



NATIONAL
ENDOWMENT
FOR THE ARTS

OFFICE OF INSPECTOR GENERAL

FINANCIAL MANAGEMENT SYSTEM & COMPLIANCE EVALUATION ON NEA GRANTS TO

UNIVERSITY MUSICAL SOCIETY

Ann Arbor, MI

Report No. SCE-10-01
January 28, 2010

REPORT RELEASE RESTRICTION

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INTRODUCTION

BACKGROUND

University Musical Society (UMS) was established in December 1880. UMS presents a full spectrum of the performing arts, including internationally renowned recitalists and orchestras, dance and chamber ensembles, jazz and world music performers, and opera and theatre. Through educational endeavors, commissioning of new works, youth programs, artist residencies and other collaborative projects, UMS now hosts approximately 75 performances and more than 100 educational events each season.

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 UMS. As of our site visit October 10, 2008, the most recent issued independent auditor's report on the financial statements of UMS was for the year ended June 30, 2008. The audit was conducted by Pricewaterhouse Coopers LLP, which issued an unqualified (clean) opinion. UMS was not subject to the audit requirements of OMB Circular A-133.

RESULTS OF EVALUATION

Our evaluation concluded that UMS' financial management system did not provide for adequate segregation of duties. In addition, UMS did not retain proper documentation for some expenses and did not maintain personnel activity reports. UMS also did not have a Section 504 self-evaluation on file. Details are presented in the following narrative:

PERSONNEL ACTIVITY REPORTS

UMS did not maintain personnel activity (time and effort) reports for Grant No. 06-5400-7030, which was awarded \$50,000 for the period January 1, 2006 to June 30, 2006. At the time of the award, personnel activity reports were required for all employees whose salaries and fringe benefits are charged, in whole or in part, to either the award or the matching funds if the award is \$50,000 or more. As a result, we are questioning \$111,207 in salary expense. 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*.

UMS was able to meet the grant's matching requirement, exclusive of any questioned salaries; therefore, we are not requiring any additional action for this grant. However, we are recommending that UMS develop procedures to ensure that individual personnel activity reports are maintained for employees whose salaries are charged, in whole or in part, to future grant awards that are \$50,000 or more.

INADEQUATE DOCUMENTATION

Our evaluation revealed that UMS could not provide adequate support documentation for some of the costs reported as total outlays on its final Financial Status Report. 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 Status Report is filed."

The grant reviewed (Grant No. 06-5400-7030) included questioned costs totaling \$56,539 for which UMS did not have adequate supporting documentation.

- UMS included airfare, space rental, and other costs totaling \$19,476 without adequate supporting documentation.
- UMS also included \$37,063 of allocated costs for Programs, Education, and Marketing without documenting the method of allocation. According to OMB A-122, *Cost Principles for Non-Profit Organizations*, if an allocation method is used, it should be justified in writing, which UMS did not do.

Since UMS has more than exceeded the matching requirement, even if such costs are disallowed, we are not requiring any additional action to support costs for the grant. However, for the ongoing and future grants, we are recommending that procedures be implemented to ensure that UMS maintains supporting documentation for all expenditures including costs allocation methods.

SEGREGATION OF DUTIES

UMS has a limited number of staff and all of the accounting functions are performed by the two individuals. For example, the bank reconciliation is not independently reviewed or verified by someone other than the preparer.

A lack of segregation of duties represents a significant deficiency in internal controls and could lead to fraud, waste and abuse. Based on our review, we are recommending that UMS develop

and implement procedures to provide adequate segregation of duties in the financial area. Some possible procedures that UMS might consider are:

- Board members review bank statement reconciliation;
- Set cash limits on signature authority for payments; and
- Require two signatures on checks over a certain amount.

SECTION 504 SELF-EVALUATION

The University Musical Society did not have a Section 504 self-evaluation on file. As noted in NEA's *General Terms and Conditions for Grants and Cooperative Agreements to Organizations*, "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.

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. A copy of the Section 504 self-evaluation workbook was provided to UMS during the evaluation.

EXIT CONFERENCE

An exit conference was held with UMS officials on October 10, 2008 with a follow-up telephone call on January 27, 2010. They concurred with our findings and recommendations.

RECOMMENDATION

We recommend that UMS:

1. Develop and implement written procedures to ensure that individual personnel activity reports are maintained for employees whose salaries are charged, in whole or in part, to future grant awards that are \$50,000 or more.
2. Develop and implement written procedures to ensure that UMS maintain supporting documentation for all expenditures including cost allocation methods.
3. Develop and implement written procedures to provide adequate segregation of duties in the financial area.

4. Conduct a Section 504 self-evaluation to ensure compliance with the Rehabilitation Act of 1973, as amended. (A copy of this completed document will be provided to the NEA's Civil Rights/EEO Office.)

University Musical Society

Questioned Costs
Grant No. 06-5400-7030
Grant Period: 1/1/2006 – 6/30/2006
Grant Award: \$50,000

| | |
|---|-----------------|
| Total Costs Claimed | \$340,682 |
| <i>Less: Questioned Costs</i> | |
| Salary Costs | (111,207) |
| Hospitality/Catering | (1,240) |
| Hotel/Air | (6,997) |
| Hall Rental | (11,239) |
| Programs-Allocated | (7,200) |
| Education-Allocated | (9,500) |
| Marketing-Allocated | <u>(20,363)</u> |
| Total Allowable Costs | \$172,936 |
| <i>Less: NEA Share of Allowable Costs</i> | <u>(50,000)</u> |
| Subtotal | \$122,936 |
| <i>Less: Grant Match</i> | <u>(50,000)</u> |
| Grant Overmatched | <u>\$72,936</u> |