



OFFICE OF INSPECTOR GENERAL

**FINANCIAL MANAGEMENT SYSTEM &
COMPLIANCE EVALUATION**

**ON SELECTED
NEA GRANTS TO**

**Association of Performing Arts Presenters,
Inc.**

Washington, D.C.

REPORT NO. SCE-12-03

June 20, 2012

REPORT RELEASE RESTRICTION

In accordance with Public Law 110-409, The Inspector General Act of 2008, this report shall be posted on the National Endowment for the Arts (NEA) website not later than three (3) days after it is made publicly available with the approval of the NEA Office of Inspector General. Information contained in this report may be confidential. The restrictions of 18 USC 1905 should be considered before this information is released to the public. Furthermore, information contained in this report should not be used for purposes other than those intended without prior consultation with the NEA Office of Inspector General regarding its applicability.

INTRODUCTION

BACKGROUND

The Association of Performing Arts Presenters (APAP) is a non-profit organization based in Washington, DC. APAP is the national service and advocacy organization dedicated to developing and supporting the performing arts presenting field and the professionals who work within it. APAP works to effect change through advocacy, professional development, resource sharing, and civic engagement.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of this financial management system and compliance evaluation by the National Endowment for the Arts (NEA) Office of Inspector General (OIG) is to determine whether the organization's financial management system and recordkeeping complies with the requirements established by the Office of Management and Budget (OMB), and NEA's *General Terms and Conditions for Grants and Cooperative Agreements to Organizations (General Terms)*. In addition, we evaluated the recipient's compliance with OMB and NEA guidance for the management of the American Reinvestment and Recovery Act of 2009 (Recovery Act) funding.

The Recovery Act provided \$50 million to the NEA to be distributed in direct grants to fund arts projects and activities which preserve jobs in the nonprofit arts sector threatened by declines in philanthropic and other support during the current economic downturn. Consistent with the language in the Act, eligible projects are generally limited to salary support and fees for artists or contracted personnel.

The review was conducted in accordance with the Council of the Inspectors General on Integrity and Efficiency Quality Standards for Inspections and Evaluations, as applicable.

During the period under review, APAP had nine NEA grants active with awards totaling \$474,400. We reviewed two of the nine grants in which NEA funds had been drawn down and costs had been reported. The two grants reviewed were Grant No. 09-5488-7240 in the amount of \$50,000 and Grant No. 10-5400-7165 in the amount of \$75,000.

PRIOR AUDIT COVERAGE

NEA OIG has not issued any audit reports on Federal grants awarded to APAP. As of our site visit on April 3, 2012, the most recent independent auditor's report on APAP is as of June 30, 2011. The audit was conducted by SB & Company, LLC, an independent CPA firm, which issued an unqualified (clean) opinion. APAP was not subject to the audit requirements of OMB Circular A-133.

RESULTS OF EVALUATION

Our evaluation concluded that APAP did not comply with the financial management system and recordkeeping requirements established by OMB and NEA for its Recovery Act funds awarded under Grant No. 09-5488-7240. APAP did not separately identify Recovery Act expenditures in its financial management system and did not maintain personnel activity reports.

Our evaluation also concluded that APAP did not comply with the financial management system and recordkeeping requirements established by OMB and NEA for its NEA Grant No. 10-5400-7165. APAP did not separately identify expenditures by specific grant award in its financial management system. APAP also included costs incurred outside of the grant period on its final Federal Financial Report (FFR). Furthermore, APAP did not have the required Section 504 self-evaluation on file. Details are presented in the narrative below.

FINANCIAL MANAGEMENT

RECOVERY ACT AWARD No. 09-5488-7240

Documentation of NEA Recovery Act Funds

Our evaluation determined that APAP did not separately identify expenditures charged to the NEA Recovery Act award in its financial management system.

2 CFR 176.210, Part A, states:

To maximize the transparency and accountability of funds authorized under the American Recovery and Reinvestment Act of 2009 (Pub. L. 111-5) (Recovery Act) as required by Congress and in accordance with 2 CFR 215.21 "Uniform Administrative Requirements for Grants and Agreements" and OMB Circular A-102 Common Rules provisions, recipients agree to maintain records that identify adequately the source and application of Recovery Act funds.

Without policies and procedures in place to adequately identify the source and application of Recovery Act funds, expenditures charged to the award cannot be determined.

We recommend that APAP develop and implement policies and procedures to track each grant award separately.

APAP also did not maintain personnel activity (time and effort) reports for the salary costs charged to the NEA Recovery Act award. Personnel activity reports were required for employees whose salaries and fringe benefits were charged, in whole or in part, to the Recovery Act award.

NEA and OMB guidelines for the Recovery Act awards states, in part:

Recipients must maintain adequate time-and-effort reports (i.e., personnel activity reports) when charging a person's salary in whole or in part to the grant.

APAP did not have policies and procedures in place to ensure that personnel activity reports were maintained for salary costs charged to the Recovery Act award. Without personnel activity reports, employees' time and effort charged to the award cannot be identified.

As a result of inadequately documenting the Recovery Act award, we are questioning \$50,000 of salaries and fringe benefits charged to the award, which could result in a potential refund to the NEA.

During our onsite visit, APAP provided documentation to support the questioned salary costs, which was submitted to the NEA for a management decision. Based on the documentation provided, the NEA has accepted the questioned costs.

We recommend that APAP develop written policies and implement procedures to ensure that individual personnel activity reports are maintained, if required, by NEA *General Terms*.

NEA GRANT NO. 10-5400-7165

Financial Management System

APAP did not separately identify costs by specific award in its financial management system. APAP's financial management system identifies costs by projects. Our review found that the project supported by this grant covered multiple years and included multiple NEA awards for different periods of performance. When reviewing the general ledger detail provided by APAP, we found revenue from another NEA award (Grant No. 10-3200-7286). Therefore, it appears that APAP may have commingled funds from two NEA awards which could result in questioned costs.

NEA's *General Terms* incorporates OMB's Circular A-110 (Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations), which addresses the requirement to have an adequate financial management system. The General Terms states:

There can be no overlapping project costs between Federal awards. Therefore, separate accounting records must be maintained for each award. OMB Circular A-110 (2 CFR 215), Section 2, and the "Common Rule," Section 1157.20, as applicable, establishes standards for financial management systems of recipients (i.e., accounting systems, internal controls, allowable costs, cash management, etc.). The financial management systems of recipient organizations and their subrecipients must meet these standards.

APAP did not have policies and procedures in place to ensure that accounting records are maintained separately for each award. Without policies and procedures in place that would allow expenditures of grant awards to be segregated, APAP is not able to adequately identify specific grant award expenditures. The OIG will perform a limited scope audit on the remaining seven NEA awards in the evaluation scope period to determine whether there are any other instances of noncompliance with OMB and NEA guidelines.

We recommend that APAP develop and implement policies and procedures to track each grant award separately.

Expenses Not Incurred in the Grant Period

Grant No. 10-5400-7165 was awarded in the amount of \$75,000 with a one-to-one matching requirement. APAP claimed a total of \$152,574 on its final FFR. However, during our site visit, we were presented with a listing of expenditures in the amount of \$107,194 incurred during the grant period. To support the remaining expenditures claimed, APAP provided us with a general ledger detail from a fiscal year outside of the grant period.

NEA's Instructions for Completing the Financial Status Report and *General Terms*, states:

All project activities and the commitment of project funds must take place within the period of support set out in your award document.

Based on the above, we are questioning costs claimed under the grant in the amount of \$45,380. Without additional documentation, a potential refund may due to the NEA. However, until the limited scope audit is performed on the remaining seven awards, the actual refund cannot be determined. Therefore, we are not requesting additional supporting documentation for this award until a final determination can be made. Recommendations to address questioned costs for the eight NEA awards will be addressed in the limited scope audit report, as appropriate.

APAP did not have policies and procedures in place to ensure that only expenditures incurred within the grant period are included in its reported outlays. We recommend that APAP develop and implement written policies and procedures to ensure that only accurate and allowable expenditures incurred during the specific grant period are reported on its FFRs.

Section 504 Self-Evaluation

APAP did not have the required Section 504 self-evaluation on file. As noted in NEA's *General Terms*, "A Section 504 self-evaluation must be on file at your organization." A *Section 504 Self-Evaluation Workbook*, which can be completed online, is available at www.arts.gov/about/504Workbook.html.

Section 504 of the Rehabilitation Act of 1973, as amended, provides for equal opportunity to enter facilities and participate in programs and activities. It does not require that every part of every facility or program be accessible. The important considerations are that individuals with disabilities have the same opportunities in employment, the same opportunities to enter and move around in facilities, the same opportunities to communicate and the same opportunities to participate in programs and activities as non-disabled people. Further, it is important to offer employment, programs, and services in settings that are integrated rather than to segregate individuals with disabilities with special programs.

We recommended that APAP conduct a Section 504 self-evaluation to ensure compliance with the Rehabilitation Act of 1973, as amended. Subsequent to the evaluation, APAP completed and provided us with a copy of its Section 504 self-evaluation.

EXIT CONFERENCE

A preliminary exit conference was held with APAP officials on April 3, 2012. Subsequent to our site visit, a telephone exit conference was held with APAP officials on June 12, 2012. APAP officials concurred with our findings and recommendations.

RECOMMENDATIONS

We recommend that APAP:

1. Develop and implement policies and procedures to track each grant award separately.
2. Develop written policies and implement procedures to ensure that individual personnel activity reports are maintained, if required, by NEA *General Terms*.
3. Develop and implement written policies and procedures to ensure that only accurate and allowable expenditures incurred during the specific grant period are reported on its FFRs.