



**OFFICE OF INSPECTOR GENERAL**  
**FINANCIAL MANAGEMENT SYSTEM &**  
**COMPLIANCE EVALUATION**

**ON SELECTED**  
**NEA GRANTS TO**

**Philadelphia Orchestra Association**

Philadelphia, Pennsylvania

**REPORT NO. SCE-13-02**

**March 27, 2013**



**REPORT RELEASE RESTRICTION**

In accordance with Public Law 110-409, The Inspector General Act of 2008, this report shall be posted on the National Endowment for the Arts (NEA) website not later than three (3) days after it is made publicly available with the approval of the NEA Office of Inspector General. Information contained in this report may be confidential. The restrictions of 18 USC 1905 should be considered before this information is released to the public. 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

Founded in 1900, the Philadelphia Orchestra Association (the "Orchestra") has been committed to the exploration of classical music and repertoire. The Orchestra continues to develop programs that resonate with contemporary audiences. The Orchestra also focuses on inspiring the future while transforming its tradition of education, and seeks to not simply sustain the highest level of artistic quality, but to challenge and exceed that level by creating powerful musical experiences for audiences at home and around the world.

## 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 United States 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 current economic downturn. Consistent with the language in the Act, eligible projects are generally limited to salary support and fees for artists or contracted personnel.

The review was conducted in accordance with the Council of the Inspectors General on Integrity and Efficiency Quality Standards for Inspections and Evaluations, as applicable.

During the period under review, the Orchestra had eight NEA grants active with awards totaling \$502,000. We judgmentally selected and reviewed two of the eight grants in which NEA funds had been drawn down and costs had been reported. The two grants reviewed were Grant No. 09-3188-7361 in the amount of \$50,000 and Grant No. 11-3100-7119 in the amount of \$75,000.

## PRIOR AUDIT COVERAGE

NEA OIG has not issued any audit reports on Federal grants awarded to the Orchestra. The most recent independent auditor's report on the Orchestra was for the year ended August 31, 2011. The financial statement audit was conducted by Grant Thornton, which

issued an unqualified (clean) opinion. The Orchestra was not subject to the audit requirements of OMB Circular A-133.

## **RESULTS OF EVALUATION**

Our evaluation concluded that the Orchestra generally complied with the financial management system requirements established by OMB and NEA for its Recovery Act funds awarded under Grant No. 09-3188-7361. However, the Orchestra did not maintain personnel activity reports for staff whose salaries were charged to the Recovery Act award.

Our evaluation also concluded that the Orchestra generally complied with the financial management system requirements established by OMB and NEA for Grant No. 11-3100-7119. However, we identified some areas for improvement to ensure compliance with OMB and NEA grant requirements and to improve its management of NEA awards. The Orchestra did not maintain personnel activity reports for staff whose salaries were charged to the NEA award. The Orchestra did not have procedures in place to ensure that payments would not be made to contractors or recipients that were suspended or debarred from receiving Federal funds. In addition, the Orchestra did not have the required Section 504 self-evaluation on file. We also noted that the Orchestra did not maintain financial policies and procedures for the management of Federal awards.

## **INTERNAL CONTROLS**

### **Recovery Act Grant No. 09-3188-7361**

#### Personnel Activity Reports

The Orchestra received \$50,000 in Recovery Act funds. The Orchestra complied with OMB and NEA's financial management system and recordkeeping requirements such as submitting quarterly reports timely and separately identifying Recovery Act funds in its financial management system. However, the Orchestra did not maintain personnel activity (time and effort) reports for salary costs charged to this award.

*The Special Terms and Conditions for NEA Awards made under the American Recovery and Reinvestment Act of 2009*, states in part:

**...recipients must maintain adequate time-and-effort reports (i.e., personnel activity reports) when charging a person's salary in whole or in part to the grant.**

As a result of not maintaining personnel activity reports, we questioned salaries and fringe benefits in the amount of \$50,000. During the site visit, the Orchestra provided documentation to support all of the salary costs charged to the award. Based on the documentation provided, NEA found the costs charged to be appropriate and reasonable. Therefore, we are not requiring any additional action for this award.

We recommend the Orchestra develop written policies and implement procedures to ensure that individual personnel activity reports are maintained, if required, by NEA's *General Terms*.

## **NEA Grant No. 11-3100-7119**

### Personnel Activity Reports

The Orchestra did not maintain personnel activity (time and effort) reports for salaries charged to the award. According to NEA guidance, personnel activity reports are 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*.

As a result of not maintaining personnel activity reports, we questioned \$525,432.87 in salary costs charged to the award, resulting in a potential refund of \$55,184. However, subsequent to our site visit, the Orchestra provided documentation to support all of the salary costs charged to the award. Based on the documentation provided, NEA determined the salary costs charged to the award are appropriate and reasonable, therefore no refund is due.

We recommend the Orchestra develop written policies and implement procedures to ensure that individual personnel activity reports are maintained, if required, by NEA's *General Terms*.

## **Debarment and Suspension Policies**

The Orchestra did not have policies and procedures in place to ensure that contractors or recipients were not debarred or suspended from receiving Federal funds 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.**

2 CFR Part 180, *OMB Guidelines to Agencies on Government-wide Debarment and Suspension (Non-procurement)*, Subpart C, Subsection 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 EPLS; 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.**

We recommend the Orchestra develop written policies and implement procedures to ensure that contractors and recipients are not debarred or suspended from receiving Federal funds prior to the payment or award of Federal funds.

### **Section 504 Self Evaluation**

The Orchestra 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 each organization." A *Section 504 Self-Evaluation Workbook*, which can be completed online, is available at [www.arts.gov/about/504Workbook.html](http://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.

We recommend the Orchestra conduct a Section 504 self-evaluation to ensure compliance with the Rehabilitation Act of 1973, as amended, and provide a copy to the OIG. A copy of the evaluation must be on file at the organization and reviewed for each subsequent grant award to ensure compliance. (A copy of the self-evaluation will be provided to NEA's Office of Civil Right/EEO)

### **Policies and Procedures for Grants Management**

The Orchestra did not maintain written policies and procedures for the management of Federal awards. According to OMB Circular A-110, subpart C 21(b) (6), 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 written procedures should include policies applicable to the management of Federal awards such as reporting, allocation of costs, personnel activity reports, debarment and suspension, and Section 504 compliance. The Orchestra could also incorporate publications such as the NEA *General Terms*, NEA OIG's *Financial Management Guide for Non-profit Organizations*, and applicable OMB Circulars.

We recommend that the Orchestra develop written policies and implement procedures for the management of Federal awards.

## **EXIT CONFERENCE**

A preliminary exit conference was held with Orchestra officials on October 26, 2012. Subsequent to our site visit, a telephone exit conference was held with the Orchestra officials on March 27, 2013. The Orchestra officials concurred with our findings and recommendations.

## **RECOMMENDATIONS**

We recommend that the Orchestra:

1. Develop written policies and implement procedures to ensure that individual personnel activity reports are maintained, if required, by NEA *General Terms*.
2. Develop written policies and implement procedures to ensure that contractors and recipients are not debarred or suspended from receiving Federal funds prior to the payment or award of Federal funds.
3. Conduct a Section 504 self-evaluation to ensure compliance with the Rehabilitation Act of 1973, as amended, and provide a copy to the OIG.
4. Develop written policies and implement procedures for the management of Federal awards.