

**SEMIANNUAL REPORT TO THE CONGRESS**

**APRIL 1, 2000 - SEPTEMBER 30, 2000**

**OFFICE OF INSPECTOR GENERAL**

**NATIONAL ENDOWMENT FOR THE ARTS**

October 31, 2000

**MEMORANDUM**

TO: William Ivey  
Chairman

FROM: Edward Johns  
Inspector General

SUBJECT: **Semiannual Report to the Congress: April 1, 2000 - September 30, 2000**

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, 2000 to September 30, 2000.

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 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, 2000.

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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## **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 funds 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 2000, NEA operated on a budget of approximately \$98 million and employed a staff of about 155.

## **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, 2000. During this period, the OIG consisted of four persons – three auditors and one program analyst. 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**

During the six-month period ending September 30, 2000, the OIG issued 54 audit reports. Thirty-seven of the reports were based on reviews performed by OIG personnel; 17 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 11 recommendations concerning financial management issues at the 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 Section 10) during the period. Therefore, at the end of the period, there remained one report outstanding with questioned costs and potential refunds which were to be identified during the audit followup process. (See Table I for details.)

### **Investigations**

No new allegation cases were opened during the recent six-month period. Of the two open cases carried over from the previous period, one is in abeyance pending the resolution of a related lawsuit. The other open case is 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 provided analysis and written commentary on a variety of management proposals dealing with the internal operations of the agency and with revisions to NEA publications that are intended for public consumption.

## **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," 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](http://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.

## **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).

## 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**

<b><u>REPORT NUMBER</u></b>	<b><u>TITLE</u></b>	<b><u>DATE OF REPORT</u></b>
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### **Cognizant Audit Agency Review Reports**

OAA-00-26	United Indians of All Tribes Foundation	04/04/00
OAA-00-27	Seattle Symphony Orchestra	04/04/00
OAA-00-28	American Dance Festival, Inc.	04/04/00
OAA-00-29	State of Utah	05/01/00
OAA-00-30	State of Arizona	05/05/00
OAA-00-31	State of South Dakota	05/08/00
OAA-00-32	State of New York	05/08/00
OAA-00-33	State of Louisiana	05/08/00
OAA-00-34	Chamber Music America, Inc.	05/08/00
OAA-00-35	State of Minnesota	05/12/00
OAA-00-36	State of Illinois, Illinois Arts Council	05/16/00
OAA-00-37	State of North Carolina	06/09/00
OAA-00-38	City of San Antonio, Texas	07/07/00
OAA-00-39	Urban Gateways	08/30/00
OAA-00-40	Seven Stages, Inc.	09/11/00
OAA-00-41	City of Austin, Texas	09/13/00
OAA-00-42	Tulsa Opera, Inc.	09/29/00

### **Other Reports**

MR-00-06	Tennessee Humanities Council	04/04/00
MR-00-07	San Francisco Arts Commission	04/05/00
MR-00-08	eta Creative Arts Foundation	04/06/00
MR-00-09	New Museum of Contemporary Art	04/10/00
MR-00-10	Ursinus College	04/12/00
MR-00-11	The Museum of Contemporary Arts	04/13/00
MR-00-12	A Traveling Jewish Theatre	04/14/00
MR-00-13	Kuumbwa Jazz Society	04/14/00
MR-00-14	Intermedia Arts of Minnesota	04/27/00
MR-00-15	The Textile Conservation Workshop	05/01/00
MR-00-16	Pittsburgh Symphony Society	05/08/00
MR-00-17	Indiana Symphony Society	05/08/00
MR-00-18	The Virginia Avenue Project	05/19/00
MR-00-19	Koahnic Broadcast Corporation	05/22/00
MR-00-20	Saraband Books	05/30/00
MR-00-21	Music at Angel Fire, Inc.	05/31/00
MR-00-22	The Drama Leagues of New York	06/02/00
MR-00-23	The Salt Lake Acting Company	06/05/00
MR-00-24	Watershed Center for the Ceramic Arts	06/08/00
MR-00-25	El Teatro de la Esperanza	06/21/00
MR-00-26	Lower Manhattan Cultural Council	06/22/00
MR-00-27	Philharmonia Baroque Orchestra	06/28/00
MR-00-28	Real Art Ways, Inc.	07/10/00
MR-00-29	CALYX, Inc.	07/14/00
MR-00-30	Women's Studio Workshop, Inc.	07/18/00

MR-00-31

Cincinnati Art Museum

07/19/00

**SECTION 6 - Listing of Reports Issued**

**REPORT  
NUMBER**

**TITLE**

**DATE OF  
REPORT**

MR-00-32	Art Re Grup, Inc., a/k/a The Lab	07/20/00
MR-00-33	The Studio Theatre, Inc.	07/21/00
MR-00-34	Junebug Productions, Inc.	07/27/00
MR-00-35	New Observations, Ltd.	07/28/00
MR-00-36	The Ensemble Theatre	08/15/00
MR-00-37	Hyde Park Theatre Frontera Productions	08/15/00
MR-00-38	Music Center Opera Association	08/21/00
MR-00-39	University of Oregon	09/13/00
MR-00-40	Lake Agassiz Arts Council	09/14/00
MR-00-41	New York New Music Ensemble	09/14/00
R-00-2	Agency Reconciliation of Fund Balances with Treasury Accounts	09/29/00

**TOTAL REPORTS - 54**

**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-99-45 – Cornerstone Theatre Company – Issued 5/13/99**

**Recommendation**

The grantee should review the salary and fringe benefit costs incurred under grant nos. 93-4624-0050 and 94-3226-0086. Based on the review, the grantee should provide the NEA with documentation that supports the salary and fringe benefit costs incurred under the above grants. In addition, the grantee should provide a detailed schedule to support the other costs incurred under the grants. If the matching requirements of the grants are not met, the NEA may be due a refund, as appropriate.

**Reason No Management Decision Was Made**

Because the grantee's response was not received until the month of September, management's decision wasn't finalized until after the period was completed.

**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 <sup>1</sup></u>
A. For which no management decision has been made by the commencement of the reporting period	<u>1<sup>2</sup></u>	<u>309,174</u>	<u>(309,174)</u>	<u>68,896</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>309,174</u>	<u>(309,174)</u>	<u>68,896</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>309,174</u>	<u>(309,174)</u>	<u>68,896</u>
Reports for which no management decision was made within six months of issuance	<u>1</u>	<u>309,174</u>	<u>(309,174)</u>	<u>68,896</u>

<sup>1/</sup> 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.

<sup>2/</sup> Includes one oversight audit agency review with questioned costs of \$309,174 and potential refunds of \$68,896, which were identified during the six-month period.

**TABLE II**

**INSPECTOR GENERAL ISSUED REPORTS**

**WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE**

	<b><u>NUMBER</u></b>	<b><u>DOLLAR VALUE</u></b>
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:

<b>Questioned Cost</b>	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.
<b>Unsupported Cost</b>	A cost which the OIG questioned because the cost was not supported by adequate documentation at the time of the audit.
<b>Disallowed Cost</b>	A questioned cost that management, in a management decision, has sustained or agreed should not be charged to the NEA.
<b>Funds Be Put To Better Use</b>	A recommendation made by the OIG that funds could be used more efficiently if management took actions to implement and complete the recommendation.
<b>Management Decision</b>	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.
<b>Final Action</b>	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.