

SEMIANNUAL REPORT TO THE CONGRESS

OCTOBER 1, 1998 - MARCH 31, 1999

OFFICE OF INSPECTOR GENERAL

NATIONAL ENDOWMENT FOR THE ARTS

April 30, 1999

MEMORANDUM

TO: William Ivey
Chairman

FROM: Edward Johns
Inspector General

SUBJECT: **Semiannual Report to the Congress: October 1, 1998 - March 31, 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 every six-month period ending March 31 and September 30. I am pleased to enclose the report for the period from October 1, 1998 to March 31, 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 among the 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. Any 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 May 31, 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 March 31, 1999. As the result of an agency downsizing in 1995, the OIG staff was reduced to three FTEs. However, one additional auditor was hired in August 1998; the staff now includes the Inspector General, two auditors and one administrative specialist. 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 provides 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 March 31, 1999, the OIG issued 40 audit reports. Two of the reports were based on reviews performed entirely by OIG personnel; 38 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 14 recommendations, of which eight concerned issues of financial management at grantee organizations, three pointed to potential refunds that might be due the NEA, and three related to the agency's preparations for making its automated systems compliant with dates in the year 2000 and beyond (the so-called Y2K problem).

Audit Resolution

At the beginning of the six month period, there were no reports awaiting a management decision to allow or disallow questioned costs. During the period, three new reports identified \$166,114 in questioned costs and potential refunds totaling \$42,403.

Management decisions were made on one of the reports, to allow \$26,214 in questioned costs and to not seek a \$12,500 refund. At the end of the period, there were two reports outstanding with questioned costs of \$139,900 and potential refunds of \$29,903. (See Table I for details.)

Investigations

The one new allegation case that was opened during the recent six month period has been closed following referral to another Federal investigative authority, as appropriate. The one open case that was carried over from the previous period is still undergoing preliminary review. No criminal investigations were performed during the period.

Indirect Cost Rate Evaluations

Indirect costs are costs 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 twelve 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 period, the OIG reviewed drafts of two policy statements and one administrative directive. One of the policy pronouncements, National Capital Arts and Cultural Affairs Program Statement of Policy, attempts to clarify standards of eligibility for certain program grants. The other policy statement, Policy on Reimbursement of Meal Expenses for Chairman, Senior Deputy Chairman, and Deputy Chairman, provides guidance on how ranking agency officials are to be reimbursed for expenses which they incur, in their official capacities, for working meals. The administrative directive, Directive 1600, Financial Management, establishes general policy and assigns responsibilities for the systems that are used in preparing the agency's budget and all financial reports.

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 Year 2000 computer problem. Our ongoing strategy calls for conducting a series of reviews, the second of which was completed in February 1999, and the third is planned for June 1999.

During this period, the OIG conducted a review to study and evaluate the status of non-tax delinquent debt at the NEA, and performed five financial condition reviews to determine whether particular grantee organizations should be recommended for placement on or removal from alternative methods of funding.

The OIG also drafted 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 draft has been released for comment by program managers within the agency, and is expected to be ready for distribution to grantees within a few weeks. The new guide will serve as a companion to the Financial Management Guide for Non-Profit Organizations that we issued in 1997.

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 when deficiencies occurred in the administration of 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 a "Financial Management Guide for Non-Profit Organizations." The guide is not offered as a complete manual of procedures; rather, it is intended only to provide practical information on what is expected from grantee organizations in terms of fiscal accountability. Copies of the guide are routinely distributed as new grants are awarded.

The guide discusses standards of accountability in the areas of financial management, internal controls, audit and reporting. The guide also contains sections on unallowable costs and shortcomings to avoid. In addition, the guide includes a short list 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-99-1	Government of Guam	10/05/98
OAA-99-2	State of Illinois - Illinois Arts Council	10/07/98
OAA-99-3	Vermont Council on the Arts, Inc.	10/13/98
OAA-99-4	Social and Public Art Resource Center	10/19/98
OAA-99-5	Society for the Preservation of New England Antiquities	10/22/98
OAA-99-6	Oregon Symphony Association	10/23/98
OAA-99-7	Historic Hudson Valley	10/27/98
OAA-99-8	National Park Foundation	10/27/98
OAA-99-9	LaMama Experimental Theatre Club, Inc.	11/02/98
OAA-99-10	Lincoln Center for the Performing Arts, Inc.	11/03/98
OAA-99-11	The Children s Theatre Board	11/04/98
OAA-99-12	Dance Theater Foundation, Inc.	11/19/98
OAA-99-13	Paul Taylor Dance Foundation, Inc.	11/20/98
OAA-99-14	Discalced, Inc.	11/25/98
OAA-99-15	Playwrights Horizons, Inc.	12/10/98
OAA-99-16	Opera Theatre of Saint Louis	01/06/99
OAA-99-17	Philadelphia Orchestra Association	01/06/99
OAA-99-18	Department of Accounting and General Services, State of Hawaii	01/11/99
OAA-99-19	State of Montana	01/14/99
OAA-99-20	Dance Theatre Workshop, Inc.	01/15/99
OAA-99-21	Vermont Folklife Center	02/04/99
OAA-99-22	Vermont Council on the Arts, Inc. d/b/a Vermont Arts Council	02/11/99
OAA-99-23	Centro Cultural de la Raza, Inc.	03/01/99
OAA-99-24	State Foundation on Culture and the Arts, State of Hawaii	03/02/99
OAA-99-25	Benton Foundation	03/02/99
OAA-99-26	State of North Carolina	03/03/99
OAA-99-27	American Dance Festival, Inc.	03/04/99
OAA-99-28	Settlement Music School of Philadelphia	03/04/99
OAA-99-29	Minnesota Opera Company	03/11/99
OAA-99-30	The Metropolitan Museum of Art	03/15/99
OAA-99-31	Southern Arts Federation, Inc.	03/15/99
OAA-99-32	State of New Jersey	03/15/99
OAA-99-33	St. Ann Center for Restoration and the Arts, Inc.	03/29/99
OAA-99-34	Mid Atlantic Arts Foundation, Inc.	03/29/99
OAA-99-35	Institute of Puerto Rican Culture, Commonwealth of Puerto Rico	03/30/99
OAA-99-36	Institute of Puerto Rican Culture, Commonwealth of Puerto Rico	03/30/99
OAA-99-37	Southern Alleghenies Museum of Art	03/31/99

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

OAA-99-38	Crossroads, Inc.	03/31/99
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Other Reports

R-99-1	Y2K Follow Up	02/05/99
R-99-2	Review of Non-Tax Delinquent Debt	03/02/99

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

The statistical information showing the total number of audit reports and the total dollar value of questioned costs is presented in Table I of this report.

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

	DOLLAR VALUE			
	<u>NUMBER</u>	<u>QUESTIONED COSTS</u>	<u>UNSUPPORTED COSTS</u>	<u>POTENTIAL REFUNDS</u>
A. For which no management decision has been made by the commencement of the reporting period	<u>0</u>	<u>0</u>	<u>(0)</u>	<u>0</u>
B. Which were issued during the reporting period	<u>3</u>	<u>166,114</u>	<u>(166,114)</u>	<u>42,403</u>
Subtotals (A + B)	<u>3</u>	<u>166,114</u>	<u>(166,114)</u>	<u>42,403</u>
C. For which a management decision was made during the reporting period	<u>1</u>	<u>26,214</u>	<u>(26,214)</u>	<u>12,500</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>1</u>	<u>26,214</u>	<u>(26,214)</u>	<u>12,500</u>
D. For which no management decision has been made by the end of the reporting period	<u>2</u>	<u>139,000</u>	<u>(139,000)</u>	<u>29,903</u>
Reports for which no management decision was made within six months of issuance	<u>0</u>	<u>0</u>	<u>(0)</u>	<u>0</u>

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.