



OFFICE OF INSPECTOR GENERAL

**FINANCIAL MANAGEMENT SYSTEM &
COMPLIANCE EVALUATION**

**ON SELECTED
NEA GRANTS TO**

Americans for the Arts, Inc.

Washington, DC

REPORT NO. SCE-12-05

September 4, 2012



REPORT RELEASE RESTRICTION

In accordance with Public Law 110-409, The Inspector General Act of 2008, this report shall be posted on the National Endowment for the Arts (NEA) website not later than three (3) days after it is made publicly available with the approval of the NEA Office of Inspector General. Information contained in this report may be confidential. The restrictions of 18 USC 1905 should be considered before this information is released to the public. Furthermore, information contained in this report should not be used for purposes other than those intended without prior consultation with the NEA Office of Inspector General regarding its applicability.

INTRODUCTION

BACKGROUND

Americans for the Arts (AFTA), founded in 1960, is a nonprofit organization for advancing the arts and arts education. With offices in Washington, DC and New York City, NY, AFTA provides an array of programs that meet the needs of over 150,000 members and stakeholders. AFTA is dedicated to representing and serving local communities for every American to participate in and appreciate all forms of the arts.

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)*. In addition, we evaluated the recipient's compliance with OMB and NEA guidance for the management of the American Reinvestment and Recovery Act of 2009 (Recovery Act) funds.

The Recovery Act provided \$50 million to the NEA to be distributed in direct grants to fund art projects and activities which preserve jobs in the nonprofit art sectors threatened by the decline in philanthropic and other support during the current economic downturn. Consistent with the language in the Recovery Act, eligible projects are generally limited to salary support and fees for artists or contracted personnel.

The review was conducted in accordance with the Council of the Inspectors General on Integrity and Efficiency Quality Standards for Inspections and Evaluations, as applicable.

During the period under review, AFTA had nine NEA grants opened or closed within the last three years with awards totaling \$368,000. We reviewed three of the nine grants in which NEA funds had been drawn down and costs had been reported: Grant No. 09-6200-7035 in the amount of \$20,000, Grant No. 09-6288-7063 in the amount of \$50,000, and Grant No. 10-6200-7010 in the amount of \$48,000.

PRIOR AUDIT COVERAGE

During the past five years, the NEA OIG has not issued any audit reports on Federal grants awarded to the AFTA. As of our site visit on July 17, 2012, the most recent independent auditor's report on AFTA was for the year ended December 31, 2010. This audit was conducted by Tate & Tryon, Certified Public Accountants, which issued an unqualified (clean) opinion. AFTA was not subject to the audit requirements of OMB Circular A-133.

RESULTS OF EVALUATION

Our evaluation concluded that AFTA did not comply with the financial management system requirements established by OMB and NEA for Federal awards. AFTA did not separately identify Federal funds in its financial system. AFTA did not have procedures in place to ensure that payments would not be made to contractors or recipients that were debarred or suspended from receiving Federal assistance. AFTA also did not have written policies and procedures for management of Federal awards.

FINANCIAL MANAGEMENT

RECOVERY ACT AWARD

AFTA received \$50,000 in Recovery Act funds from NEA to support salary costs. During our site visit, AFTA provided an expenditure listing that did not separately identify the Recovery Act grant from other Federal awards. Federal awards were identified as "Grants-Federal;" therefore, we were unable to separately identify the Recovery Act award from other Federal awards. Recovery Act fund recipients are required by OMB and NEA to separately identify the source and application of Federal funds, including Recovery Act funds.

Specifically, OMB guidance for Recovery Act awards, 2 CFR 176.210, Subpart D, states:

To maximize the transparency and accountability of funds authorized under the American Recovery and Reinvestment Act of 2009 (Pub. L. 111-5) (Recovery Act) as required by Congress and in accordance with 2 CFR 215.21 "Uniform Administrative Requirements for Grants and Agreements" and OMB Circular A-102 Common Rules provisions, recipients agree to maintain records that identify adequately the source and application of Recovery Act funds.

In addition, NEA's *General Terms* incorporates OMB's Circular A-110 (Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations), which addresses the requirement to have an adequate financial management system. The *General Terms* states:

There can be no overlapping project costs between Federal awards. Therefore, separate accounting records must be maintained for each award. OMB Circular A-110 (2 CFR 215), Section 2, and the "Common Rule," Section 1157.20, as applicable, establishes standards for financial management systems of recipients (i.e., accounting systems, internal controls, allowable costs, cash management, etc.). The financial management systems of recipient organizations and their subrecipients must meet these standards.

Without policies and procedures in place to adequately identify the source and application of Federal awards separately, expenditures charged to the award cannot be

determined. During our review, AFTA provided documentation to support salary expenditures charged to the Recovery Act award.

We recommend that AFTA develop written policies and implement procedures that ensure each Federal award is separately identified in its financial systems.

DEBARMENT AND SUSPENSION

AFTA did not have policies and procedures in place to ensure that contractors or recipients were not debarred or suspended from receiving Federal assistance prior to the payment or award of Federal funds.

NEA *General Terms* states:

You must comply with requirements regarding debarment and suspension in Subpart C of 2 CFR part 180, as adopted by the Arts Endowment in Title 2 CFR, Chapter 32, Part 3254.

Subpart C of 2 CFR part 180.300, *OMB Guidelines to Agencies on Governmentwide Debarment and Suspension (Nonprocurement)*, states, in part:

You must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:

- (a) **Checking the EPLS; or**
- (b) **Collecting a certification from that person if allowed by the Federal agency responsible for the transaction; or**
- (c) **Adding a clause or condition to the covered transaction with that person**

We recommended that AFTA develop written policies and implement procedures to ensure that contractors and recipients are not debarred or suspended from receiving Federal assistance prior to the payment or award of Federal funds.

On August 2, 2012, AFTA submitted a response to our preliminary findings. The response indicated that AFTA will implement a policy whereby all applications for assistance will contain a signature certification by the applicant that they are eligible to receive Federal assistance. *Based on the action taken, this recommendation will remain open until AFTA has submitted its final policy for debarment and suspension.*

FINANCIAL POLICIES AND PROCEDURES

AFTA provided its policies and procedures for financial transactions; however, the policies did not include procedures for the management of Federal awards. According to OMB Circular A-110 Subpart C 215.21(b)(6), recipients of Federal awards should have:

Written procedures for determining the reasonableness, allocability and allowability of costs in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award.

We recommended that AFTA develop written policies and implement procedures applicable to the management of Federal awards. The policies could refer to NEA and OMB guidance.

AFTA indicated in its August 2, 2012 response to our preliminary findings that an additional section, "Federal Grant Management Procedures" will be added to its policies and procedures. *Based on the action taken, this recommendation will remain open until AFTA has submitted its final policy for the management of Federal awards.*

EXIT CONFERENCE

A preliminary exit conference was held with AFTA officials on July 17, 2012. Subsequent to our site visit, a telephone exit conference was held with AFTA on August 30, 2012. AFTA officials concurred with our findings and recommendations.

RECOMMENDATIONS

We recommend that AFTA:

1. Develop written policies and implement procedures that ensure each Federal award is separately identified in its financial systems.
2. Develop written policies and implement procedures to ensure that contractors and recipients are not debarred or suspended from receiving Federal assistance prior to the payment or award of Federal funds.
3. Develop written policies and implement procedures applicable to the management of Federal awards.