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Description of documents: Three National Endowment for the Humanities (NEH)  
Office of the Inspector General (OIG) records:  
Inspection of the Grant Monitoring Function, OIG-11-01 (I), 2011  
General Operating Support Grants: Cost-Share Inspection, OIG-12-01 (I), 2011  
Inspection of Application Intake and Panel Development [OIG-14-02 (I)], 2013

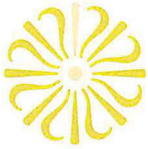
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The Inspector General  
Office of the Inspector General  
National Endowment for the Humanities  
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NATIONAL ENDOWMENT FOR THE

Humanities

OFFICE OF INSPECTOR GENERAL

JUN 20 2016

**VIA ELECTRONIC MAIL**

**Re: Freedom of Information Act Request 16-32**

As the National Endowment for the Humanities (NEH) official responsible for handling requests for the NEH Office of the Inspector General (OIG) records under the Freedom of Information Act (FOIA), I am responding to your FOIA request, which NEH received on May 23, 2016. You requested a copy of three NEH-OIG reports: Inspection of Application Intake and Panel Development December 16, 2013, OIG-14-02; General Operating Support Grants: Cost-Share Inspection December 19, 2011, OIG-12-01; and Inspection of the Grant Monitoring Function June 9, 2011, OIG-11-01.

The information you requested, as maintained in our records, is attached. If you wish to appeal this determination, please write to the Inspector General, National Endowment for the Humanities, 400 7<sup>th</sup> Street SW, Room 2046, Washington, DC 20506. Your appeal must be in writing and received by NEH within thirty (30) days of the date of this letter (weekend and Federal holidays excluded). Your appeal rights are set out in the Code of Federal Regulations, at 45 C.F.R. § 1171.10. There is no fee for providing this information.

Sincerely,

Brian Stratton

NEH-OIG FOIA Contact

Attachments

# Humanities

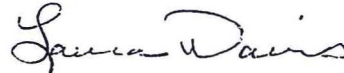
OFFICE OF INSPECTOR GENERAL

June 9, 2011

## MEMORANDUM

**TO:** James A. Leach, Chairman  
Carole Watson, Deputy Chairman  
Jeffrey Thomas, Assistant Chairman for Planning and Operations  
Adam Wolfson, Assistant Chairman for Programs  
William Craig Rice, Director - Division of Education Programs  
Nadina Gardner, Director - Division of Preservation and Access  
Thomas Phelps, Director - Division of Public Programs  
Jane Aikin, Director - Division of Research Programs  
Stephen Ross, Director - Office of Challenge Grants  
Brett Bobley, Director - Office of Digital Humanities  
John Gleason, Director - Accounting Office  
Susan Daisey, Director - Office of Grant Management

**FROM:** Laura Davis, Acting Inspector General



**SUBJECT:** Inspection of the Grant Monitoring Function  
OIG-11-01 (I)

The Office of Inspector General (OIG) has completed an inspection of the National Endowment for the Humanities (NEH) grant monitoring function. In general, monitoring would be defined as the act of checking something at regular intervals in order to find out how it is progressing or developing. In the context of this inspection, monitoring is the exercise of the programs' oversight function. This would include any and all activities that program staff engages in to ensure that the grantee expends NEH funds for the purpose(s) detailed in the approved application and in accordance with the terms and conditions of the grant.

### Background

Each year, the NEH awards approximately 1,000 grants which are administered by four divisions, two offices, and the Federal/State Partnership. During FY 2010, 976 grants were recommended for funding totaling \$140 million. The monitoring of grant activities is a key management tool to help ensure that funds awarded to grantees are being properly spent.

A grant/fellowship is an instrument whose principle purpose is to transfer money, property, services, or any other value to the recipient to accomplish a public purpose of support or

stimulation, as described in NEH's enabling legislation. As such, there is no substantial involvement between the Federal agency and the recipient during the performance of the activity. Since the Federal agency's role in the process is that of a patron to the recipient, there are certain actions that are consistent and other actions that are inconsistent with the grant agreement. Actions that are consistent with a grant agreement are:

1. approving an applicant's plan of work prior to an award;
2. approving a change in project director;
3. approving limited changes in the scope of a project;
4. providing technical assistance, guidance, or advice that the recipient may or may not follow;
5. performing site visits;
6. reviewing and responding to financial and performance reports;
7. enforcing general fiscal and administrative requirements; and
8. enforcing public policy and statutory requirements.

The following are agency actions that are not consistent with grant agreements:

1. unilaterally requiring the recipient to halt project activities immediately if the progress achieved under the grant is not satisfactory;
2. requiring agency review and approval during the grant period of one stage of a project before subsequent stages of activities, which have already been funded, can begin;
3. participating in or approving the selection of awards of subgrants and subcontracts let under the grant;
4. participating in the selection of project personnel; and
5. collaborating or jointly participating in the performance of grant activity.

Virtually all NEH grants, cooperative agreements, and fellowships have reporting requirements. Interim performance reports serve as a measure of progress achieved on a project and help to identify programmatic and administrative problems that may need to be resolved. As determined by programmatic policy, these reports are due either quarterly, semiannually, or annually. Interim performance reports are required on all awards that last eighteen months or longer. The final performance report, due within ninety (90) days after the end of the grant period, represents a permanent record of project accomplishments and provide NEH staff with a means to evaluate the significance and impact of the grant. Grantees are instructed to use the *Request for Advance or Reimbursement* (Standard Form 270) to submit payment requests whenever grant funds are needed. The final financial report summarizes the actual costs of the project and must be submitted within ninety (90) days after the completion of the respective grant period.

### **Objectives, Scope and Methodology**

The objectives of this inspection were to:

1. Determine 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 the policies and procedures.

2. Determine if the program divisions and offices, Accounting Office, and the Office of Grant Management (OGM) have specific policies and procedures concerning grant monitoring, and if so, whether they are complying with those policies and procedures.
3. Determine what factors are used to select awards for monitoring (risk based; award size; new grantee to NEH; etc.). Also, determine what mechanism is used by the programs or grant administrators to assess the effectiveness and/or adequacy of monitoring activities.

In order to accomplish the objectives of our inspection we requested the following information from the Assistant Chairman for Planning and Operations, the Assistant Chairman for Programs, and the various offices and divisions that would be involved in the grant monitoring function:

1. Copy of agency-wide policies and procedures pertaining to the monitoring of grants.
2. Directives or memoranda issued that provide information or instructions to staff concerning the monitoring of grants.
3. Division-wide or office-wide policies and procedures, directives or memoranda pertaining to grant monitoring.
4. In the absence of formal written policies and procedures, any documentation that details a monitoring program, to include a description of the methodology for selecting specific grants to monitor, (i.e., basis for the selections, criteria/factors considered, etc.).
5. Generic copy of Employee Performance Planning and Appraisal (EPPA) forms for employees/positions responsible for monitoring grants.
6. Samples of any forms and/or reports used to document and/or report on the monitoring of the grants.
7. Criteria used to determine if the monitoring by division or office is effective; adequate; etc. If no criteria exist, a description as to how the monitoring program/function is periodically assessed.

We met with approximately 40 percent of the program staff to discuss the grant monitoring function. In selecting program staff to be interviewed, we opted for a mix, where possible, of more experienced program staff and fewer new program staff.

We initially planned our inspection to cover the grant monitoring function agency-wide, to include individual programs, the Accounting Office, and the OGM. However, after review of preliminary background information, we limited our scope to exclude the Accounting Office and the Federal/State Partnership. We deemed that the monitoring efforts of the Accounting Office and Federal/State Partnership were specifically designed to accomplish the unique responsibilities and requirements of the respective function/program.

Our inspection was conducted in accordance with the *Quality Standards for Inspections* as issued by the President's Council on Integrity and Efficiency/Executive Council on Integrity and Efficiency. We began our inspection on March 17, 2010 with a notification to the agency and concluded our fieldwork on July 1, 2010.

## **Results**

The agency-wide policy for grant administration is documented in the NEH Grant Administration Manual (GAM). A brief section in the GAM entitled, *Roles of Various Offices in Grant Administration* outlines the monitoring responsibilities of program, OGM and accounting staff. Monitoring activities assigned to program staff include 1) comparing project budgets with project activities to ensure that all costs are programmatically justified; 2) monitoring project progress through the review of interim and final performance reports and occasional site visits; and 3) reviewing and approving programmatic changes in project plans as necessary. The OGM tracks the submission of and reviews financial and performance reports and manages the financial aspects of the Challenge Grant program. The Accounting Office is responsible for monitoring the balance of funds in each program and disbursement and monitoring of award funds to grant recipients.

We found that the main tool for monitoring grants is the review of interim and final reports submitted by grantees. Site visits have been reduced due to limited budgetary resources. Based on our discussions with program staff, we have determined that the grant monitoring responsibilities, as outlined in the GAM, are generally being executed.

We also found that NEH management does not routinely employ formal risk assessment procedures to determine which grant recipients should be subject to focused oversight/monitoring activities. Instead, all grant recipients are subject to reporting requirements. Additional monitoring efforts may be extended to activities supported by an NEH grant if information included in interim reports indicates problems. However, this approach is employed on a case-by-case basis and relies to a great extent upon information voluntarily disclosed by the preparer of the report submitted. While the program staff believes that the monitoring procedures are adequate there is no formal mechanism to assess the effectiveness or adequacy of monitoring activities.

We further noted opportunities for enhancement concerning the following areas:

### **Training and Guidance**

We learned that most of the instruction concerning grant monitoring is accomplished through on-the-job training, (i.e., reviewing interim and final performance reports in a mentoring relationship with more senior program staff). The majority of the program staff that we interviewed indicated that they have received very general guidance from their management concerning the review of performance reports. While the OIG believes that the on-the-job training and mentoring approach is effective, we also believe that monitoring activities would be enhanced if specific guidance emphasizing the objectives of the review of performance reports is documented and issued by program management. This was highlighted when we spoke to two (2) of the newer program staff who believed that some form of training or case documentation that specifically illustrates matters of concern and emphasizes the program's stewardship role would be beneficial.

### **Recommendation**

We recommend that NEH program management develop and make available to staff responsible for monitoring grants, guidance concerning the scope of the review of interim reports submitted by grantees to supplement and reinforce the grant monitoring responsibilities outlined in the GAM and the specific responsibilities that are unique to each program. Guidance may be in the form of a handbook or checklist that can be referenced by program staff when executing monitoring activities.

We further recommend that guidance is developed and disseminated that would facilitate proactive identification of high-risk recipients. Implementation of risk assessment procedures would identify problematic conditions which would not necessarily be disclosed in grantee-prepared interim reports, but could adversely impact NEH-supported activities. Risk determinations should be conditioned upon factors not easily manipulated by recipients and derived from independent sources.

**Management's Response:** See Attached

### **Delinquent Report Follow-up**

During our review of the GAM, we noted the section entitled, *Delinquent Report Follow-up* which details procedures for pursuing delinquent reports from grantees. Once a month, the OGM sends a computer-generated notice to all recipients with overdue reports. At the same time, OGM sends a printout to the program office listing recipients that were sent delinquent notices. If a final financial and/or performance report is not received after three (3) delinquent notices have been sent, (90 days delinquent) and no response from the recipient, the OGM issues a more strongly worded letter. This letter suspends the recipient from receiving new awards and warns that, if the delinquency is not resolved within thirty days, the recipient will be declared ineligible to receive further NEH funding and NEH may seek to recover award funds already paid. After thirty days, OGM staff follows up with the recipient by telephone to try to resolve the delinquency. If it is not resolved after a reasonable amount of time, the OGM sends a memo to the Director of the appropriate division/office recommending closeout of the award.

We believe that the follow-up process would be strengthened if the OIG is alerted after the third delinquency notice is issued. By the time the grantee has received three (3) delinquent notices and the "strongly worded" notice is issued, the risks associated with the grant award are elevated and OIG action may eventually be required.

### **Recommendation**

We recommend that the process for Delinquent Report Follow-up be amended to include OIG notification when the recipient has not responded after three (3) delinquent notices. We also recommend that the OIG be apprised of the status of the delinquency until the matter is resolved, the grant is closed, or an OIG audit is initiated.

**Management's Response:** See Attached

### **Review of Grant Financial Information**

During our discussions with program staff, we learned that there is no convenient way for them to check the balance of funds expended and unexpended on a grant. It is believed that this information would enhance monitoring efforts by enabling staff to determine if a grantee was drawing down funds inconsistent with the progress being reported. However, the program staff stressed that the process to check expended and unexpended balances needed to be user-friendly and the information must be readily available or it would not effectively augment their monitoring efforts.

The OIG agrees with the program staff as we believe that access to financial information would enhance the programs' monitoring efforts. We acknowledge that financial reports are currently being reviewed independently by the OGM and the Accounting Office. However, meaningful review is not accomplished when a project's financial status is monitored in isolation from performance reporting. Also, the OGM and Accounting Office review objectives may not address reasonableness of reported expenditure activity in comparison to progress or accomplishments reported. Review of financial-related reports in conjunction with performance reports provides a more comprehensive perspective of the status of NEH-supported activities.

### **Recommendation**

We recommend that NEH explore ways in which the financial information currently being captured in the NEH financial management systems and expenditure data, currently being reported by grantees, can be made readily accessible by program staff as needed.

**Management's Response:** See Attached

We would like to thank the Assistant Chairman for Planning and Operations, the Assistant Chairman for Programs, the Division/Office Directors and staff for their help and cooperation during our inspection. We would especially like to thank the individual staff members who agreed to our interviews for their cooperation and help in our understanding of the grant monitoring function and their roles in this process.

### **Exit Conference**

An exit conference was held on April 27, 2011 to discuss our findings and recommendations of our inspection. In attendance were Jeffrey Thomas ~ Assistant Chairman for Planning and Operations; Adam Wolfson ~ Assistant Chairman for Programs; Nadina Gardner ~ Director – Division of Preservation and Access; Jane Aikin ~ Director – Division of Research Programs; Stephen Ross ~ Director - Office of Challenge Grants; Brett Bobley ~ Director – Office of Digital Humanities; John Gleason ~ Director – Accounting Office; Susan Daisey ~ Director – Office of Grant Management; Laura Davis ~ Acting Inspector General – Office of Inspector General; and Gary McGough ~ Auditor – Office of Inspector General.

### **Action Required**

In accordance with OMB Circular A – 50, "Audit Follow-up", all findings and recommendations must be resolved within 180 days from the date this report is issued.



NATIONAL ENDOWMENT FOR THE


Humanities

OFFICE OF THE CHAIRMAN

June 8, 2011

MEMORANDUM

TO: Laura Davis  
Acting Inspector General

FROM: Jeff Thomas   
Assistant Chairman for Planning and Operations

SUBJECT: Management's Response to Draft of OIG-11-01

Thank you for providing the opportunity to comment on your office's April 27 draft report on NEH's grant monitoring function (OIG-11-01). As was discussed at the related exit conference (also on April 27), I am responding in behalf of the various directors and senior managers listed on the "To" line of the memo that transmitted your report.

In response to OIG's recommendations related to the report's three findings, we have developed a remedial action plan—summarized in the attached "Status of Audit Findings" document—that will address each of the report's recommendations, as follows:

Training and Guidance

The Assistant Chairman for Programs has formed a working group consisting of two division directors to consider the issues raised by the report. They will then draft, as suggested, a checklist, including how to identify potentially "high-risk recipients." The draft checklist will then be circulated among the other directors for their thoughts and input. The final product will most likely be a generic checklist to which individual divisions would append their own customized check lists. If it's not possible to create a generic checklist, owing to the specialized needs of each division, then each division would create its own checklist.

*Expected completion date:* July 31, 2011

Delinquent Report Follow-up

The Office of Information Resources Management has set up an eGMS email box for the OIG; and will send a copy of all 90-day past due notices to this email box so that the OIG is aware of these delinquencies. Also, the Office of Grant Management (OGM) has added

the following sentence to the more-than-90-day past-due notice. "In addition, by copy of this notice, the NEH Office of Inspector General is being informed of this reporting delinquency."

OIG concerns about the status of delinquent reports can be addressed on a case-by-case basis in consultation with the Grants Administrator responsible for the grant. Staff of the OIG can also access eGMS at their convenience to view the status of delinquent reports.

*This action has been completed.*

#### Review of Grant Financial Information

The Director of the Accounting Office will work with Director of OGM to develop a Discoverer report that will provide designated program staff with real-time financial data on individual grants.

*Expected completion date:* August 31, 2011

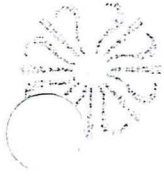
I trust that this action plan and related timetable will be considered a satisfactory response to the OIG report. If not, or if you have any questions about our responses to your recommendations, please let me know.

cc: Adam Wolfson  
John Gleason  
Susan Daisey

## Attachment To Management's Response

National Endowment for the Humanities Status of Audit Findings – FY 2011 As of May 19, 2011						
Audit Type	Audit Findings	Audit Recommendation/Corrective Action	NEH Response/Action Plan	Timeline for Completion	Responsible Office	Status
OIG-11-01 Grant Monitoring	1. Training & Guidance	Develop/disseminate guidance for review of interim reports, such as handbook/checklist. In addition, guidance on identifying high risk recipients.	The Assistant Chairman for Programs has formed a working group consisting of two division directors to consider the issues raised by the IG. They will then draft, as suggested, a checklist, including how to identify potentially "high-risk recipients." The draft checklist will then be circulated among the other directors for their thoughts and input. The final product will most likely be a generic checklist to which individual divisions would append their own customized check lists. (If it's not possible to create a generic check list, owing to the specialized needs of each division, then each division would create its own check list.)	July 31, 2011	Asst Chairman for Programs	Open
	2. Delinquent Report Follow-up	Notify OIG when grant recipient has not responded after 3 delinquent notices. Also apprise OIG of the status of the delinquency until matter is resolved, grant is closed, or OIG audit.	Set up an eGMS email box for the OIG; and send a copy of all 90-day past due notices to this email box so that the OIG is aware of these 90-day past due delinquencies.  Also, added the following sentence to the more than 90-day past due notice. "In addition, by copy of this notice, the NEH Office of Inspector General is being	May 31, 2011	Asst Chairman for Planning/Ops, Director of OGM	Completed

National Endowment for the Humanities Status of Audit Findings – FY 2011 As of May 19, 2011						
Audit Type	<u>Audit Findings</u>	Audit Recommendation/Corrective Action	NEH Response/Action Plan	Timeline for Completion	Responsible Office	Status
OIG-11-01 Grant Monitoring			informed of this reporting delinquency.”  OIG concerns about the status of delinquent reports can be addressed on a case-by-case basis in consultation with the Grants Administrator responsible for the grant. Staff of the OIG can also access eGMS at their convenience to view the status of delinquent reports.			
	3. Review of Grant Financial Information	Explore ways in which grant financial information/expenditure data can be made available/readily accessible to program staff.	Develop a Discoverer report to provide designated program staff with the current financial data of individual grants.	August 31, 2011	Asst Chairman for Planning/Ops, Directors of OGM & Accounting	Open



NATIONAL ENDOWMENT FOR THE

# Humanities

OFFICE OF INSPECTOR GENERAL

## MEMORANDUM

TO: James A. Leach, Chairman  
Carole Watson, Deputy Chairman  
Jeff Thomas, Assistant Chairman for Planning and Operations  
Adam Wolfson, Assistant Chairman for Programs  
Michael McDonald, General Counsel  
Edie Manza, Director-Federal/State Partnership  
Susan Daisey, Director-Office of Grant Management

FROM: Laura Davis, Acting Inspector General

DATE: December 19, 2011

SUBJECT: General Operating Support Grants: Cost-Share Inspection  
OIG-12-01 (I)

The General Operating Support Grant<sup>1</sup> (GOSG) represents the major funding mechanism used by the National Endowment for the Humanities (NEH) to support the state humanities councils (the "Councils"). By law, NEH cannot support more than fifty percent of the costs of a Council's activities<sup>2</sup>. To verify compliance, each Council must submit a final financial report demonstrating that the Council's share of expenditures equaled or exceeded the NEH award amount. The Office of the Inspector General (OIG) recently completed an inspection of this process.

### Background

NEH GOSG funding to the 56 Councils exceeded \$41 million in FY10 representing approximately 25 percent of the total agency budget<sup>3</sup>. Generally, each grant runs for a five year period with annual awards made during the first three years. These grants provide for both administrative and program support. Program activities typically include subrecipient awards, referred to as "regrants", to private non-profit organizations, institutions, groups, and individuals. Councils award regrants to provide support for humanities projects selected in open competition on the basis of established criteria that are widely known.

Councils receive two types of funding from the NEH through the GOSG: 1) outright funds<sup>4</sup> and 2) matching funds. Councils must cost-share the outright funds on at least a dollar-for-dollar basis. The overall cost-sharing for outright funds may take the form of: a) cash contributions made to the Council from any source (including funds from other Federal agencies); b) program income the Councils have earned; c) unreimbursed allowable costs that a subrecipient incurs in carrying out a council-funded project (i.e. grantee cost-share); and/or d) the value of in-kind contributions made by third parties. The rules surrounding matching gifts are much more

<sup>1</sup> CFDA #45.129 – Promotion of the Humanities: Federal/State Partnership

<sup>2</sup> 20 U.S.C. 956

<sup>3</sup> [www.neh.gov/partnership/FederalStatePartnership/granttables.html](http://www.neh.gov/partnership/FederalStatePartnership/granttables.html)

<sup>4</sup> Outright funds represented the major component (between 90 and 97 percent) of the total NEH General Operating Support Grants for the ten Councils selected for testing during this inspection.

restrictive. Only cash gifts from third-party sources are acceptable; and, Councils may not certify more than two gift dollars for each dollar of outright or matching funds they provide to a grantee (i.e. 2-to-1 cap).

According to the *Matching Guidelines for General Support Grants to State Humanities Councils* (Section 9), issued by the NEH Office of Grant Management, NEH may not support more than fifty percent of the costs related to the overall activities of a humanities council therefore the Councils must ensure that they or their grantees maintain documentation that substantiates that the cash and in-kind cost sharing contributions to the NEH grant at least equal the total outright and matching funds provided by NEH.

The current reporting model used to track compliance consists of a one-page summary report<sup>5</sup> that includes a single disclosure of the Council's cumulative GOSG cost-share amount (i.e. "recipient share of expenditures") along with management's certification that the grant requirements were met. No supporting documentation or detailed schedules are presently required by NEH to substantiate this total.

## Objectives, Scope and Methodology

The objectives of this inspection were to:

1. Evaluate procedures used by NEH management to review the validity and allowability of the GOSG cost-share amounts reported by the Councils (i.e. "recipient share of expenditures").
2. Identify the underlying components of the total cost-share (i.e. "recipient share of expenses") reported by the Councils (on the Federal Financial Reports) and determine if the grantee cost-share amount represents a material portion of the total.
3. Obtain a supporting schedule that substantiates the total grantee cost-share amount.
4. Evaluate impact to Councils if a grantee cost-share restriction is enforced.

Using the *FY08 Funding for State Councils*<sup>6</sup> report, issued by the Federation of State Humanities Councils, the OIG identified the total funding received by each Council (sorted by NEH and non-NEH sources). Based upon this schedule, we judgmentally selected General Operating Support Grants for ten of the Councils<sup>7</sup> (roughly twenty percent of the universe), focusing on Councils that received limited cash funding from non-NEH sources.<sup>8</sup> Furthermore, for each of these Councils, we judgmentally selected five individual grants for review, concentrating on those with significant grantee cost-sharing. The grant proposal, proof of Board approval, and final grantee reports were reviewed to a) ensure the total cost-share amount reported by the Councils actually agreed to grantee submissions and transpired during

<sup>5</sup> Federal Financial Report – Standard OMB Form 425

<sup>6</sup> Rather than selecting the most current year in which data was available (FY10), we opted to use the FY08 numbers as our baseline since this represented the last full year of data available prior to the widespread reporting of a U.S. recession which began in the summer of 2008 (Source: Business Week and US News articles).

<sup>7</sup> Since different cost-sharing rules apply to the four territorial Councils, these organizations were excluded from consideration.

<sup>8</sup> As part of this process, we determined that only thirteen of the Councils generated a majority of their revenues (>50%) from non-NEH sources in FY08. This number decreased to six Councils in FY09, presumably due to the downturn in the economy. These organizations were excluded from the universe used to select our sample.

the allowable period of performance; and b) verify that sufficient regrant documentation was retained by the Councils as required by their policy manuals and the NEH award documents.

In order to accomplish the objectives of our inspection we obtained the following information from the NEH website; internet searches; and queries of the Office of Grant Management, Office of Federal/State Partnership, and individual Councils.

1. Federation of State Humanities Councils annual reports: *FY08 & FY09 Funding for State Councils*.
2. General Operating Support Grant guidance: a) Federal/State Partnership: NEH and State Humanities Councils Working Together; b) *General Terms and Conditions for General Support Grants to State Humanities Councils*; c) *Matching Guidelines for General Support Grants to State Humanities Councils*; and d) *OMB Circular A-133 Compliance Supplement for CFDA #45.129 - Promotion of the Humanities-Fed/State Partnership*.
3. eGMS screen shots of GOSG award amounts and copies of the related Federal Financial Reports submitted by Councils.
4. Spreadsheets submitted by Councils providing a) summary level breakdown of the total cost-share (i.e. recipient's share of expenses) reported on the Federal Financial Reports; and b) a detailed listing of the individual regrant awards used to calculate the total regrant cost-share component.
5. Detailed documentation related to the five regrants selected for each Council. Documentation includes a) grant proposals; b) Board approval of regrant awards; and c) final reports submitted by grantees.
6. Council documentation describing their regrant programs (terms and conditions).
7. Council financial statement audit reports (FY08 – FY10)

Our inspection was conducted in accordance with the Quality Standards for Inspections as issued by the President's Council on Integrity and Efficiency/Executive Council on Integrity and Efficiency. We began our inspection on August 4, 2011 with data requests to the Councils and concluded our fieldwork on September 20, 2011.

## Results:

### *Regrantee Cost-Share Issues:*

A. We established that NEH oversight procedures applicable to the Council's GOSG cost-share reporting (i.e. recipient share of expenses) are limited to confirming that the Council's self-reported amount equals or exceeds the outright portion of the NEH grant award. NEH relies upon the Council's annual Single Audit, which is conducted by non-Federal auditors, to verify the validity and allowability of the underlying cost-share transactions.

B. Per review of the Federal Financial Reports affiliated with the selected general operating support grants, all ten Councils self-reported that they met the required "recipient share of expenses." In most cases, the Councils relied heavily upon the regrant cost-share component to fulfill this requirement (see **Appendix A**). In almost every instance (9 of 10), the cumulative

regrantee cost-share amount reported by the Councils exceeded a 2-to-1 ratio (ranging from 195% [Mississippi] to 1,104% [Washington]).

Furthermore, all Councils reported regrantee cost-share amounts in excess of 200 percent for many individual grants. In fact, the extreme cases greatly exceeded a 2-to-1 ratio, ranging from 1,237% (Mississippi) to 17,786% (Washington), and resulted in certain Councils meeting the bulk of their cumulative GOSG cost-share requirement through the issuance of a handful of regrants.

*Individual Grant Examples*

Council	Council Regrant Amount	Regrantee Cost-Share	Matching Rate
Iowa	\$10,000	\$486,116	49-to-1
New Jersey	\$4,776	\$640,000	134-to-1
Washington	\$2,500	\$444,649	178-to-1

\*See **Appendix B** for a synopsis of the five individual regrants that generated the highest matching percentages for each of the ten Councils tested. Due to the extreme multiplier effect, the Councils were able to fulfill up to seventy-four percent of the total GOSG cost-share requirement through the issuance of a mere five regrant awards.

C. All three key documents providing NEH General Operating Support Grant guidance are silent concerning a regrantee cost-share limit. However, the program establishes a 2-to-1 cap regarding matching donations raised by regrantees (see Background section).

D. Due to the Councils' reliance on regrantee cost-share, several of those selected for testing failed to include in their report: a) actual expenditures supported by cash donations received from non-NEH sources (4 of 10) or the Council's program income (6 of 10)<sup>9</sup>; and b) the value of the Board's in-kind work (3 of 10). Additionally, at least one Council stopped tracking the regrantee cost-share once the total required General Operating Support Grant match was reached.

E. In all fifty cases tested (five for each Council), the Councils properly maintained supporting documentation for the individual regrants selected (i.e. the grant proposal, Board approval of regrant award, and final reports submitted by regrantee). Moreover, the cost-share amounts reflected on the final reports submitted by the regrantees agreed to amounts reported by the Councils with three minor exceptions<sup>10</sup>. However, one Council (Humanities Washington) counted cost-share for regrants outside of the allowable period of performance allotted by the NEH General Operating Support Grant. Accordingly, these amounts appear to represent unallowable cost-share.

***Other Observations:***

F. Two of the ten Councils (Iowa and Miss.) elected to submit their Federal Financial Reports using the CASH basis method of accounting. However, their audited financial statements are prepared on an ACCRUAL basis. Although this is not a violation, it represents a consistency issue.

<sup>9</sup> OIG is assuming that all Councils charge admission for some of their programs. It's possible that this may not be the case.

<sup>10</sup> In all three cases, the regrantee cost-share amount reported by the Council was less than that disclosed on the regrantee's Final Financial Report, therefore the total cost-share reported to NEH was not overstated. As a result, the impact of this finding limited.

G. Expenses incurred by non-profit organizations, such as the state Councils, typically mirror the related revenue streams closely. Audited financial statements (FY10) for eight of the nine Councils<sup>11</sup> tested include footnotes highlighting a concentration of revenue risk; specifically, the reader is alerted to the fact that NEH funding represents a substantial portion of total revenue (i.e. up to 92% - see **Appendix C**) and the loss of this support could have a "significant adverse effect on Council programs" possibly impacting the organization's ability to continue as a viable entity. Paradoxically, these same Councils continue to report that funding from NEH does not support more than fifty percent of their costs. This contradiction is largely effected by the inclusion of regrantee (which represent separate, legal entities) expenditures in the Council's cost-share obligations as discussed in item B above.

### **Conclusion/Recommendations:**

Since the NEH allows and/or encourages Councils' use of regrantee cost-share as a means of fulfilling the legislated cost-share requirement, consistent treatment (i.e. establishing a cap) should apply to both cash contributions raised by a regrantee and unreimbursed allowable expenditures incurred by a regrantee for council-funded projects. Currently, the NEH has only established a cap on the amount of cash contributions raised by a regrantee that a Council may certify for matching purposes. As discussed previously, Agency guidance is currently silent on any regrantee cost-share limitation. Failure to impose a limitation on the level of regrantee cost-share allowed as fulfillment of the legislated requirement could result in a distribution of NEH funds to support "Council activities" well in excess of the fifty percent limitation anticipated by the law, (as depicted in **Appendix C**).

Moreover, by allowing the Councils to report unlimited regrantee cost-share amounts in order to fulfill the legislated cost-share requirement (noted one case in which the reported matching ratio was 178-to-1), the NEH has effectively eliminated any real incentive for Councils to prioritize fundraising activities and allocate the necessary time and resources to this requisite function. In fact, in FY08 and FY09 only 13 and 6 Councils, respectively, generated a majority of their revenues (greater than 50%) from non-NEH sources, according to the annual Federation of State Humanities Councils reports.

With the consolidation of the recently terminated "We The People" program into the GOSG and the pending enactment of Federal austerity measures, we believe the risk exposure related to this material NEH program has increased significantly due to the potential for enhanced budget/program scrutiny by the Hill. To mitigate risks and to allay concerns that existing cost-share rules could possibly allow Councils to circumvent the intent of the law (by relying heavily upon cost-share reported by third party entities), we recommend that management enact a regrantee cost-share cap similar to the existing limitations established for GOSG matching funds. For your convenience, **Appendices D and E** have been prepared to document the impact of several cost-share cap scenarios.

If enacted, both the *General Terms and Conditions for General Support Grants to State Humanities Councils* and the *OMB Circular A-133 Compliance Supplement for CFDA #45.129 - Promotion of the Humanities-Federal/State Partnership* should be updated to prominently highlight any regrantee cost-share limitation established.

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<sup>11</sup> The Wisconsin Council is included in the overall University of Wisconsin audit therefore a set of stand-alone financial statements are not available for this organization. Accordingly, it was excluded from this calculation.

### **Exit Conference**

An exit conference was held on November 28, 2011 to discuss our findings and recommendations. Individuals in attendance included: Susan Daisey ~ Director-Office of Grant Management; Robert Straughter ~ Grants Administrator-Office of Grant Management, Edie Manza ~ Director of Federal/State Partnership; Adam Wolfson ~ Assistant Chairman for Programs; Jeff Thomas ~ Assistant Chairman for Planning and Operations; Laura Davis ~ Acting Inspector General-Office of Inspector General; and Steve Elsberg ~ Auditor-Office of Inspector General.

### **Action Required**

In accordance with OMB Circular A-50, "Audit Follow-up", all findings and recommendations must be resolved within 180 days from the date of this report.

In closing, we would like to thank the NEH and Council employees that assisted us with this inspection for their time, invaluable insight, and cooperation.

APPENDIX A - COMPONENTS OF COUNCIL COST SHARE AFFILIATED WITH GENERAL OPERATING SUPPORT GRANTS INSPECTED:

State Council	General Operating Grant	Total NEH Award Amount	Recipient Cost- Share Reported	Breakdown of Cost- Share As Reported by Councils						Cumulative Regrantee Cost-Share Matching Rate
				Cash Contributions	Council Program Income	In-Kind Council: Board	In-Kind Council: Prof Svcs	Regrantee Cost Share	Total	
Humanities Iowa	SO-50192-07	\$ 1,650,790	\$ 5,023,761	158,342 3%	442,803 9%	5,279 0%	74,038 1%	4,343,299 86%	\$ 5,023,761 100%	461%
North Dakota Humanities Council	SO-50096-05	\$ 1,402,840	\$ 2,047,720	68,597 3%	- 0%	162,090 8%	398,064 19%	1,418,969 69%	\$ 2,047,720 100%	537%
Humanities Washington	SO-50168-06	\$ 1,832,954	\$ 3,891,643	880,430 23%	- 0%	76,369 2%	63,420 2%	2,871,424 74%	\$ 3,891,643 100%	1104%
Humanities Montana	SO-50088-05	\$ 1,389,187	\$ 1,897,309	- 0%	- 0%	210,051 11%	647,631 34%	1,039,627 55%	\$ 1,897,309 100%	297%
Ohio Humanities Council	SO-50154-06	\$ 2,468,880	\$ 2,587,951	- 0%	145,400 6%	- 0%	- 0%	2,442,551 94%	\$ 2,587,951 100%	491%
Wisconsin Humanities Council	SO-50114-05	\$ 1,771,865	\$ 1,771,865	- 0%	- 0%	- 0%	- 0%	1,771,865 100%	\$ 1,771,865 100%	399%
California Humanities Council	SO-50065-05	\$ 4,935,704	\$ 4,935,704	1,501,152 30%	46,551 1%	342,335 7%	92,702 2%	2,952,964 60%	\$ 4,935,704 100%	202%
Mississippi Humanities Council	SO-50086-05	\$ 1,548,484	\$ 1,550,760	- 0%	- 0%	158,562 10%	803,544 52%	588,655 38%	\$ 1,550,760 100%	195%
New Jersey Council	SO-50092-05	\$ 2,120,308	\$ 4,939,043	888,315 18%	165,660 3%	168,250 3%	194,700 4%	3,522,118 71%	\$ 4,939,043 100%	652%
Maryland Humanities Council	SO-50082-05	\$ 1,770,902	\$ 3,278,227	934,335 29%	- 0%	- 0%	1,123,166 34%	1,220,726 37%	\$ 3,278,227 100%	401%



State Council	General Operating Grant	Total NEH Award Amount	Regrant Award Amount	Regrantee Cost- Share Amount	Matching Rate	Portion of Required GOSG Cost-Share
Mississippi Humanities Council	SO-50086-05	\$ 1,548,484	\$ 5,000	\$ 61,860	12-10-1	9%
			\$ 2,000	\$ 24,476	12-10-1	
			\$ 2,000	\$ 20,712	10-10-1	
			\$ 2,000	\$ 20,663	10-10-1	
			\$ 1,950	\$ 14,675	8-10-1	
			\$ 12,950	\$ 142,386	11-10-1	
			\$ 288,381	\$ 446,269	1.5-10-1	
			\$ 301,331	\$ 588,655	1.95-10-1	
			Remaining 116 regrants Total			
New Jersey Council	SO-50092-05	\$ 2,120,308	\$ 4,776	\$ 640,000	134-10-1	73%
			\$ 10,000	\$ 516,000	52-10-1	
			\$ 2,650	\$ 127,727	48-10-1	
			\$ 3,000	\$ 115,908	39-10-1	
			\$ 5,000	\$ 141,905	28-10-1	
			\$ 25,426	\$ 1,541,540	61-10-1	
			\$ 514,492	\$ 1,980,578	3.8-10-1	
			\$ 539,918	\$ 3,522,118	6.52-10-1	
			Remaining 121 regrants Total			
Maryland Humanities Council	SO-50082-05	\$ 1,770,902	\$ 1,200	\$ 20,398	17-10-1	18%
			\$ 10,000	\$ 165,881	17-10-1	
			\$ 7,000	\$ 98,024	14-10-1	
			\$ 1,200	\$ 15,290	13-10-1	
			\$ 1,200	\$ 13,529	11-10-1	
			\$ 20,600	\$ 313,122	15-10-1	
			\$ 284,131	\$ 907,604	3.2-10-1	
			\$ 304,731	\$ 1,220,726	4.01-10-1	
			Remaining 64 regrants Total			

\*\*\* See notes A and B at Appendix E

Note: Chart based upon detailed information supplied by the respective State Councils

## NDIX C - FINANCIAL STATEMENT REVIEW (CONCENTRATION OF REVENUE FOOTNOTE DISCLOSURE)

Source: Council's FY10 Audited Financial Statements (Filed with the Federal Audit Clearinghouse)

State Council	Concentration of Revenue Risk Footnote Issued in the Council's Audit Report	Description of Footnote Disclosure***
Humanities Iowa	Y	NEH funding represents 82% of total revenue
North Dakota Humanities Council	N	<u>NOTE</u> : Footnote disclosure improperly omitted since the NEH funding represents 92% of total revenue
Humanities Washington	Y	NEH funding represents 73% of total revenue
Humanities Montana	Y	NEH funding represents 92% of total revenue
Ohio Humanities Council	Y	NEH funding represents a substantial portion of total revenue
Wisconsin Humanities Council	N/A - Part of State Audit	N/A - Part of State Audit
California Humanities Council	Y	NEH funding represents a substantial portion of total revenue
Mississippi Humanities Council	Y	NEH funding represents 91% of total revenue
New Jersey Council	Y	NEH funding represents 82% of total revenue
Maryland Humanities Council	Y	NEH funding represents 69% of total revenue

\*\*\* In all cases, NEH funding represents the material funding source for the Councils. The footnote disclosures complicate matters since they imply that the Councils are not meeting the legal statute which states that NEH cannot support more than 50% of the costs of a Council's activities.

## APPENDIX D - IMPACT ON REGRANTEE COST-SHARE IF CAPS ARE ESTABLISHED

State Council	General Operating Grant	Regrantee Cost Share Amount Reported to NEH	[C] Regrantee Cost Share Amount Allowable if Caps Implemented		
			2-to-1 Cap**	5-to-1 Cap	10-to-1 Cap
Humanities Iowa	SO-50192-07	4,343,299 86%	\$ 1,560,357	\$ 2,599,951	\$ 3,257,817
North Dakota Humanities Council	SO-50096-05	1,418,969 69%	\$ 464,643	\$ 791,828	\$ 968,084
Humanities Washington	SO-50168-06	2,871,424 74%	\$ 482,081	\$ 953,599	\$ 1,406,286
Humanities Montana	SO-50088-05	1,039,627 55%	\$ 398,677	\$ 688,207	\$ 899,999
Ohio Humanities Council	SO-50154-06	2,442,551 94%	\$ 848,291	\$ 1,420,891	\$ 1,820,713
Wisconsin Humanities Council	SO-50114-05	2,574,265 [A] 100%	\$ 1,140,644	\$ 1,880,662	\$ 2,322,885
California Humanities Council	SO-50065-05	4,282,115 [B] 68%	\$ 3,128,740	\$ 3,964,754	\$ 4,212,365
Mississippi Humanities Council	SO-50086-05	588,655 38%	\$ 407,280	\$ 501,742	\$ 564,799
New Jersey Council	SO-50092-05	3,522,118 71%	\$ 954,607	\$ 1,522,931	\$ 1,982,676
Maryland Humanities Council	SO-50082-05	1,220,726 37%	\$ 463,112	\$ 823,578	\$ 1,078,078

\*\* Under current program guidance, Councils are prohibited from certifying more than two gift dollars (i.e. contributions) for each dollar of outright or matching funds provided to a regrantor (i.e. 2-to-1 cap). This chart shows impact if a similar cap was instituted for the expenses related to regrantor cost-share.

### Legend:

[A] The Wisconsin Council actually identified \$2.57 million in regrantor cost-share but only reported the \$1.77 million to the NEH. The impact of the caps was calculated using the cumulative \$2.57 million amount.

[B] CA Council actually identified \$4.28 million in regrantor cost-share but only reported the \$2.95 million to the NEH. The impact of the caps was calculated using the cumulative \$4.28 million amount.

[C] The impact of the 5-to-1 regrantor cap was carried forward to the calculations in Appendix E.

## APPENDIX E - IMPACT OF A 5-TO-1 REGRANTEE COST-SHARE CAP

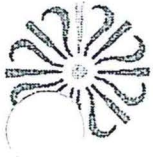
[\*NOTE: See Appendix D for calculations related to three different regrantee cost-share cap scenarios.]

			Overall Cost- Share Breakdown Utilizing a 5-to-1 Recrantee Cost-Share Cap					
State Council	General Operating Grant	Total NEH Award Amount	Cash Contributions	Council Program Income	In-Kind Council: Board	In-Kind Council: Prof Svcs	REVISED Recrantee Cost Share	REVISED TOTAL
Humanities Iowa	SO-50192-07	\$ 1,650,790	158,342 5%	442,803 13%	5,279 0%	74,038 2%	2,599,951 79%	\$ 3,280,413 100%
North Dakota Humanities Council	SO-50096-05	\$ 1,402,840	68,597 5%	- 0%	162,090 11%	398,064 28%	791,828 56%	\$ 1,420,579 100%
Humanities Washington	SO-50168-06	\$ 1,832,954	880,430 45%	- 0%	76,369 4%	63,420 3%	953,599 48%	\$ 1,973,818 100%
Humanities Montana	SO-50088-05	\$ 1,389,187	- 0%	- 0%	210,051 14%	647,631 42%	688,207 45%	\$ 1,545,889 100%
Ohio Humanities Council	SO-50154-06	\$ 2,468,880	- 0%	145,400 9%	- 0%	- 0%	1,420,891 91%	\$ 1,566,291 100%
[A] Wisconsin Humanities Council	SO-50114-05	\$ 1,771,865	- 0%	- 0%	- 0%	- 0%	1,880,662 100%	\$ 1,880,662 100%
[B] California Humanities Council	SO-50065-05	\$ 4,935,704	1,501,152 25%	46,551 1%	342,335 6%	92,702 2%	3,964,754 67%	\$ 5,947,494 100%
Mississippi Humanities Council	SO-50086-05	\$ 1,548,484	- 0%	- 0%	158,562 11%	803,544 55%	501,742 34%	\$ 1,463,848 100%
New Jersey Council	SO-50092-05	\$ 2,120,308	888,315 30%	165,660 6%	168,250 6%	194,700 7%	1,522,931 52%	\$ 2,939,856 100%
Maryland Humanities Council	SO-50082-05	\$ 1,770,902	934,335 32%	- 0%	- 0%	1,123,166 39%	823,578 29%	\$ 2,881,079 100%

[A] The Wisconsin Council actually identified \$2.57 million in regrantee cost-share but only reported the \$1.77 million to the NEH. The impact of the caps was calculated using the cumulative \$2.57 million amount.

[B] CA Council actually identified \$4.28 million in regrantee cost-share but only reported the \$2.95 million to the NEH. The impact of the caps was calculated using the cumulative \$4.28 million amount.

[1] These two State Councils would have been impacted by a 5-to-1 regrantee cost-share cap. However, neither of the Councils reported cash contributions and one Council did not report Board in-kind expenses.



NATIONAL ENDOWMENT FOR THE

# Humanities

OFFICE OF INSPECTOR GENERAL

## MEMORANDUM

**TO:** Carole Watson, Acting Chairman  
Adam Wolfson, Assistant Chairman for Programs  
William Craig Rice, Director - Division of Education Programs  
Nadina Gardner, Director - Division of Preservation and Access  
Karen Mittelman, Director - Division of Public Programs  
Jane Aikin, Director - Division of Research Programs  
Andrea Anderson, Acting Director - Office of Challenge Grants  
Brett Bobley, Director - Office of Digital Humanities

**FROM:** Laura Davis, Inspector General

**DATE:** December 16, 2013

**SUBJECT:** Inspection of Application Intake and Panel Development  
[OIG-14-02 (I)]

The Office of Inspector General (OIG) has completed an inspection of the National Endowment for the Humanities (NEH) application intake and panel development processes. For purposes of this inspection, activities of NEH program staff and management from receipt of a grant application to presentation of the application for peer review/evaluation were considered part of the grant application intake process. Our inspection also included program staff review of draft proposals.

### I. Background

The NEH accomplishes its mission by awarding grants for top-rated proposals examined by panels of independent, external reviewers. Application intake and panel development is the first step in the NEH application review process, and is a key activity in setting the stage for the selection of the most qualified proposals for support.

The review process stands at the center of NEH's work. Annually, the Endowment conducts more than 200 review panels, involving nearly 1,000 outside experts, in its evaluation of approximately 5,700 applications across 40 grant programs. The Endowment recruits panelists from every state, drawing on a wide and diverse pool of scholars and other humanities experts. In a given fiscal year, NEH will make about 900 grants in amounts ranging from \$1,000 to approximately \$750,000. In most programs, the applicant success rate varies from about 6 percent to 40 percent. About 35 program officers, most of whom hold an advanced degree in a humanities or related field, manage the process.

NEH review process has four distinct but fully integrated levels. First, knowledgeable persons independent of the Agency read each application and advise the Agency about its merits; second, NEH staff synthesizes the results of the outside review and prepares a slate of recommendations for the National Council on the Humanities; third, the National Council meets in Washington, DC, to advise the NEH Chairman on applications and matters of policy; and fourth, the

Chairman considers the advice received and makes final funding decisions. All levels of the review process prior to the Chairman's decision are advisory.

NEH program officials check applications for completeness and eligibility and assign them for panel review based on academic discipline, institutional type, project area, or project type. They typically assign 15 to 40 applications to a panel and select three to six evaluators per panel. In assembling a panel, program officers select evaluators for their expertise in the relevant disciplines and topics, as well as their overall breadth of knowledge in the humanities. Other considerations may include the type of institution the prospective evaluator represents, their past panel experience, or other demographic characteristics. NEH does not have standing panels; all NEH panels are formed anew at the start of a grant competition.

## II. Inspection Objectives, Scope, and Methodology

The objectives of our inspection were to:

1. Determine how applications are screened for eligibility and completeness, as well as when this screening takes place;
2. Determine the scope of the review of draft proposals by NEH program staff and the criteria used during the review;
3. Determine the extent of conformity to established guidance pertaining to the review of draft proposals;
4. Determine if program officials use NEH's guidance, *NEH Principles and Considerations for Recruiting Panelists* when they put together a panel; and
5. Determine if there is any division and/or office specific guidance concerning panel recruitment and/or composition, and the extent of its use.

In order to accomplish the inspection objectives, all NEH Division Directors, with the exception of Federal/State Partnership, were asked to provide a written explanation concerning the application intake and panel development processes, as well as any specific division/office-level guidance. The Federal/State Partnership was excluded, as this program does not routinely administer an application intake process for competitive funding opportunities. We conducted interviews with eleven randomly selected Program Officers/Analysts. Interview questions addressed the screening of applications for completeness and eligibility; scope of draft proposal reviews; and the recruitment of panelists. We obtained samples of draft proposal reviews, as well as any logs used to track the receipt and assignment of draft proposals for review. We also randomly selected recently submitted applications and independently reviewed the applications for completeness and eligibility, based on the applicable program guidelines posted on the Agency's website.

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

### III. Results

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

#### A. Eligibility and Completeness Screening

Individual programs have developed specific guidelines applicable to the various award opportunities. These guidelines are made available on the Agency's website for prospective applicants and are the initial criteria used by program staff to determine application completeness and eligibility. Since eligibility assessments include project content, multiple program personnel (including Division management) are often involved in the eligibility screening process. The OIG independently assessed a random sample of applications for completeness and eligibility and found that the applications advanced to panel review were consistent with requirements stipulated by the published program guidelines. We also reviewed applications deemed ineligible by program officials and found evidence demonstrating staff effectiveness in identifying ineligible applications based on application package completeness, content appropriateness, or citizenship status.

#### B. Draft Proposal Reviews

For most NEH grant programs, the invitation is extended to all prospective applicants to submit drafts of their proposals for review by program officials weeks in advance of published application submission deadlines. The majority of these reviews focus on content development and clarification with respect to humanities relevance. In many instances, draft proposal reviews are beneficial; not only for purposes of providing constructive feedback to prospective applicants, but the reviews also serve to familiarize program staff with proposal topics/subject areas that may be presented for the pending review cycle. Applicants are expressly advised that draft proposal reviews are offered for educational purposes and do not guarantee success. This advisory is conveyed through language in the program guidelines published on the Agency's website, as well as in feedback communications between NEH program officials and the prospective applicants.

#### C. Panel Development

The application review process relies on the advice and recommendations of humanities scholars and experts in relevant fields. The Agency maintains a database of prospective reviewers (PRISM) which may be used as a resource during panel development. The agency-wide policy for panelist recruitment is documented in the *NEH Principles and Considerations for Recruiting Panelists*. This guidance sets forth multiple criteria that potential panelists must meet to avoid conflicts of interest. We found that all Divisions are aware of the policy and have implemented procedures to ensure compliance with the guidance during panel development.

#### Recommendation

During our inspection, we learned that panel development represents a challenging aspect of the review process due to the time expended in researching and recruiting reviewers in order to

achieve conformity with Agency (and in some instances, division-specific) guidance concerning panel composition. We recommend that Agency management investigate ways in which the functionality of PRISM may be enhanced to facilitate the identification of prospective reviewers consistent with criteria defined by Agency and division-specific criteria. This will help ensure that panel development is accomplished consistent with Agency policy as well as enhance the efficiency of the panel development process.

#### **IV. Observed “Best Practices”**

In general, all Divisions have similar processes concerning application intake and panel development. However, a few Divisions implement additional controls that may be beneficial for other Divisions to consider.

##### **1. Multilevel, collaborative review of applications.**

If feasible, project content is reviewed by multiple Division personnel. This practice acts as a control to limit conflicts of interest, as well as advances project familiarization for a cross-section of staff.

##### **2. Grantee rotation**

Program Officers rotate their association with grant recipients after three consecutive years. This control helps minimize impairments to objectivity that may be created due to extended association with a single grantee.

We would like to thank NEH management and staff that assisted us with this inspection for their cooperation and invaluable insight.