

NATIONAL ENDOWMENT FOR THE ARTS

OFFICE OF INSPECTOR GENERAL



SEMIANNUAL REPORT TO THE CONGRESS

APRIL 1, 2012 - SEPTEMBER 30, 2012

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NATIONAL ENDOWMENT FOR THE ARTS

October 30, 2012

MEMORANDUM

TO: Rocco Landesman
Chairman

FROM: Tonie Jones
Inspector General



SUBJECT: **Semiannual Report to the Congress: April 1, 2012 - September 30, 2012**

The Inspector General Act of 1978 (IG Act), as amended (5 U.S.C. App.), calls for the preparation of semiannual reports to the Congress summarizing the activities of the Office of Inspector General (OIG) 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, 2012 - September 30, 2012.

The Inspector General's report is intended to cover audits, inspections, evaluations, investigations and other reviews conducted by the OIG. The report also indicates the status of management decisions whether to implement or not to implement recommendations made by the OIG. The former 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.

The Act requires that you transmit this 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, 2012.

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.

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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. The NEA supports exemplary projects of excellence in the artistic disciplines of artist communities, dance, design, folk and traditional arts, literature, media arts, museums, music, musical theater, opera, presenting, 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. The NEA received \$146.021 million, net a rescission of .16%, through the Consolidated Appropriations Act, 2012.

OFFICE OF INSPECTOR GENERAL

The Inspector General Act of 1978 (IG Act), as amended (5 U.S.C. App.), established independent, objective units within Federal agencies for oversight purposes. In 1988, the Congress amended the IG Act (P.L. No. 100-504) to establish statutory Inspectors General at additional departments and agencies, as well at designated Federal entities and establishments, including the National Endowment for the Arts. The mission of the Office of Inspector General (OIG) is to:

- Conduct and supervise independent and objective audits, inspections and evaluations 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.

On October 14, 2008, the President signed the Inspector General Reform Act of 2008, Public Law 110-409. The 2008 Act 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.

This semiannual report summarizes the OIG's major activities, initiatives, and results for the six-month period ending September 30, 2012. The OIG consists of four full-time positions, the Inspector General and three auditors. Currently, the 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 investigative coverage for us 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 the NEA OIG with legal services pursuant to the new requirements reflected in the 2008 Act. An 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.

SUMMARY OF WORK COMPLETED BY THE OIG

During the six-month period ending September 30, 2012, the OIG conducted the following audits, inspections, evaluations, reviews, investigations, and other activities.

Audits/Inspections/Evaluations/Reviews

During the recent semiannual period, the OIG issued six reports which contained twenty four recommendations based on audits and evaluations performed by OIG personnel. Ten recommendations related to NEA grantees were cleared during this reporting period. We also issued four memoranda to the agency related to NEA grantees which contained four recommendations, all of which the agency implemented.

Audit Resolution

At the beginning of the six-month period, there was one report awaiting a management decision to allow or disallow questioned costs of \$82,033 with potential refunds of \$48,036. The organization submitted documentation to support the questioned costs. A management decision was made to allow all of the questioned costs in the amount of \$82,033, which eliminated potential refunds of \$48,036. (See Table I)

During the period, two of the newly issued reports identified questioned costs of \$712,290 with potential refunds of \$355,900. The organizations submitted documentation to support most of the questioned costs. Management decisions were made to allow \$711,895 of the questioned costs, which eliminated potential refunds of \$355,505. A management decision was also made not to allow \$395 of the questioned costs, which was refunded to the agency.(See Table I)

Inspections

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

Investigations

The OIG did not open any new allegation cases during the recent six-month period. The one case opened prior to the start of the period remained open at the end of the period.

Audit of the NEA Fiscal Year 2012 Financial Statements

The *Accountability of Tax Dollars Act of 2002* requires the NEA Office of Inspector General or an independent external auditor, as determined by the Inspector General, to audit the agency financial statements. Under a competitively awarded contract monitored by the 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 the NEA's financial statements. The audit will be conducted following Generally Accepted Government Auditing Standards (GAGAS) and OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as revised. In addition, the firm will provide reports on internal controls and compliance with laws and regulations for matters relevant to the financial statement audit. The report is scheduled to be issued by the November 15, 2012 deadline.

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.

The OIG completed a full FISMA evaluation in FY 2011 using the most recent applicable FISMA requirements and guidelines published by the OMB, the U.S. Department of Homeland Security and the National Institute of Standards and Technology. The assessment found that although NEA made progress in complying with FISMA, some additional improvements were needed. The OIG made eleven recommendations. Corrective actions for all of the recommendations are in process. The OIG is currently conducting the FY 2012 FISMA evaluation, which is due to OMB on November 15, 2012.

Review of Legislation, Rules, Regulations and Other Issuances

The OIG is required to review and comment on proposed legislation and regulations for potential impact on the Agency and its operations. During this reporting period, the OIG provided analyses and written commentaries on Agency and other government publications/reports and regulations.

Technical Assistance

The OIG provided technical assistance to NEA grantees and their independent auditors. Our efforts included, for example, clarifying and interpreting the audit requirements of OMB Circular A-133, "*Audits of States, Local Governments, and Non-Profit Organizations*," and 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, accounting, and audit followup.

Web Site

The OIG maintains an ongoing Internet presence (www.arts.gov/about/OIG/Contents.html) to assist and inform NEA grantees and Agency employees. The site includes pages for *Reports*; *Recovery Act* including a section for *Training and Resources*; *Reporting Fraud, Waste and Abuse*; *Career Opportunities*; *External Peer Reviews* of the OIG and *Other Resources*.

Other Activities

During this period, the OIG took part in the activities of the Council on Inspectors General for Integrity and Efficiency (Council), and 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 and other federal agencies to develop effective oversight strategies for Recovery Act activities. We continued our proactive oversight of NEA's management of its Recovery Act funds with an emphasis on the evaluation of recipients' management of Recovery Act funds.

The Government Accountability Office's *Government Auditing Standards* requires audit organizations that perform audits or attestation engagements to have an appropriate system of quality control and to undergo external peer reviews at least once every 3 years. Federal audit organizations can receive a rating of *Pass*, *Pass with deficiencies*, or *Fail*. A peer review of the OIG was conducted August 2010 by the Federal Trade Commission's Office of Inspector General. The OIG received a rating of *Pass*.

The *Improper Payments Information Act (IPIA) of 2002*³ and the Office of Management and Budget (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 made in those 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 inspectors general to annually review and report on their agency's compliance with IPERA. The first annual report was due by March 15, 2012 to the head of the agency, Congress, OMB and the General Accountability Office. We issued our first annual report March 5, 2012.

Strategic Plan & Five-Year Audit Plan

We have issued our Strategic Plan & Five-Year Audit Plan for the Years 2013 – 2017. Our planning methodology is built around the concept of issue areas and issues. The issue areas are broad categories of prime importance: they highlight the priorities of our customers - Agency management, the Congress and the American people. 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.

³ P.L. 111-204.

SECTIONS OF REPORT

The following sections of this report discuss the 12 areas specifically required to be included according to Section 5(a) of the IG Act of 1978, as amended. Table I shows 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, evaluations 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:

- Not accounting for costs separately by grant award; (e.g., accounting structures that do not provide accurate and complete information about all financial transactions related to each Federally-supported project);
- Reported grant project costs did not agree with the accounting records, (e.g., financial status reports were not always prepared directly from the general ledger, subsidiary ledgers or worksheets);
- Personnel costs charged to grant projects were not supported by adequate documentation, (e.g., personnel activity reports were not maintained to support allocations of personnel costs to NEA projects);
- Grantees needed to improve internal controls, (e.g., ensuring that contractors and recipients are not debarred or suspended from receiving Federal funds prior to the payment or award of Federal funds and developing written policies and procedures for the management of Federal awards).

SECTION 2 – Recommendations for Corrective Action

To assist grantees in correcting or avoiding the deficiencies identified in Section 1, the OIG utilizes 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 grantees in terms of fiscal accountability. The guides are available at www.arts.gov/about/OIG/Guidance.html.

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 significant recommendations in previous reports on which corrective actions 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 and OIG Hotline Contacts

<u>REPORT NUMBER</u>	<u>TITLE</u>	<u>DATE OF REPORT</u>
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Limited Scope Audit Report

LS-12-01	Illinois Arts Council (IL).....	04/04/12
LS-12-02	Association of Performing Arts Presenters (DC).....	08/03/12

Financial Management System & Compliance Evaluations

SCE-12-02	Department of Cultural Affairs and Special Events (IL)	05/21/12
SCE-12-03	Association of Performing Arts Presenters (DC).....	06/20/12
SCE-12-04	Society for the Arts in Healthcare (DC).....	07/09/12
SCE-12-05	Americans for the Arts(DC).....	09/04/12

TOTAL REPORTS – 6

Memoranda

M-12-04	Music Theatre Group (NY).....	05/22/12
M-12-05	Commonwealth Council for Arts and Culture(CMNI)	07/05/12
M-12-08	Commonwealth Council for Arts and Culture (CMNI)	08/02/12
M-12-10	American Samoa Council on Arts, Culture and Humanities (AS)	08/13/12

TOTAL MEMORANDA – 4

Contacts

Telephone Calls.....	2
Email	0
Standard Mail.....	0
Referred by Other Sources.....	0
Fax.....	0

TOTAL CONTACTS – 2

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, Inspection Reports, and Evaluation Reports and the Dollar Value of Questioned Costs

Table I of this report presents the statistical information showing the total number of audit reports, inspection reports, and evaluation reports and the total dollar value of questioned costs.

SECTION 9 – Statistical Tables Showing Total Number of Audit Reports, Inspection Reports, and Evaluation 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, inspection reports and evaluation reports with recommendations that funds be put to better use by management.

SECTION 10 – Audit Reports, Inspection Reports, and Evaluation Reports Issued Before the Commencement of the Reporting Period for Which No Management Decision Has Been Made by the End of the Reporting Period

As shown on Table I, there was one audit report issued before the commencement of the reporting period for which no management decision has been made by the end of the reporting period.

SECTION 11 – Significant Revised Management Decisions Made During the Period

No significant revised management decisions were made during the reporting period.

SECTION 12 – Significant Management Decisions With Which the Inspector General Disagrees

There were no significant management decisions that the Inspector General disagreed with during the reporting period.

TABLE I

INSPECTOR GENERAL ISSUED REPORTS WITH QUESTIONED COSTS

	<u>NUMBER</u>	<u>QUESTIONED COSTS</u>	<u>UNSUPPORTED COSTS</u>	<u>POTENTIAL REFUNDS</u> ⁴
A. For which no management decision has been made by the commencement of the reporting period	<u>1</u>	<u>82,033</u>	<u>(82,033)</u>	<u>48,036</u>
B. Which were issued during the reporting period	<u>2</u>	<u>712,290</u>	<u>(712,290)</u>	<u>355,900</u>
Subtotals (A + B)	<u>3</u>	<u>794,323</u>	<u>(794,323)</u>	<u>403,936</u>
C. For which a management decision was made during the reporting period ⁵	<u>3</u>	<u>794,323</u>	<u>(794,323)</u>	<u>403,936</u>
(i) Dollar value of disallowed costs	<u>1</u>	<u>395</u>	<u>(395)</u>	<u>395</u>
(ii) Dollar value of costs not disallowed	<u>3</u>	<u>793,928</u>	<u>(793,928)</u>	<u>403,541</u>
D. For which no management decision has been made by the end of the reporting period	<u>0</u>	<u>0</u>	<u>(0)</u>	<u>0</u>
Reports for which no management decision was made within six months of issuance	<u>0</u>	<u>0</u>	<u>(0)</u>	<u>0</u>

⁴ The potential refund amount may not equal the questioned cost 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 follow-up process, which includes examination of documentation submitted by the grantee.

⁵ In one report, two management decisions were made to (1) not accept \$395 in questioned costs and (2) accept \$2,310 in questioned costs.

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 that the Office of Inspector General (OIG) questioned because of alleged violation with a provision of a law, regulation, contract, 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 has sustained or agreed should not be charged to the NEA grant or cooperative agreement.
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 contained in the audit report and the issuance of management's final decision, including actions to be taken. 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 actions that management has concluded in its management decision with respect to audit findings and recommendations. If management concluded that no actions were necessary, final action occurs when a management decision was made.

**STRATEGIC PLAN
&
FIVE-YEAR AUDIT PLAN
2013 - 2017**

**NATIONAL ENDOWMENT FOR THE ARTS
OFFICE OF INSPECTOR GENERAL
October 2012**

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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). On October 14, 2008, the President signed the Inspector General Reform Act of 2008, Public Law 110-409, which amends the previous IG Act to enhance the independence of the Inspectors General, to create a Council of the Inspectors General on Integrity and Efficiency, and other purposes. 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 2013 through fiscal year 2017.

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, evaluations, investigations and special reviews with accuracy, balance and objectivity. Working with management to help avoid problems before they occur, our mission is to: promote economy, efficiency and effectiveness in NEA activities; prevent and detect fraud, waste and abuse; advocate ethics in government; and 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 evaluations 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 NEA programs and operations;
- Recommend policies and conduct, supervise, or coordinate activities both internal and external to the NEA, for the promotion of economy and efficiency, and the prevention and detection of fraud, waste and abuse in NEA programs and operations;
- 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 financed by the 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 its programs and operations;
- Authority to conduct 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 Inspector General 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. Three important features characterize the OIG: independence, objectivity and integrity.

Although under the Chairman's general supervision, 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 states that there should be no conflicting policy responsibilities between the IG and the agency, thereby ensuring objectivity and independence. The IG's sole responsibility is auditing, investigating, and initiating other activities designed to promote economy and efficiency, and detect and prevent fraud, waste 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 and special reviews. Audits are characterized as: financial or performance; full-scope or limited-scope; and external (focusing on the records of recipients of NEA funding) or internal (focusing on operations and activities carried on within the NEA). 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 grantees' financial management systems and grantee compliance), and electronic data processing reviews (focused on data centers, application systems or telecommunication systems). As part of our audit and review process, we examine 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 NEA awards and what action, if any, is required by the NEA. In addition, reviews may be conducted of individual awards to ensure proper reporting of expenditures.

The Inspector General's jurisdiction also includes the review of existing and proposed legislation and regulations relating to NEA programs and activities. 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.

Planning Methodology

The planning methodology that we have adopted is built around the concepts of issue areas and issues. 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 a number 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. The annual plan defines the work to be done by: identifying individual jobs; assigning priorities; linking jobs to the strategic issue areas; allocating staff among issue areas and issues; and serving as a device for communicating with NEA 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

The OIG staff currently consists of four full-time positions, namely, the IG and three other auditors. There is no investigator or general counsel on 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) whereby the GSA's OIG agrees to provide investigative coverage for us on a reimbursable basis as needed. 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 the NEA OIG with legal services pursuant to the new requirements reflected in the 2008 Act. 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.

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

STRATEGIC ISSUE AREAS

Issue Area 1: NEA Program Activities

Major functions include:

- Project monitoring; allowable costs; and compliance with reporting requirements, and general terms and conditions
- Audit followup
- Grant award process

Issue 1.1: Does the Agency evaluate completed projects to assess the benefits and accomplishments attributable to NEA 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 program initiatives.

Issue 1.2: Does the Agency ensure that the recipients of NEA 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 and special reviews (such as evaluations) to verify accountability, allowability, 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 the desired results were achieved. Furthermore, the OIG will provide technical assistance to grantees on how to maintain a financial management system and on how to comply with the financial aspects of the terms and conditions.

Issue 1.3: Are NEA's standards for determining grantee eligibility 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 1.4: Does NEA provide potential 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 1.5: Does the NEA ensure that applications are processed and evaluated in accordance with legislative requirements and Agency policies?

Strategy: The OIG will survey and document the existing policies and procedures at the Agency program level, Panel level and the Council level. Subsequent efforts will focus on areas in which compliance may be improved.

Issue 1.6: Do NEA's policies and procedures for its AccessAbility program adequately provide a framework consistent with legislative requirements?

Strategy: The OIG will conduct surveys and analyses as warranted to assess policies and initiatives for promoting AccessAbility's goals and objectives.

Issue Area 2: NEA Administrative Operations

Major functions include:

- Information systems
- Financial management
- Budget administration
- Procurement and facilities
- Human resources
- Internal controls
- Freedom of Information and Privacy Acts

Issue 2.1: Is the Agency efficiently and effectively addressing the need to modernize its information management 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 Federal Information Security Management Act of 2002?

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: Does the Agency's financial management system provide the management information needed for: (1) budget planning and formulation, budget allocation, and budget review and follow up; and (2) monitoring costs and expenditures in accordance with the requirements and initiatives of Congress, OMB, the Department of the Treasury, and the Accountability of Tax Dollars Act of 2002?

Strategy: The OIG will conduct, through an independent auditor, financial 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?

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

Issue 2.4: Do NEA's policies and procedures 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 internal controls and will prepare management reports with recommendations for corrective action, if applicable.

Issue 2.6: Do the Agency's policies and procedures on FOIA and the Privacy Act adhere to Federal laws and regulations?

Strategy: The OIG will periodically review the Agency's policies and procedures for adherence to the Federal laws and regulations.

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, revising and prioritizing the 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. In addition, the OIG, when appropriate, will 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 a sufficient basis for investigation. If so, the OIG will, as appropriate, either refer the case to another investigative authority, request the temporary assignment of a criminal investigator 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 adequately 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 legislative and regulatory 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 significance of recommendations implemented to correct deficiencies, which should lead to improved operations;
- The number of technical and advisory activities that benefited from OIG participation;
- The number of laws and regulations reviewed.

FIVE-YEAR AUDIT PLAN 2013 - 2017

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 NEA'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.
- The review and reporting requirements of the American Recovery and Reinvestment Act of 2009 (ARRA).

Note: The following pages reflect each year's audit plan. In addition, on the very last page there is a list of audits, evaluations or reviews that may be added at any time to one of the upcoming years. For purposes of our audit plans, "grantee" refers to NEA grantees, cooperators or contractors.

AUDIT PLAN - FY 2013

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 awards. The number of on-site audits to be conducted will depend on the availability of auditors and travel funds. (Issue 1.2)

Evaluations. Conduct evaluations of grantees to determine the adequacy of financial management systems and ensure that recordkeeping complies with the requirements established by OMB and NEA's General Terms and Conditions. Evaluations will be limited to reviewing records of one to two awards. The availability of auditors, travel funds and the review and reporting requirements for ARRA, will dictate the number of evaluations. Anticipate more than 15 evaluations this year. (Issue 1.2)

ARRA Reviews. Conduct evaluations and audits to (1) determine whether ARRA recipients are in compliance with NEA and ARRA guidelines, and (2) compare grantees' reported versus projected data concerning numbers, types, and locations of jobs preserved with NEA's ARRA grants. The availability of auditors, travel funds and ARRA review and reporting requirements will dictate the number of evaluations and audits. (Issue 1.2)

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 activity will be ongoing throughout the year. (Issue 1.2)

Information & Technology Management (ITM) and Privacy Management Review. Determine whether the Agency's ITM policies, procedures, and practices are adequate for meeting its operational and security needs, and whether they conform to accepted standards and requirements. Review of security matters will be undertaken in accordance with the Federal Information Security Management Act of 2002. Privacy review will be done in accordance with OMB Memorandum M-06-20 (Issue 2.1) (Issue 2.6)

Financial Statement Audit. Provide oversight of the independent CPA firm conducting the financial statement audit of the Agency. (Issue 2.2)

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 two to three. (Issue 3.3)

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

AUDIT PLAN - FY 2014

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 auditors and travel funds. (Issue 1.2)

Evaluations. Conduct evaluations of grantees to determine the adequacy of financial management systems and ensure that recordkeeping complies with the requirements established by OMB and NEA's General Terms and Conditions. Evaluations will be limited to reviewing the records of one to two grants. The availability of auditors, travel funds and the work requirements for ARRA will dictate the number of evaluations. Anticipate more than 15 evaluations this year. (Issue 1.2)

ARRA Reviews. Conduct evaluations and audits to (1) determine whether ARRA recipients are in compliance with NEA and ARRA guidelines, and (2) compare grantees' reported versus projected data concerning numbers, types, and locations of jobs preserved with NEA's ARRA grants. The availability of auditors, travel funds and ARRA review and reporting requirements will dictate the number of evaluations and audits. (Issue 1.2)

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 activity will be ongoing throughout the year. (Issue 1.2)

Information & Technology Management (ITM) and Privacy Management Review. Determine whether Agency's ITM policies, procedures, and practices are adequate for meeting its operational and security needs, and whether they conform to accepted standards and requirements. Review of security matters will be undertaken in accordance with the Federal Information Security Management Act of 2002. Privacy review will be done in accordance with OMB Memorandum M-06-20 (Issue 2.1) (Issue 2.6)

Financial Statement Audit. Provide oversight of the independent CPA firm conducting the financial statement audit of the Agency. (Issue 2.2)

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 two or three. (Issue 3.3)

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

AUDIT PLAN - FY 2015

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 auditors and travel funds. (Issue 1.2)

Evaluations. Conduct evaluations of grantees to determine the adequacy of financial management systems and ensure that recordkeeping complies with the requirements established by OMB and NEA's General Terms and Conditions. Evaluations will be limited to reviewing the records of one to two grants. The availability of auditors and travel funds will dictate the number of evaluations. Anticipate more than 13 evaluations this year. (Issue 1.2)

ARRA Reviews. Conduct evaluations and audits to (1) determine whether ARRA recipients are in compliance with NEA and ARRA guidelines, and (2) compare grantees' reported versus projected data concerning numbers, types, and locations of jobs preserved with NEA's ARRA grants. ARRA evaluations and audits will be incorporated into review process with other NEA grants awarded to the recipient. The availability of auditors, travel funds and ARRA review and reporting requirements will dictate the number of evaluations and audits.

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 activity will be ongoing throughout the year. (Issue 1.2)

Information & Technology Management (ITM) and Privacy Management Review. Determine whether Agency's ITM policies, procedures, and practices are adequate for meeting its operational and security needs, and whether they conform to accepted standards and requirements. Review of security matters will be undertaken in accordance with the Federal Information Security Management Act of 2002. Privacy review will be done in accordance with OMB Memorandum M-06-20 (Issue 2.1) (Issue 2.6)

Financial Statement Audit. Provide oversight of the independent CPA firm conducting the financial statement audit of the Agency. (Issue 2.2)

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 two or three. (Issue 3.3)

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

AUDIT PLAN - FY 2016

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 auditors and travel funds. (Issue 1.2)

Evaluations. Conduct evaluations of grantees to determine the adequacy of financial management systems and ensure that recordkeeping complies with the requirements established by OMB and NEA's General Terms and Conditions. Evaluations will be limited to reviewing the records of one to two grants. The availability of auditors and travel funds will dictate the number of evaluations. Anticipate more than 20 evaluations this year. (Issue 1.2)

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 activity will be ongoing throughout the year. (Issue 1.2)

Information & Technology Management (ITM) and Privacy Management Review. Determine whether Agency's ITM policies, procedures, and practices are adequate for meeting its operational and security needs, and whether they conform to accepted standards and requirements. Review of security matters will be undertaken in accordance with the Federal Information Security Management Act of 2002. Privacy review will be done in accordance with OMB Memorandum M-06-20 (Issue 2.1) (Issue 2.6)

Financial Statement Audit. Provide oversight of the independent CPA firm conducting the financial statement audit of the Agency. (Issue 2.2)

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 two or three. (Issue 3.3)

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

AUDIT PLAN - FY 2017

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 auditors and travel funds. (Issue 1.2)

Evaluations. Conduct evaluations of grantees to determine the adequacy of financial management systems and ensure that recordkeeping complies with the requirements established by OMB and NEA's General Terms and Conditions. Evaluations will be limited to reviewing the records of one to two grants. The availability of auditors and travel funds will dictate the number of evaluations. Anticipate 20 or more evaluations this year. (Issue 1.2)

Audit Followup. Track the status of recommendations for corrective action, and provide the Audit Follow-up Official and other NEA managers with technical assistance in resolving audit findings. This activity will be ongoing throughout the year. (Issue 1.2)

Information & Technology Management (ITM) and Privacy Management Review. Determine whether Agency's ITM policies, procedures, and practices are adequate for meeting its operational and security needs, and whether they conform to accepted standards and requirements. Review of security matters will be undertaken in accordance with the Federal Information Security Management Act of 2002. Privacy review will be done in accordance with OMB Memorandum M-06-20 (Issue 2.1) (Issue 2.6)

Financial Statement Audit. Provide oversight of the independent CPA firm conducting the financial statement audit of the Agency. (Issue 2.2)

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 two or three. (Issue 3.3)

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

OTHER ACTIVITIES *

Accessibility. Review the Agency's policies and procedures for compliance with laws and regulations governing accessibility. (Issue 1.6)

EEO. Review the Agency's policies and procedures for compliance with laws and regulations governing equal employment opportunities and the civil rights of NEA employees. (Issue 2.4)

FOIA. Review the Agency's policies and procedures for adherence to Federal laws and regulations. (Issue 2.6)

Grant Award Process. Review the Agency's policies and procedures for providing potential applicants with information that is appropriate and accurate. The review also will assess timeliness, adequacy of content, and effectiveness in reaching potential applicants. (Issue 1.4)
Review the Agency's policies and procedures employed by NEA staff, advisory panelists and Council Operations in the screening of grant applications and the awarding of grants to ensure there is fair and equitable treatment along with proper enforcement of the eligibility rules. (Issues 1.3 and 1.5)

Procurement. Review the Agency's procurement activities for compliance with Federal regulations and Agency policies. (Issue 2.3)

Supply Management. Review policies and procedures to uncover any weaknesses in administrative controls. (Issue 2.5)

Transit Benefits. Review and test for adequacy of controls over Agency's transit benefits program. (Issue 2.5)

Travel. Review NEA's controls related to approving and monitoring the travel of Agency employees. In addition, ensure that travel's purpose is both reasonable and appropriate to Agency's mission. (Issue 2.5)

* The above areas may be considered at any time for an audit, evaluation or review based on the discretion of the OIG.

REPORTING WRONGFUL ACTS

Anyone, including Agency employees, who learns about or has reason to suspect the occurrence of any unlawful or improper activity related to NEA operations or programs, should contact the OIG immediately. A complaint/referral may be reported using any of the following methods:

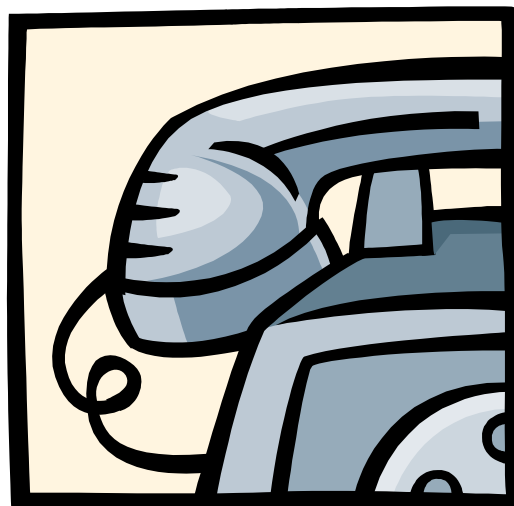
Toll-free OIG Hotline: 1-877-535-7448
Local Calls: 202-682-5479
Fax: 202-682-5649
Email: oig@arts.gov
Website: www.arts.gov/about/oig/fraud.html

You may also visit or write us at the National Endowment for the Arts, Office of Inspector General, Room 601, 1100 Pennsylvania Avenue, NW, Washington, DC 20506.

When contacting the OIG, it will help if you have answers to the following questions:

- Who are the parties involved (names, addresses and phone numbers if possible);
- What is the suspected activity (specific facts of the wrongdoing);
- When and where did the wrongdoing occur;
- How did you learn about the activity (from a third party, actual observation, conclusion drawn from observing or performing different activities, etc.); and
- Where can you be contacted or when will you contact us again.

The OIG will not disclose the identity of a complainant or informant without consent, unless the Inspector General determines that such disclosure is unavoidable during the course of the investigation. You may remain anonymous, if you choose. Federal employees are protected against reprisal for disclosing information to the Inspector General unless such disclosure was knowingly false.





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CHAIRMAN'S SEMIANNUAL REPORT
ON FINAL ACTION
RESULTING FROM AUDIT REPORTS, INSPECTION
REPORTS, AND EVALUATION REPORTS

April 1, 2012 through September 30, 2012

Submitted
November 2012

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INTRODUCTION

The Inspector General Act of 1978, as amended by the Inspector General Act Amendments of 1988 (Public Law 100-504), established independent, objective units within Federal agencies for the following purposes:

- To supervise and conduct audits and investigations of agency programs and operations;
- To lead, coordinate, and recommend policies for promoting economy, efficiency, and effectiveness in the administration of programs and operations, and to prevent and detect fraud and abuse therein; and
- To keep the agency head and the Congress informed about related problems and deficiencies and associated corrective action.

On October 14, 2008, the President signed the Inspector General Reform Act of 2008 (Public Law 110-409). The 2008 Act amends the previous IG Act of 1978 to enhance the independence of the Inspectors General, to create a Council of the Inspectors General on Integrity and Efficiency, and for other purposes.

Section 106(a) of P.L. 100-504 requires the Inspector General to report semiannually on the office's activities for the preceding six-month periods ending March 31st and September 30th. The report must (1) address significant problems, abuses, and deficiencies in the management of agency programs and operations identified during the reporting period, and (2) identify recommendations for corrective action. Section 106(b) directs the Inspector General to furnish this report within 30 days to the agency head, who is required to prepare a separate report on management decisions resulting from audit reports, inspection reports, evaluation reports, the status of disallowed costs, and final actions taken during the corresponding period, including any comments deemed appropriate. The agency head must transmit both reports to the Congress within the ensuing 30 days.

Accordingly, the Chairman presents the Arts Endowment's management report for the period April 1, 2012 through September 30, 2012.

REPORT ON FINAL ACTION RESULTING FROM AUDIT REPORTS, INSPECTION REPORTS, AND EVALUATION REPORTS

Section 1. Comments Relating to the Inspector General's Report

A. Comments on OIG's Summary Section

Audits/Inspections/Evaluations/Reviews. As reported in the Inspector General's *Semiannual Report to the Congress*, management decisions were made on three reports during the period, and at the end of the reporting period there were no outstanding reports awaiting management decisions.

When the Audit Followup Official disallows questioned costs, it is typically because the grantee or cooperator has responded inadequately to the Arts Endowment's request for supporting documentation, such as canceled checks, invoices, contracts, personnel activity reports, or testimonial evidence. Agency funds may represent only a small portion of an awardee's total project costs. Deficiencies normally are resolved through the Agency's audit resolution process, and refunds are infrequent.

Technical Assistance. The Arts Endowment places a high priority on ensuring that employees are well informed about policies, procedures, and requirements related to grants administration and audits. The Grants & Contracts Office routinely conducts training on various topics for Agency staff, including targeted one-on-one training as necessary. During the period, the Grants & Contracts Office and the OIG continued to provide technical assistance and compliance evaluations for grantees. The Grants & Contracts Office also updated internal directives and guidance documents.

FISMA Compliance. The Arts Endowment works closely with the OIG in following up on recommendations arising from the annual assessment of the Agency's IT operations. As noted in the OIG's report, the Agency is actively working on all of the OIG's recommendations.

Web Site and Technology Enhancements. The Arts Endowment continues to provide its "My Grant at a Glance" feature on the Agency Web site. In addition to tracking the status of payment requests online, grantees can obtain historical reports of their grants back to at least 1988. The reports include the amount of the grant, the period of support, and a brief project description.

We continue to leverage technology to enhance the efficiency of our operations. For example, this year we began implementing across all programs (after a successful pilot in 2011) the use of the new NEA GrantsOnline™ system, which allows grant application reviewers to have access to more application material in

advance of panel meetings than in the past, and to score and comment on applications online, improving the efficiency and productivity of application review.

Other Activities. Arts Endowment staff continued to work closely with the OIG on issues of mutual interest, such as the independent audit of the Agency's financial statements for fiscal year 2012 (which concluded with an unqualified opinion, the Agency's 10th consecutive).

B. Comments on OIG's Sections 1 and 2

OIG audit, inspection, and evaluation reports on Arts Endowment awardees are based upon reviews conducted by the OIG itself or upon OIG analysis of audits completed by outside auditors. The outside audits may be performed by State audit agencies, by other Federal agencies (generally the agency providing the greatest amount of Federal funding to an organization also supported by the Arts Endowment), or by independent public accountants engaged by awardees.

Section 2. Management Report on Final Action on Audits, Inspections, and Evaluations with Disallowed Costs for the Six-Month Period Ending September 30, 2012 (Section 8 of the OIG Report)

There were no audit, inspection, or evaluation reports with management decisions made that were awaiting final action at the beginning of the period. During the period, a management decision was made on one evaluation to disallow costs, which resulted in a final action being taken. At the end of the period, there were no reports awaiting final action. (See Table A).

Section 3. Management Report on Final Action on Audits, Inspections, and Evaluations with Recommendations to Put Funds to Better Use for the Six-Month Period Ending September 30, 2012 (Section 9 of the OIG report)

There were no audit, inspection, or evaluation reports with recommendations to put funds to better use awaiting final action as of September 30, 2012 (see Table B).

Section 4. Audit Reports, Inspection Reports, and Evaluation Reports for Which a Management Decision Was Made Prior to April 1, 2012, but on Which Final Action Has Not Occurred

There were no audit, inspection, or evaluation reports for which a management decision was made prior to April 1, 2012, on which final action has not yet occurred.

TABLE A

MANAGEMENT REPORT ON FINAL ACTION
ON AUDITS, INSPECTIONS, AND EVALUATIONS WITH DISALLOWED COSTS
FOR THE SIX-MONTH PERIOD ENDING SEPTEMBER 30, 2012

ITEM	# OF REPORTS	DISALLOWED COSTS	POTENTIAL REFUNDS
A. Audit/inspection/evaluation reports with management decisions on which final action had not been completed at the beginning of the reporting period. See Note 1.	0	\$0	\$0
B. Audit/inspection/evaluation reports on which management decisions were made during the reporting period. See Note 2.	1	395	395
Subtotal (A+B)	1	395	395
C. Audit/inspection/evaluation reports on which final action was taken during the reporting period, including:			
i. The dollar value of disallowed costs that were recovered by management through:			
a. Collection & offsets	1	\$395	\$395
b. Property	0	0	0
c. Other	0	0	0
ii. The dollar value of disallowed costs that were written off by management.	0	0	0
Subtotal (i + ii) See Note 3	0	\$0	\$0
D. Audit/inspection/evaluation reports for which no final action has been taken by the end of the reporting period. (A+B-C) See Note 4.	0	\$0	\$0

Notes:

1. Reports in which management has made a decision to disallow costs; however, final actions (e.g., collection, write-offs) were not completed by the beginning of the reporting period.
2. Reports in which management has made a decision, during the reporting period, to disallow costs.
3. Reports in which final actions were completed during the reporting period.
4. Reports in which management has made a decision to disallow costs; however, final action was not completed by the end of the reporting period.

TABLE B

MANAGEMENT REPORT ON FINAL ACTION ON AUDITS, INSPECTIONS,
AND EVALUATIONS WITH RECOMMENDATIONS TO PUT FUNDS TO BETTER USE
FOR THE SIX-MONTH PERIOD ENDING SEPTEMBER 30, 2012

ITEM	# OF REPORTS	FUNDS TO BE PUT TO BETTER USE
A. Audit/inspection/evaluation reports with management decisions on which final action had not been taken at the beginning of the reporting period.	0	\$0
B. Audit/inspection/evaluation reports on which management decisions were made during the period.	0	0
Subtotal (A+B)	0	0
C. Audit/inspection/evaluation reports on which final action was taken during the period:		
i. Dollar value of recommendations implemented:		
a. Based on management action	0	0
b. Based on proposed legislative action	0	0
ii. Dollar value of recommendations not implemented	0	0
Subtotal (i+ii)	0	0
D. Audit/inspection/evaluation reports needing final action at end of the period. (A+B-C)	0	\$0