



OFFICE OF INSPECTOR GENERAL
FINANCIAL MANAGEMENT SYSTEM
AND COMPLIANCE EVALUATION

ON SELECTED
NEA GRANTS TO

American Documentary, Inc.

New York, NY

REPORT NO. SCE-14-02

May 19, 2014

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

American Documentary is a nonprofit media organization that is dedicated to creating, identifying and presenting contemporary nonfiction stories that express opinions and perspectives rarely featured in mainstream media. Since 1988, American Documentary has produced point-of-view series for PBS, presenting over 300 influential documentary films. American Documentary strives to determine new ways to use independent media as a springboard to engage the public. With American Documentary's partnerships, diversity initiatives, artist support, youth education and new strand of nonfiction programming are designed to address the increasing demand for content across multiple platforms.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of this financial management system and compliance evaluation by the National Endowment for the Arts (NEA) Office of Inspector General (OIG) was 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 review was conducted in accordance with the Council of the Inspectors General on Integrity and Efficiency Quality Standards for Inspections and Evaluations, as applicable. Accordingly, we included such tests of records and other procedures that were considered necessary under the circumstances. The Standards require that we obtain sufficient, competent and relevant evidence to support a reasonable basis for our findings and conclusions.

During the period under review, American Documentary had seven NEA grants opened or closed within the last three years, with awards totaling \$955,000. We judgmentally selected and reviewed two of the seven grants in which NEA funds had been drawn down and costs had been reported.

The two grants we reviewed were as follows:

Grant No.	Award Amount	Total Outlays Reported	Actual Outlays
09-3446-7125	\$ 250,000	\$ 2,887,047	\$2,986,331
10-3446-7115	265,000	3,013,127	2,270,148
Totals	\$515,000	\$5,900,174	\$5,256,479

PRIOR AUDIT COVERAGE

During the past five years, NEA OIG has not issued any audit reports on Federal grants awarded to American Documentary. As of our site visit on June 26, 2012, the most recent independent auditor's report on American Documentary was for the year ended December 31, 2010. This audit was conducted by N. Cheng & Co., P.C., Certified Public Accountants, which issued an unqualified (clean) opinion. American Documentary was not subject to the audit requirements of OMB Circular A-133.

RESULTS OF EVALUATION

Our evaluation concluded that American Documentary did not comply with financial management system requirements established by OMB and NEA for Federal awards. American Documentary did not report accurate expenditure amounts on its Federal Financial Report (FFR), did not have written documentation of their allocation method, did not maintain personnel activity reports and included unallowable costs in its total outlays. American Documentary did not have written policies and procedures in place for the management of Federal awards and to ensure that debarred or suspended contractors or recipients did not receive Federal assistance. American Documentary also did not have a Section 504 self-evaluation on file, as required.

FINANCIAL MANAGEMENT

The two grants reviewed were to support the selection, acquisition, packaging, and promotion of films for broadcast on the public television series P.O.V. ("point of view"). American Documentary did not report accurate and allowable expenditures on its FFRs to NEA.

Grant No. 09-3446-7125. This grant was awarded in the amount \$250,000 with a one-to-one matching requirement. American Documentary reported \$2,887,047 in total outlays on its FFR; however, the supporting documentation provided showed costs totaling \$2,986,331. As a result, total outlays were under reported. OMB and NEA require recipients to report actual allowable expenditures. American Documentary also included unallowable costs totaling \$40,333 for honorariums, bank fees/check printing, filing fees and gratuities/donations as part of its expenditures.

Grant No. 10-3446-7115. This grant was awarded in the amount \$265,000 with a one-to-one matching requirement. American Documentary reported \$3,013,127 in total outlays on its FFR; however, the supporting documentation provided showed costs totaling \$2,270,148. As a result, total outlays were over reported. OMB and NEA requires recipients to report actual allowable expenditures. American Documentary also included unallowable costs totaling \$185,925 for honorariums, partner grants and gratuities/donations as part of its expenditures.

NEA *General Terms* states, in part:

The Federal Financial Report (FFR) is used to verify that the required match has been met. Ensure that the amounts reported on your FFR are based on actual allowable project expenditures and can be easily reconciled to your accounting records. Unallowable costs, such as fundraising or receptions (see the Cost Principles - 2 CFR 230, 2 CFR 220, and 2 CFR 225), cannot be included in your reported numbers.

American Documentary's total costs for each award exceeds the matching requirement even if all of the above unallowable costs were omitted (see Appendix A). Therefore, we are not requiring any additional documentation to support costs for these grants.

We recommend that American Documentary develop written policies and implement procedures to ensure that only actual, accurate and allowable costs, within the award period, are reported on the FFR. Those procedures should ensure that employees, who prepare the FFRs, are familiar with NEA guidance and the cost principles of relevant OMB guidance.

Personnel Activity Reports

American Documentary did not maintain the required personnel activity reports for employees whose salaries are charged, in whole or in part, to either the award or the matching funds for awards exceeding \$50,000, as required by NEA. Therefore, we were unable to determine the actual time spent on each of these grants.

Grant No. 09-3446-7125. American Documentary provided expenditure documentation that included salary and fringe benefits totaling \$1,105,461.

Grant No. 10-3446-7115. American Documentary provided expenditure documentation that included salary and fringe benefits totaling \$732,177.

2 CFR Part 230, 8.m. states, in part:

(1) Charges to awards for salaries and wages, whether treated as direct costs or indirect costs, will be based on documented payrolls approved by a responsible official(s) of the organization. The distribution of salaries and wages to awards must be supported by personnel activity reports, as prescribed in subparagraph 8.m.(2) of this appendix, except when a substitute system has been approved in writing by the cognizant agency.

As a result, we are questioning all of the salary and fringe benefit costs charged to each of the awards. American Documentary's total costs for these awards exceed the matching requirement, even if all of the questioned salary and fringe benefit costs were omitted (see Appendix A). Therefore, we are not requiring any additional documentation to support costs for these grants.

We recommend that American Documentary develop written policies and implement 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. An example of a personnel activity report can be found on NEA's website at <http://arts.gov/grants/manage-your-award/grants-organizations-fy12-later>.

Allocation Method

American Documentary did not provide written procedures for the methodology used to allocate costs to the NEA awards. American Documentary informed us that a portion of management and general expenses were allocated across programmatic areas based on the base salaries of each program area. However, we found allocated salaries included in the expenditure listings. Salaries and fringe benefits were questioned as a result of not maintaining personnel activity reports (see *Personnel Activity Reports*, above), therefore, we are not questioning any additional costs.

According to 2 CFR Part 215, subpart C 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 recommend that American Documentary develop written policies and implement procedures to ensure the methodology for the allocation of costs charged to Federal awards is documented.

Debarment and Suspension

American Documentary 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 EPLS¹; 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

¹ Now part of the System for Awards Management (SAM).

We recommend that American Documentary 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.

Management of Federal Awards

American Documentary did not have a written manual/handbook with formal policies and procedures for the management of Federal awards.

The handbook/manual could include policies and procedures for documenting Federal awards, accounting for program income and expenses, maintaining personnel activity reports and ensuring that debarred or suspended contractors or recipients do not receive Federal assistance. It could also incorporate publications such as the *General Terms*, NEA's Financial Management Guide for Non-profit Organizations, and the cost principles of relevant OMB guidance.

We recommend that American Documentary develop and implement a written manual/handbook containing policies and procedures relating specifically to managing Federal awards.

Section 504 Self-Evaluation

American Documentary did not have a completed Section 504 self-evaluation on file. As noted in the *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.

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.

We recommend that American Documentary complete, and update as necessary, a Section 504 self-evaluation to ensure compliance with the Rehabilitation Act of 1973, as amended. A copy of the self-evaluation should be submitted to NEA OIG. NEA OIG will provide a copy to NEA's Office of Civil Rights/EEO.

EXIT CONFERENCE

A preliminary exit conference was held with American Documentary officials on June 26, 2012. Subsequent to our site visit, a telephone exit conference was held with American Documentary on May 9, 2014. American Documentary officials concurred with our findings and recommendations.

RECOMMENDATIONS

We recommend that American Documentary:

1. Develop written policies and implement procedures to ensure that only actual and allowable costs, within the award period, are reported on the FFR. Those procedures should ensure that employees, who prepare the FFRs, are familiar with NEA guidance and the cost principles of relevant OMB guidance.
2. Develop written policies and implement 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.
3. Develop written policies and implement procedures to ensure the methodology for the allocation of costs charged to Federal awards is documented.
4. 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.
5. Develop and implement a written manual/handbook containing policies and procedures relating specifically to managing Federal awards.
6. Complete, and update as necessary, a Section 504 self-evaluation to ensure compliance with the Rehabilitation Act of 1973, as amended. A copy of the self-evaluation should be submitted to NEA OIG. NEA OIG will provide a copy to NEA's Office of Civil Rights/EEO.

American Documentary, Inc.
SCHEDULE OF GRANTS SELECTED FOR AUDIT

Grant No. 09-3446-7125

Total Outlays	\$2,986,331
Less: Disallowed Costs	<u>(40,333)</u>
Subtotal	2,945,998
Less: Questioned Costs (Salaries & Fringe Benefits)	<u>(1,105,461)</u>
Adjusted Total Outlays	1,840,537
NEA Grant Award & American Documentary's Required Match	<u>(500,000)</u>
Overmatched	<u>\$1,340,537</u>

Grant No. 10-3446-7115

Total Outlays	\$2,270,148
Less: Disallowed Costs	<u>(185,925)</u>
Subtotal	2,084,223
Less: Questioned Costs (Salaries & Fringe Benefits)	<u>(732,177)</u>
Adjusted Total Outlays	1,352,046
NEA Grant Award & American Documentary's Required Match	<u>(530,000)</u>
Overmatched	<u>\$822,046</u>