



NATIONAL ENDOWMENT FOR THE ARTS

OFFICE OF INSPECTOR GENERAL

**FINANCIAL MANAGEMENT SYSTEM &
COMPLIANCE EVALUATION**

**ON SELECTED
NEA GRANTS TO**

Baltimore Symphony Orchestra, Inc.
Baltimore, MD

REPORT NO. SCE-11-02

September 7, 2011

REPORT RELEASE RESTRICTION

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INTRODUCTION

BACKGROUND

Baltimore Symphony Orchestra (BSO) was founded in 1916 as the only major American orchestra originally established as a branch of the municipal government. BSO reorganized as a private institution in 1942. BSO has maintained a vibrant educational presence throughout the State of Maryland, supporting the local community not only through concerts and recordings, but also through its commitment to actively giving back with its education, outreach and mentorship programs.

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 grant recipient'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) funding.

The Recovery Act provided \$50 million to the NEA to be distributed in direct grants to fund arts projects and activities which preserve jobs in the nonprofit arts sector threatened by declines in philanthropic and other support during the current economic downturn. Consistent with the language in the 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.

PRIOR AUDIT COVERAGE

During the past five years, the NEA Office of Inspector General (OIG) has not issued any audit reports on Federal grants awarded to BSO. As of our site visit on March 1, 2011, the most recent issued independent auditor's report on BSO is as of August 31, 2010. The audit was conducted by Stout, Causey, & Horning, P.A., an independent CPA firm, which issued an unqualified (clean) opinion. Baltimore Symphony Orchestra, Inc. was not to subject to the audit requirements of OMB Circular A-133.

RESULTS OF EVALUATION

Our evaluation concluded that the BSO did not maintain personnel activity reports for the American Recovery and Reinvestment Act grant number 09-3188-7340. BSO included unallowable expenditures and did not maintain adequate documentation for in-kind contributions for grant number 09-3100-7203. BSO also did not have procedures in place for debarment and suspension and did not have the required Section 504 self-evaluation on file. Details are presented in the following narrative.

FINANCIAL MANAGEMENT

RECOVERY ACT AWARD

The BSO received \$50,000 in Recovery Act funds. The BSO complied with the financial management system and recordkeeping requirements established by OMB and NEA, such as submitting quarterly reports timely and separately identifying Recovery Act funds in its financial management system. However, BSO did not maintain personnel activity (time and attendance) reports as required by United States Office of Management and Budget (OMB) and NEA for the salary charge to this award. The *Special Terms and Conditions for NEA Awards made under the American Recovery and Reinvestment Act of 2009* states in part:

recipients must maintain adequate time-and-effort reports (i.e., personnel activity reports) when charging a person's salary in whole or in part to the grant.

As a result of not maintaining personnel activity reports, we are questioning salaries and fringe benefits of \$50,000. However, BSO provided documentation addressing this finding. The documentation will be submitted to Management for a final decision. Based on Management decision, we will determine if any refund is due to NEA.

We are recommending that BSO develop written policies and implement procedures to ensure that individual personnel activity reports are maintained, if required, by NEA *General Terms and Conditions*.

REPORTED EXPENDITURES

The BSO was awarded Grant No. 09-3100-7203, in the amount of \$75,000 with a one-to-one matching requirement. During our site visit, we were presented with a listing of expenditures that totaled \$3,263,044. The listing included unallowable expenditures for alcoholic beverages, massages, and flowers, in the amount of \$3,315.33 which are unallowable under OMB Circular A-122, *Cost Principles for Non-Profit Organizations*. BSO also included expenditures outside of the grant period totaling \$6,898.65 which is unallowable according NEA's *General Terms*.

As a result, we reduced allowable expenditures by \$10,214 (See Appendix I) bringing the total allowable expenditures to \$3,252,830. Since BSO has more than exceeded the matching requirement even if such costs are disallowed, we are not requiring any additional action for grant number 09-3100-7203.

However, for ongoing and future grants, we recommended that the BSO develop written policy and implement procedures to ensure that only allowable costs are reported on its Final Financial Report¹. Those procedures should ensure that the employees, who prepare the FFRs, are familiar with the cost principles of OMB Circular A-122.

IN-KIND CONTRIBUTIONS

During our site visit, BSO provided documentation for in-kind contributions for ushers and guest artists. The documentation included names of volunteers and the number of hours donated, however, it did not include an explanation of the basis for the valuation of the services provided. Volunteer services and donated property or space must be documented and their value determined according to the principles set out in the NEA *General Terms* and applicable OMB Circulars. NEA's *Instructions for In-Kind (Third-Party) Contributions* states in part:

If you include in-kind, third-party contributions or donations as part of your match, they must be valued at rates consistent with those paid for similar work within your organization or rates must be consistent with those paid by other employers for similar work in the same labor market.

We recommend the BSO develop written policies and implement procedures to ensure that in-kind contributions are adequately documented as required by NEA's *General Terms* and OMB Circulars A-110 and A-122.

ACCOUNTING POLICIES AND PROCEDURES

During our site visit, BSO provided us with a copy of its accounting policies and procedures. However, the policies did not include guidance for the management of federal grant awards. OMB Circular A-110 subpart C 21(b)(6) states that 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 are recommending that BSO's develop written policies relating specifically to Federal grants including guidance on financial and grant management, internal controls, reporting and determining allowable and allocable costs. BSO could also incorporate

¹Formerly, the Financial Status Report.

publications such as the NEA *General Terms*, NEA's *Financial Management Guide for Non-profit Organizations*, and applicable OMB Circulars.

Documenting such guidance is beneficial to the organization in the event of personnel changes.

DEBARMENT AND SUSPENSION PROGRAM

BSO did not have policies and procedures in place to ensure that contractors or recipients were not debarred or suspended prior to the payment or award of Federal funds. NEA's General Terms and Conditions 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 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 EPLS²; or**
- (b) Collecting a certification from that person; or**
- (c) Adding a clause or condition to the covered transaction with that person.**

We are recommending that BSO develop and implement written procedures to ensure that contractors and recipients are not parties on the debarment and suspension list.

SECTION 504 SELF-EVALUATION

BSO 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.

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

² Information may be obtained on parties that are debarred or debarred from receiving Federal funds from the General Services Administration (GSA) Excluded Parties List System web site at: <https://www.epls.gov>.

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 are recommending that BSO conduct a Section 504 self-evaluation to ensure compliance with the Rehabilitation Act of 1973, as amended and provide a copy to the OIG. A copy of the evaluation must be on file at the organization and reviewed for each subsequent grant award to ensure compliance. (A copy of the self-evaluation will be provided to NEA's Office of Civil Rights/EEO).

EXIT CONFERENCE

An exit conference was held with BSO's officials on March 1, 2011. Subsequent to our site visit, a telephone exit conference was held with BSO officials on September 7, 2011. BSO officials concurred with our findings and recommendations.

RECOMMENDATIONS

We recommend that BSO:

1. Provide documentation to support the questioned salaries and fringe benefits of \$50,000. BSO provided documentation addressing this finding; however, the documentation will be submitted to Management for a final decision. Based on Management decision, we will determine if any refund is due to NEA.
2. Develop written policies and implement procedures to ensure that individual personnel activity reports are maintained, if required, by NEA *General Terms and Conditions*.
3. Develop written policy and implement procedures to ensure that only allowable costs are reported on its Final Financial Report³. Those procedures should ensure that the employees, who prepare the FFRs, are familiar with the cost principles of OMB Circular A-122.
4. Develop written policies and implement procedures to ensure that in-kind contributions are adequately documented as required by NEA's *General Terms* and OMB Circulars A-110 and A-122.
5. Develop written policies relating specifically to managing Federal grants.
6. Develop and implement written procedures to ensure that contractors and recipients are not parties on the debarment and suspension list.

³Formerly, the Financial Status Report.

7. Conduct a Section 504 self-evaluation to ensure compliance with the Rehabilitation Act of 1973, as amended and provide a copy to the OIG.

**Baltimore Symphony Orchestra
Grant Number 09-3100-7203**

Total Outlays:	\$3,263,044
Less: Unallowable Cost	(3,315)
Expenditures Outside of the Grant Period	(6,899)
Adjusted Total Outlays	3,252,830
NEA Share	<u>(75,000)</u>
Subtotal	3,177,830
Baltimore Symphony Orchestra - Matching Requirement	<u>(75,000)</u>
Amount in Excess of the Matching Requirement	<u><u>\$3,102,830</u></u>