

**National Endowment for the Arts**  
**Office of Inspector General**  
**Semiannual Report**



**October 1, 2013 through March 31, 2014**

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OFFICE OF INSPECTOR GENERAL

WASHINGTON DC 20506

April 30, 2014

## A MESSAGE FROM THE INSPECTOR GENERAL

On behalf of the National Endowment for the Arts (NEA) Office of Inspector General (OIG), I am pleased to present our Semiannual Report to Congress for the period ended March 31, 2014.

During this semiannual period, a peer review of our audit organization was completed. We received a clean opinion on the quality assurance system our audit organization uses to produce its reports. In addition, we provided the NEA agency head a summary of our perspective on the most significant management and performance challenges facing the organization for inclusion in NEA's Fiscal Year 2013 Performance and Accountability Report. Our reports can be found at <http://arts.gov/oig/audits-and-reviews>.

NEA OIG issued one audit report and three evaluation reports on grant recipients' management of NEA funds, which included nine recommendations during the reporting period. There were no investigations opened or in progress. We were contacted and processed two FOIA requests and two hotline inquiries.

As in the past, NEA management has been responsive in working with NEA OIG to resolve all proposed recommendations. I appreciate management's support and look forward to working with management in our ongoing efforts to promote economy and efficiency in agency programs.

A handwritten signature in blue ink, appearing to read "Tonie Jones".

Tonie Jones  
Inspector General

## **INTRODUCTION AND DEFINITIONS**

### **NATIONAL ENDOWMENT FOR THE ARTS**

Founded in 1965, the National Endowment for the Arts (NEA) offers assistance to a wide range of non-profit organizations and individuals that carry out arts programming, as well as to State Arts Agencies and Regional Arts Organizations. NEA supports exemplary projects of excellence in the artistic disciplines of artist communities, dance, design, folk and traditional arts, literature, media arts, museums, music, opera, presenting and multidisciplinary works, theater and musical theater, and visual arts, as well as for arts education projects and local arts agencies. Grants are awarded for specific projects rather than for general operating or seasonal support. Most NEA grants are matched dollar for dollar with non-Federal funds. For Fiscal Year 2014, NEA received an appropriation of \$146.021 million through the Consolidated Appropriations Act, 2014.

### **OFFICE OF INSPECTOR GENERAL**

**THE MISSION OF THE OFFICE OF INSPECTOR GENERAL IS TO PROMOTE ECONOMY, EFFICIENCY, AND EFFECTIVENESS BY DETECTING AND PREVENTING WASTE, FRAUD, AND ABUSE.**

The Inspector General Act of 1978 (IG Act), as amended (5 USC App.), established independent, objective units within Federal agencies for oversight purposes. In 1988, the Congress amended the IG Act (Public Law 100-504) to establish statutory Inspectors General at additional departments and agencies, as well as at designated Federal entities and establishments, including NEA.

On October 14, 2008, the President signed the Inspector General Reform Act of 2008 (Public Law 110-409), which amends the previous IG Act of 1978 by enhancing the independence of the Inspectors General and creating a Council of the Inspectors General on Integrity and Efficiency (CIGIE).

NEA OIG is required by law to prepare a semiannual report summarizing the activities of the office during the preceding six-month period. The report is sent to the NEA Chairman, the National Council on the Arts, and NEA's appropriating and authorizing committees. This dual reporting requirement facilitates and ensures the independence of the NEA OIG.

This semiannual report summarizes NEA OIG's major activities, initiatives, and results for the six-month period ended March 31, 2014. NEA OIG consists of four full-time positions, the Inspector General (IG) and three auditors. Currently, NEA OIG is fully staffed. There is no investigator or general counsel on the staff. To provide a reactive investigative capability, we have a Memorandum of Understanding with the General Services Administration's Office of Inspector General (GSA OIG) to provide coverage on a reimbursable basis, as needed. (No investigative coverage from GSA OIG was needed during the recent six-month period.) We have a Memorandum of Understanding with the National Credit Union Administration's Office of Inspector General (NCUA OIG) that details procedures to be used for providing NEA OIG with legal services pursuant to the new requirements reflected in the 2008 Act. A NCUA OIG staff member has been assigned to provide such services on an as-needed basis. We also have a Memorandum of Understanding with the International Trade Commission's Office of Inspector General (ITC OIG) to provide technical assistance with our evaluation of NEA's compliance with the Federal Information Security Management Act of 2002 on a reimbursable basis, as needed.

## **WE PERFORM THE FOLLOWING SERVICES:**

**ATTESTATIONS** involve examining, reviewing, or applying agreed-upon procedures on a subject matter, or an assertion about a subject matter. Attestations can have a broad range of financial or nonfinancial objectives such as NEA's compliance with specific laws and regulations, validation of performance against performance measures or reasonableness of cost.

**PERFORMANCE AUDITS** address the efficiency, effectiveness, and economy of NEA's programs, activities, and functions; provide information to responsible parties to improve public accountability; facilitate oversight and decision making; and initiate corrective actions as needed.

**FINANCIAL AUDITS** provide an independent assessment of whether financial statements are presented fairly in accordance with generally accepted accounting principles. Reporting on financial audits in accordance with Government Auditing Standards also includes reports on internal control, and compliance with provisions of laws, regulations, and contracts as they relate to financial transactions, systems and processes.

**INVESTIGATIONS** are conducted based on alleged or suspected fraud, waste, abuse or gross mismanagement, employee and contractor misconduct, and criminal and civil violations of law that have an impact on NEA's programs and operations. NEA OIG refers matters to the U.S. Department of Justice whenever there is reasonable grounds to believe there has been a violation of Federal criminal law. NEA OIG also identifies fraud indicators and recommends measures to management to improve the agency's ability to protect itself against fraud and other wrongdoing.





## AUDITS, INSPECTIONS, EVALUATIONS AND RELATED ACTIVITIES

Audits, evaluations and other reviews conducted by NEA 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:

- Not accounting for costs separately by grant award;
- Reported grant project costs did not agree with accounting records;
- Personnel costs charged to grant projects were not supported by adequate documents; and
- Internal controls need strengthening.

During the six-month period ending March 31, 2014, NEA OIG issued four reports which contained nine recommendations based on audits and

evaluations. One report, to an NEA grantee contained six recommendations. Three reports were issued relating to NEA programs and operations, of which one contained three recommendations. Two of the recommendations to NEA were implemented during this reporting period. None of the reports issued during this period included questioned costs.

Table 1 (page 11) provides a summary of reports issued during this period.

### Completed Audits and Reports

#### A-14-01 - Audit of the NEA Fiscal Year 2013 Financial Statements

The *Accountability of Tax Dollars Act of 2002* requires NEA OIG or an independent external auditor, as determined by the IG, to audit the agency financial statements. Under a competitively awarded contract monitored by NEA OIG, Leon Snead & Company, an independent certified public accounting and management consulting firm, received a one-year contract, with a four-year option, in January 2011 to audit NEA's financial statements. The audit was conducted following Generally Accepted Government Auditing Standards (GAGAS) and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as revised. In addition, the firm provided reports on internal controls and compliance with laws and regulations for matters relevant to the financial statement audit. The 2013 Financial Statement Audit Report was issued December 4, 2013, and resulted in an unqualified (clean) opinion.

## **Completed Evaluations and Reports**

### **R-14-01 NEA's Compliance with the Federal Information Security Management Act of 2002 (FISMA)**

FISMA requires that each Federal agency develop, document, and implement an agency-wide program for providing security for the information and information systems that support the operations and assets of the agency, including those provided or managed by another agency, contractor, or other source. This information is provided to senior management and others to enable them to determine the effectiveness of overall security programs.

To ensure the confidentiality and integrity of data entrusted to NEA, and to develop strategies/best practices for improving information security. NEA OIG completed a full FISMA evaluation in FY 2013 using the most recent applicable FISMA requirements and guidelines published by OMB, the U.S. Department of Homeland Security and the National Institute of Standards and Technology. The evaluation concluded that although NEA made progress in complying with FISMA, some additional improvements were needed. NEA OIG made three recommendations. One recommendation remains open. Corrective actions for the remaining recommendation is in process.

### **SCE-14-01 Financial Management System and Compliance Evaluation on Selected NEA Grants to BRIC Arts/Media/Bklyn, Inc. (NY)**

Our evaluation concluded that BRIC Arts did not comply with the financial management system requirements established by OMB and NEA for Federal awards. We identified several areas of noncompliance, including not separately identifying Federal funds in its financial system, not maintaining personnel activity reports (time and effort) and reporting unallowable costs. The report included six recommendations to improve compliance.

### **L-14-02 Review of NEA's Compliance Under the Improper Payments Elimination and Recovery Act (IPERA)**

The *Improper Payments Information Act (IPIA) of 2002*<sup>1</sup> and OMB Circular A-123, Appendix C, *Management's Responsibility for Internal Control: Requirements for Effective Measurement and Remediation of Improper Payments*, require agencies to review all programs and activities, identify those that are susceptible to significant erroneous payments, and determine an annual estimated amount of erroneous payments. The IPIA was followed by the *Improper Payments Elimination and Recovery Act (IPERA)* in 2010 and a series of OMB memoranda which included requirements for IGs to annually review and report on their agency's compliance with IPERA. We issued our annual report for 2014. The IPERA review report is posted on our web site at <http://arts.gov/oig/reports/specials>.

<sup>1</sup> P.L. 111-204.



## **Completed Inspections and Reports**

NEA OIG did not conduct any inspections during the recent six-month period.

## **Audit Resolution and Corrective Actions**

During this semiannual reporting period, NEA continued to make progress in implementing open recommendations. Based on the appropriate evidence and documentation management provided to NEA OIG to support its implementation of recommendations, the NEA OIG closed eleven recommendations related to six different OIG reports.

### Reports Issued with Questioned Costs

At the beginning of the six-month period, there was one report awaiting a management decision to allow or disallow questioned costs:

### **LS-13-04 DC Commission on the Arts and Humanities.**

At the beginning of the period, a management decision to allow or disallow questioned costs for two awards, in the amount of \$48,000 with a potential refund of \$24,000, had not been made. During the current period, the grantee provided documentation to support all of the questioned costs for both awards. Management accepted the documentation to support the questioned costs, in the amount of \$48,000, eliminating the potential refund.

Table 2 (page 12) provides a summary of issued reports with recommendations that questioned costs.

### Reports Issued with Recommendations that Funds Be Put to A Better Use

There were no reports with recommendations that funds be put to a better use.

Table 3 (page 13) provides a summary of the issued reports with recommendations that funds be put to a better use.

### Reports Issued with Recommendations Open for More than 180 days

At the end of the period, there were 16 recommendations from three reports to NEA relating to its information security program which remain open for more than 180 days.

NEA offices are scheduled for relocation in May 2014. The relocation will divert Information and Technology Management resources through the completion of the move, therefore, the implementation of remaining corrective actions relating to information security and the evaluation of those corrective actions will be impacted.

Table 4, (page 14-15) provides a summary of reports with recommendations open 180 days or more on which corrective actions are still in progress.

## **Audits, Inspections, Evaluations and Related Activities Planned or In-Progress**

NEA OIG will complete two mandatory reviews during the next reporting period that will assess the NEA's financial oversight and information security.

### **FY 2014 Audit of the NEA Financial**

**Statements** — A financial statement audit is required annually under the Accountability of Tax Dollars Act of 2002. We contract with an independent public accountant to perform this work. NEA OIG provides oversight on the contract. The purpose of the audit is to express an opinion on the financial statements of NEA for the fiscal year ending September 30, 2014. The audit will also test the internal controls over financial reporting and assess compliance with selected laws and regulations.

### **FY 2014 Evaluation of NEA's Compliance with the Federal Information Security Act**

**of 2002** — FISMA requires an annual evaluation of each agency's information security program and practices to determine their effectiveness. The evaluation is performed by the IG or by an independent external auditor.

To assist us in conducting this review, we have a Memorandum of Understanding with another Federal OIG, to provide technical assistance on a reimbursement basis. The review includes evaluating the adequacy of NEA's information security program and practices for its major systems.

## **Other Planned Reviews**

Annually, NEA awards more than 2,000 grants and cooperative agreements exceeding \$100 million, funding the arts in all 50 states and six U.S. jurisdictions, including urban and rural areas, and reaching civilian and military populations. Therefore, grants management and oversight is crucial to the mission of the NEA and continued public trust.

In FY 2014, NEA OIG plans to continue to evaluate NEA's policies and procedures for the management of its programs and operations. NEA OIG will also continue to evaluate award recipients' financial management system and recordkeeping practices to determine compliance 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*.

NEA OIG will also review NEA's compliance under other relevant Federal guidelines such as the Improper Payments Elimination Act and Recovery Act and the Government Charge Card Abuse Prevention Act of 2012.

## INVESTIGATIVE ACTIVITIES

The IG is authorized by the IG Act to receive and investigate allegations of employee misconduct as well as fraud, waste and abuse occurring within NEA programs and operations. Matters of possible wrongdoing are referred to NEA OIG in the form of allegations or complaints from a variety of sources, including NEA employees, other government agencies and the general public. Reported incidents of possible fraud, waste and abuse can give rise to administrative, civil or criminal investigations.

### Investigative Summary

NEA OIG did not open any new allegation cases during the recent six-month period. No criminal investigations were performed during the period. Table 5 (page 16) provides a summary of investigative activities during this period.

## OTHER ACTIVITIES

### Activities within the Inspector General Community

NEA OIG has allocated resources for responding to information requests from and for the Congress and other agencies. We have also participated in various efforts by the Council of the Inspectors General on Integrity and Efficiency (CIGIE), a council of inspectors general that promotes collaboration on integrity, economy, and efficiency issues that transcend individual agencies. The IG is a member of the CIGIE

Inspection and Evaluation Committee and Roundtable. The IG participates in periodic meetings designed to address issues common to smaller OIGs.

The IG also participated in CIGIE's Reform Initiatives Working Group, composed of OIGs that oversee grant programs at twenty Federal agencies. The working group provided comments on the impact of proposed guidance, *OMB Uniform Guidance: Administrative Requirements, Cost Principles, and Audit Requirements, for Federal Awards*, on our mission of ensuring accountability over Federal funds.

In addition, to develop effective oversight strategies for Federal awards, our staff participated in the Single Audit Roundtable, Interagency Fraud and Risk Data Mining, Federal Audit Executive Council, and the Department of Justice Grant Fraud and Federal Hotline working groups.

### Significant Management Decisions

Section 5(a)(12) of the IG Act requires that if the IG disagrees with any significant management decision, such disagreement must be reported in the semiannual report to Congress. Further, Section 5(a)(11) of the IG Act requires that any decision by management to change its response to a significant resolved audit finding must also be disclosed in the semiannual report. For this reporting period, there were no significant management decisions made with which NEA OIG disagreed, and management did not revise any earlier decisions on NEA OIG audit.

## **Review of Legislation and Regulations**

Section 4(a)(2) of the IG Act authorizes the IG to review and comment on proposed legislation or regulations relating to the agency or, upon request, affecting the operations of NEA OIG. During this reporting period, NEA OIG provided analyses and written commentaries on NEA and other government publications/reports and regulations.

## **Peer Review Activity**

Section 989C of the Dodd-Frank Act contains additional semiannual reporting requirements pertaining to peer review reports. Federal IGs are required to engage in peer review processes related to both their audit and investigative operations. In keeping with Section 989C, NEA OIG is reporting the following information related to its peer review activities. These activities cover our role as both the reviewed and the reviewing OIG and relate to both audit and investigative peer reviews.

## **Audit Peer Reviews**

On a 3-year cycle, peer reviews are conducted of an OIG audit organization's system of quality control in accordance with the *CIGIE's Guide for Conducting External Peer Reviews of the Audit Organizations of Federal Offices of Inspector General*. These guidelines are based on requirements in the *Government Auditing Standards*. Federal audit organizations can receive a rating of pass, pass with deficiencies, or fail.

NEA OIG was the subject of a peer review of its audit organization during the current period. The U.S. Consumer Product Safety Commission's Office of Inspector General conducted the review and issued its system review report on December 13, 2013. In the U.S. Consumer Product Safety Commission's OIG's opinion, the system of Quality control for our audit organization in effect for the year ended March 31, 2013, had been suitably designed and complied with to provide our office with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. We received a peer review rating of pass.

The report's accompanying letter of comment contained five recommendations that, while not affecting the overall opinion, were designed to further strengthen the system of quality control in NEA OIG. We agreed with four of five findings and recommendations and have completed corrective actions. The system review report is posted on our Web site at <http://arts.gov/oig/reports/external-peer-reviews>.

## **Web Site**

NEA OIG maintains an ongoing Internet presence ([www.arts.gov/about/OIG/Contents.html](http://www.arts.gov/about/OIG/Contents.html)) to assist and inform NEA employees, grantees and the public. The site includes pages for *Reporting Fraud, Waste and Abuse; Reports; Guidance; Recovery Act; Career Opportunities, Frequently Asked Questions* and *Other Resources*.

**TABLE 1: SUMMARY OF REPORTS ISSUED DURING THE REPORTING PERIOD**

Report No.	Report Date	Report Title	Questioned Costs	Unsupported Costs	Funds Put To A Better Use
A-14-01	Dec 4, 2013	Audit of NEA Financial Statements as of September 30, 2013 and 2012	0	0	0
SCE-14-01	Mar 25, 2014	Financial Management System and Compliance Evaluation of NEA Grants to BRIC Arts (NY)	0	0	0
R-14-01	Feb 4, 2014	FY 2013 Evaluation of NEA's Compliance with Federal Information Systems Management Act of 2002	0	0	0
L-14-02	Mar 21, 2014	Review of NEA's Compliance Under the Improper Payments Elimination and Recovery Act (IPERA)	0	0	0

**TABLE 2: INSPECTOR GENERAL ISSUED REPORTS WITH QUESTIONED COSTS**

		Dollar Value			
		Number of Reports	Questioned Costs	Unsupported Costs	Potential Refunds
A.	For which no management decision has been made by the commencement of the reporting period	1	48,000	0	24,000
B.	Which were issued during the reporting period	0	0	0	
	Subtotals (A+B)	1	48,000	0	24,000
C.	For which a management decision was made during the reporting period	1	48,000	0	24,000
	(i) dollar value of the disallowed costs	0	0	0	
	(ii) dollar value of the cost not disallowed	1	48,000	0	24,000
D.	For which no management decision was made by the end of the reporting period	0	0	0	0
E.	Reports for which no management decision was made within six months of issuance	0	0	0	0

**TABLE 3: INSPECTOR GENERAL ISSUED REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE**

		Number of Reports	Dollar Value
A.	For which no management decision has been made by the commencement of the reporting period	0	0
B.	Which were issued during this reporting period	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 actions	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
E.	Reports for which no management decision was made within six months of issuance	0	0



## TABLE 4: REPORTS WITH RECOMMENDATIONS ON WHICH CORRECTIVE ACTION HAS NOT BEEN COMPLETED

Section 5(a)(3) of the IG requires an identification of each significant recommendation described in previous semiannual reports for which corrective action has not been completed. Table 1 below shows the corrective actions management has agreed to implement but has not completed for recommendations that are open 180 days or more.

The information in this table is based on (1) information provided by the relevant NEA followup official which administers management’s audit resolution activities and (2) NEA OIG’s determination of closed recommendations. Recommendations are closed when (a) the followup official notifies NEA OIG that corrective actions are complete or (b) in the case of recommendations that NEA OIG determines to be particularly significant, after NEA OIG confirms that corrective actions have been completed and are responsive.

Report Number	Report Date	Report Title	Brief Summary of Significant Recommendations/Planned Corrective Actions
R-13-03	Feb 15, 2013	Evaluation of NEA’s Perimeter Security	NEA should improve its perimeter security by implementing ongoing scanning to detect vulnerabilities and remediate current web server vulnerabilities. The report included seven recommendations; all of which are in progress. Completion of corrective actions will be impacted by the relocation of NEA offices in May 2014.
R-13-02	Feb 15, 2013	Evaluation of NEA’s Patching Program	NEA should develop policy to ensure that those who manage its systems continually track the patch status and deploy patches as soon as they are available. The report included six recommendations; all of which are in progress. Completion of corrective actions will be impacted by the relocation of NEA offices in May 2014.

**TABLE 4: REPORTS WITH RECOMMENDATIONS ON WHICH CORRECTIVE ACTION HAS NOT BEEN COMPLETED (CONTINUED)**

Report Number	Report Date	Report Title	Brief Summary of Significant Recommendations/Planned Corrective Actions
R-13-01	Dec 17, 2012	FY 2012 Evaluation of NEA’s Compliance with the Federal Information Security Act of 2002	NEA should develop policy implementing Homeland Security Presidential Directive 12, <i>Policy for a Common Identification Standard for Federal Employees and Contractors</i> , including the use of Personal Identity Verification smartcards for logical access to NEA’s network and information systems. Also implement the use of automatic encryption on all NEA mobile/computer devices that carry Agency information. The report included four recommendations; three of the four recommendations remain open. Correction actions are in progress, however, implementation will be impacted by the relocation of NEA offices in May 2014.

**TABLE 5: INVESTIGATIVE DATA**

<b>Civil/Criminal Investigative Activities</b>	Number of Recommendations
Referrals to Prosecutors	0
Civil Settlements	0
Investigative Recoveries	0
<b>Hotline Contacts</b>	
Telephone Calls	0
Email	2
Standard Mail	1
Referred by Other Sources	0
Referred to Other Sources	0
Fax	0
<b>Total</b>	3
<b>Freedom of Information Act Requests</b>	
Requests Received	2
Requests Processed	0
<b>Total</b>	2

**TABLE 6: SUMMARY OF INSPECTOR GENERAL REPORTING REQUIREMENTS**

IG ACT Reference	Reporting Requirement	Page(s)
Section 4(a)(2)	Review of legislation and regulations	9
Section 5(a)(1)	Significant problems, abuses and deficiencies	4-7
Section 5(a)(2)	Recommendations with respect to significant problems, abuses and deficiencies	4-7
Section 5(a)(3)	Prior significant recommendations on which corrective actions have not been completed	6 and 13
Section 5(a)(4)	Matters referred to prosecutive authorities	8
Section 5(a)(5)	Summary of instances where information was refused	N/A
Section 5(a)(6)	List of audit reports by subject matter, showing dollar value of questioned costs and funds put to better use	10
Section 5(a)(7)	Summary of each particularly significant report	4-6
Section 5(a)(8)	Statistical tables showing number of reports and dollar value of questioned costs	11
Section 5(a)(9)	Statistical tables showing number of reports and dollar value of recommendations that funds be put to better use	12
Section 5(a)(10)	Summary of each audit issued before this reporting period for which no management decision was made by the end of the reporting period	N/A
Section 5(a)(11)	Significant revised management decisions	N/A
Section 5(a)(12)	Significant management decisions with which the inspector general disagrees	N/A

# CONTACTING THE OFFICE OF INSPECTOR GENERAL

HELP PROMOTE INTEGRITY, ECONOMY AND EFFICIENCY

REPORT SUSPECTED FRAUD, WASTE, ABUSE OR MISMANAGEMENT

COMPLAINT MAY BE MADE ANONYMOUSLY

OFFICE OF INSPECTOR GENERAL

400 7TH STREET, SW

WASHINGTON, D.C. 20506

TOLL-FREE HOTLINE: 1(877) 535-7448

LOCAL CALLS: (202) 682-5479

FAX: (202) 682-5649

EMAIL: [OIG@ARTS.GOV](mailto:OIG@ARTS.GOV)

ANY INFORMATION YOU PROVIDE WILL BE HELD IN CONFIDENCE.

HOWEVER, PROVIDING YOUR NAME AND MEANS OF COMMUNICATING WITH YOU

MAY ENHANCE OUR ABILITY TO INVESTIGATE.