

SEMIANNUAL REPORT TO THE CONGRESS

APRIL 1, 1999 - SEPTEMBER 30, 1999

OFFICE OF INSPECTOR GENERAL

NATIONAL ENDOWMENT FOR THE ARTS

October 29, 1999

MEMORANDUM

TO: William Ivey
Chairman

FROM: Edward Johns
Inspector General

SUBJECT: **Semiannual Report to the Congress: April 1, 1999 - September 30, 1999**

The Inspector General Act of 1978 (Public Law 95-452), as amended, calls for the preparation of semiannual reports to the Congress summarizing the activities of my office for the six-month periods ending each March 31 and September 30. I am pleased to enclose the report for the period from April 1, 1999 to September 30, 1999.

The Inspector General's report covers audits, investigations and other reviews conducted by the Office of Inspector General (OIG), and indicates the status of management decisions whether to implement or not to implement recommendations made by the OIG. Formats for Tables I and II in the report were developed by the President's Council on Integrity and Efficiency to obtain consistency of presentation by the Federal agencies. The tables provide only summary totals and do not include a breakdown by auditee. An attachment to this memorandum, which is not part of the report, provides additional detail for Table I.

The Act requires that you transmit the report to the appropriate committees of the Congress within 30 days of receipt, together with any comments you may wish to make. Comments that you might offer should be included in your "Report on Final Action," a management report that is required to be submitted along with the Inspector General's report. We will work closely with your staff to assist in the preparation of the management report. The due date for submission of both reports is November 30, 1999.

I appreciate the continuing support we have received from you and your managers throughout the Agency. Working together, I believe we have taken positive steps to improve Agency programs and operations. We look forward to continuing these efforts.

Attachment

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INTRODUCTION

On October 18, 1988, the President signed Public Law 100-504, the Inspector General Act Amendments of 1988. This law amended the Inspector General Act of 1978, Public Law 95-452, and required the establishment of independent Offices of Inspector General (OIG) at several designated Federal entities and establishments, including the National Endowment for the Arts (NEA). A completely autonomous OIG was established at the NEA on April 9, 1989.

The mission of the OIG is to:

- Conduct and supervise independent and objective audits and investigations relating to NEA programs and operations;
- Promote economy, effectiveness and efficiency within the NEA;
- Prevent and detect fraud, waste and abuse in NEA programs and operations;
- Review and make recommendations regarding existing and proposed legislation and regulations relating to NEA programs and operations; and
- Keep the NEA Chairman and the Congress fully and currently informed of problems in agency programs and operations.

This semiannual report summarizes the OIG's major activities, initiatives and results for the six month period ending September 30, 1999. Last May, the OIG experienced the departure of its administrative specialist and one of its auditors, thus reducing the staff size to two persons for much of the period. We have since filled the vacant auditor position and are currently recruiting for the administrative specialist position. There is no investigator on the staff. In order to provide reactive investigative capability, we have signed a Memorandum of Understanding with the Inspector General of the General Services Administration (GSA) whereby the GSA's OIG agrees to provide certain investigative coverage to the NEA's OIG on a reimbursable basis as needed. (No investigative coverage from GSA was needed during the period.)

EXECUTIVE SUMMARY

To meet our responsibilities, the OIG conducted the following audits, reviews, investigations and other activities during this reporting period.

Audits

During the six-month period ending September 30, 1999, the OIG issued 40 audit reports. One of the reports was based on a review performed entirely by OIG personnel; 39 reports set forth the results of OIG desk reviews of audit reports and other materials related to grantee organizations that were required to have audits performed by independent auditors. Our reports contained a total of eight recommendations, of which four concerned issues of financial management at grantee organizations, one pointed to potential refunds that might be due the NEA, and three related to the agency's internal controls over its National Finance Center related personnel/payroll operations.

Audit Resolution

At the beginning of the six-month period, there were two reports awaiting a management decision to allow or disallow questioned costs. During the period, one new report identified questioned costs and potential refunds, with the amounts of questioned costs and potential refunds to be identified during the audit followup process.

Management decisions were made on two of the reports, to allow \$139,900 in questioned costs and to not seek a \$35,053 refund. In addition, \$10,300 of questioned costs were disallowed, but no refund was due. At the end of the period, there was one report outstanding with questioned costs and potential refunds, which are to be identified during the audit followup process. (See Table I for details.)

Investigations

Three new allegation cases were opened during the recent six-month period. One of the cases was closed following preliminary review which determined that further investigation was not warranted by the evidence, and one case was referred to the U.S. Secret Service. The third new case and one open case carried over from the previous period are still undergoing preliminary review. No criminal investigations were performed during the period.

Indirect Cost Rate Evaluations

Indirect costs are incurred for common or joint objectives which cannot be readily and specifically identified with a particular project or activity. The costs of operating and maintaining facilities, depreciation or use allowances, and administrative salaries and supplies are typical examples of costs that nonprofit organizations usually consider to be indirect.

Indirect cost rates are established by agreement between a non-Federal organization and a Federal agency (usually the agency that furnishes the preponderance of Federal funding) that acts on behalf of all Federal agencies in approving rates with the organization. During this period, the OIG evaluated 13 indirect cost rate proposals submitted by NEA grantee organizations.

Review of Legislation, Rules, Regulations and Other Issuances

The OIG is required to review and comment on proposed legislation and regulations for their potential impact on the agency and its operations. During this reporting period, the OIG reviewed a proposed revision to the agency's Administrative Directive 2752, Discipline and Adverse Action. We also provided analysis and written commentary on a management proposal to establish criteria for affording waivers to the total accumulated fund balance requirement for a certain category of grants.

OIG Strategic Plan

The OIG prepared an updated version of its Strategic Plan in response to a recommendation from GAO directed to OIGs at all of the designated Federal entities. The Strategic Plan, which includes annual audit plans for Fiscal Years 2000-2004 is included, as required, in Appendix B to this report.

Technical Assistance

The OIG provided substantial technical assistance to numerous NEA grantee organizations and their independent auditors. Our efforts included, for example, clarifying and interpreting the audit requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations," and explaining alternative methods of accounting for indirect costs.

The OIG also assisted agency staff with technical issues related to auditing and accounting. For example, we evaluated the nature and extent of corrective actions taken in response to audit recommendations and advised the agency's Audit Followup Official as to whether or not the desired results were achieved.

Other Activities

The OIG is continuing to track and evaluate the agency's preparations for responding to the Y2K crisis. At this late stage, our focus is on minimizing business interruption by ensuring that alternative means will be available for carrying out the agency's critical functions in the event of data processing setbacks.

The OIG also published a Financial Management Guide for State and Local Governments, which provides practical information on what is expected from such entities in terms of fiscal accountability. The new guide serves as a companion to the Financial Management Guide for Non-Profit Organizations that we issued in 1997.

In addition, the OIG took part in the activities of the Executive Council on Integrity and Efficiency (ECIE), and allocated resources for responding to requests for information from the Congress and other agencies.

SECTIONS OF REPORT

The following sections of this report discuss the twelve areas specifically required to be included according to Section 5(a) of the Act. Table I identifies Inspector General issued reports with questioned costs and Table II shows that there were no Inspector General issued reports with recommendations that funds be put to better use.

SECTION 1 - Significant Problems, Abuses and Deficiencies

Audits and other reviews conducted by OIG personnel during the current and prior periods have disclosed a few instances of deficient financial management practices in some organizations that received NEA grants. Among these were:

- Reported grant project costs did not agree with the accounting records, i.e., financial status reports were not prepared directly from the general ledger or subsidiary ledgers or from worksheets reconciled to the accounts;
- Personnel costs charged to grant projects were not supported by adequate documentation, i.e., personnel activity reports were not maintained to support allocations of personnel costs to NEA projects;
- The amount allocated to grant projects for common (indirect) costs which benefitted all projects and activities of the organization was not supported by adequate documentation; and
- Grantees needed to improve internal controls, such as ensuring a proper separation of duties to safeguard resources and including procedures for comparing actual costs with the budget.

SECTION 2 - Recommendations for Corrective Action

To assist our grantees in correcting or avoiding the deficiencies identified above, the OIG has prepared two "Financial Management Guides," one for non-profit organizations and the other for state and local governments. The guides are not offered as complete manuals of procedures; rather, they are intended to provide practical information on what is expected from grantee organizations in terms of fiscal accountability. Copies of the guides are routinely distributed as new grants are awarded.

The guides discuss accountability standards in the areas of financial management, internal controls, audit and reporting. The guides also contain sections on unallowable costs and shortcomings to avoid. In addition, the guides include short lists of useful references and some sample documentation forms.

SECTION 3 - Recommendations in Previous Reports on Which Corrective Action Has Not Been Implemented

There were no recommendations in previous reports on which corrective action has not been implemented.

SECTION 4 - Matters Referred to Prosecuting Authorities

No matters were referred to prosecuting authorities during this reporting period.

SECTION 5 - Denials of Access to Records

No denials of access to records occurred during this reporting period.

SECTION 6 - Listing of Reports Issued

<u>REPORT NUMBER</u>	<u>TITLE</u>	<u>DATE OF REPORT</u>
<u>Cognizant Audit Agency Review Reports</u>		
OAA-99-39	Commonwealth of the Northern Mariana Islands	04/02/99
OAA-99-40	National Public Radio, Inc.	04/07/99
OAA-99-41	The Isabella Stewart Gardner Museum, Inc., Trustee Under The Will of Isabella Stewart Gardner	04/26/99
OAA-99-42	Seattle Art Museum	04/28/99
OAA-99-43	The Solomon R. Guggenheim Foundation	05/07/99
OAA-99-44	Rochester Philharmonic Orchestra, Inc.	05/12/99
OAA-99-45	Cornerstone Theatre Company, Inc.	05/13/99
OAA-99-46	William King Regional Arts Center	05/14/99
OAA-99-47	Metropolitan Opera Association, Inc.	05/18/99
OAA-99-48	Jazz in the City	05/28/99
OAA-99-49	San Francisco Symphony	06/01/99
OAA-99-50	The Museum for African Art	06/02/99
OAA-99-51	San Francisco Early Music Society	06/02/99
OAA-99-52	Wheaton Cultural Alliance, Inc.	06/03/99
OAA-99-53	Wadsworth Atheneum	06/03/99
OAA-99-54	Martha Graham Center of Contemporary Dance, Inc. and Martha Graham School of Contemporary Dance, Inc.	06/04/99
OAA-99-55	Milwaukee Symphony Orchestra, Inc.	06/07/99
OAA-99-56	Kansas Arts Commission	06/15/99
OAA-99-57	Mid Atlantic Arts Foundation, Inc.	06/17/99
OAA-99-58	New England Foundation for the Arts, Incorporated	06/23/99
OAA-99-59	The Nelson Gallery Foundation	06/28/99
OAA-99-60	Young Men s and Young Women s Hebrew Association	06/29/99
OAA-99-61	Hartford Stage Company, Inc.	07/19/99
OAA-99-62	DeCordova Museum and Sculpture Park	07/27/99
OAA-99-63	Southern Arts Federation, Inc.	09/01/99
OAA-99-64	National Assembly of State Arts Agencies	09/07/99
OAA-99-65	Museum Associates	09/09/99
OAA-99-66	State of South Dakota	09/13/99
OAA-99-67	New York Chinese Cultural Center	09/24/99
OAA-99-68	State of Nebraska	09/24/99
OAA-99-69	State of North Dakota	09/24/99
OAA-99-70	State of Louisiana	09/28/99
OAA-99-71	South Coast Repertory, Inc.	09/30/99
OAA-99-72	Settlement Music School of Philadelphia	09/30/99
OAA-99-73	San Francisco Ballet Association	09/30/99
OAA-99-74	National Council for the Traditional Arts, Inc.	09/30/99

<u>REPORT NUMBER</u>	<u>TITLE</u>	<u>DATE OF REPORT</u>
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Cognizant Audit Agency Review Reports (cont'd)

OAA-99-75	Educational Broadcasting Corporation & Controlled Subsidiary	09/30/99
OAA-99-76	Dance Theatre Workshop, Inc.	09/30/99
OAA-99-77	Chicago Educational Television Association	09/30/99

Other Reports

R-99-3	Internal Controls on NFC Transactions	08/02/99
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TOTAL REPORTS - 40

SECTION 7 - Listing of Particularly Significant Reports

There were no particularly significant reports during the reporting period.

SECTION 8 - Statistical Tables Showing Total Number of Audit Reports and the Dollar Value of Questioned Costs

Table I of this report presents the statistical information showing the total number of audit reports and the total dollar value of questioned costs.

SECTION 9 - Statistical Tables Showing Total Number of Audit Reports and the Dollar Value of Recommendations that Funds be Put to Better Use by Management

As shown on Table II, there were no audit reports with recommendations that funds be put to better use by management.

SECTION 10 - Audit Reports Issued Before the Commencement of the Reporting Period for Which No Management Decision Has Been Made by the End of the Reporting Period

There were no audit reports issued before the commencement of the reporting period for which no management decision has been made by the end of the reporting period.

SECTION 11 - Significant Revised Management Decisions Made During the Period

No significant revised management decisions were made during the reporting period.

SECTION 12 - Significant Management Decisions With Which the Inspector General Disagrees

There were no significant management decisions that the Inspector General disagreed with during the reporting period.

TABLE I

INSPECTOR GENERAL ISSUED REPORTS WITH QUESTIONED COSTS

	<u>NUMBER</u>	<u>QUESTIONED COSTS</u>	<u>UNSUPPORTED COSTS</u>	<u>POTENTIAL REFUNDS¹</u>
A. For which no management decision has been made by the commencement of the reporting period	<u>2²</u>	<u>150,200</u>	<u>(150,200)</u>	<u>35,053</u>
B. Which were issued during the reporting period	<u>1</u>	<u>0</u>	<u>(0)</u>	<u>0</u>
Subtotals (A + B)	<u>3</u>	<u>150,200</u>	<u>(150,200)</u>	<u>35,053</u>
C. For which a management decision was made during the reporting period	<u>2</u>	<u>150,200</u>	<u>(150,200)</u>	<u>35,053</u>
(i) dollar value of disallowed costs	<u>1³</u>	<u>10,300</u>	<u>(10,300)</u>	<u>0</u>
(ii) dollar value of costs not disallowed				
D. For which no management decision has been made by the end of the reporting period	<u>2³</u>	<u>139,900</u>	<u>(139,900)</u>	<u>35,053</u>
Reports for which no management decision was made within six months of issuance	<u>1⁴</u>	<u>0</u>	<u>(0)</u>	<u>0</u>
	<u>0</u>	<u>0</u>	<u>(0)</u>	<u>0</u>

1/ The potential refund amount usually will not equal the questioned costs amount because matching requirements must be considered and the grantee may be either under or over matched. In addition, historically, the potential refund generally is reduced significantly as a result of the audit followup process, which includes examination of documentation submitted by the grantee.

2/ Includes questioned costs of \$10,300 and potential refunds of \$5,150, which were identified during the six-month period. The questioned costs and potential refunds could not be identified in the original oversight audit agency review until additional information and documentation requested during the audit followup process was provided.

3/ Includes one grantee that had both costs disallowed (i) and costs not disallowed (ii) by management.

4/ Includes one oversight audit agency review where the amount of costs questioned and any potential refunds cannot be determined until additional information is obtained.

TABLE II

INSPECTOR GENERAL ISSUED REPORTS

WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE

	<u>NUMBER</u>	<u>DOLLAR VALUE</u>
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
Subtotals (A + B)	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	0
- based on proposed management action	0	0
- based on proposed legislative action	0	0
(ii) dollar value of recommendations that were not agreed to by management	0	0
D. For which no management decision has been made by the end of the reporting period	0	0
Reports for which no management decision was made within six months of issuance	0	0

DEFINITIONS OF TERMS USED

The following definitions apply to terms used in reporting audit statistics:

Questioned Cost	A cost which the Office of Inspector General (OIG) questioned because of alleged non-compliance with a provision of a law, regulation, contract, or other agreement or document governing the expenditure of funds; such cost is not supported by adequate documentation; or the expenditure of funds for the intended purpose is unnecessary or unreasonable.
Unsupported Cost	A cost which the OIG questioned because the cost was not supported by 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 NEA.
Funds Be Put To Better Use	A recommendation made by the OIG that funds could be used more efficiently if management took actions to implement and complete the recommendation.
Management Decision	Management's evaluation of the findings and recommendations included in the audit report and the issuance of a final decision by management concerning its response to such findings and recommendations, including actions concluded to be necessary. Interim decisions and actions are not considered final management decisions for the purpose of the tables in this report.
Final Action	The completion of all management actions that are described in a management decision with respect to audit findings and recommendations. If management concluded that no actions were necessary, final action occurs when a management decision is issued.