



OFFICE OF INSPECTOR GENERAL

**FINANCIAL MANAGEMENT SYSTEM &
COMPLIANCE EVALUATION**

**ON SELECTED
NEA GRANTS TO**

**DEPARTMENT OF CULTURAL AFFAIRS
AND SPECIAL EVENTS**

Chicago, IL

REPORT NO. SCE-12-02

May XX, 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

As of January 2, 2011, the Department of Cultural Affairs merged with the Chicago Mayor's Office of Special Events to create the Department of Cultural Affairs and Special Events (DCASE.) The DCASE is dedicated to promoting and supporting Chicago arts and culture sector. This includes fostering the development of Chicago's nonprofit arts sector, independent working artists, and for profit arts businesses; presenting high quality, free or low-fee cultural programs accessible to residents and visitors; and marketing the City's cultural assets to local, regional and global audiences.

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 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 has not issued any audit reports on Federal grants awarded to the City of Chicago Department of Cultural Affairs and Special Events (formerly the City of Chicago Department of Cultural Affairs).

As of our site visit, December 2, 2011, the most recent independent auditor's report for the City of Chicago, of which the DCASE is a part, was for the period ended December 31, 2010. The audit was performed in accordance with OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. The audit was performed by Baker Tilley Virchow Krause, LLP, an independent public accounting firm, which issued an unqualified (clean) opinion. The audit noted weaknesses in internal control over compliance with program requirements that were considered significant deficiencies (pdf pg 7), however, no deficiencies were identified that the auditor considered material weaknesses. Although none of the issues of internal control over compliance with program requirements were associated specifically with the NEA award to the DCASE, we considered the deficiencies when planning this evaluation.

RESULTS OF EVALUATION

The DCASE's financial management system is administered in conjunction with the City of Chicago, Illinois. During our evaluation we concluded that DCASE did not always comply with the City of Chicago Department of Finance policies and procedures for grant management. Specifically, DCASE improperly managed awards and performed financial activities through the Chicago Cultural Center Foundation. We also identified some cases of noncompliance with OMB guidance and NEA *General Terms and Conditions*. DCASE included some unallowable expenditures in its reported outlays and did not have the required Section 504 self-evaluation on file. Details are presented in the following narrative.

FINANCIAL MANAGEMENT

REPORTED EXPENDITURES

We reviewed two NEA awards to determine whether DCASE was properly managing federal awards in accordance with OMB and NEA guidance.

Grant No. 10-4229-7075 was awarded in the amount of \$250,000, with a one-to-one matching requirement, to support the planning, design and development for the Cermak Creative Industries District in Chicago. The award, under the Mayors' Institute on City Design (MICD), is an NEA leadership initiative in partnership with the American Architectural Foundation and the United States Conference of Mayors.

During our site visit, we determined that although no expenditures had been charged to the award, DCASE did not follow policies and procedures for federal grant management established by the City of Chicago Department of Finance (Finance Office). DCASE, as a Department of the City of Chicago, is required to process all financial activities Finance Office. However, for this award, DCASE improperly initiated procurement solicitations through the Chicago Cultural Center Foundation (Foundation). The Foundation, a non-profit organization, has an agreement with DCASE, to provide assistance in carrying out its mission to support and promote cultural affairs in Chicago. Although there is an affiliate arrangement between the two organizations, federal funding awarded to DCASE should be managed by DCASE and processed through the Finance Office. Subsequently, the solicitation was terminated and the solicitation will be administered through the Finance Office.

Grant No. 10-6200-7031 was awarded in the amount of \$30,000 with a one-to-one matching requirement to support the exhibition "*Stranger in Paradise: the works of Reverend Howard Finster*" and related programming. Our review determined that although expenditures were adequately supported, financial activities and management of the award were also improperly performed by the Foundation. The Foundation recorded

award transactions in its financial management system and maintained the supporting documentation.

The staff could not provide explanations for managing the awards through the Foundation. DCASE has recently undergone major staffing changes and as a result, the staff which was initially responsible for managing the two awards, are no longer employed by DCASE.

During our site visit, DCASE officials stated that the current staff are aware of the requirement that all financial activities for federal awards are to be processed through the Finance Office. DCASE officials informed us that the current staff are aware of the requirement that all financial activities for federal awards are to be processed through the Finance Office.

To strengthen internal controls and ensure federal awards are properly managed, we recommend that the Commissioner directs the staff, in writing, of the requirement that all financial activities for federal awards to DCASE be processed through the City of Chicago Department of Finance.

UNALLOWABLE COSTS

For Grant No. 10-6200-7031, we were presented with a listing of expenditures that totaled \$80,671.79. The listing included unallowable expenditures in the amount of \$164.26 for reception expenses, which are unallowable “Entertainment” under OMB Circular A-122, *Cost Principles for Non-Profit Organizations*. As a result, we reduced allowable expenditures to \$80,571.79. Since DCASE has more than exceeded the matching requirement¹, even if such costs are disallowed, we are not requiring any additional action for this finding.

DCASE follows the City of Chicago guidance and regulations for the management of federal awards. Therefore we recommend that DCASE develops and implements internal policies and procedures, such as an independent review process, to ensure that costs charged to the NEA awards include only allowable costs in accordance with applicable OMB Circulars and NEA General Terms. Those procedures should ensure that employees, who prepare the Final Financial Reports, are familiar with the cost principles of OMB Circular A-122.

SECTION 504 SELF-EVALUATION

DCASE 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.

¹ Grant No. 10-6200-7031 in the amount of \$30,000 with a one-to-one match; a minimum of \$60,000, total outlays required.

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.

EXIT CONFERENCE

An exit conference was held with DCASE officials on December 2, 2011. Subsequent to our site visit, a telephone exit conference was held with DCASE officials on May 7, 2012. DCASE officials concurred with our findings and recommendations.

RECOMMENDATIONS

We recommend:

1. The Commissioner directs the staff, in writing, of the requirement that all financial activities for federal awards to DCASE be processed through the City of Chicago Department of Finance.
2. DCASE develops and implements internal policies and procedures, such as an independent review process, to ensure that costs charged to the NEA awards include only allowable costs in accordance with OMB, NEA General Terms and other specific award guidance Those procedures should ensure that the employees, who prepare the Final Financial Reports, are familiar with the cost principles of OMB Circular A-122.
3. DCASE conduct a Section 504 self-evaluation to ensure compliance with the Rehabilitation Act of 1973, as amended. (A copy of the self-evaluation will be provided to NEA's Office of Civil Rights/EEO.)