



OFFICE OF INSPECTOR GENERAL

FINANCIAL ANALYSIS REPORT

ON

NEW FEDERAL THEATRE, INC.

New York, New York

REPORT NO. FA-13-01

August 28, 2013

REPORT RELEASE RESTRICTION

REDACTED FOR PUBLIC RELEASE

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

REQUEST

New Federal Theatre, Inc. has requested that it be removed from the Cost Reimbursement Method of Funding.

BACKGROUND

New Federal Theatre, Inc. (NFT) is a non-profit organization with a mission to integrate minorities and women into the mainstream of American theatre by training artists for the profession and by presenting plays by minorities and women to integrated, multicultural audiences.

PRIOR LIMITED SCOPE AUDIT REPORT

The National Endowment for the Arts (NEA) placed NFT on the Cost Reimbursement Method of Funding based on findings contained in the Limited Scope Audit Report on Selected NEA Grants to the New Federal Theatre, Inc, Report No. LS-03-02, dated June 12, 2003. The audit could not be completed because NFT did not have an adequate financial management system in place.

SCOPE AND OBJECTIVE

The scope of the financial analysis was limited to our review of NFT's:

- Financial Statements for the year ended June 30, 2012 and 2011;
- Budgets for fiscal years 2012 through 2014;
- 2011 Internal Revenue Service Form 990;
- Board of Directors' meeting minutes dated May 16, 2013; and
- NEA files for Grant Nos. 11-3200-7091 and 09-3288-7268.

We also consulted with NEA Grants and Contracts (G&C) staff.

The objective of the analysis was to determine whether NFT should be removed from the Cost Reimbursement Method of Funding and returned to the regular method of funding.

We did not perform an audit; therefore, we do not offer an opinion on the financial statements or other financial information. The analysis is presented for information purposes only. The financial analysis was conducted in accordance with the *Council of Inspectors General for Integrity and Efficiency Quality Standards for Inspection and Evaluation (Standards)*. Accordingly, we included procedures that were considered necessary under the circumstances. The Standards require that we obtain sufficient, competent and relevant evidence to afford a reasonable basis for our findings and conclusions.

RESULTS OF OIG ANALYSIS

Audit Financial Statements. Lutz and Carr, Certified Public Accountants, LLP audited NFT's statement of financial position as of June 30, 2012 and 2011, and the related statements of activities, functional expenses, and cash flows for the year then ended, in accordance with auditing standards generally accepted in the United States of America. The audit resulted in an unqualified opinion (clean).

Financial Position. An overview of NFT's Statement of Financial Position as of June 30, 2012 is as follows:

| | |
|----------------------------|---------------|
| Assets | |
| Current Assets | \$ [REDACTED] |
| Property and Equipment | [REDACTED] |
| Total Assets | \$ [REDACTED] |
| Liabilities and Net Assets | |
| Liabilities (All Current) | \$ [REDACTED] |
| Net Assets (Deficit) | [REDACTED] |

Note: Total current unrestricted assets were \$ [REDACTED]. There were no restricted assets for future programs and periods.

The budget is detailed in the following table

| Fiscal Year | Income | Expenses | Deficit |
|-------------|------------|------------|------------|
| 2012 | [REDACTED] | [REDACTED] | [REDACTED] |
| 2013 | [REDACTED] | [REDACTED] | [REDACTED] |
| 2014 | [REDACTED] | [REDACTED] | [REDACTED] |

Note: FY 2014 budget projects a [REDACTED] award from NEA.

Based on the information provided, it appears that NFT will continue to have more liabilities than assets through FY 2014. As a general rule, an organization's current assets should exceed current liabilities to meet short-term operating needs.

NFT's Compliance with Cost Reimbursement Method of Funding and NEA General Terms and Conditions. Under the Cost Reimbursement Method of Funding, the grantee will be required to finance its operations with its own working capital with payments to be paid on a reimbursable basis for actual cash disbursements supported by adequate documentation. Costs are only reimbursed when required matching costs have also been incurred. *Documentation generally will take the form of an invoice, receipt or contract supported by a copy of a cancelled check/electronic copy or other document supporting that the transaction was enacted; e.g., bank statement, electronic reference, etc.*

We requested G&C's comments on NFT's previous submissions and reviewed the most recent grant file for Grant No. 11-3200-7091. G&C informed us that NFT has submitted incorrect reports, which had to be resubmitted or corrected by NEA. For example, for Grant No. 11-3200-7091, NFT overstated its total outlays on its payment request by \$17,688. The payment request was submitted May 23, 2012. NFT reported total outlays in the amount of \$77,834, however, NFT only submitted \$60,146 in supporting documentation with the request.

NFT was awarded American Recovery and Reinvestment Act (ARRA) Grant No. 09-3288-7268, in the amount of \$25,000. All ARRA recipients were required by the US Office of Management and Budget (OMB) and NEA to maintain personnel activity (time and effort) reports to support salary costs charged to the award. NEA further required recipients on the Cost Reimbursement Method of Funding to certify, with each payment request, that costs were accurate and supporting documentation would be maintained for three years.

We requested personnel activity reports to support salary costs charged to the ARRA award for FY 2010, Quarters 1 and 2. We were informed by an NFT official that personnel activity reports were not maintained for that period. We also noted in the grant file that NEA's G&C Office reminded NFT of the requirement for personnel activity (time and effort) reports in an e-mail, dated April 12, 2010.

Based on the information above, we make the following recommendation.

RECOMMENDATION

We recommend that the NFT remain on the Cost Reimbursement Method of Funding until NFT's financial position improves. NFT should also improved its submissions of accurate and complete reports and compliance with OMB guidelines and NEA General Terms.