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OFFICE OF INSPECTOR GENERAL**

**Evaluation Report on Selected Grants to
International Sonoran Desert Alliance**

Report No. ER-18-02

March 29, 2018

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Table of Contents

INTRODUCTION

Background	1
Objective, Scope, and Methodology	1
Prior Audit Coverage	1

EVALUATION RESULTS

Summary.....	2
Unsupported Costs.....	2
Untimely Final Reports	3
Section 504 Self-Evaluation.....	3

METHOD OF PAYMENT.....	4
------------------------	---

RECOMMENDATIONS	5
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APPENDIX

A – Breakdown of Award Calculations	6
B – ISDA Response	7

INTRODUCTION

BACKGROUND

International Sonoran Desert Alliance (ISDA) is a non-profit organization founded in 1993 with a mission to preserve and enrich the environment, culture and economy of the Sonoran Desert. ISDA is based in Ajo, Arizona, a small rural town near Mexico surrounded by the Sonoran Desert. ISDA's vision is to establish the region as a showcase for environmental excellence and an international center for arts and culture with a prosperous and sustainable economy offering opportunities for all its residents.

OBJECTIVES, SCOPE AND METHODOLOGY

We conducted an evaluation of ISDA for the period of April 8, 2014 to April 7, 2017. The objective of this evaluation was to determine whether ISDA's financial management system and recordkeeping complies with the requirements established by the Office of Management and Budget (OMB) and National Endowment for the Arts (NEA) *General Terms and Conditions for Grants and Cooperative Agreements to Organizations (General Terms)*. During the period under review, ISDA had two open NEA grants:

Grant No.	Original Grant Amount	Total Costs Reported
14-5500-7093	\$25,000	\$ 63,946
14-4292-7079	50,000	101,026
TOTAL	\$75,000	\$164,972

NEA Grant No. 14-5500-7093 was a Folk & Traditional Arts grant that required one-to-one matching (cost share). The grant was to support ISDA's conference of folk artists, representing Mexican, Native American, and Euro-American traditions from communities across the Southwest.

NEA Grant No. 14-4292-7079 was a Design grant that required one-to-one matching (cost share). The grant was to support ISDA's design improvements at Spanish Revival performance venues in a rural town in the Sonoran Desert. The grant included the commissioning and creation of architectural designs to improve the performance stages of Recreation Hall, Curley School Auditorium, and the Oasis Theater.

PRIOR AUDIT COVERAGE

During the past five years, the NEA Office of Inspector General (OIG) has not issued any audit reports on Federal grants to ISDA. The most recently issued independent auditor's report on ISDA was for the year ended December 31, 2016. The audit was conducted by Fester & Chapman PLLC, an independent CPA firm. According to the report, Fester & Chapman's opinion states that the financial statements were presented fairly.

EVALUATION RESULTS

SUMMARY

Our review concluded that ISDA generally complied with the financial management system and recordkeeping requirements established by OMB and NEA. However, we identified some areas requiring improvement to ensure that ISDA complies with OMB and NEA grant requirements. The following are specific deficiencies requiring corrective action:

1. ISDA did not maintain adequate support for artisan costs charged to the grant. This resulted in unsupported costs reported to the NEA for Grant No. 14-5500-7093.
2. ISDA did not submit the required Federal Financial Report (FFR) and Final Descriptive Report (FDR) timely for Grant Nos. 14-5500-7093 and 14-4292-7079.
3. ISDA did not have the required Section 504 Self-Evaluation workbook on file.

UNSUPPORTED COSTS

ISDA did not maintain adequate support for costs charged to Grant No. 14-5500-7093. Specifically, we determined that ISDA reported \$1,000 in unsupported artisan costs to the award. The costs included artist fees, travel and materials. ISDA provided support for the materials costs; however, ISDA did not include the receipts for the materials, as required per the contract. Furthermore, ISDA was unable to provide support for artist fees and travel costs. The NEA *General Terms*, Section 16. *Record Retention*, states:

Grantees must maintain financial records, supporting documents, statistical records, and all other non-Federal entity records pertinent to a Federal award for a period of three (3) years from the date of submission of the final FFR.

ISDA did not adhere to its policies and procedures to ensure that supporting documentation is maintained for each expenditure charged to the NEA Award. Therefore, we recommend ISDA adhere to its policies and procedures to ensure supporting documentation for expenditures charged to NEA grants is maintained for a period of at least three years after submission of the final FFR.

Although we are questioning costs for the award, the matching (cost share) requirement would still be met and no refund would be due to the NEA (See cost calculations in Appendix A).

ISDA concurs with this finding and recommendation (see ISDA's response in Appendix B).

UNTIMELY FINAL REPORTS

ISDA did not submit the FFR and FDR within 90 days from the end of the grant period for Grant Nos. 14-5500-7093 and 14-4292-7079. For instance, the FFR and FDR for Grant No. 14-5500-7093 were due August 29, 2015; however, the reports were not received until October 25, 2015 and October 28, 2015, respectively. Additionally, the FFR for Grant No. 14-4292-7079 was due September 28, 2016; however, the report was not received until November 21, 2016. ISDA did not request an extension for filing final reports, as required by NEA.

According to NEA *General Terms, Section 7h. Final Reports Filing Extensions*:

Recipients must submit a Final Report package including the FDR, the FFR, and any required final product(s) no later than 90 days after the project period end date. If the recipient's project is completed but needs additional time to submit the required Final Reports and/or product, recipients can ask for an extension on filing the Final Reports.

ISDA did not have policies and procedures to ensure that final reports are submitted to NEA no later than 90 days from the end of the grant period. Failure to submit final reports timely could result in future grant applications being rejected. Therefore, we recommend ISDA develop written policies and implement procedures to ensure that final reports (FFR and FDR) are submitted timely.

ISDA concurs with this finding and recommendation (See ISDA's response in Appendix B).

SECTION 504 SELF-EVALUATION

ISDA did not have the Section 504 Self-Evaluation on file as required by NEA *General Terms*. 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 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. It does not require that every part of every facility or program be accessible. 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 ISDA complete 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.

ISDA concurs with this finding and recommendation (See ISDA's response in Appendix B).

METHOD OF PAYMENT

During the evaluation, we identified sufficient evidence to support placing ISDA on a cost reimbursement method of payment for future grants. The evidence was obtained through a teleconference with an ISDA key official, review of ISDA's 2016 financial statement audit and 2016 IRS Form 990.

Specifically, we conducted a teleconference with an ISDA official on November 28, 2017. From the teleconference, we learned that ISDA encountered financial difficulties which lead to the organization collaborating with funders to implement business strategies enabling ISDA to maintain ownership of the property it had purchased. We reviewed ISDA's 2016 financial statement audit that included several notes indicating ISDA's challenges to repay funds from related parties that were used to help finance ISDA operations. Furthermore, the financial statements reflected declining cash balances, revenue and asset valuation. We also reviewed ISDA's IRS Form 990 and determined that it was not signed by the independent auditors, nor the Executive Director of ISDA. In addition, the IRS Form 990 listed one employee who averaged 40 hours per week without compensation reported. We issued an interim report that resulted in NEA placing ISDA on a cost reimbursement method of payment.

According to the *Documentation Requirements for Grantees on Cost Reimbursement Method of Payment*:

Under the cost reimbursement method of payment, the grantee is required to finance its operations with its own working capital with payments being made to reimburse the grantee 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. Specific documentation requirements will be established by NEA's Grants and Contracts Office.

We recommend that the NEA retain ISDA on a cost reimbursement method of payment for current and future grants until ISDA is able to demonstrate a sustainable financial condition.

NEA concurs with the finding and recommendation.

Subsequent to the issuance of the draft report, ISDA provided an updated and signed 2016 IRS Form 990 that included the previously missing salary for an employee who worked 40 hours per week (see ISDA's response in Appendix B).

RECOMMENDATIONS

We recommend that ISDA:

1. Adhere to its policies and procedures to ensure supporting documentation for expenditures charged to NEA grants is maintained for a period of at least three years after submission of the final FFR.
2. Develop written policies and implement procedures to ensure that final reports (FFR and FDR) are submitted timely.
3. Complete 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.

We recommend that NEA:

1. Retain ISDA on a cost reimbursement method of payment for current and future grants until ISDA is able to demonstrate a sustainable financial condition.

Breakdown of Award Calculations

Grant No. 14-5500-7093
Conference of Folk Artists

Total Reported Costs	\$ 63,946
Questioned Costs: Unsupported Artisan Costs	<u>(1,000)</u>
Allowable Reported Costs	62,946
NEA Share of Allowable Reported Costs	<u>(25,000)</u>
ISDA Costs	37,946
Match (Cost Share) Requirement	<u>(25,000)</u>
ISDA Exceeding Match Requirement	\$ 12,946



March 22, 2018

Mr. Rashaad Lee
Office of Inspector General
National Endowment for the Arts

RE: Response to Recommendations, Evaluation Report on Selected Grants to
International Sonoran Desert Alliance (ISDA)

1. ISDA concurs with the finding and recommendation regarding retention for at least three years of supporting documentation for expenditures charged to NEA grants.
2. ISDA concurs with the finding and recommendation regarding the development and implementation of policies and procedures to ensure that final reports (FFR and FDR) are submitted timely.

The executive director has drafted the attached policy and procedure which will be submitted to the board for approval at its next regular meeting.

3. ISDA concurs with the finding and recommendation regarding the completion of a Section 504 Self-Evaluation to ensure compliance with the Rehabilitation Act of 1973, as amended, and submission of a copy to the NEA OIG.

ISDA has begun the process of completing the 504 Self-Evaluation.

In response to observations concerning ISDA's 2016 IRS Form 990, when the OIG evaluation began, ISDA's independent auditors were still finalizing the audited financials. An IRS extension was requested by the auditing firm. This is the reason for the unsigned version of the 990 reviewed by OIG. Additionally, the listing of an employee who averaged 40 hours per week was inaccurate and has since been corrected via an amended 990 return. The signed and amended Form 990 is attached for reference.

Respectfully,



Aaron Cooper
Executive Director

Attachment

To be submitted to the ISDA board at its next regular meeting:

Policy:

ISDA will comply with all conditions specified on grants and contracts received.

Procedure:

The executive director will maintain a file of reporting requirements on all grants and contracts including deadlines for filing reports and will review these monthly to ensure ISDA compliance.