



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

**FINANCIAL MANAGEMENT SYSTEM &
COMPLIANCE EVALUATION**

OF

WOODLAND PATTERN, INC.

MILWAUKEE, WISCONSIN

REPORT NO. SCE-09-04

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INTRODUCTION

BACKGROUND

Woodland Pattern, Inc. (WP) was founded in 1979. WP is dedicated to the discovery, cultivation and preservation of contemporary literature. Its goals are: 1) to promote a lifetime practice of reading and writing; 2) to provide a forum and resources center for writers/artists in its region; 3) to increase/diversify the audience for contemporary literature through innovative multi-arts programming; 4) to offer a diversity of thought in Milwaukee through a wide range of literary activities which feature work by some of the best of our contemporary writers.

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 WP. As of our site visit on August 18, 2008, the most recent issued independent auditor's report on WP was for the year ended December 31, 2006. The audit was conducted by Reilly, Penner & Benton LLP, Certified Public Accountants & Consultants, which issued an unqualified (clean) opinion. WP was not subject to the audit requirements of OMB Circular A-133.

RESULTS OF EVALUATION

Our evaluation concluded that WP inaccurately reported the expenditure amounts for selected Grant No. 07-5200-7147, and did not have a Section 504 self-evaluation on file.

REPORTED EXPENDITURES

For selected Grant No. 07-5200-7147, WP inaccurately reported expenditures of \$166,060 on its Financial Status Report (FSR). While we were onsite, WP was not able to provide a list/ledger of expenditures under the grant. However, they were able to identify some of the individual expenditures that would have been claimed, which we used to sample for reasonableness and allowability of costs. Subsequent to our visit, WP provided a list that showed total grant expenditures of \$46,900. Therefore, WP met the matching requirements of the grant.

We recommend that WP implement procedures to ensure that it accurately reports expenditure amounts on its FSRs.

OTHER MATTERS

Segregation of Duties. WP has a limited number of staff with the executive director handling almost all of the accounting functions. According to WP's CPAs, this condition is not unusual in entities the size of WP, however, a lack of segregation of duties does represent a significant deficiency in internal controls. Management is aware of this condition and has responded by providing some additional controls. Specifically, the Board's treasurer reviews the books and records with the executive director once a month.

Accounting Manual. WP does not have a formalized accounting manual. Although having a manual is not a NEA or OMB requirement, we believe that individual employee's knowledge would be further enhanced and potential systematic problems could be avoided if WP formalized many of its own policies and procedures, and guidance available on other grants and accounting matters. This formalized accounting handbook could contain policies and procedures relating to financial management, grants management, internal controls, budgeting, etc. An addendum to the handbook could include publications such as the General Terms and Conditions for Grants, the Financial Management Guide for Non-profit Organizations, the OMB Circulars and other publications on Federal and State requirements.

SECTION 504 SELF-EVALUATION

WP did not have a 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* is available online at www.arts.gov/about/504Workbook.html.

Subsequent to our evaluation, WP provided us with a completed *Section 504 Self-Evaluation Workbook*. Therefore, no additional action is required on this finding.

EXIT CONFERENCE

An exit conference was held with WP's executive director on August 18, 2008. The executive director generally concurred with our findings and recommendation, and agreed to take corrective action.

RECOMMENDATION

Woodland Pattern should implement procedures to ensure that accurate expenditure amounts are reported on its Financial Status Reports.