

NATIONAL ENDOWMENT FOR THE HUMANITIES

1100 PENNSYLVANIA AVENUE, N.W.
WASHINGTON, D.C. 20506



THE CHAIRMAN

July 12, 2006

The President
The White House
Washington, D.C. 20500

Dear Mr. President:

This letter is to report a violation of the Antideficiency Act, as required by 31 U.S.C. 1517(b) of the United States Code.

A violation of 31 U.S.C. 1517(a)(1) occurred at the end of fiscal year 2004 when the agency made obligations exceeding our apportionment in account 59X0200, Grants and Administration. The excess obligations were in the agency's Category A apportionment of the Administrative Fund level in the amount of \$163,698. Mr. Jeffrey Thomas, NEH's Assistant Chairman for Planning and Operations, was the senior official overseeing the work of the agency's Office of Strategic Planning (NEH's budget office) as well as the Accounting Office and was therefore responsible for the violation.

The violation occurred at a time when the agency was experiencing considerable difficulties with its still-new Oracle accounting system. During the second half of the fiscal year we were grappling with data integrity problems caused by improperly defined accounting codes that were used for the first six months of transaction processing under the new system. Compounding these difficulties, we had at the same time embarked on a major reorganization of the Endowment's Accounting Office so that we could properly align the office's personnel with the requirements of the agency's new accounting system. Perhaps most tellingly, in late September we had issued reduction-in-force notices to the Director and Deputy Director of the office, and consequently their attention was focused on other issues at the very moment the agency was preparing to close the books on FY 2004.

As we coped with these multiple challenges, and as we subsequently took the laborious and time-consuming steps necessary to close out our accounts for FY 2004 (a process that was not completed until well after the end of the fiscal year), we belatedly realized that we had over-obligated our administrative funds. This was principally because we had unintentionally neglected to plan for and set aside funds needed for the year-end accrual of payroll for fiscal year 2004. Only when we completed the reconciliation of the

accounts did we realize that the year-end payroll accrual resulted in a violation of the Antideficiency Act.

It is important to stress that had we known at the time that the accrual of our final payroll would have put us in a deficit situation, we would have taken corrective reprogramming and reapportionment action immediately and thus steered clear of the Antideficiency Act violation entirely by shifting some funds from the Grants apportionment level to the Administrative Fund level.

Our agency's Oracle accounting system is now functioning as it is designed to do. Using data extracted from the system, we compiled and submitted to our outside auditors a complete set of financial statements for fiscal year 2005. After a thorough review and testing of these statements, the auditors offered a clean opinion on NEH's FY 2005 statements. In doing so, however, they also recommended that NEH update its accounting policies and procedures to ensure that all transactions are documented and approved prior to processing. In keeping with this recommendation, and in conformance with the requirements of OMB Circular A-11, we have drafted a document setting forth procedures for the administrative control of funds at NEH. We will soon submit this document to OMB for its approval.

Identical reports will be submitted to the presiding officer of each House of Congress as well as the Comptroller General.

Respectfully,

A handwritten signature in black ink that reads "Bruce Cole". The signature is written in a cursive, flowing style.

Bruce Cole