




January 21, 2015

MEMORANDUM

Memo No. 15-03 rev.

TO: India Pinkney
General Counsel

FROM: Tonie Jones 
Inspector General

SUBJECT: Alternative Methods of Funding

Per my discussion with you and the Director of Grants and Contracts on January 13, 2014, I have revised this memorandum to incorporate additional recommendations for NEA's Alternative Method of Funding procedures. We believe the recommendations will improve the current process and decrease the administrative burden for grantees and the Grants staff.

Currently, there are four alternative methods of funding available: Cost Reimbursement Certification, Cost Reimbursement, Working Capital Advance Certification and Working Capital Advance (see NEA OIG website: <http://arts.gov/oig/guidance>).

The Uniform Guidance, §200.207¹ provides instructions for issuing specific award conditions. NEA's alternative methods of funding impose specific conditions for payment. Generally, the

¹ Effective December 26, 2014, the OMB Circulars which governed the management of Federal assistance awards will be replaced with 2 CFR 200 *Uniform Guidance: Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. The guidance supersedes and streamlines OMB Circulars A-21, A-87, A-110, A-122, A-89, A-102, A-133 and A-50. The guidance can be found at http://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr200_main_02.tpl. Furthermore, NEA's General Terms for Fiscal Year 2015 awards will include new guidance, incorporating 2 CFR 200.

conditions are based on OIG audits which determined the grantee was in financial trouble, had inadequate financial systems and/or problems managing the federal award.

Alternative Methods of Funding

An alternative method allows funding to continue while organizations become compliant, and is not meant as a permanent payment method. However, we discovered during our review that grantees were placed on the alternative methods of funding with no explicit date or timeline for completion of corrective actions. As a result, organizations have been on an alternative method of funding from 7 to 26 years. NEA's current alternative methods of funding requires the grantee to initiate reconsideration.

OMB Uniform Guidance, §200.207, *Specific Conditions*, states, in part, that specific award conditions must include:

- a. **nature of additional requirements**
- b. **reason why the additional requirements are being imposed**
- c. **nature of action needed to remove the additional requirement**
- d. **time allowed for completing the actions**
- e. **method for requesting reconsideration**

To improve the process, NEA OIG will revise its procedures for recommending an alternative method of funding to incorporate the specific conditions as outlined above. NEA OIG will consult with the Grants and Contracts office to establish an appropriate time period for completing corrective actions, which may coincide with current and/or future award periods. NEA OIG will also implement followup procedures to determine resolution of deficiencies which support the recommendation.

We recommend that organizations, on an alternative method funding, that have not resolved the deficiencies within the time allowed, be deemed ineligible to apply for or receive NEA funding until the deficiencies have been resolved. Documentation to verify corrective actions should be provided to NEA OIG.

The alternative methods of funding are payment methods which require additional conditions. Therefore, for clarity, we recommend changing the title of NEA's Alternative Methods of "Funding" to Alternative Methods of Payment.

Certification Methods

The two certification methods have functioned as a bridge between the Cost Reimbursement and Working Capital Advance Methods of Funding and NEA's regular method of funding. It is used when it has been determined that the submission of supporting documentation is no longer needed. The only requirement is that the organization official certifies on a separate document that the information is accurate and in compliance with terms of the award. However, the certification method provides no additional assurance that the payment request is based on accurate and allowable expenditures. Furthermore, the payment request form requires a certification by the authorizing official that the information is true, accurate and complete.

Therefore, the certification method of funding is unnecessary duplication. If it has been determined that submission of supporting documentation is no longer warranted, grantees should then return to the normal method of funding.

There are currently 16 organizations on an alternative method of funding, 10 of which are on a certification method.

We recommend that NEA discontinues the use of the certification methods of funding.

We also recommend that organizations on the certification method of funding be returned to the regular method of funding.

Working Capital Advance Method of Funding

The Working Capital Advance method of funding allows organizations which have demonstrated inadequate financial management systems, internal controls or other financial issues, to request an initial advance up to 20%. After the initial advance, the organization must provide supporting documents with each payment request.

OMB Uniform Guidance, §200.305 *Payment*, further states, in part,

(4) If the non-Federal entity cannot meet the criteria for advance payments and the Federal awarding agency or pass-through entity has determined that reimbursement is not feasible because the non-Federal entity lacks sufficient working capital, the Federal awarding agency or pass-through entity may provide cash on a working capital advance basis. Under this procedure, the Federal awarding agency or pass-through entity must advance cash payments to the non-Federal entity to cover its estimated disbursement needs for an initial period generally geared to the non-Federal entity's disbursing cycle. Thereafter, the Federal awarding agency or pass-through entity must reimburse the non-Federal entity for its actual cash disbursements.

Currently, there are only two current grantees on the Working Capital Advance (WCA) method, Baltimore Theatre Project, since 1991 and SEW Production, since 2005. Both organizations submitted requests for removal from WCA, however, neither provided the required documentation to determine if they have successfully implemented corrective actions. As stated above, the alternative method of funding was intended as a temporary payment solution while an organization improved its financial position. NEA is not required to provide funding for organizations which lack financial resources or cannot meet NEA or OMB's award criteria.

We recommend NEA discontinue the use of the Working Capital Advance Method of Funding.

We also recommend placing organizations, which have been under the Working Capital Advance Method of Funding, on the Cost Reimbursement Method and require evidence of corrective actions within an explicit timeframe or due date. If the organization is unable to meet the deadline, they are to be deemed ineligible to apply for or receive NEA funding until corrective action is taken and documentation is provided to the OIG.

RECOMMENDATIONS

Recommendation No. 1

Organizations, on an alternative method of funding, which have not resolved the deficiencies within the time allowed, be deemed ineligible to apply for or receive NEA funding until the deficiencies have been resolved. Documentation to verify corrective actions should be provided to NEA OIG.

Management Decision (Recommendation No. 1)

- a. Concur. _____X_____
- b. Do not concur. _____
- c. Other _____

Recommendation No. 2

Change the name of NEA's "Cost Reimbursement Method of Funding" to "Cost Reimbursement Method of Payment."

Management Decision (Recommendation No. 2)

- a. Concur. _____X_____
- b. Do not concur. _____
- c. Other _____

Recommendation No. 3

Return organizations on the certification method of funding to the regular method of payment.

Management Decision (Recommendation No. 3)

- a. Concur. _____X_____
- b. Do not concur. _____
- c. Other _____

Recommendation No. 4

Discontinue the use of the certification methods of funding.

Management Decision (Recommendation No. 4)

- a. Concur. ___X___
- b. Do not concur. _____
- c. Other _____

Recommendation No. 5

Discontinue the use of the Working Capital Method of Funding.

Management Decision (Recommendation No. 5)

- a. Concur. ___X___
- b. Do not concur. _____
- c. Other

Recommendation No. 6

Place organizations which have been under the Working Capital Advance Method of Funding on the Cost Reimbursement Method and require evidence of corrective actions within an explicit timeframe or due date. If the organization is unable to meet the deadline, they are to be deemed ineligible to apply for or receive NEA funding until corrective action is taken and documentation is provided to the OIG.

Management Decision (Recommendation No. 6)

- a. Concur. ___X___
- b. Do not concur. _____
- c. Other _____

If you have any questions, please contact me at extension x5774.

- cc: Winona H. Varnon, Deputy Chairman for Management and Budget
- Mike Griffin, Chief of Staff
- Caralyn Spector, Senior Advisor to the Chairman
- Laura Callanan, Senior Deputy Chairman
- Nicki Jacobs, Director, Grants and Contracts
- Diane Biddle, Lead Grants Management Specialist