



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

**FINANCIAL MANAGEMENT SYSTEM &
COMPLIANCE EVALUATION**

OF

Michigan Opera Theatre

DETROIT, MI

**REPORT NO. SCE-09-08
September 30, 2009**

REPORT RELEASE RESTRICTION

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INTRODUCTION

BACKGROUND

Michigan Opera Theatre (Theatre) was originally established as an educational and outreach arm of the Detroit Grand Opera Association by David DiChiera in 1963. The Theatre became a professional opera company in 1971. The Theatre is one of the largest opera companies in the United States. The Theatre presents opera, dance, and educational activities to make a positive impact on the lives of people in metro-Detroit.

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 6, 2008, the most recent issued independent auditor's report on the financial statements of the Theatre was for the year ended June 30, 2007. The audit was conducted by Doeren Mayhew, 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 did not report accurate expenditure amounts on its Financial Status Report. The Theatre included unallowable cost and did not clearly identify their expenditures. The Theatre also did not have a Section 504 self-evaluation on file. Details are presented in the following narrative.

REPORTED EXPENDITURES

For selected Grant No. 07-3600-7031, the Theatre did not report accurate expenditure amounts on its Financial Status Report to the NEA. Documentation provided by the Theatre showed costs

totaling \$1,480,096 for the subject grant, whereas it reported total costs incurred of \$1,599,306 on its final Financial Status Report. The grant was awarded in the amount of \$40,000 with a one-to-one matching requirement to “support Cyrano.”

The Theatre included \$3,028 of unallowable costs under OMB Circular A-122. These costs included fundraising, Visa application fees, and lost luggage. OMB Circular A-122 states:

Costs of organized fund raising, including financial campaigns, endowment drives, solicitation of gifts and bequests, and similar expenses incurred solely to raise capital or obtain contributions are unallowable.

We also found that \$138,609 of the \$1,480,096 were questionable costs related to prepaid, bank and other expenses that were not clearly identifiable. OMB Circular A-110, Section 21 states:

Recipients’ financial management systems shall provide for the following. . . . Records that identify adequately the source and application of funds for federally-sponsored activities. . . .

The NEA’s *General Terms* refers to the *Financial Management Guide for Non-Profit Organizations* states in part:

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

Grant expenditure records must be at least as detailed as the cost categories indicated in the approved budget (including indirect costs that are charged to the project). Actual expenditures are to be compared with budgeted amounts.

Based on the unallowable and questioned costs, we reduced the allowable expenditures by \$141,637. The Theatre still meets the matching requirement without these costs; therefore, we are not requesting any further documentation. We are recommending that the Theatre develop and implement procedures to ensure that it reports accurate amounts on its Financial Status Reports and includes only those amounts that are allowable per the approved budget, OMB Circulars and NEA *General Terms*.

SECTION 504 SELF-EVALUATION

The Theatre 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. A copy of the Section 504 self-evaluation workbook was provided to the Theatre during the evaluation.

EXIT CONFERENCE

An exit conference was held with the Theatre officials on October 6, 2008 with a follow-up telephone call on September 30, 2009. They concurred with our findings and recommendations.

RECOMMENDATION

We recommend that the Theatre:

1. Develop and implement procedures to ensure that it reports accurate amounts on its Financial Status Reports and includes only those amounts that are allowable per the approved budget, OMB Circulars and NEA *General Terms*.
2. Develop and implement procedures to ensure that all records identify adequately the source and application of funds and the grant expenditure records should be detailed as the cost categories indicated in the approved budget.
3. 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.)