



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

**FINANCIAL MANAGEMENT SYSTEM &
COMPLIANCE EVALUATION**

OF

**Sphinx Organization
Detroit, MI**

**REPORT NO. SCE-09-05
September 23, 2009**

REPORT RELEASE RESTRICTION

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INTRODUCTION

BACKGROUND

Sphinx Organization is a national non-profit founded in 1996 by Aaron P. Dworkin. He founded the organization to help overcome the cultural stereotype of classical music, and to encourage the participation of Blacks and Latinos in the field. Sphinx Organization has reached over 65,000 students, in 175 schools, and over 2 million individuals through national broadcasts. Sphinx Organization has also provided over \$190,000 in instruments to young minority musicians. Sphinx Organization's mission is to increase the participation of Blacks and Latinos in music schools, as professional musicians, and as classical music audiences.

OBJECTIVE AND SCOPE

The objective of this financial management system and compliance evaluation by the National Endowment for the Arts (NEA) Office of Inspector General (OIG) is to determine whether the organization's financial management system and recordkeeping complies with the requirements established by the Office of Management and Budget (OMB) and NEA's *General Terms and Conditions for Grants and Cooperative Agreements to Organizations (General Terms)*. The evaluation was conducted in accordance with the President's Council on Integrity and Efficiency Quality Standards for Inspections, as applicable.

PRIOR AUDIT COVERAGE

During the past five years, the NEA OIG has not issued any audit reports on Federal grants awarded to Sphinx Organization. As of our October 7, 2008 site visit, the most recent issued independent auditor's report on the financial statements of Sphinx Organization was for the year ended December 31, 2007. The audit was conducted by Plante & Moran, PLLC, which issued an unqualified (clean) opinion. Sphinx Organization was not subject to the audit requirements of OMB Circular A-133.

RESULTS OF EVALUATION

Our evaluation concluded that Sphinx Organization did not report accurate expenditure amounts on its Financial Status Report. The Sphinx Organization did not maintain personnel activity reports (time and effort reports) and did not have documentation for in-kind expenses. Sphinx Organization also did not have a Section 504 self-evaluation on file. Details are presented in the following narrative.

REPORTED EXPENDITURES

For the grant reviewed (Grant No. 07-3100-7100) the Sphinx Organization did not report actual expenditures on its Financial Status Report to the NEA. The amount reported on the Financial Status Report (FSR) was \$395,500 which reflected the projected budget amount instead of actual expenditures. A list of expenditures provided by Sphinx Organization showed costs totaling \$195,671.

Sphinx Organization included projected budget amounts for salaries and wages, supplies and materials, telephone and in-kind expenses in their total outlays on the FSR; however, there was no documentation in the general ledger for these expenses. As a result, we are questioning the unsupported cost in the amount of \$199,829. However, if all the unsupported costs were disallowed the Sphinx Organization would still meet the matching requirements therefore we are not requesting any further documentation. We are recommending that procedures be implemented to ensure that actual expenditures for the specific grant period are reported on final Financial Status Reports.

The NEA *Instructions for Completing the Financial Status Report* states that grantees “indicate total actual project outlays” on its report. It also notes “total actual costs will likely differ from the amount anticipated in the approved budget.”

PERSONNEL ACTIVITY REPORTS

The Sphinx Organization did not maintain personnel activity (time and effort) reports for the above grant, which was awarded \$55,000 for the period January 1, 2007 to December 31, 2007. At the time of the award, personnel activity reports were required for all employees whose salaries and fringe benefits were charged, in whole or in part, to either the award or the matching funds if the award is \$50,000 or more. This requirement is mandated by OMB and is detailed in NEA’s *General Terms*. A sample personnel activity report is also provided in the *General Terms*.

We are recommending that the Sphinx Organization develop procedures to ensure that time and effort reports are maintained for employees whose salaries are charged, in whole or in part to grant awards that are \$50,000 or more.

IN-KIND COSTS

The Sphinx Organization included in-kind costs in its reported total outlays on the FSR. However, the Sphinx Organization did not maintain an explanation of the basis for the valuation of each item or any supporting documentation for in-kind costs.

We are recommending that procedures be implemented to ensure that the Sphinx Organization maintain supporting documentation for all in-kind expenditures for any current or future grants.

SECTION 504 SELF-EVALUATION

Sphinx Organization did not have a Section 504 self-evaluation on file. As noted in NEA's *General Terms*, "A Section 504 self-evaluation must be on file at your organization." The NEA Civil Rights Office now provides a Section 504 *Self-Evaluation Workbook* (which covers programs, activities and facilities) online at www.arts.gov/about/504workbook.html.

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

EXIT CONFERENCE

An exit conference was held with Sphinx Organization officials on October 7, 2008 with a follow-up telephone call on September 8, 2009. They generally concurred with our findings and recommendations.

RECOMMENDATIONS

We recommend that Sphinx Organization:

1. Implement procedures to ensure that actual expenditures are reported on final Financial Status Reports.
2. Develop procedures to ensure that personnel activity (time and effort) reports are prepared for employees whose salaries are charged, in whole or in part, to grant awards that are \$50,000 or more.
3. Implement procedures to ensure that supporting documentation is maintained for all in-kind expenditures.
4. Conduct a Section 504 self-evaluation to ensure compliance with the Rehabilitation Act of 1973, as amended. (A copy of this document will be provided to the NEA's Civil Rights/EEO Office.)