



**NATIONAL
ENDOWMENT
FOR THE ARTS**



SEMIANNUAL REPORT TO THE CONGRESS

APRIL 1, 2001 – SEPTEMBER 30, 2001

Office of Inspector General

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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>
<u>Oversight Audit Agency Review Reports</u>		
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
<u>Other Reports</u>		
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.

**STRATEGIC PLAN
&
FIVE-YEAR AUDIT PLAN
2002 - 2006**

National Endowment for the Arts
Office of Inspector General

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INTRODUCTION

Foreword

The Office of Inspector General (OIG) of the National Endowment for the Arts (NEA) was established in 1989 pursuant to Public Law 100-504, "The Inspector General Act Amendments of 1988" (IG Act). This document describes the plan of the OIG for discharging its ongoing responsibilities under the Act, and for meeting its operational objectives for the period from fiscal year 2002 through fiscal year 2006.

This strategic plan is also a response to the General Accounting Office Report No. B-244053, "Inspectors General: Action Needed to Strengthen OIGs at Designated Federal Entities." That report recommended that the OIGs develop strategic plans, prepare annual work plans for each year of a five-year period, and report the plans to their entity heads and, in their semiannual reports, to the Office of Management and Budget and the Congress.

OIG Mission Statement

The Office of Inspector General, National Endowment for the Arts, is a team of skilled personnel dedicated to helping the Agency reach its essential goals and objectives. To this end, the Office of Inspector General independently conducts activities such as audits, investigations, surveys and special reviews with accuracy, balance and objectivity. Working with management in the hope of avoiding problems before they occur, our goals are: to promote economy, efficiency and effectiveness in NEA activities; to prevent and detect fraud, waste and abuse; to advocate ethics in government; and to keep the Chairman and the Congress fully and currently informed about problems and deficiencies relating to the administration of NEA programs and operations.

In achieving our mission, the staff of the Office of Inspector General will be fair and equitable, performing our duties with honesty and integrity. We will strive to be leaders and innovators in our field of expertise, and will be accountable for meeting our responsibilities. We will cooperate with all components of the NEA, giving proper recognition to the rights, authorities and duties of its employees and the public it serves.

Duties and Responsibilities of the Inspector General

The Inspector General shall:

- Provide policy direction for, and conduct, supervise, and coordinate audits (including surveys and other reviews that are conducted in accordance with applicable government standards) and investigations relating to the programs and operations of the NEA;
- Review existing and proposed legislation and regulations to determine their impact on economy and efficiency in the administration of, and the prevention and detection of fraud, waste and abuse in, the programs and operations of the NEA;
- Recommend policies for, and conduct, supervise, or coordinate other activities carried out or financed by the NEA for the purpose of promoting economy and efficiency in the administration of, or preventing and detecting fraud, waste and abuse in, those programs and operations;
- Recommend policies for, and conduct, supervise, or coordinate activities between NEA and other Federal agencies, State, and local government agencies, and nongovernmental entities with respect to all matters relating to the promotion of economy and efficiency in the administration of, or the prevention and detection of fraud and abuse in programs and operations administered or financed by NEA, or the identification and prosecution of participants committing such fraud or abuse;
- Keep the NEA Chairman and the Congress fully and currently informed concerning fraud and other serious problems, abuses, and deficiencies relating to the administration of programs and operations administered or financed by NEA, or the identification and prosecution of participants committing such fraud or abuse;
- Comply with standards established by the Comptroller General of the United States for audits of Federal establishments, organizations, programs, activities and functions (the Government Auditing Standards);
- Give particular regard to the activities of the Comptroller General of the United States with a view toward avoiding duplication and ensuring effective coordination and cooperation;
- Establish guidelines for determining when it shall be appropriate to use non-Federal auditors, and give due regard to assuring that any work performed by non-Federal auditors complies with the Comptroller General's standards; and
- Report expeditiously to the Attorney General whenever the Inspector General has reasonable grounds to believe there has been a violation of Federal criminal law.

Authority of the Inspector General

To carry out these responsibilities, the Congress has given the Inspector General:

- Access to all records, reports, audits, reviews, documents, papers, recommendations, or other material available to the NEA which relate to programs and operations of the Endowment;
- Authority to make such investigations and reviews that are, in the judgment of the Inspector General, necessary or desirable;
- Authority to request information or assistance from any Federal, state or local government agency or unit thereof, as may be necessary for carrying out the duties and responsibilities of the Act;
- Authority to issue subpoenas;
- Authority to administer and take an oath, affirmation or affidavit from any person when necessary;
- Direct and prompt access to the Chairman;
- Authority to select, appoint and employ such officers and employees as may be necessary for carrying out the functions, powers and duties of the OIG; and
- Within the limits of the established budget, authority to contract for audits, studies, analyses and other services.

Jurisdiction of the Inspector General

The OIG consolidates audit and investigative capabilities under the direction of a single official, the Inspector General, who in turn reports directly to the Chairman and the Congress. Two important features characterize the OIG: independence and objectivity.

Although under the general supervision of the Chairman, the Chairman may not prevent or prohibit the IG from initiating, performing, or completing any audit or investigation. The IG is also vested with special authorities that facilitate the performance of his or her mandate, and it is from these provisions that the element of independence derives.

The IG legislation assigns the IG no conflicting policy responsibilities within the agency, thereby ensuring objectivity. The IG's sole responsibility is auditing, investigating, and initiating other activities designed to promote economy and efficiency, and detect and prevent fraud and abuse.

The investigative jurisdiction of the OIG includes all allegations of fraud, abuse and mismanagement, and any apparent or suspected violations of statute, order, regulation or directive in connection with any program or operation of the NEA.

The audit jurisdiction of the OIG encompasses a wide range of audit services, including audits, special reviews and oversight audit agency (OAA) reviews. Audits are characterized as: financial or performance; full-scope or limited-scope; and external (focusing on the records of recipients of Endowment funding) or internal (focusing on operations and activities carried on within the Endowment). Special reviews are used to appraise and provide information about particular programs or projects. They include inspections (typically focused on compliance issues), evaluations (commonly focused on assessments of effectiveness) and electronic data processing reviews (focused on data centers, application systems or telecommunication systems). OAA reviews are examinations of audit reports issued by other Federal agencies, state auditors and independent public accountants to determine whether the results of audits have either a past, current or potential effect on Endowment grants and what action, if any, is required by the Endowment.

The Inspector General's jurisdiction also includes the review of existing and proposed legislation and regulations relating to the programs and activities of the Endowment. This is essentially a reactive activity, limited to commenting on and making recommendations about the impact of the legislation or regulation on economy and efficiency or the prevention of fraud, waste and abuse. As an adjunct to the legal requirement, the Inspector General is consulted as a matter of agency policy prior to issuance of internal directives and other significant pronouncements.

The Inspector General's jurisdiction is not always limited to the areas listed above. The IG may, as circumstances dictate, be given special assignments by the Chairman or other high-level officials.

Planning Methodology

The planning methodology that we have adopted is built around the concepts of issues and issue areas. Issue areas are broad categories of prime importance: they highlight the priorities of our customers--Agency management, the Congress, and the American people -- and contain numbers of narrower topics or individual issues. The individual issues, expressed as questions, represent an assessment of the most significant concerns facing the NEA.

The methodology also includes the formulation of annual audit work plans. Defining the work to be done during a given fiscal year, the annual plan: identifies individual jobs; assigns priorities; links jobs to the strategic issue areas; allocates staff among issues and issue areas; and serves as a device for communicating with Endowment officials. The work plans will, of course, require periodic updates to reflect shifts in issue emphasis as well as changes in audit resources.

It is expected that issue area planning will:

- Establish multi-year audit objectives consistent with Agency and congressional needs;
- Focus OIG resources on issues that represent the greatest risk to the NEA and those that offer the most opportunity for adding value;
- Reflect the OIG's budget requests and resource allocation decisions; and
- Provide a basis for measuring results and ensuring accountability.

OIG Resource Requirements

Following the Agency's RIF in December 1995, the OIG staff was reduced from five to three full-time employees, namely, two auditors (IG and Assistant IG) and an administrative specialist. However, our experience over the intervening period of time led us to recognize that one of the auditor's positions should be restored. As a consequence, with the NEA's Chairman's support, we re-established and filled one of the lost positions, thus increasing our number of professional auditors from two to three.

It is possible that the resources provided for the OIG may, at some time, need to be changed again. Any such adjustment should, in large part, be based on periodic evaluations of the OIG as gauged by the performance measures identified in this strategic plan.

STRATEGIC ISSUE AREAS

Issue Area 1: NEA Program Activities

Major functions include:

- Funding policies
- Application solicitation and review
- Panel operations
- Council operations
- Project monitoring
- Matching requirements
- Allowable costs
- Indirect cost rates
- Compliance with terms and conditions
- Compliance with reporting requirements
- Audit follow-up

Issue 1.1: Are the Endowment's standards for eligibility and policies for funding consistent with the Agency's mission and legislated objectives?

Strategy: The OIG will survey these measures to assess Agency compliance and evaluate the extent to which stated purposes are being achieved.

Issue 1.2: Does NEA provide prospective applicants with information that is both appropriate and adequate regarding its funding initiatives?

Strategy: The OIG will survey this function to assess timeliness, adequacy of content, and effectiveness in reaching potential applicants.

Issue 1.3: Does the Endowment ensure that applications are processed and evaluated in accordance with legislative requirements and Agency policies?

Strategy: The OIG will survey and document the existing practices and procedures. Subsequent efforts will focus on areas in which compliance may be improved.

Issue 1.4: Does the Agency ensure that the recipients of Endowment funding are held accountable for meeting their particular reporting requirements and for complying with the terms and conditions applicable to their awards?

Strategy: The OIG will conduct audits, special reviews and OAA reviews to verify accountability and compliance with terms and conditions. In addition, the OIG will continue to review the implementation of corrective actions and advise management as to the effectiveness of the actions and whether or not the desired results are achieved.

Issue 1.5: Do those recipients of Agency funding whose awards are based partly, at least, on indirect costs, adhere to the applicable Federal directives in preparing their rate proposals?

Strategy: The OIG will provide technical assistance in evaluating indirect cost rate proposals submitted for NEA approval.

Issue 1.6: Does the Agency evaluate completed projects to assess the benefits and accomplishments attributable to Endowment funding?

Strategy: The OIG will work with management to assess the effectiveness of Agency practices for reviewing the results obtained by recipients' projects as well as NEA's own program initiatives.

Issue Area 2: NEA Administrative Operations

Major functions include:

- Information systems
- Financial management
- Budget administration
- Procurement and facilities
- Human resources
- Internal controls

Issue 2.1: Is the Agency efficiently and effectively addressing the need to modernize its ADP systems, and in a manner that allows it to continue meeting current operational needs while maintaining consistency with provisions of the Computer Security Act, OMB Circular No. A-130, and the Government Information Security Reform Act?

Strategy: The OIG will continue to assist management by: participating in task groups; periodically reviewing and commenting on implementation issues; and performing internal control reviews on new systems with a focus on security and problem prevention.

Issue 2.2: Do the Agency's financial management systems provide the management information needed for: (1) budget planning and formulation, budget allocation and distribution, and budget review and follow up; and (2) monitoring costs and expenditures in accordance with the requirements and initiatives of Congress, OMB, and the Department of the Treasury?

Strategy: The OIG will conduct financially related audits to verify the integrity of budget execution, the propriety of transactions, the validity of account balances, and the accuracy of financial reports.

Issue 2.3: Does the Agency effectively assure that procurement actions comply with Federal and Agency requirements and that the resulting contracts are appropriate and pertinent, satisfying user needs for a reasonable price?

Strategy: The OIG will periodically review NEA's procurement activities in light of Federal and Agency requirements.

Issue 2.4: Do the Endowment's policies and practices provide a framework for the efficient and effective use of human resources that are consistent with EEO goals and objectives?

Strategy: The OIG will conduct surveys and analyses as warranted to: (1) identify patterns and trends; (2) evaluate Agency responsiveness to employee complaints or grievances; and (3) assess management initiatives for promoting EEO goals and objectives.

Issue 2.5: Are the Agency's internal controls adequate to deter and detect fraud, waste, abuse and mismanagement?

Strategy: The OIG will conduct audits and other reviews to uncover any weaknesses in administrative controls and will prepare management reports with recommendations for corrective action if applicable.

Issue Area 3: OIG Administration and Investigations

Major Functions Include:

- Audit universe
- Lines of communication
- Allegations' review
- Staff professionalism
- Regulatory review

Issue 3.1: Does the OIG maintain an up-to-date audit universe, complete with weighted criteria for assessing audit priorities?

Strategy: The OIG will update its universe of discrete auditable areas yearly, revising prioritization criteria as appropriate.

Issue 3.2: Does the OIG promote open relations and positive interaction with Agency officials and others?

Strategy: The OIG will: seek frequent feedback from the Chairman, senior staff and Agency managers as appropriate; actively participate on NEA committees or task forces when opportunities exist to add value; and maintain and enhance, and as necessary, establish relations with Congressional committees, GAO, the Department of Justice and other law enforcement agencies, and the OIG community.

Issue 3.3: Does the OIG maintain an investigative capability that is appropriate for the NEA?

Strategy: The OIG will continue to maintain a formal memorandum of understanding with the General Services Administration's (GSA) OIG to provide for the temporary assignment of professional criminal investigators as needed. OIG auditors will screen allegations and other indications of possible misconduct to determine whether there is sufficient basis for investigation. If so, the OIG will, as appropriate, either refer the case to another investigative authority, request the temporary assignment of criminal investigations from GSA's OIG, or investigate the case as a civil matter with the expectation that, after the necessary evidence is gathered and evaluated, the matter will be referred to NEA management for administrative action.

Issue 3.4: Does the OIG foster the professional growth of the OIG staff?

Strategy: The OIG will establish a staff feedback process to encourage the open exchange of information and ideas, and will continue to budget training funds adequate to satisfy the continuing education standards established by the Comptroller General.

Issue 3.5: Does the OIG review existing and proposed legislation and regulations to determine their effect on the programs and operations of the NEA?

Strategy: The OIG will continue to work with management devising a process for ensuring that regulatory and legislative proposals are evaluated for their impact on the Agency.

PERFORMANCE MEASURES

These measures are expected to help the OIG recognize successes, document achievements, evaluate progress toward goals, and identify needs for improvement. The measures are structured along the requirements of the IG Act and are intended to allow comparisons to previous periods.

- Feedback from customers on the value added by audit reports and other reviews of programs and operations;
- Assessment of the number and significance of recommendations implemented by managers to correct deficiencies or improve operations;
- The number of technical and advisory activities that benefited from OIG participation;
- The number of laws and regulations reviewed;
- The amount of questioned and unsupported costs identified by the OIG;
- The amount of funds to be put to better use identified in audits and other reports;
- The extent of recoveries attributable to OIG efforts; and
- The number of complaints processed.

FIVE-YEAR AUDIT PLAN

2002 - 2006

The following list of audits and audit-related efforts show how the OIG plans to use its available audit resources to implement the strategies previously discussed. The objectives of each project have been identified along with a short description of the work to be performed. While the plan is flexible and subject to revision based on management's input and changing conditions, it reflects our current assessment of relative risks and the most effective use of limited audit resources.

Criteria for selection include:

- Statutory requirements and recommendations from other sources of Federal authority such as OMB or GAO;
- Requests from the Chairman or other high authority;
- Importance of the activity to the Endowment's mission;
- Extent of NEA resources committed to the activity;
- Potential for fraud and other unlawful or improper acts;
- Agency needs as identified through consultation with representatives of management;
- Extent of audit coverage provided by GAO, consultants or other outside sources;
- Newness, changed conditions, or sensitivity of the activity;
- Adequacy of the existing internal control systems for the activity;
- Availability of audit staff with needed expertise; and
- Extent and results of prior reviews by the OIG.

AUDIT PLAN - FY 2002

OAA Reviews. Conduct desk reviews of audit reports and other materials related to grantees that have had A-133 audits performed by independent outside auditors to 1) determine compliance with relevant OMB circulars, 2) evaluate the audit findings for past, current or potential effect on NEA grants, and 3) recommend what action, if any, is required by NEA. An indeterminate number of non-OIG audit reports (probably 30 or more) will be examined throughout the year. (Issue 1.4)

Audit Followup. Track the status of recommendations for corrective action, and provide the Audit Followup Official and other NEA managers with technical assistance in resolving audit findings. This undertaking will be ongoing throughout the year. (Issue 1.4)

Indirect Cost Rate Evaluations. Evaluate rate proposals submitted by grantees and contractors for compliance with OMB Circulars A-21, A-87, A-122 or the Federal Acquisition Regulation, as appropriate. It is estimated that about 20 proposals will be evaluated during the year. (Issue 1.5)

Regulatory Review. Review existing and proposed legislation and regulations for effect on the programs and operations of the Agency. This activity will be ongoing throughout the year. (Issue 3.5)

Investigations. Investigate all allegations of fraud, waste, abuse, mismanagement, employee misconduct or any apparent or suspected violation of law or official regulations. Although the number of investigative reviews to be conducted cannot be predicted with confidence, in recent years the annual rate of new cases opened is about three. (Issue 3.3)

Grantee Audits. Conduct audits and other reviews to 1) determine the adequacy of grantees' financial systems for managing and accounting for Federal funds, 2) evaluate the current financial condition of grantee organizations, and 3) verify compliance with the terms and conditions of NEA grants. The number of on-site audits to be conducted will depend on the availability of staff auditors and travel funds. (Issue 1.4)

A-133 Non-Compliance Review. Ensure that instances of grantees' non-compliance with the audit requirements of OMB Circular A-133 are detected and reported to Agency managers for the imposition of sanctions, as appropriate. (Issue 1.4)

Information Management Review. Determine whether the Agency's information management policies, procedures and practices are adequate for meeting its operational and security needs, and whether they conform to accepted standards and requirements. (Issue 2.1)

EEO Compliance. Review the Agency's procedures and practices for compliance with laws and regulations governing equal employment opportunities and the civil rights of NEA employees. The review will be scheduled for the early part of the year. (Issue 2.4)

AUDIT PLAN - FY 2003

OAA Reviews. Conduct desk reviews of audit reports and other materials related to grantees that have had A-133 audits performed by independent outside auditors to 1) determine compliance with relevant OMB circulars, 2) evaluate the audit findings for past, current or potential effect on NEA grants, and 3) recommend what action, if any, is required by NEA. An indeterminate number of non-OIG audit reports (probably 25 or more) will be examined throughout the year. (Issue 1.4)

Audit Followup. Track the status of recommendations for corrective action, and provide the Audit Followup Official and other NEA managers with technical assistance in resolving audit findings. This undertaking will be ongoing throughout the year. (Issue 1.4)

Indirect Cost Rate Evaluations. Evaluate rate proposals submitted by grantees and contractors for compliance with OMB Circulars A-21, A-87, A-122 or the Federal Acquisition Regulation, as appropriate. It is estimated that about 20 proposals will be evaluated during the year. (Issue 1.5)

Regulatory Review. Review existing and proposed legislation and regulations for effect on the programs and operations of the Agency. This activity will be ongoing throughout the year. (Issue 3.5)

Investigations. Investigate all allegations of fraud, waste, abuse, mismanagement, employee misconduct or any apparent or suspected violation of law or official regulations. Although the number of investigative reviews to be conducted cannot be predicted with confidence, in recent years the annual rate of new cases opened is about three. (Issue 3.3)

Grantee Audits. Conduct audits and other reviews to 1) determine the adequacy of grantees' financial systems for managing and accounting for Federal funds, 2) evaluate the current financial condition of grantee organizations, and 3) verify compliance with the terms and conditions of NEA grants. The number of on-site audits to be conducted will depend on the availability of staff auditors and travel funds. (Issue 1.4)

Budget Execution. Review the practices and procedures of the Agency's Budget Office for adherence to Federal law, OMB guidelines and legislative mandates. The review will be scheduled for the latter part of the year. (Issue 2.2)

Information Management Review. Determine whether the Agency's information management policies, procedures and practices are adequate for meeting its operational and security needs, and whether they conform to accepted standards and requirements. (Issue 2.1)

AUDIT PLAN - FY 2004

OAA Reviews. Conduct desk reviews of audit reports and other materials related to grantees that have had A-133 audits performed by independent outside auditors to 1) determine compliance with relevant OMB circulars, 2) evaluate the audit findings for past, current or potential effect on NEA grants, and 3) recommend what action, if any, is required by NEA. An indeterminate number of non-OIG audit reports (probably 25 or more) will be examined throughout the year. (Issue 1.4)

Audit Followup. Track the status of recommendations for corrective action, and provide the Audit Followup Official and other NEA managers with technical assistance in resolving audit findings. This undertaking will be ongoing throughout the year. (Issue 1.4)

Indirect Cost Rate Evaluations. Evaluate rate proposals submitted by grantees and contractors for compliance with OMB Circulars A-21, A-87, A-122 or the Federal Acquisition Regulation, as appropriate. It is estimated that about 20 proposals will be evaluated during the year. (Issue 1.5)

Regulatory Review. Review existing and proposed legislation and regulations for effect on the programs and operations of the Agency. This activity will be ongoing throughout the year. (Issue 3.5)

Investigations. Investigate all allegations of fraud, waste, abuse, mismanagement, employee misconduct or any apparent or suspected violation of law or official regulations. Although the number of investigative reviews to be conducted cannot be predicted with confidence, in recent years the annual rate of new cases opened is about three. (Issue 3.3)

Grantee Audits. Conduct audits and other reviews to 1) determine the adequacy of grantees' financial systems for managing and accounting for Federal funds, 2) evaluate the current financial condition of grantee organizations, and 3) verify compliance with the terms and conditions of NEA grants. The number of on-site audits to be conducted will depend on the availability of staff auditors and travel funds. (Issue 1.4)

Financial Management. Review the Agency's financial management systems to ensure the propriety of transactions and to verify the validity of account balances and the accuracy of financial reports. (Issue 2.2)

Application Screening. Review the practices and procedures employed by both Agency staff and advisory panelists in the initial screening of grant applications to ensure their fair and equitable treatment along with proper enforcement of the rules for eligibility. (Issue 1.3)

AUDIT PLAN - FY 2005

OAA Reviews. Conduct desk reviews of audit reports and other materials related to grantees that have had A-133 audits performed by independent outside auditors to 1) determine compliance with relevant OMB circulars, 2) evaluate the audit findings for past, current or potential effect on NEA grants, and 3) recommend what action, if any, is required by NEA. An indeterminate number of non-OIG audit reports (probably 25 or more) will be examined throughout the year. (Issue 1.4)

Audit Followup. Track the status of recommendations for corrective action, and provide the Audit Followup Official and other NEA managers with technical assistance in resolving audit findings. This undertaking will be ongoing throughout the year. (Issue 1.4)

Indirect Cost Rate Evaluations. Evaluate rate proposals submitted by grantees and contractors for compliance with OMB Circulars A-21, A-87, A-122 or the Federal Acquisition Regulation, as appropriate. It is estimated that about 20 proposals will be evaluated during the year. (Issue 1.5)

Regulatory Review. Review existing and proposed legislation and regulations for effect on the programs and operations of the Agency. This activity will be ongoing throughout the year. (Issue 3.5)

Investigations. Investigate all allegations of fraud, waste, abuse, mismanagement, employee misconduct or any apparent or suspected violation of law or official regulations. Although the number of investigative reviews to be conducted cannot be predicted with confidence, in recent years the annual rate of new cases opened is about three. (Issue 3.3)

Grantee Audits. Conduct audits and other reviews to 1) determine the adequacy of grantees' financial systems for managing and accounting for Federal funds, 2) evaluate the current financial condition of grantee organizations, and 3) verify compliance with the terms and conditions of NEA grants. The number of on-site audits to be conducted will depend on the availability of staff auditors and travel funds. (Issue 1.4)

Procurement. Review the Agency's procurement activities for compliance with Federal regulations and to assure that contracts are appropriate for satisfying user needs at a reasonable price. (Issue 2.3)

Payroll Review. Test and evaluate the adequacy of internal controls over payroll operations within the Agency. (Issue 2.5)

AUDIT PLAN - FY 2006

OAA Reviews. Conduct desk reviews of audit reports and other materials related to grantees that have had A-133 audits performed by independent outside auditors to 1) determine compliance with relevant OMB circulars, 2) evaluate the audit findings for past, current or potential effect on NEA grants, and 3) recommend what action, if any, is required by NEA. An indeterminate number of non-OIG audit reports (probably 25 or more) will be examined throughout the year. (Issue 1.4)

Audit Followup. Track the status of recommendations for corrective action, and provide the Audit Followup Official and other NEA managers with technical assistance in resolving audit findings. This undertaking will be ongoing throughout the year. (Issue 1.4)

Indirect Cost Rate Evaluations. Evaluate rate proposals submitted by grantees and contractors for compliance with OMB Circulars A-21, A-87, A-122 or the Federal Acquisition Regulation, as appropriate. It is estimated that about 20 proposals will be evaluated during the year. (Issue 1.5)

Regulatory Review. Review existing and proposed legislation and regulations for effect on the programs and operations of the Agency. This activity will be ongoing throughout the year. (Issue 3.5)

Investigations. Investigate all allegations of fraud, waste, abuse, mismanagement, employee misconduct or any apparent or suspected violation of law or official regulations. Although the number of investigative reviews to be conducted cannot be predicted with confidence, in recent years the annual rate of new cases opened is about three. (Issue 3.3)

Grantee Audits. Conduct audits and other reviews to 1) determine the adequacy of grantees' financial systems for managing and accounting for Federal funds, 2) evaluate the current financial condition of grantee organizations, and 3) verify compliance with the terms and conditions of NEA grants. The number of on-site audits to be conducted will depend on the availability of staff auditors and travel funds. (Issue 1.4)

Application Solicitation. Review the Agency's policies and procedures for providing prospective applicants with information that is appropriate and accurate. The review will assess timeliness, adequacy of content, and effectiveness in reaching potential applicants. (Issue 1.2)

Travel Utilization. Review the Endowment's administrative controls related to approving and monitoring the travel arrangements of Agency employees. (Issue 2.5)