



**OFFICE OF INSPECTOR GENERAL**

**FINANCIAL MANAGEMENT SYSTEM &  
COMPLIANCE EVALUATION**

**ON SELECTED  
NEA GRANTS TO**

**Society for the Arts in Healthcare**

Washington, DC

**REPORT NO. SCE-12-04, Rev. 1**

**July 9, 2012**

**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**

The Society for the Arts in Healthcare (SAH) is a non-profit corporation in Washington, DC. Founded in 1991, SAH is dedicated to advancing arts as integral to healthcare by demonstrating the valuable roles the arts can play in enhancing the healing process and advocating for the integration of the arts into the environment and delivery of care within healthcare facilities.

## **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)*. 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, SAH had six NEA grants opened or closed within the last three years with awards totaling \$270,000. We reviewed two of the six grants in which NEA funds had been drawn down and costs had been reported. The two grants reviewed were Grant No. 10-3900-7003 in the amount of \$50,000 and Grant No. 09-5488-7194 in the amount of \$50,000.

## **PRIOR AUDIT COVERAGE**

During the past five years, NEA OIG has not issued any audit reports on Federal grants awarded to SAH. As of our site visit on March 20, 2012, the most recent independent auditor's report on SAH was for the year ended December 31, 2010. The audit was conducted by Kositzka, Wicks & Company, Certified Public Accountants, which issued an unqualified (clean) opinion. SAH was not subject to the audit requirements of OMB Circular A-133.

## **RESULTS OF EVALUATION**

Our evaluation concluded that SAH did not comply with the financial management system requirements established by OMB and NEA for its Recovery Act funds awarded under Grant No. 09-5488-7194. SAH included unallowable expenditures in their total reported outlays.

Our evaluation also concluded that SAH did not comply with the financial management system requirements established by OMB and NEA for its NEA Grant No. 10-3900-7003. SAH included unallowable expenditures in their total reported outlays. SAH did not document the methodology for allocating costs to Federal rewards. Furthermore, SAH 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 assistance. Details are presented in the following narrative.

## **FINANCIAL MANAGEMENT**

### **RECOVERY ACT AWARD**

SAH was awarded Recovery Act Grant No. 09-5488-7194 in the amount of \$50,000 with no matching requirement. The Recovery Act grant was awarded to support the salaries of the Director of Programs position and four contracted performers. During our site visit, SAH provided us with an expenditure listing totaling \$51,372. Our review of the listing identified \$1,767 in unallowable costs, such as office supplies, auditing and accounting fees. Therefore, we are disallowing and reducing costs claimed under the grant by \$1,767, resulting in a refund of \$395 due to NEA.

NEA's Recovery Act guidance states, in part:

#### **Projects are limited to:**

- **Salary support, full or partial, for one or more positions that are critical to an organization's artistic mission and that are in jeopardy or have been eliminated as a result of the current economic climate.**

**and/or**

- **Fees for previously engaged artists and/or contractual personnel to maintain or expand the period during which such persons would be engaged.**

**Recovery Act Award  
Grant No. 09-5488-7194  
Calculation of Refund**

**Total Costs Claimed** \$51,372

<b>Less:</b>	<b>Unallowable Cost</b>	
	Merchant Fees	(236)
	Office Supplies	(215)
	Postage and Deliveries	(84)
	Accounting and Auditing Fees	(771)
	Rent	(309)
	Telephone/DSL	(152)
	<b>Total Unallowable Cost</b>	<u>(\$ 1,767)</u>
	<b>Total Allowable Costs Claimed</b>	<u><u>\$49,605</u></u>

<b>Recovery Act Award (non-matching)</b>	\$50,000
<b>Less: Total Allowable Costs Claimed</b>	<u>(49,605)</u>
<b>Refund to NEA</b>	<u><u>\$395</u></u>

We recommend that SAH submit a refund to NEA, in the amount of \$395. In addition, we recommend that SAH develop written policies and implement procedures to ensure that only allowable and accurate costs are charged to the project and reported on its Federal Finance Report (FFR). The policies and procedures should ensure that the employees, who prepare the FFRs, are familiar with the appropriate OMB cost principles.

**REPORTED EXPENDITURES**

**Unallowable Costs**

SAH was awarded Grant No. 10-3900-7003 in the amount of \$50,000 with a one-to-one matching requirement. During our visit, we were provided with a listing of expenditures totaling \$100,100 that agreed with the total outlays reported in the FFR. Our review identified food and entertainment costs totaling \$2,310, which is unallowable under OMB Circular A-122, *Cost Principles for Non-Profit Organizations*. Therefore, we are questioning \$2,310 in unallowable costs, which reduces the total allowable expenditures to \$97,790, resulting in a potential refund of \$1,105 due to NEA (*See Appendix A*).

We recommend that SAH provide documentation to support costs in the amount of \$2,310. Without additional documentation, a potential refund of \$1,105 could be due to NEA. In addition, we recommend that SAH develop written policies and implement procedures to ensure that only allowable and accurate costs are charged to the project and reported on its FFR. The policies and procedures should also require that employees who prepare the FFR are familiar with the appropriate OMB cost principles.

## **Allocation Methodology**

SAH could not provide documentation for the methodology used to allocate costs to the NEA award. 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.**

We recommend that SAH develop written policies and implement procedures to ensure the methodology for the allocation of costs charged to Federal awards is documented.

## **DEBARMENT AND SUSPENSION**

SAH 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.**

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

## **EXIT CONFERENCE**

A preliminary exit conference was held with SAH officials on March 20, 2012. Subsequent to our site visit, a telephone exit conference was held with SAH on June 25, 2012. SAH officials concurred with our findings and recommendations.

## **RECOMMENDATIONS**

We recommend that SAH:

1. Submit a refund payment to NEA in the amount of \$395 for unallowable costs claimed under the Recovery Act Grant No. 09-5488-7194.
2. Develop written policies and implement procedures to ensure that only allowable and accurate costs are charged to the NEA grant and reported on its FFR. The policies and procedures should ensure that the employees, who prepare the FFRs, are familiar with the appropriate OMB cost principles.
3. Provide documentation to support costs in the amount of \$2,310. Without additional documentation, a potential refund of \$1,105 could be due to NEA.
4. Develop written policies and implement procedures to ensure that the methodology for the allocation of costs charged to Federal awards are documented.
5. Develop written policies and implement procedures to ensure that contractors and recipients are not on the debarment and suspension from receiving Federal assistance prior to the payment or award of Federal funds.

## Appendix A

**Society for the Arts in Healthcare  
Calculation of Potential Refund  
Grant No. 10-3900-7003**

<b>Total Cost Claimed</b>	<b>\$100,100</b>
<b>Less: Questioned Cost Food/Meals</b>	<b><u>(2,310)</u></b>
<b>Total Allowable cost</b>	<b><u>\$97,790</u></b>

<b>Total Allowable Cost</b>	<b>\$97,790</b>
<b>Less: NEA Share of Allowable Cost</b>	<b><u>(48,895)</u></b>
<b>SAH Matching Amount</b>	<b><u>\$48,895</u></b>

<b>NEA Award Funds Disbursed</b>	<b>\$50,000</b>
<b>Less: NEA Share of Allowable Cost</b>	<b><u>(48,895)</u></b>
<b>Potential Refund Due to NEA</b>	<b><u>\$ 1,105</u></b>