NATIONAL ENDOWMENT FOR THE ARTS
OFFICE OF INSPECTOR GENERAL

FINANCIAL MANAGEMENT SYSTEM & COMPLIANCE EVALUATION

OF THE

TRICKLOCK COMPANY

Albuquerque, NM

REPORT NO. SCE-09-02

October 6, 2008

INTRODUCTION

BACKGROUND

The Tricklock Company (Company) is an international theatre organization. Founded in 1993, its mission is to create, tour, and produce theatrical performances as a permanent resident company committed to artistic risk, physicality, absurdism, and poetic work.

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 Office of Inspector General has not issued any audit reports on Federal grants awarded to the Company. During our site visit on July 30, 2008, the Company advised us that the most recent independent auditor's report was issued in 2002. However, they could not provide us with a copy. We were further informed that an independent audit will be performed in 2008. The Company was able to provide us with an unaudited balance sheet, as of March 31, 2008. We also reviewed the Company's 2007 IRS Form 990 and found no issues regarding Federal grants. The Company was not to subject to the audit requirements of OMB Circular A-133.

RESULTS OF EVALUATION

Our evaluation concluded that the Company inaccurately reported expenditures on its Financial Status Report (FSR). In addition, the Company did not retain proper documentation for some expenses, which resulted in questioned or unallowable costs totaling $6,680. The Company also did not have the required Section 504 self-evaluation on file. Details are presented in the following narrative.

FINANCIAL MANAGEMENT

For selected Grant No. 06-3200-7202, the Company inaccurately reported project expenditures of $100,330 on its FSR. During our site visit, we were presented with a listing of project expenditures that totaled $90,645. The NEA instructions for completing the FSR state that "total **actual** project outlays" are to be reported.

Our review also revealed several thousand dollars of grant costs that were questionable or unallowable. Specifically, the following *costs were disallowed or questioned:*

- **Unallowable Costs -** $4,047 of costs charged to the grant were for donor relations (fundraising activities), which are not allowable under OMB Circular A-122. According to OMB Circular A-122, costs of fundraising activities and any costs directly associated with such costs are unallowable.

- **Questioned Costs –** $2,633 of costs charged to the grant were questioned due to lack of adequate support. Specifically, the Company could not provide invoices or documentation for some expenses, which included public relations, space rental and air/ground delivery services. The NEA *Instructions for Record Retention* state:

> **"You must maintain financial records, supporting documents (such as cancelled checks, invoices, contracts, travel reports, donor letters, in-kind contribution reports, and personnel activity reports), statistical records, and all other records pertinent to an award consistent with the provisions outlined in OMB Circular A-110, Section 53, or the "Common Rule" Section 1157.42, as applicable. Generally, the retention period is three years from the date the final Financial Report is filed."**

Based on the findings above, we are questioning and reducing costs claimed under the grant by $16,365[1], resulting in allowable expenditures of $83,965. Based on allowable expenditures, the Company has enough costs to meet the matching requirements. Therefore, no refund would be due the NEA.

For ongoing and future grants, we are recommending that procedures be implemented to ensure that the Company reports *actual* "total outlays" on its final FSR and those costs be *adequately supported*.

SECTION 504 SELF-EVALUATION

The Company did not have the required 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." A *Section 504 Self-Evaluation Workbook*, which can be completed online, is available at www.arts.gov/about/504Workbook.html.

[1] This amount reflects the difference in the total outlays reported on the FSR minus the presented expenditures plus unallowable/questioned costs: $100,330-(90,645+6,680) = 16,365.

We recommended that the Company conduct a Section 504 self-evaluation. The Company did complete and submit a Section 504 self-evaluation prior to the issuance of this report. Therefore, no further action on this finding is necessary.

ACCOUNTING PROCEDURES

During our site visit, the Company provided us with a draft copy of its accounting policies and procedures, which have been submitted to the Board of Directors for approval. Based on our review, we suggest that the company implement additional procedures that will further strengthen internal controls. Some possible procedures that the Company might consider are:

- Ensure that the final bank reconciliation is reviewed by someone other than the preparer;
- Designate approval process for contracts *under* the $10,000 threshold; and,
- Limit or eliminate the use of *bank cash cards* for travel, etc.

Although there is no NEA or OMB requirement for official accounting/financial policies and procedures, we believe that documenting such guidance is beneficial to the organization in the event of personnel changes. It can also strengthen internal controls by establishing segregation of duties in the financial area. The policies and procedures could also incorporate publications such as the NEA *General Terms*, NEA's *Financial Management Guide for Non-profit Organizations,* and applicable OMB Circulars.

EXIT CONFERENCE

An exit conference was held with the Company's officials on July 30, 2008. The Company's officials concurred with our findings and recommendations. (As noted, the Company did complete and submit a Section 504 self-evaluation prior to the issuance of this report.)

RECOMMENDATIONS

We recommend that the Company:

1. Implement procedures to ensure that expenditures are accurately reported on its Financial Status Reports and those amounts are reconcilable to accounting records. Those procedures should ensure that the employees, who prepare the FSRs, are familiar with the cost principles of OMB Circular A-122.

2. Implement procedures to ensure that the Company maintains supporting documentation for all expenses.

Unallowable/Questioned Costs

Total Costs Claimed	$100,330
Less: Overstatement of Total Outlays	(9,685)
Less: Questioned Public Relations Costs	(1,782)
Less: Questioned Space Rental Costs	(1,390)
Less: Questioned Air/Ground Costs	(875)
Less: Unallowable Fundraising Costs	(2,633)
Total Allowable Costs	$83,965