



NATIONAL ENDOWMENT FOR THE ARTS

OFFICE OF INSPECTOR GENERAL

**FINANCIAL MANAGEMENT SYSTEM
AND COMPLIANCE EVALUATION**

**OF SELECTED
NEA GRANTS TO**

National Building Museum

Washington, DC

REPORT NO. SCE-12-01

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INTRODUCTION

BACKGROUND

National Building Museum (NBM) was established by legislation in 1980. Its mission is to advance the level of understanding and the quality of the building arts, comprising architecture, engineering and design. The museum's educational component, which focuses on the impact of the building arts on people's lives, offers tours, school programs, lectures, family workshops, and symposia. Located four blocks from the National Mall, NBM is housed in an historic nineteenth century structure and includes a dynamic Great Hall as its centerpiece. According to its website, the museum has presented "more than 200 exhibitions to critical acclaim."

OBJECTIVE AND SCOPE

The National Endowment for the Arts (NEA) Office of Inspector General (OIG) conducted a financial management system and compliance evaluation of NBM's management of NEA grant awards. The objective of the evaluation was to determine whether NBM's financial management and recordkeeping, including its system of internal controls and procedures, complied with the requirements established by the Office of Management and Budget (OMB) and NEA *General Terms and Conditions for Grants and Cooperative Agreements to Organizations (General Terms)*.

As part of the evaluation, we reviewed NBM's compliance with OMB and NEA guidance for the management of funding that NBM received from NEA under the American Reinvestment and Recovery Act of 2009 (Recovery Act). 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 economic downturn. Consistent with the language in the Recovery Act, eligible projects were generally limited to salary support and fees for artists or contracted personnel.

We judgmentally selected two grant awards for detailed review: Grant Number 08-4200-7028, in the amount of \$70,000, to support of the exhibition "Eero Saarinen: Shaping the Future," and Grant Number 09-4288-7062, a Recovery Act award in the amount \$50,000 to support the preservation of jobs.

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.

PRIOR AUDIT COVERAGE

During the past five years, the NEA OIG did not issue any audit reports on Federal grants awarded to NBM. As of our site visit on September 13, 2011, the most recent issued independent auditor's report for NBM was dated September 30, 2010. The audit was conducted by BDO USA LLP, an independent CPA firm, which issued an unqualified (clean) opinion. NBM was subject to the audit requirements of OMB Circular A-133.

SUMMARY OF EVALUATION RESULTS

Our evaluation determined that NBM complied with the financial management system and recordkeeping requirements established by OMB and NEA for its Recovery Act funds. However, we identified a number of areas where financial processes, controls, and procedures need improvement to ensure compliance with OMB and NEA grant requirements and to improve its management of NEA awards.

NBM included unallowable costs and estimated allocated salary costs in its total outlays reported on its final Financial Status Report (FSR).¹ NBM did not have procedures in place to ensure that payments would not be made to organizations or parties that were debarred or suspended from Federal assistance programs. NBM did not maintain personnel activity reports for employees whose salaries were charged to NEA awards. We also noted that NBM's accounting manual did not include policies and procedures specific to the management of Federal grant awards and although NBM had a completed Section 504 Self-Evaluation Workbook on file as required, the workbook had not been updated to ensure compliance with the Rehabilitation Act of 1973. Details are presented in the following narrative.

Subsequent to our site visit, NBM developed written policies and procedures addressing the management of Federal grants. NBM submitted a copy of its Accounting Manual, Section V – Expenditure of Federal Grant Funds. NBM also submitted a copy of the notification to all employees requiring adherence to the new policies and procedures for grant management.

RECOVERY ACT AWARD

NBM was awarded Grant No. 09-4288-7062 in the amount of \$50,000 in Recovery Act funds. The Recovery Act award was used to support the salaries of two positions, the National Curricula Coordinator and Registrar. NBM complied with the financial management system and recordkeeping requirements established by OMB and NEA such as maintaining personnel activity reports, submitting timely quarterly reports, and identifying Recovery Act funds separately in its financial management system.

¹Currently, Federal Financial Report (FFR).

REPORTED EXPENDITURES

Actual Expenditures

NBM was awarded Grant No. 08-4200-7028 in the amount of \$70,000 with a one-to-one matching requirement. During our site visit, we were provided with a listing of expenditures totaling \$151,264 that agreed with the total outlays reported by NBM on its FSR. However, a judgmental sampling of expenditures identified food and entertainment costs totaling \$910 which is unallowable under OMB Circular A-122, *Cost Principles for Non-Profit Organizations*. NBM also included estimated allocated salary costs in the amount of \$30,000, in its reported total outlays.

NEA General Terms state, in part:

The Federal Financial Report is used to verify that the required match has been met. Ensure that the amounts reported on your Federal Financial Report can be easily reconciled to your accounting records.

NEA's instructions for completing the FFR further states that the amounts reported must be actual allowable expenditures (not estimates).

We recommended that NBM develop written policies and implement procedures to ensure that all allowable and accurate costs charged to the project are reported on its Federal Financial Report. The policy should also require that costs are actual and not estimated and that employees who prepare the Federal Financial Report are familiar with the OMB cost principles.

Subsequent to our site visit, NBM provided supporting documentation for total outlays in the amount of \$148,034. Although NBM met its matching requirement under this grant, the total outlays were revised to delete the unallowable expenditures above and include in-kind contributions and actual salary and benefit costs.

NBM's Accounting Manual, Section V – Expenditure of Federal Grant Funds addresses this finding, therefore no further action is necessary.

In-kind Contributions

During our site visit, NBM informed us that in-kind contributions had not been charged to the grant. Subsequent to our site visit, NBM determined \$27,200 of advertisement had been contributed to the grant but not included in its total outlays. NBM provided adequate documentation to support the costs including contracts, copies of advertisement and completed in-kind contribution forms.

The *NEA Instructions for Completing the FFR* states that “total **actual** project outlays,” including third party in-kind contributions are to be reported.

We recommended the NBM develop written policies and implement procedures to ensure that in-kind contributions are adequately documented and included in the total outlays reported, as required by OMB Circulars A-110, A-122 and NEA *General Terms*.

NBM's Accounting Manual, Section V – Expenditure of Federal Grant Funds addresses this finding, therefore no further action is necessary.

FINANCIAL MANAGEMENT SYSTEM

Personnel Activity Reports

NBM did not maintain personnel activity (time and effort) reports. 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. Therefore, we questioned \$45,862 in salary costs charged to the award. 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*, which states in part:

For every employee whose salary is charged to an NEA grant, as a whole or in part, personnel activity reports must be maintained to account for all compensated time spent on other activities.

We recommended NBM provide documentation to support the questioned salary costs of \$45,862 charged to the award. Without additional documentation a potential refund may be due to the NEA. We also recommended NBM develop written policies and implement procedures to ensure that personnel activity reports are maintained, if required, by NEA *General Terms*.

Subsequent to our site visit, NBM provided us with documentation to support salary costs in the amount of \$45,862 charged to the grant. We reviewed and submitted the documentation to Management for a final decision. Based on the documentation provided, Management accepted the salary costs charged to the award. Therefore, we are not questioning salary costs and no potential refund to the NEA.

NBM's Accounting Manual, Section V – Expenditure of Federal Grant Funds addresses this finding, therefore no further action is necessary.

Debarment and Suspension

NBM did not have policies and procedures in place to ensure that contractors or recipients were not debarred or suspended 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.

Subpart C of 2 CFR part 180, *OMB Guidelines to Agencies on Governmentwide Debarment and Suspension (Nonprocurement)*, states:

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 EPLS²; 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.**

NBM's auditors noted in their 2010 audit report that "the Museum did not have an existing procedure for verifying that vendors have not been debarred or suspended," and concluded that "...processes need to be in place to address suspension and debarment."

We recommended that NBM develop written policies and implement procedures to ensure that contractors and recipients are not on the debarment and suspension list prior to the payment or award of Federal funds.

NBM's Accounting Manual, Section V – Expenditure of Federal Grant Funds addresses this finding, therefore no further action is necessary.

Section 504 Self-Evaluation

NBM had a *Section 504 Self-Evaluation Workbook (Workbook)* on file. However, it had not been reviewed or updated since 2007. We were told, for example, that an employee listed as handicapped in the document was no longer employed at NBM.

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.

We recommend NBM conduct a Section 504 self-evaluation to verify compliance with the Rehabilitation Act of 1973, as amended, and provide a copy of the completed

² Information may be obtained on parties that are debarred or debarred from receiving Federal funds from the General Services Administration (GSA) Excluded Parties List System web site at: <https://www.epls.gov>

Workbook to the OIG. A *Section 504 Self-Evaluation Workbook* can be completed online at: www.arts.gov/about/504Workbook.html.

Accounting Manual Policies and Procedures

During our site visit, NBM provided us with a copy of its accounting manual. While we found that the manual was updated annually, it did not include policies and procedures applicable to the management of Federal grant awards such as reporting, allocation of costs, in-kind contributions, personnel activity reports, debarment and suspension, and Section 504 compliance. In particular, it did not refer to OMB Circular A-122, which provides a description of cost requirements and a determination of which costs are allowable versus unallowable. OMB Circular A-110 subpart C 21(b)(6) states that 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.

We recommended NBM include a section in its accounting manual applicable to the management of Federal awards and provide a copy to the OIG.

Subsequent to our site visit, NBM developed written policies and procedures addressing the management of Federal grants. NBM submitted a copy of its Accounting Manual, Section V – Expenditure of Federal Grant Funds. NBM also submitted a copy of the notification to all employees requiring adherence to the new policies and procedures for grant management.

EXIT CONFERENCE

An exit conference was conducted with NBM officials on September 13, 2011. Subsequent to our site visit, a telephone exit conference was held with NBM officials on October 19, 2011. NBM officials concurred with our findings and recommendations.

SUMMARY OF RECOMMENDATIONS

We recommend that National Building Museum:

1. Conduct a Section 504 self-evaluation to verify compliance with the Rehabilitation Act of 1973, as amended, and provide a copy of the completed *Workbook* to the OIG.