

NATIONAL ENDOWMENT for the **ARTS**

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Office of Inspector General
Semiannual Report to Congress
April 1, 2019 – September 30, 2019



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MESSAGE FROM THE INSPECTOR GENERAL

During this semiannual reporting period, we issued two audit reports that included \$108,578 in questioned cost and 19 recommendations to improve stewardship of awards by recipients. Through our audit follow-up process, we worked with National Endowment for the Arts (Arts Endowment) staff and award recipients to clear 31 recommendations, which will further improve stewardship of awards. In addition, we addressed 17 of 18 hotline complaints, primarily enabling us to help citizens avoid scams by individuals fraudulently representing themselves as Arts Endowment employees.

Furthermore, as required by the Consolidated Reports Act of 2000 and Office of Management and Budget Circular A-136, *Financial Reporting Requirements*, my staff worked with Agency officials to prepare a list of the top Arts Endowment management challenges. The challenge areas include financial management, human capital, information technology, inventory management, and awardee accountability. A summary of the challenge areas and any improvement by the Agency in these areas is included in this report.

Finally, my office received a rating of "pass" based on a Peer Review conducted by the U.S. Commodity Futures Trading Commission (CFTC) Office of Inspector General (OIG). The CFTC OIG concluded that my office's system of quality control provided reasonable assurance that audits by my staff were performed and reported in accordance with required professional standards since the last Peer Review in 2016.

The value-added work that my staff accomplished this period is due to their commitment to excellence, continued growth, and dedicated work effort, along with the support of the Arts Endowment Chairman and her staff. I look forward to continuously working with Arts Endowment leadership and staff -- promoting economy, efficiency, effectiveness -- helping to ensure integrity, excellence, and value in the Arts Endowment's mission delivery.



Ron Stith, CPA
Inspector General

NATIONAL ENDOWMENT FOR THE ARTS

Established by Congress in 1965, the National Endowment for the Arts (Arts Endowment) is an independent Federal Agency whose funding and support give Americans the opportunity to participate in the arts, exercise their imaginations, and develop their creative capacities. The Arts Endowment partners with state arts agencies, local leaders, other Federal agencies, and the philanthropic sector to help deliver its mission. As part of its mission, the Arts Endowment supports arts learning, affirms and celebrates America's rich and diverse cultural heritage, and extends its work to promote equal access to the arts in every community across America.

OFFICE OF INSPECTOR GENERAL

The Inspector General Act of 1978, as amended (IG Act), established Offices of Inspectors General (OIG) within 74 departments and agencies. On October 14, 2008, Congress passed the Inspector General Reform Act of 2008 -- enhancing the independence of Inspectors General and creating a Council of Inspectors General on Integrity and Efficiency (IG Council) to support continuing professional education of OIG staff and to support collaboration between the IGs.

Each OIG is required by the IG Act to prepare a semi-annual report summarizing the activities of the office for the preceding six-month period. The report by my office is sent to the Arts Endowment Chairman, the National Council on the Arts, and Arts Endowment appropriating and authorizing Congressional committees.

My office is composed of myself, the Inspector General, the Assistant Inspector General for Audit, and three staff auditors. During this six-month period, we had a Memorandum of Understanding (MOU) with the Department of Education OIG to provide investigative services for our office on a reimbursable basis. We also had a MOU with the U.S. Postal Service OIG for legal counsel support.



AUDITS, EVALUATIONS, AND RELATED ACTIVITIES

Completed Audit Reports

Audits completed during this period identified improvements needed in awardee stewardship, including financial reporting accuracy and completeness. A summary of the audits conducted during this period are below.

Limited Scope Audit Report on Selected Awards to New England Foundation for the Arts, LS-19-05

Our limited scope audit concluded that the New England Foundation for the Arts (NEFA) generally complied with financial management system and recordkeeping requirements established by the Office of Management & Budget (OMB) and the Arts Endowment. However, we identified several areas requiring improvement. For instance, NEFA:

- Included unallowable costs on its Federal Financial Report (FFR) for Award No. 14-6100-2004.
- Could not support all of the costs for Award No. 17-6100-7003.
- Did not report actual costs on its FFRs for Award Nos. 13-6100-2053, 14-6100-2004, and 15-6100-2060.
- Did not establish procurement policies and procedures that met Federal procurement requirements.

In addition, we identified \$3,910 in questioned costs, and the report included eight recommendations to address the findings.

Limited Scope Audit on Selected Awards to Education Commission of the States, LS-19-06

Our limited scope audit concluded that the Education Commission of the States (ECS) did not fully comply with financial management system and recordkeeping requirements established by OMB and the Arts Endowment. We identified a number of areas requiring improvement. Specifically, ECS:

- Reported unallowable costs on its FFR.
- Did not report actual costs on its FFRs.
- Reported costs outside of the award period.
- Did not submit its required FFR and Final Descriptive Report on time.
- Did not comply with Federal record retention requirements.
- Did not have the required Section 504 Self-Evaluation on file.
- Did not have debarment and suspension policies and procedures.
- Did not have policies and procedures for the management of Federal awards.

In addition, we identified \$104,668 in questioned costs, and the report included 11 recommendations to address the findings.

Audit Resolution and Corrective Actions

At the beginning of the reporting period, there were 108 open recommendations from prior audit reports. During this reporting period, we issued 19 new recommendations. Also, we were able to closed 31 recommendations – leaving 96 open recommendations at the end of the reporting period – September 30, 2019. Corrective actions for these recommendations are in process.

Reports Issued with Questioned Costs

There were two reports issued with \$108,578 in questioned costs during the reporting period (see Table 3, page 11).

Reports Issued with Recommendations that Funds Be Put to Better Use

There were no reports issued with recommendations that funds be put to better use during the reporting period (see Table 2, page 10).

Reports Issued with Recommendations Open for More Than 180 days

As of September 30, 2019, there were 12 reports with 77 recommendations open for more than 180 days. Corrective actions for these recommendations are in process (see Table 4, page 12).

Audits and Other Activities Planned or In-Process

In January 2019, we conducted a risk based analysis of Agency awardees and solicited input from Agency employees to develop a strategic plan of audits for calendar year 2019. The resulting plan included 12 awardees to audit, with a total award value of \$33,673,950.

As of September 30, 2019 we had four award audits and six internal audits in process that we expect to complete during the six month period ending March 31, 2020. Three of the internal audits are mandated by legislation and we expect to issue reports of those audits by November 19, 2019. Following is a summary of the objectives of the three mandatory audits.

Audit of the National Endowment for the Arts' Financial Statements

The OIG oversees the annual financial statement audit required under the Accountability of Tax Dollars Act of 2002. We contracted with Williams, Adley & Company, DC-LLP (Williams Adley), an independent public accounting firm, to perform the audit. The purpose of the audit is to express an opinion on the accuracy and completeness of the Arts Endowment financial statements for the fiscal year ended September 30, 2019. The audit also tests the internal controls over financial reporting and assesses compliance with selected laws and regulations.

Audit of the National Endowment for the Arts' Compliance with the Digital Accountability and Transparency Act of 2014 (DATA Act)

The DATA Act was enacted May 9, 2014, requiring the OIG to issue a bi-annual report on the Agency's compliance with DATA Act requirements. We contracted with Williams Adley to perform the DATA Act audit in conjunction with the financial statement audit. The objective of the audit is to assess the completeness, timeliness, quality, and accuracy of the data sampled and the implementation and use of data standards by the Arts Endowment.

Audit of the National Endowment for the Arts' Compliance with the Federal Information Security Modernization Act of 2014 (FISMA)

The FISMA requires the OIG to conduct an annual audit of its Agency's information security program and practices. We contracted with Williams Adley to conduct the FISMA audit, which includes evaluating the adequacy of the Agency information security program and practices for its major systems. The FISMA report will be submitted to OMB by October 31, 2019.

INVESTIGATIVE ACTIVITIES

The IG Act authorizes my office to receive and investigate allegations of employee misconduct, fraud, waste and abuse occurring within the Arts Endowment's programs and operations. Investigative activities tend to be reactive and initiated based on reports of possible fraud, ethics violations, and other issues of integrity. Matters of possible wrongdoing are referred as allegations or complaints from a variety of sources, including Arts Endowment employees, other government Agency employees, and the public.

Reported incidents of possible fraud, ethics violations, and other integrity issues can give rise to criminal, civil or administrative investigations. The IG Act requires my office to refer matters to the U.S. Department of Justice whenever there is reasonable grounds to believe there has been a violation of Federal criminal law. During this period, our investigative needs were met through an MOU with the Department of Education OIG on an as needed basis.

Criminal, Civil, and Administrative Actions

We did not have any Administrative Actions during this semiannual period. There were no matters referred to the U.S. Department of Justice for prosecution.

Hotline Activity

During this reporting period, the OIG received and evaluated 18 hotline complaints. The evaluations enabled us to close 17 complaints and to assist complainants to avoid being defrauded by individuals fraudulently claiming to represent the Arts Endowment. One complaint remains open and is being evaluated for appropriate action.

OTHER ACTIVITIES

Activities within the Inspector General Community

Activities that affect the IG community are typically coordinated by the IG Council. The IG Council also develops and delivers training for the IG community, and each OIG contributes a portion of its budget to support IG Council operations. Furthermore, the IG Council holds monthly meetings to discuss and vote on matters impacting the IG community. Each IG is a voting member of the IG Council.

The IG Council continues to coordinate the Oversight.gov, a website that provides a “one stop shop” to follow the ongoing oversight work of all OIGs that publicly post reports. With the launch of Oversight.gov, users can now sort, search, and filter the site’s database across agencies to find reports covering their areas of interest.

Significant Management Decisions

Section 5(a)(11) of the IG Act requires that OIG disagreements with significant management decisions be reported in the semiannual report to Congress. Section 5(a)(12) of the IG Act also requires that any management decision changing their response to a significant resolved audit finding must be disclosed in the semiannual report. For this reporting period, there were no OIG disagreements with management decisions, and management did not revise any earlier decisions on our audit recommendations.

Access to Information

Section 6(b)(2) of the IG Act requires the IG to report to the Agency head, without delay, if the IG believes that access to required information, records or assistance has been unreasonably refused, or has not been provided. Section 5(a)(5) of the IG Act requires that reports to the Agency head about any refusal or delay in accessing records be summarized in the semiannual report. During this reporting period, the OIG did not have a problem obtaining assistance or access to Agency records.

Review of Legislation and Regulations

Section 4(a)(2) of the IG Act requires that the OIG review and comment on proposed legislation or regulations relating to the Agency or, affecting our operations. During this reporting period, we did not review any proposed legislation.

Peer Review Activity

Section 989C of the Dodd-Frank Act contains additional semiannual reporting requirements pertaining to peer review reports. Federal IGs are required to engage in peer review activities related to both their audit and investigative operations. Peer reviews are conducted on a three-year cycle and evaluate an OIG audit organization’s systems of quality control, in accordance with the IG Council’s *Guide for Conducting External Peer Reviews of the Audit Organizations of Federal Offices of Inspector General*.

These guidelines are based on requirements in the Government Accountability Office's *Government Auditing Standards*. Federal audit organizations can receive a rating of pass, pass with deficiencies, or fail. Conforming to Section 989C, we are reporting the following information related to our peer review activities.

The U.S. Commodity Futures Trading Commission OIG conducted our most recent Peer Review for the three-year period ending March 31, 2019. We did not have any investigations during the last three years; therefore, no investigative peer reviews was conducted. The Audit Peer Review report was issued in August 2019, and the review concluded that our audit organization's system of quality control complied with Government Auditing Standards. We received a Peer Review rating of "pass." The report is posted at www.arts.gov/oig/reports/external-peer-reviews. Also, we provided copies of the Peer Review report to the Chairman, National Council on the Arts, and the IG Council Chairman and Audit Committee. Our next peer review is scheduled to be conducted by the National Labor Relations Board OIG, covering the three-year period ending March 31, 2022.

OUTREACH AND AWARENESS

Website

We maintain an ongoing internet presence at <https://www.arts.gov/oig> to inform Arts Endowment employees, awardees, and the public of our mission and to post the results of our work as required by the IG Act.

Consultations with the National Council on the Arts and Congress

The IG Act directs Inspectors General to keep the Head of the Establishment and Congress fully and currently informed. For purposes of the IG Act, the National Council on the Arts (the Council) is the Head of the Establishment. To address this requirement, the IG has biweekly meetings with the Council Chairman and attends Council meetings as necessary. Also, we provide semi-annual reports to the Council Chairman and its members and Congress.

ARTS ENDOWMENT TOP MANAGEMENT CHALLENGES

The Consolidated Reports Act of 2000 and OMB Circular A-136, *Financial Reporting Requirements*, require that the OIG provides the agency head with a summary of the top management and performance challenges facing the Agency. It is our assessment that the areas of financial management, human capital, information technology, inventory management, and awardee accountability represent the top management and performance challenges for the Arts Endowment. Following is a discussion of each challenge area.

Financial Management. This is one of the key areas where the Arts Endowments works to continuously improve each year. The challenge is continuous because the Agency is required to keep pace with government-wide financial systems modernization efforts and regulatory changes. At the same time, the Agency focuses on continuously improving efficiency and effectiveness of its accounting and finance policies and procedures, systems, and staff cross-training. While this is a top challenge area,

a positive indicator in the financial management area is that the Agency consistently receives unmodified opinions on its financial statement audits and has a high level of compliance with Data Act requirements.

Human Capital. The Arts Endowment considers its people to be its most valuable asset in achieving its mission. Thus, it works to continuously improve its personnel policies and procedures to support its employees. The top human capital challenge includes ensuring an effective strategy to work with hiring managers to attract and retain candidates with the right skills, ability and knowledge to fill vacant positions due to normal attrition and retiring employees. This needs to be done while maintaining high quality service in other human capital areas, such as training and development, and performance management and recognition. In 2019, the Agency filled a number of key leadership and staff positions, including the Senior Deputy Chairman, to address mission delivery challenges.

Information Technology. The Arts Endowment began addressing this area by transitioning to a new, more robust electronic grants management system (eGMS) in FY 2018. This new system was built on a more flexible, operationally efficient platform. The initial version of the eGMS was fully connected to the Grants.gov site. In 2018 and 2019, the Agency has been working to fully integrate eGMS with its internal financial systems and the financial systems operated by external service providers.

Another challenge for the Arts Endowment is the FISMA that requires each Federal agency to develop, document, and implement an agency-wide information security program to provide information security over the operations and assets of the Agency. Through our annual reviews of the Arts Endowment's compliance with FISMA, we continuously identify ways for the agency to enhance security, and the Agency continually makes progress each year in complying with increasing information system security requirements.

A further challenge for the Arts Endowment is the E-Government and Privacy Acts that provide legislative guidance for the control and dissemination of personal information and personally identifiable information. In light of data theft at several Federal agencies, a review of agency protection of Privacy Act data has been included as part of the FISMA evaluation and reporting process. This area will require the Agency's ongoing attention as information security requirements change and become increasingly important in safeguarding information network systems.

Inventory Management. The Arts Endowment continues to improve the accountable property inventory process. The Administrative Services along with Information Technology (IT) staff work to identify and document all accountable property, including furniture and technology equipment. Most accountable property has been recorded in an automated inventory system and other assets have been recorded in an electronic inventory spreadsheet. The focus of this challenge has shifted from establishing and maintaining the inventory to ensuring inventory records accurately reflect the location of assets.

Awardee Accountability. The Arts Endowment Grants and Program Management Offices face the challenge, along with the rest of the Federal community, to help awardees fully implement and comply with the requirements of 2 CFR Part 200: *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). This challenge includes helping awardees comply with the Agency's *General Terms and Conditions* for awards.

Our audits continue to identify awardees that have not complied with all applicable Federal award requirements. These awardees are typically identified through our risk based annual audit planning, hotline allegations/complaints, or referrals from the Agency's Grants Office. Based on audits of these awardees, following are the five most common findings:

- (1) Failing to ensure that contractors and sub-award recipients have not been debarred or suspended from receiving Federal assistance prior to paying or awarding them Federal funds;
- (2) No written policies and procedures for managing Federal awards;
- (3) Not reporting accurate and allowable costs incurred on the Federal Financial Report;
- (4) Not maintaining supporting documentation for costs charged to agency grants; and
- (5) Not maintaining a Section 504 self-evaluation at the organization.

We acknowledge and encourage the Arts Endowments continuous efforts to identify opportunities to improve awardee compliance with Federal requirements. Continued development and implementation of web-based tools and technical assistance efforts by the Agency, and the results of our audits will, in our opinion, help to improve awardee compliance. As grant making is the primary mission of the Arts Endowment, this area will continue to be an important challenge.

We have experienced strong support from Arts Endowment management in identifying and tracking these top management challenges. We look forward to continuing our work to help the Agency deliver its mission with excellence and integrity.

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

Report No.	Report Date	Report Title	Questioned Costs	Funds Put To A Better Use
LS-19-05	June 5, 2019	Limited Scope Audit Report on Selected Awards to New England Foundation for the Arts	\$3,910	\$0
LS-19-06	August 28, 2019	Limited Scope Audit Report on Selected Awards to Education Commission of the States	104,668	0
TOTAL			\$108,578	\$0

**TABLE 2: INSPECTOR GENERAL ISSUED REPORTS
WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE**

	Number of Reports	Dollar Value
A. For which no management decision has been made by the commencement of the reporting period	0	\$0
B. Which were issued during this reporting period	0	0
C. For which a management decision was made during the reporting period	0	0
(i) dollar value of recommendations that were agreed to by management	0	0
- based on proposed management actions	0	0
- based on proposed legislative action	0	0
(ii) dollar value of recommendations that were not agreed to by management	0	0
D. For which no management decision has been made by the end of the reporting period	0	0
E. Reports for which no management decision was made within six months of issuance	0	0

**TABLE 3: INSPECTOR GENERAL
ISSUED REPORTS WITH QUESTIONED COSTS**

		Dollar Value		
	Number of Reports	Questioned Costs	Potential Refunds	
A.	For which no management decision has been made by the commencement of the reporting period	8	\$ 2,081,098	\$475,252
B.	Which were issued during the reporting period	2	108,578	49,204
	Subtotals (A+B)	10	2,189,676	524,456
C.	For which a management decision was made during the reporting period	4	595,333	1,590
	(i) dollar value of the disallowed costs	3	593,042	444
	(ii) dollar value of the cost not disallowed	1	2,291	0
D.	For which no management decision was made by the end of the reporting period	6	1,594,343	522,866
E.	Reports for which no management decision was made within six months of issuance	4	1,485,765	473,662

**TABLE 4: REPORT RECOMMENDATIONS WITH CORRECTIVE
ACTIONS NOT COMPLETED WITHIN 180 DAYS**

Report Number	Report Date	Report Title	Open Recommendations
LS-13-02	Mar 1, 2013	Limited Scope Audit Report on selected NEA Grants to Music- Theatre Group	5
ER-17-01	Jan 10, 2017	FY 2016 Evaluation of NEA Compliance with The Federal Information Security Modernization Act of 2014	4
A-18-01	Nov 3, 2017	Data Act Audit	2
A-18-02	Nov 3, 2017	FY 2017 NEA Audit of Financial Statements	1
ER-18-01	Nov 31, 2017	FY 2017 Evaluation of NEA Compliance with The Federal Information Security Modernization Act of 2014	3
LS-18-01	Mar 29, 2018	California Arts Council	1
LS-18-02	Aug 2, 2018	The American Architectural Foundation	18
LS-19-01	Oct 18, 2018	Mainstreet Uptown Butte, Inc.	10
A-19-01	Oct 31, 2018	FY2018 Evaluation of NEA Compliance with The Federal Information Security Modernization Act of 2014	9
A-19-02	Nov 15, 2018	FY 2018 NEA Audit of Financial Statements	5
LS-19-02	Feb 28, 2019	Mid-America Arts Alliance	1
LS-19-03	Mar 18, 2019	Ohio Arts Council	18
TOTAL OPEN RECOMMENDATIONS			77

TABLE 5: INVESTIGATIVE AND ADMINISTRATIVE ACTION DATA

Civil/Criminal Investigative/Administrative Activities	Number of Actions
Referrals to Prosecutors	0
Civil Settlements	0
Investigative Recoveries	0
Debarments/Suspensions	0
Administrative Actions	0
Hotline Contacts	
Telephone Calls	10
Email	8
Standard Mail	0
Referred by Other Sources	0
Referred to Other Sources	0
In Assessment Process for Possible Action	1
Closed	17
Total Hotline Contacts	18
Freedom of Information Act Requests	
Requests Received	1
Requests Processed or Referred	1
Total	1

TABLE 6: SUMMARY OF INSPECTOR GENERAL REPORTING REQUIREMENTS

IG ACT Reference	Reporting Requirement	Page(s)
Section 4(a)(2)	Review of legislation and regulations	7
Section 5(a)(1)	Significant problems, abuses and deficiencies	2-5
Section 5(a)(2)	Recommendations with respect to significant problems, abuses and deficiencies	2-5
Section 5(a)(3)	Prior significant recommendations on which corrective actions have not been completed	5, 14
Section 5(a)(4)	Matters referred to prosecutive authorities	5
Section 5(a)(5)	Summary of instances where information was refused	5
Section 5(a)(6)	List of audit reports by subject matter, showing dollar value of questioned costs and funds put to better use	11
Section 5(a)(7)	Summary of each particularly significant report	2-4
Section 5(a)(8)	Statistical tables showing number of reports and dollar value of questioned costs	12
Section 5(a)(9)	Statistical tables showing number of reports and dollar value of recommendations that funds be put to better use	13
Section 5(a)(10)	Summary of each audit report issued before this reporting period for which no management decision was made by the end of the reporting period	13
Section 5(a)(11)	Significant management decisions	5
Section 5(a)(12)	Significant management decisions with which the inspector general disagrees	5
Section 6(b)(2)	Access to information	5
Section 989C	Peer Review—Sec. 989C of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Public Law 111-203) requires Inspectors General to include the results of any peer review conducted by another Office of Inspector General during the reporting period; or if no peer review was conducted, a statement identifying the date of the last peer review.	6

OIG FUNCTIONS

WE PERFORM THE FOLLOWING FUNCTIONS:

PERFORMANCE AUDITS are used to assess the efficiency, effectiveness, and economy of Arts Endowment programs, activities, and functions; provide information to responsible parties to improve public accountability; facilitate oversight and decision making; and initiate corrective actions as needed. These audits also consider compliance with applicable laws and regulations, and soundness of the internal organizational and operational controls.

FINANCIAL AUDITS provide an independent assessment of whether an entity's reported financial condition, results, and use of resources are presented fairly and in accordance with generally accepted accounting principles.

LIMITED SCOPE AUDITS involve a limited review of financial and non-financial information of award recipients to ensure validity and accuracy of reported information, and compliance with state and Federal requirements.

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

AWARENESS BRIEFINGS AND BULLETINS are presented to Arts Endowment management, staff, and awardees to promote greater knowledge and understanding of potential or actual conditions, vulnerabilities, opportunities for improvement, or loss prevention. Briefings may be used internally or with stakeholders in lieu of formal reports.

**HELP PROMOTE INTEGRITY, ECONOMY AND
EFFICIENCY REPORT SUSPECTED FRAUD, WASTE,
ABUSE OR MISMANAGEMENT**

**NATIONAL ENDOWMENT FOR THE ARTS
OFFICE OF INSPECTOR GENERAL
400 7TH STREET, SW
WASHINGTON, D.C. 20506**

**TOLL-FREE HOTLINE: 1 (877) 535-7448
LOCAL CALLS: (202) 682-5479
FAX: (202) 682-5649**

EMAIL: OIG@ARTS.GOV

Complaints may be made anonymously. However, we would have no way of contacting you. Any Information you provide will be held in confidence unless disclosure is required by law. Providing your name and means of communicating with you may increase our ability to investigate your complaint.