

SEMIANNUAL REPORT TO THE CONGRESS

APRIL 1, 2001 – SEPTEMBER 30, 2001

OFFICE OF INSPECTOR GENERAL

NATIONAL ENDOWMENT FOR THE ARTS

October 31, 2001

MEMORANDUM

TO: Robert S. Martin
Acting Chairman

FROM: Daniel L. Shaw
Inspector General

SUBJECT: **Semiannual Report to the Congress: April 1, 2001 - September 30, 2001**

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, 2001 to September 30, 2001.

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. The President's Council on Integrity and Efficiency developed the reporting formats for Tables I and II to ensure consistent 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, 2001.

I appreciate the continuing support we have received from the Chairman's Office 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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NEA PROGRAMS AND OPERATIONS

Since its founding by the U.S. Congress in 1965, the National Endowment for the Arts (NEA) has offered assistance to a wide range of non-profit organizations that carry out arts programming. The NEA supports exemplary projects in all the artistic disciplines. Grants are awarded to arts, educational, and community organizations for specific projects rather than for general operating or seasonal support. Most NEA grants must be matched by non-federal sources at least one-to-one. During FY 2001, NEA operated on a budget of approximately \$106.7 million and employed a staff of about 150. NEA's budget for FY 2002 is expected to be \$115.2 million.

OIG RESPONSIBILITIES AND RESOURCES

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). The Inspector General is appointed by and serves under the general supervision of the NEA's Chairman. 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, 2001. During part of this period, the OIG consisted of four persons – three auditors and one program analyst. However, with the retirement of the former Inspector General at the beginning of 2001, the OIG was one auditor short until the vacant auditor's position was filled in July 2001. There is no investigator on the staff. In order to provide a 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 investigative coverage for us on a reimbursable basis as needed. (No investigative coverage from GSA was needed during the period.) We have also signed a Memorandum of Understanding with NEA's Office of General Counsel (OGC) that details procedures to be used for providing the OIG with legal services. An OGC staff member has been assigned to provide such services on an as-needed basis.

SUMMARY OF WORK COMPLETED BY THE OIG

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

Audits/Reviews

During the six-month period ending September 30, 2001, the OIG issued 14 review reports. Six of the reports were based on reviews performed by OIG personnel; eight 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 13 recommendations concerning financial management issues and system deficiencies at the NEA and at grantee organizations.

Audit Resolution

At the beginning of the six-month period, there was one report awaiting a management decision to allow or disallow questioned costs. During the period, no new reports identified any questioned costs or potential refunds.

No management decision was made on the one open report (see page 6, Section 10) during the period. Therefore, at the end of the period, there remained one report outstanding with questioned costs of \$25,181 and potential refunds 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. Two of the new cases were closed following preliminary review, which determined that further investigation was not warranted by the evidence, while the third case is undergoing preliminary review. In addition, one of the two open cases carried over from the previous period is in abeyance pending the resolution of a related lawsuit while the other open case is under review by another federal agency. 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 nine 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 provided analysis and written commentary on Agency Administrative Directives and NEA publications.

Technical Assistance

The OIG provided 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," explaining alternative methods of accounting for indirect costs, and advising some of the first-time and smaller organizations on implementing practical accounting systems and internal controls sufficient to assure compliance with their grant agreements.

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.

Web Site

The OIG maintains an Internet presence (www.arts.endow.gov/learn/OIG/Contents.html) to assist and inform NEA grantees and Agency employees, as well. The site includes the Inspectors General Vision Statement, our two Financial Management Guides, past Semiannual Reports to the Congress, the OIG Strategic Plan, information about contacting OIG staff, how to report wrongful acts, information about alternative methods of funding, and answers to frequently asked questions. The OIG also advises the Agency on improvements that should be made to the Agency's web site privacy policy.

Other Activities

During this period, the OIG took part in the activities of the Executive Council on Integrity and Efficiency (ECIE), allocated resources for responding to requests for information from the Congress and other agencies, and continued to participate in an advisory capacity in the Agency's implementation of the Government Performance and Results Act (GPRA) and the Government Information Security Reform Act (GISRA).

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 benefited 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>
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Oversight Audit Agency Review Reports

OAA-01-08	State of South Dakota	05/23/01
OAA-01-09	State of North Carolina	05/24/01
OAA-01-10	State of Arizona.....	05/24/01
OAA-01-11	State of Utah.....	05/29/01
OAA-01-12	Chamber Music America.....	05/30/01
OAA-01-13	City of San Antonio, Texas	07/03/01
OAA-01-14	State of Illinois.....	07/05/01
OAA-01-15	CEC International Partners, Inc.....	09/28/01

Other Reports

MR-01-10	Cultural Council of Santa Cruz County	04/27/01
MR-01-11	Mayor's Advisory Committee on Art and Culture	07/17/01
MR-01-12	Trinity Repertory Company.....	07/24/01
MR-01-13	Hmong Cultural Arts, Teaching and Museum Project.....	08/02/01
R-01-02	Review of NEA's Web Site Privacy and Cookies Policies	04/19/01
R-01-03	Evaluation of NEA's Implementation of Government Information Security Reform Act.....	09/07/01

TOTAL REPORTS - 14

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

1. **OAA-01-07 – District of Columbia Commission on the Arts and Humanities – Issued 2/15/01**

Recommendations

Grantee should provide evidence that it has established procedures to ensure that adequate supporting documentation is maintained. The grantee should also provide documentation to support the \$22,722 that the auditors questioned in FY 95 and \$2,459, in FY 96.

Grantee should review the salary and fringe benefit costs incurred under grant no. 94-5154-0015. Based on the review, the grantee should provide the NEA with documentation that supports the salary and fringe benefit costs incurred under the grant. In addition, the grantee should provide a detailed schedule to support the other costs incurred under the grant. If they do not meet the matching requirements, the NEA may be due a refund.

Reason No Management Decision Was Made

Because the grantee’s complete response to the recommendations was not received until the middle of October, management’s decision will not be finalized until 11/30/01.

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 REFUNDS ¹</u>
A. For which no management decision has been made by the commencement of the reporting period	² <u>1</u>	<u>25,181</u>	<u>(25,181)</u>	<u>0</u>
B. Which were issued during the reporting period	<u>0</u>	<u>0</u>	<u>(0)</u>	<u>0</u>
Subtotals (A + B)	<u>1</u>	<u>25,181</u>	<u>(25,181)</u>	<u>0</u>
C. For which a management decision was made during the reporting period	<u>0</u>	<u>0</u>	<u>(0)</u>	<u>0</u>
(i) Dollar value of disallowed costs	<u>0</u>	<u>0</u>	<u>(0)</u>	<u>0</u>
(ii) Dollar value of costs not disallowed	<u>0</u>	<u>0</u>	<u>(0)</u>	<u>0</u>
D. For which no management decision has been made by the end of the reporting period	<u>1</u>	<u>25,181</u>	<u>(25,181)</u>	<u>0</u>
Reports for which no management decision was made within six months of issuance	<u>1</u>	<u>25,181</u>	<u>(25,181)</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 one oversight audit agency review where the amount of 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.