



NATIONAL
ENDOWMENT
FOR THE ARTS

OFFICE OF INSPECTOR GENERAL

FINANCIAL MANAGEMENT SYSTEM &
COMPLIANCE EVALUATION
ON NEA GRANTS TO

MOSAIC YOUTH THEATRE OF DETROIT
Detroit, MI

Report No. SCE-10-02A
April 30, 2010

REPORT RELEASE RESTRICTION

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INTRODUCTION

BACKGROUND

Mosaic Youth Theatre of Detroit (Theatre) was founded by Rick Sperling in 1992. The Theatre is an internationally acclaimed youth development program that concentrates on helping young artists excel on stage and in life. Through these training programs, the Theatre is developing talented young artists and new, diverse audiences for the performing arts.

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 Theatre. As of our site visit October 8, 2008, the most recent issued independent auditor's report on the financial statements of the Theatre was for the year ended August 31, 2007. The audit was conducted by Boisvenu & Company, P.C., CPAs, which issued an unqualified (clean) opinion. The Theatre was not subject to the audit requirements of OMB Circular A-133.

RESULTS OF EVALUATION

Our evaluation concluded that the Theatre's financial management system did not track grant awards separately and had no written justification for the allocation method. In addition, the Theatre included unallowable expenditures in their total reported outlays and did not maintain personnel activity reports. The Theatre also did not have a Section 504 self-evaluation on file. Details are presented in the following narrative:

FINANCIAL MANAGEMENT

The Mosaic Youth Theatre of Detroit (Theatre) did not identify costs by specific grants in its accounting system. The NEA's *General Terms and Conditions for Grants and Cooperative Agreements to Organizations (General Terms)* incorporates OMB's Circular A-110 (Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations), which addresses the requirement to have an

adequate financial management system. The *General Terms* also refers to the *OIG Financial Management Guide for Non-Profit Organizations*, which states in part:

Recipients must have accounting structures that provide accurate and complete information about all financial transactions related to each Federally-supported project.

Records of expenditures must be maintained for each grant project by the cost categories of the approved budget (including indirect costs that are charged to the project), and actual expenditures are to be compared with budgeted amounts.

In addition, amounts reported on the Financial Status Reports submitted by the Theatre could not be traced to the accounting records. According to the Theatre's official, the costs reported were estimates based on his history of working with the staff and projects. The OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, states if an allocation method is used, it should be justified in writing, which the Theatre did not do.

Based on the two findings above, we are questioning \$913,158, the total reported outlays of \$917,400 less the unallowable costs of \$4,242, which could result in a potential refund of the total award amount of \$55,000. Therefore, we are requesting additional documentation to support the amount of the total outlays reported on the Financial Status Report.

We are recommending the Theatre develop and implement a financial management system to track expenditures separately by grant awards. We also recommend written procedures are developed and implemented to ensure that justifications for any allocation methods used are documented.

PERSONNEL ACTIVITY REPORTS

The Mosaic Youth Theatre of Detroit did not maintain personnel activity (time and effort) reports for Grant No. 06-5100-8170, which was awarded \$55,000 for the period September 1, 2006 through August 31, 2007. At the time of the award, personnel activity reports were required for all employees whose salaries and fringe benefits are charged, in whole or in part, to either the award or the matching funds if the award is \$50,000 or more. This requirement is mandated by OMB and is detailed in NEA's *General Terms*. A sample personnel activity report is also provided in the *General Terms*.

As a result of not maintaining personnel activity reports, we are questioning salaries and fringe benefits totaling \$448,892. However, the salaries and fringe benefits total cost of \$448,892 is included in the total questioned cost under the Financial Management section.

We are recommending the Theatre develop and implement written procedures to ensure that individual personnel activity reports are maintained for employees whose salaries are charged, in whole or in part, to future grant awards that are \$50,000 or more.

UNALLOWABLE EXPENSE

Mosaic Youth Theatre of Detroit included \$4,242 of expenditures listed under Bad Debt. *OMB Circular A-122, "Cost Principles for Nonprofit Organizations,"* states:

"Bad debts, including losses (whether actual or estimated) arising from uncollectable accounts and other claims, related collection costs, and related legal costs, are unallowable."

We are recommending the Theatre develop and implement written procedures to ensure that only allowable costs are included in the reported total outlays.

SECTION 504 SELF-EVALUATION

The Mosaic Youth Theatre of Detroit did not have a Section 504 self-evaluation on file. As noted in NEA's *General Terms and Conditions for Grants and Cooperative Agreements to Organizations*, "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 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.

GRANT POLICIES AND PROCEDURES

The Mosaic Youth Theatre of Detroit did have documented accounting policies and procedures. However, the procedures did not include guidance for management of Federal grants. We believe that the accounting policies could be strengthened by incorporating Federal grant guidance and will also benefit the organization in the event of personnel changes. These policies could incorporate publications such as the NEA *General Terms*, NEA *Financial Management Guide for Non-profit Organizations*, and applicable OMB Circulars. It can also include instructions for reporting actual and allowable expenditures on the Federal Financial Report, cost allocation methods and personnel activity reports.

EXIT CONFERENCE

An exit conference was held with the Theatre officials on October 8, 2008 with a follow-up telephone call on March 30, 2010. They concurred with our findings and recommendations.

RECOMMENDATION

We recommend that the Theatre:

1. Provide additional documentation to support the amount of total outlays reported on the Final Status Report under grant number 06-5100-8170. Based on our review of the documentation provided, we will determine if any refund is due to the NEA. Without additional documentation, the potential refund is \$55,000 under this grant.
2. Develop and implement a financial management system to track expenditures separately by grant awards.
3. Developed and implemented written procedures to ensure that justifications for any allocation methods used are documented.
4. Develop and implement written procedures to ensure that individual personnel activity reports are maintained for employees whose salaries are charged, in whole or in part, to future grant awards that are \$50,000 or more.
5. Develop and implement written procedures to ensure that only allowable costs are included in the reported total outlays.
6. Conduct a Section 504 self-evaluation to ensure compliance with the Rehabilitation Act of 1973, as amended. (A copy of this completed document will be provided to the NEA's Civil Rights/EEO Office.)