



**NATIONAL ENDOWMENT FOR THE ARTS
OFFICE OF INSPECTOR GENERAL**

**FINANCIAL MANAGEMENT SYSTEM &
COMPLIANCE EVALUATION**

OF THE

**LOS REYES de ALBUQUERQUE
FOUNDATION, INC.**

Albuquerque, NM

REPORT NO. SCE-09-01

October 2, 2008

REPORT RELEASE RESTRICTION

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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

Los Reyes de Albuquerque Foundation, Inc. (Foundation) is a traditional music group comprised of four to eight singers and musicians of Nuevomexicano music. In addition to its annual public performance schedule, the group raises money through its foundation to present musical/narrative presentations free of charge at senior centers, nursing homes, homeless shelters and day care centers throughout rural and urban New Mexico.

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 evaluation was conducted in accordance with the President's Council on Integrity and Efficiency Quality Standards for Inspections, 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 Foundation. As of our site visit on July 28, 2008, the most recent report on the Foundation's financial position was issued on July 22, 2008. The report was a compilation of the balance sheet and the related income statement for the period ended December 31, 2007. It was compiled by Taxpayer Defense, Inc., an accounting firm, which indicated that they had not audited nor reviewed the statements and accordingly no opinion was expressed. In addition, they indicated that they were not independent with regards to the Foundation. We reviewed the Foundation's 2007 IRS Form 990 and found no issues of concern regarding Federal grants. The Foundation was not subject to the audit requirements of OMB Circular A-133.

RESULTS OF EVALUATION

Our evaluation concluded that the Foundation inaccurately reported expenditures on its Financial Status Report (FSR). We also found that the Foundation did not maintain proper documentation for in-kind expenses and did not have a Section 504 self-evaluation on file. Details are presented in the following narrative.

REPORTED EXPENDITURES

For selected Grant No. 05-5500-7044, the Foundation inaccurately reported expenditures on its FSR. While onsite, we were able to review books and ledgers, invoices and other supporting documentation related to the grant. However, we were not able to reconcile the amount reported on the FSR. The reason for this reconciliation problem was that the Foundation reported the amount of deposits from its monthly bank statements instead of actual costs. By reconstructing the costs with the help of the Foundation's Executive Director, we determined that total allowable expenditures of \$45,773 were a more accurate reflection of what the actual costs were under the grant. The Foundation reported total outlays as \$78,947. As a result, reported expenditures were overstated by \$33,174. However, even with the overstatement, the Foundation had enough expenses to meet its matching requirement. Therefore, no refund would be due the NEA.

As stated in NEA's *Instructions for Completing the Financial Status Report*:

Indicate total actual project outlays (total funds spent minus any refunds) within the period of support indicated in your award letter or as amended. Any indirect costs from line 11(d) and/or in-kind contributions applied to and approved for the project should also be included here. Note: total actual costs will likely differ from the amount anticipated in the approved budget.

We believe that in the future a more accurate reflection of actual costs would occur if the Executive Director and accountant work together in preparing the FSR.

IN-KIND COSTS

The Foundation also included in-kind costs as part in its reported total outlays in the amount of \$22,480. However, the Foundation was only able to provide support for in-kind costs in the amount of \$6,947, which is included in the adjusted allowable expenditures above. The Foundation did not maintain an explanation of the basis for the valuation of each item or any supporting documentation for other in-kind costs. The NEA *Instructions for In-Kind (Third-Party) Contributions* state:

"If in-kind, third-party (i.e., not the awardee) contributions or donations are included as income in your approved project budget, they must also be included in the project's total direct costs and reflected as such in your accounting records."

For the ongoing and future grants, we are recommending that procedures be implemented to ensure that the Foundation maintains supporting documentation for all expenses and that in-kind contributions are adequately supported by documentation from the contributor.

INTERNAL CONTROL

We believe that *internal controls* at the Foundation could be strengthened. The Foundation has difficulty providing for adequate segregation of duties because the Executive Director is the only full-time employee. The Executive Director had been responsible for most of the revenue and expenditure functions, including maintaining supporting documentation. Currently, the Foundation is working with its accountant to improve internal controls and record expenses more accurately. The accountant will record expenses, reconcile bank statements and maintain supporting documentation. However, since the accountant is the Executive Director's daughter, and therefore is not independent, we recommend that the Foundation implement procedures to further strengthen internal controls by developing adequate safeguards in its financial management system. One improvement could be to have financial statements, expenses and reconciliations reviewed periodically by a third party, such as a member of the Board of Directors or volunteer, who is familiar with accounting matters.

SECTION 504 SELF-EVALUATION

The Foundation 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.

We recommended that the Foundation conduct a Section 504 self-evaluation. The Foundation did complete and submit a Section 504 self-evaluation prior to the issuance of this report. Therefore, no further action on this finding is necessary.

EXIT CONFERENCE

An exit conference was held with the Foundation officials on July 28, 2008. The Foundation official concurred with our findings and recommendations. (As noted, the Foundation did complete the Section 504 self-evaluation prior to the issuance of this report.)

RECOMMENDATIONS

We recommend that the Foundation:

1. Implement procedures to ensure that grants costs are accurately reported on the final Financial Status Reports. Those procedures should ensure that the preparers of the FSRs are familiar with the costs principles of OMB Circular A-122.
2. Implement procedures to ensure the Foundation maintains supporting documentation for all expenses.

3. Implement procedures to ensure that an explanation of the basis for the valuation of each in-kind item and any supporting documentation are maintained.
4. Implement procedures to strengthen internal controls to ensure adequate segregation of duties and safeguards in its financial management system.