



OFFICE OF INSPECTOR GENERAL
FINANCIAL MANAGEMENT SYSTEM
AND COMPLIANCE EVALUATION

ON SELECTED
NEA GRANTS TO

Lincoln Center for the Performing Arts, Inc.

New York, NY

REPORT NO. SCE-14-03

May 28, 2014

REPORT RELEASE RESTRICTION

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INTRODUCTION

BACKGROUND

For nearly 50 years, Lincoln Center for the Performing Arts, Inc. (Lincoln Center) has been dedicated to its founding vision to present the broadest array of the performing arts to the widest possible audience. Lincoln Center features an unparalleled variety of performances by internationally acclaimed artists each year, through six celebrated performance series, Lincoln Center's dedication to artistic excellence is matched by a commitment to expanding its services to reach an increasing broad and diverse community presence.

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) 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)*. 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 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 recent economic downturn. Consistent with the language in the Act, eligible projects were generally limited to salary support and fees for artists or contracted personnel.

The evaluation 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, Lincoln Center had sixteen NEA grants opened or closed within the last three years, with awards totaling \$1,170,000. We judgmentally selected and reviewed two of the sixteen grants in which NEA funds had been drawn down and costs reported.

The two grants we reviewed were as follows:

Grant No.	Award Amount	Total Outlays Reported
09-3446-7113	\$ 150,000	\$3,051,493
09-5488-7201	50,000	50,000
Totals	\$200,000	\$3,101,493

PRIOR AUDIT COVERAGE

During the past five years, the NEA OIG has not issued any audit reports on Federal grants awarded to Lincoln Center. As of our site visit on June 25, 2012, the most recent issued independent auditor's report on Lincoln Center was for the year ended June 30, 2011. The audit was conducted by KPMG LLC, an independent CPA firm, which issued an unqualified (clean) opinion. Lincoln Center was not to subject to the audit requirements of OMB Circular A-133.

RESULTS OF EVALUATION

Our evaluation concluded that Lincoln Center generally complied with the financial management system requirements established by OMB and NEA for Federal awards. However, the evaluation revealed some areas for improvement in its management of Federal awards. Lincoln Center included unallowable costs in its total outlays reported on its Federal Financial Report (FFR) and did not have procedures in place to ensure that payments would not be made to contractors or recipients that were debarred or suspended from receiving Federal funds. Lincoln Center also did not have written policies and procedures in place for the management of Federal awards.

FINANCIAL MANAGEMENT

The two grants reviewed were:

Grant No. 09-3446-7113. Lincoln Center was awarded a grant in the amount of \$150,000 with a one-to-one matching requirement to support the production and broadcast of the television series Live From Lincoln Center.

Grant No. 10-5488-7201. Lincoln Center was awarded an ARRA grant in the amount of \$50,000 with no matching requirement to support the preservation of jobs that were threatened by declines in philanthropic and other support during the recent economic downturn. Specifically, this grant was awarded to retain the Director of Program and Services for People with Disabilities.

Unallowable Costs

Lincoln Center reported costs that were not consistent with the project budget approved by NEA. For Grant no. 09-3446-7113, Lincoln Center reported unallowable costs for

crew gifts and a children's holiday pay in the amount of \$13,638. According to OMB's *Costs Principles for Non-Profit Organizations*, 2 Code of Federal Regulations (CFR) 230, Appendix B, costs must be allowable, reasonable and allocable for the performance of an award.

NEA General Terms states, in part:

Project activities must be consistent with those approved for funding by the Arts Endowment.

Costs which are not consistent with those approved for funding may be disallowed and reduce total outlays, which may result in potential refunds.

Lincoln Center's total costs for this award exceeded the matching requirement even if all of the above costs in the amount of \$13,638 were disallowed (see table below). Therefore, we are not requiring any additional documentation to support costs for this grant. However, we are recommending that Lincoln Center develop policies and implement procedures to ensure that only allowable, reasonable and allocable expenditures are charged to the NEA grant award.

Subsequent to our site visit, Lincoln Center submitted a revised accounting manual that included policies and procedures to ensure that only allowable, reasonable and allocable expenditures are charged to government awards. Therefore, no further action is needed.

Debarment and Suspension

Lincoln Center 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.

OMB's *Guidelines to Agencies on Governmentwide Debarment and Suspension (Nonprocurement)*, Subpart C of 2 CFR part 180.300, 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 recommended that Lincoln Center 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.

Subsequent to our site visit, Lincoln Center submitted a revised accounting manual that included policies and 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. Therefore, no further action is needed.

Management of Federal Awards

At the time of the site visit, Lincoln Center's accounting manual was in draft form. Lincoln Center subsequently provided a final copy of the accounting manual; however, it did not include policies and procedures for the management of Federal awards.

OMB's *Uniform Administrative Requirements for Grants and Agreements for Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, Subpart C of 2 CFR part 215.21 states in part, the 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.

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 NEA's *General Terms*, NEA OIG's *Financial Management Guide for Non-profit Organizations*, and the cost principles of relevant OMB guidance.

We recommended that Lincoln Center develop and implement a written manual/handbook containing policies and procedures relating specifically to managing Federal awards. Lincoln Center submitted a revised accounting manual that included policies and procedures relating specifically to managing Federal awards. Therefore, no further action is needed.

Section 504 Self-Evaluation

Lincoln Center provided the auditor a draft of its Section 504 self-evaluation. However, subsequent to our site visit, Lincoln Center submitted the final Section 504 self-evaluation. Therefore, no further action is needed.

EXIT CONFERENCE

A preliminary exit conference was held with Lincoln Center officials on June 25, 2012. A telephone exit conference was held with Lincoln Center on May 20, 2014. Lincoln Center officials implemented the above recommendations; therefore no further action is needed and this evaluation is closed.

**Lincoln Center for Performing Arts
SCHEDULE OF GRANTS SELECTED FOR EVALUATION**

Grant No. 09-3446-7113

Total Outlays	\$3,051,493
Less: Disallowed Costs	<u>(13,638)</u>
Adjusted Total Outlays	3,037,855
NEA Grant Award & Lincoln Center for Performing Arts Overmatched	<u>(300,000)</u>
	<u>\$2,737,855</u>