CIGIE), to determine if the reports were in conformance with the core reporting requirements stipulated by OMB Circular A-133.

We determined that three (3) reports were acceptable and one (1) report was technically deficient. A recurring deficiency noted during our desk reviews concerned the lack of disclosure of subrecipient awards in the Schedule of Expenditures of Federal Awards, as required by OMB Circular A-133.310(b)(5).

AUDIT AND REVIEW ACTIVITIES

ACCOUNTING SYSTEM SURVEY

**Educopia Institute
Atlanta, GA
December 5, 2012; OIG-13-01 (TS)**

We completed an accounting system survey of the Educopia Institute, (the “Institute”). The purpose of our survey was to obtain information to determine the adequacy of the organization’s accounting system, management controls, and policies and procedures designed to administer NEH grant funds.

We concluded that the Institute’s accounting system, management controls, and formalized policies/procedures in effect at the time of our survey did not meet the minimum requirements articulated by the NEH *General Terms and Conditions for Awards, Section 17 — Financial Management Standards*, and OMB Circular A-110 (2 CFR Part 215). Specifically, the Institute had not [a] implemented either a suitable Chart of Accounts or an accounting software package; [b] retained a qualified bookkeeper/accountant with the requisite accounting skill set; or [c] established a formalized system to track grant expenditures. Accordingly, we recommended that the NEH designate the Institute as a high-risk entity until the issues noted during the accounting system survey are resolved. We also identified several other Federal compliance-related issues to be promptly addressed by the Institute.

SINGLE AUDIT ACT REVIEWS

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

During the period ended March 31, 2013, we reviewed 44 OMB Circular A-133 audit reports. None of the reports contained findings that required action by NEH management.

AUDIT AND REVIEW ACTIVITIES

WORK IN PROGRESS (as of March 31, 2013)

Inspection ~ Grant Application In-take Process and Panel Development

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

Limited Audit ~ Eastern Michigan University

The principal objectives of this limited audit are to determine (1) whether grant expenditures were made in accordance with applicable provisions of the *Documenting Endangered Languages (DEL) Program* guidance, NEH's *General Terms and Conditions for Awards to Organizations*, and the specific terms of the approved grant award; (2) the underlying reasons that led to (a) a delinquent filing of the final financial and performance reports, and (b) a reduction in project scope; and (3) whether proper controls over the use of the Federal funds exist in accordance with minimum standards prescribed by OMB Circulars A-110 (2 CFR Part 215) and A-21 (2 CFR Part 220).

Limited Audit ~ Virgin Islands Humanities Council

The principal objectives of this limited audit are to determine that (1) grant expenditures were made in accordance with applicable provisions of NEH's *General Terms and Conditions for General Support Grants to State Humanities Councils*, NEH's *Matching Guidelines for General Support Grants to State Humanities Councils*, NEH's *General Terms and Conditions for Awards*, and the specific terms of the approved grant awards; (2) the Council properly tracked and met the legislated cost-sharing; and (3) proper controls over the use of the Federal funds exist in accordance with minimum standards prescribed in OMB Circulars A-110 (2 CFR Part 215) and A-122 (2 CFR Part 230).

INVESTIGATIVE ACTIVITIES

BACKGROUND

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

Over the years, the OIG has received allegations via the OIG Hotline and did not have sufficient resources to initiate an investigation. Therefore, to address this challenge, we continue to inquire of other OIGs concerning their willingness and ability to assist us on an “as needed” basis under a reimbursable agreement. A few OIGs have responded that they would consider performing work for us on a case-by-case basis, depending on the availability of their staff. However, this assistance would be for criminal cases only and we have no guarantee that the OIGs would have staff available when needed.

During this reporting period, no investigations were initiated. There are no matters currently being investigated by the NEH OIG.

MATTERS REFERRED TO PROSECUTIVE AUTHORITIES

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

HOTLINE ACTIVITIES

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

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

As of the beginning of this reporting period, disposition of matters presented by three (3) hotline contacts was open, pending the conclusion of the inquiry phase. Three (3) hotline contacts were received during the reporting period, of which one (1) resulted in the initiation of an audit and two (2) were forwarded to other Federal agencies. Three (3) hotline contacts remain open as of the end of the reporting period.

SUMMARY OF HOTLINE ACTIVITY

Open at beginning of period	3
Matters brought to the OIG during the reporting period	3
Total Hotline Contacts	6
Closed, referred, or no action deemed necessary during the reporting period	3
Open at end of period	3

OTHER ACTIVITIES

REGULATORY AND LEGISLATIVE REVIEWS

The Inspector General Act of 1978, as amended, requires the Office of the Inspector General to review proposed legislation and regulations. The reviews are to assess whether proposed legislation and/or regulations (1) affect the economy and efficiency of Agency programs and operations; and (2) contain adequate internal controls to prevent and detect fraud and abuse. During this reporting period, OIG staff continued participation in the efforts of the CIGIE Grant Reform Working Group (GRWG). This working group was organized to review the Advanced Notice of Proposed Guidance published in the Federal Register on February 28, 2012 by the Office of Management and Budget (OMB) entitled, *Reform of Federal Policies Relating to Grants and Cooperative Agreements; Cost Principles and Administrative Requirements (Including Single Audit Act)*, and to develop comments for consideration by the OMB. On February 1, 2013, OMB published proposed guidance in the Federal Register entitled, *Proposed OMB Uniform Guidance: Cost Principles, Audit, and Administrative Requirements for Federal Awards*. The GRWG will be submitting comments in response to the proposed guidance.

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

The IG delivered a presentation about the mission, responsibilities, and activities of the NEH Office of Inspector General and the OIG Hotline during meetings held at the NEH involving project directors in receipt of awards through the Division of Education (*NEH Summer Seminars and Institutes for 2013, and NEH Humanities Initiatives at Historically Black Colleges and Universities, Hispanic-Serving Institutions, and Tribal Colleges and Universities*). The meetings were held in October 2012 and February 2013, respectively.

The IG also participated with the Chairman, program staff, and grant management staff in the 2012 National Humanities Conference sponsored by the Federation of State Humanities Councils. The IG moderated a conference session wherein accountability and compliance matters applicable to state council organizations were discussed. The session was attended by executive directors and council personnel charged with fiscal responsibilities.

PARTICIPATION ON THE COUNCIL OF INSPECTORS GENERAL ON INTEGRITY AND EFFICIENCY

The Inspector General Reform Act of 2008 (Public Law 110-409), amended the Inspector General Act of 1978 and established the Council of Inspectors General on Integrity and Efficiency (CIGIE). The CIGIE is comprised of all Inspectors General whose offices are established by the Inspector General Act of 1978 (and subsequent amendments) — those that are Presidentially-appointed/Senate-confirmed and those that are appointed by agency heads (Designated Federal Entities). During the reporting period ended March 31, 2013, the IG regularly attended monthly CIGIE meetings (and provided responses to various CIGIE inquiries), bi-monthly meetings of the Federal Audit Executive Council (FAEC), and bi-monthly meetings of a recently established sub-group of the CIGIE representing the “Smaller OIGs”. The Inspector General and a staff auditor participated in the Single Audit Roundtable held in October 2012.

OTHER ACTIVITIES

INTRA-GOVERNMENTAL ACTIVITY

Collaboration with the National Science Foundation ~ Office of Inspector General

The Inspector General participated in a joint investigative effort concerning a major NEH media grantee. The joint effort involved three (3) Federal agencies, (inclusive of the NEH). The National Science Foundation ~ OIG led the investigation. The investigation found that the Massachusetts-based public broadcasting company could not demonstrate that project costs charged to Federal grants received from the three agencies were reasonable, allowable, and allocable. The company submitted inaccurate financial reports over three (3) years to the Federal agencies; used Federal funds to pay for impermissible expenses; and maintained an accounting system that was inadequate for tracking grant expenditures.

The U.S. Attorney's Office entered into a civil settlement whereby, without admitting liability, the company repaid \$300,173 (of which \$25,215 was allocated to the NEH), and agreed to implement and adhere to a five-year compliance enhancement plan to strengthen its oversight of Federal funds.

OIG INTERNET

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

To promote NEH staff awareness and understanding of the OIG mission and responsibilities, we provide hyperlinks to several other Federal agencies such as the Office of Management and Budget, the Government Accountability Office, the Office of Government Ethics, and the IGENET website.

“AUDIT READINESS” AWARENESS CAMPAIGN

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

During the reporting period ended March 31, 2013, e-mail communications were sent as noted below. We have reasonable assurance that all of the awardees received a copy of the communication.

NEH Office or Division	Number of Awardees	Total Value of Awards
Office of Challenge Grants	15	\$6,109,000
Division of Preservation and Access	10	\$2,135,000
Division of Education Programs	5	\$ 944,375
Division of Public Programs	2	\$ 312,270

TABLE I

REPORTING REQUIREMENTS

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

<u>IG Act Reference</u>	<u>Reporting Requirements</u>	<u>Page</u>
Section 4(a)(2)	Regulatory and Legislative Reviews.....	10
Section 5(a)(1)	Significant Problems, Abuses, and Deficiencies.....	*
Section 5(a)(2)	Recommendations for Corrective Action	*
Section 5(a)(3)	Prior Significant Recommendations Unimplemented.....	*
Section 5(a)(4)	Matters Referred to Prosecutive Authorities.....	8
Section 5(a)(5)	Instances Where Information Was Refused or Not Provided.....	*
Section 5(a)(6)	List of Reports Issued.....	3
Section 5(a)(7)	Summary of Reports Issued.....	4-6
Section 5(a)(8)	Audit Reports - Questioned Costs.....	13
Section 5(a)(9)	Audit Report - Funds To Be Put to Better Use.....	13
Section 5(a)(10)	Prior Audit Reports Unresolved.....	*
Section 5(a)(11)	Significant Revised Management Decisions.....	*
Section 5(a)(12)	Significant Management Decisions with which OIG Disagreed.....	*
Section 5(a)(14-16)	Peer Review Results.....	Appendix A

* None this period

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

	Number Of Reports	Questioned Cost	Unsupported Cost
A. For which no management decision has been made by the commencement of the reporting period.	- 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. Dollar value of disallowed costs.	- 0 -	\$ - 0 -	\$ - 0 -
ii. Dollar value of costs not disallowed	- 0 -	\$ - 0 -	\$ - 0 -
iii. Dollar value of costs not disallowed based on the "Value of Services Received."	- 0 -	\$ - 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 III
INSPECTOR GENERAL-ISSUED REPORTS
WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE**

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

GLOSSARY OF AUDIT TERMINOLOGY

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

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

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

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

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

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

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

APPENDIX A

PEER REVIEW RESULTS

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

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

A peer review of the NEH OIG is scheduled to take place during the semi-annual reporting period ending September 30, 2013.

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

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