



OFFICE OF INSPECTOR GENERAL

**FINANCIAL MANAGEMENT SYSTEM &
COMPLIANCE EVALUATION**

**ON SELECTED
NEA GRANTS TO**

Northwest Heritage Resources

Lake Forest Park, Washington

REPORT NO. SCE-15-02

November 19, 2014

REPORT RELEASE RESTRICTION

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INTRODUCTION

BACKGROUND

Northwest Heritage Resources (NWHR) is a non-profit organization established in Washington state in 1995. Its mission is to conserve cultural heritage and to present, promote, preserve and document the diverse cultural traditions of the Pacific Northwest.

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) was to determine whether the organization's financial management system and recordkeeping complies with the requirements established by the Office of Management and Budget¹ (OMB) and NEA's *General Terms and Conditions for Grants and Cooperative Agreements to Organizations (General Terms)*.

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. Accordingly, we included such tests of records and other procedures that were considered necessary under the circumstances. The Standards require that we obtain sufficient, competent and relevant evidence to support a reasonable basis for our findings and conclusions.

During the period under review, NWHR had seven NEA grants opened or closed within the last three years, with awards totaling \$226,500. We judgmentally selected and reviewed three of the seven grants from the period under review.

The three grants reviewed were as follows:

1. Grant No. 11-5500-7077 was awarded to support "Building New Audiences for Traditional Arts in Washington's Underserved Communities" (Building New Audiences), in consortium with the Ethnic Heritage Council. This grant award was in the amount of \$30,000, with a one-to-one matching requirement. Total reported outlays were in the amount of \$75,500.
2. Grant No. 12-5500-7132 was awarded to support the Executive Director and related expenses, in collaboration with the Washington State Arts Commission. This grant award was in the amount of \$30,000, with a one-to-one matching requirement. Total reported outlays were in the amount of \$71,200.

¹ Effective December 26, 2014, new guidance for Federal award programs will be implemented, 2 CFR 200 *Uniform Guidance: Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. The guidance supersedes and streamlines OMB Circulars A-21, A-87, A-110, A-122, Circulars A-89, A-102, A-133 and Circular A-50. See http://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr200_main_02.tpl

3. Grant No. 13-5500-7113 was awarded to support administrative and outreach costs for NWHR to serve as a state and regional resource for folk artists and folk arts organizations, in collaboration with the Washington State Arts Commission. This grant award was in the amount of \$36,500, with a one-to-one matching requirement. The grant was still open during the time of the engagement, and final reports had not been submitted to NEA.

PRIOR AUDIT COVERAGE

During the past five years, NEA OIG has not issued an evaluation or audit report on Federal grants awarded to NWHR. As of our site visit, an independent auditor's review of NWHR's financial statements had not been performed. However, NWHR maintains unaudited annual financial statements. For the calendar year ended 2013, income was \$169,884, and expenses were \$133,609, with \$36,275 in net income.

RESULTS OF EVALUATION

Our evaluation concluded that NWHR did not comply with the financial management system requirements established by OMB and NEA for Federal awards. NWHR did not have written policies and procedures in place to ensure that grant funds are not commingled. NWHR did not have written policies and procedures to ensure that debarred or suspended contractors or recipients did not receive Federal assistance. NWHR did not have a Section 504 self-evaluation on file. Also, NWHR did not have written policies and procedures in place for the management of Federal awards.

FINANCIAL MANAGEMENT

COMMINGLING OF FUNDS

NWHR did not separately identify costs by specific award in its financial management system. During our review, we determined that one project, "Building New Audiences" was supported by two NEA awards, Grant Nos. 11-5500-7077 and 12-5500-7054. The grant periods overlapped for approximately one month. The period of performance for Grant No. 11-5500-7077 was July 1, 2011 through August 31, 2012. The period of performance for Grant No. 12-5500-7054 was July 1, 2012 through August 31, 2013. We performed an analytical review of the two accounts and were able to determine that the sum of expenditures for each of the NEA grants commingled matched the total amounts reported on the Federal Financial Reports (FFRs). Therefore, we will not question the amounts reported.

NEA *General Terms* incorporates 2 CFR Part 215 (Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations), which addresses the requirement to have an adequate financial management system. The *General Terms* states:

There can be no overlapping project costs between Federal awards. Therefore, separate accounting records must be maintained for each award. OMB Circular A-110 (2 CFR Part 215), Section 2, and the "Common Rule," Section 1157.20, as applicable, establishes standards for financial management systems of recipients (i.e., accounting systems, internal controls, allowable costs, cash management, etc.). The financial management systems of recipient organizations and their subrecipients must meet these standards.

NWHR did not have policies and procedures in place to ensure that accounting records are maintained separately for each award. Without policies and procedures in place that would allow expenditures of grant awards to be segregated, NWHR is not able to adequately identify specific grant award expenditures.

We recommend that NWHR provide documentation to demonstrate that separate accounting records are maintained in its financial management system. We also recommend that NWHR develop written policies and implement procedures to separately identify costs by specific award in its financial management system.

SUSPENSION AND DEBARMENT

NWHR 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 180.300, *OMB Guidelines to Agencies on Government-wide Debarment and Suspension (Non-procurement)*, 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 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.**

² Now part of the System for Awards Management (SAM).

We recommended that NWHR 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.

SECTION 504 SELF EVALUATION

NWHR did not have the Section 504 self-evaluation on file as required by NEA *General Terms*. As noted in the *General Terms*, “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.

We recommend that NWHR complete a Section 504 self-evaluation to ensure compliance with the Rehabilitation Act of 1973, as amended. A copy of the self-evaluation should be submitted to NEA OIG. NEA OIG will provide a copy to NEA Office of Civil Rights/EEO.

MANAGEMENT OF FEDERAL AWARDS

NWHR did not have an approved written manual/handbook with formal policies and procedures for the management of Federal awards.

OMB *Uniform Administrative Requirements for Grants and Agreements for Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, Subpart C of 2 CFR part 215.21 states in part, the 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 handbook/manual could include policies and procedures for documenting Federal awards, accounting for program income and expenses, record retention and ensuring that debarred or suspended contractors or recipients do not receive Federal assistance. It could also incorporate publications such as the NEA *General Terms*, NEA *Financial Management Guide for Non-profit Organizations*, and the cost principles of relevant OMB guidance.

NWHR provided a draft manual with policies and procedures for the management of Federal awards; however, these policies and procedures were not finalized and approved during the audit scope period. We reviewed the draft and determined that NWHR should include the following items in its policies and procedures:

- Procedures to separately identify costs by specific award in its financial management system;
- Policies for suspension and debarment;
- Policies for record retention that meet the standards (all records are retained until three years after the final FFR is approved); and
- Policies regarding NWHR adherence to OMB and NEA guidance.

We recommend that NWHR strengthen, formalize and implement its policies and procedures related to managing Federal awards.

EXIT CONFERENCE

A telephone exit conference was held with NWHR officials on November 17, 2014. NWHR officials concurred with our findings and recommendations and agreed to implement corrective actions.

RECOMMENDATIONS

We recommend that NWHR:

1. Provide documentation to demonstrate that separate accounting records are maintained in its financial management system.
2. Develop written policies and implement procedures to separately identify costs by specific award in its financial management system.
3. 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.
4. Complete a Section 504 self-evaluation to ensure compliance with the Rehabilitation Act of 1973, as amended. A copy of the self-evaluation should be submitted to NEA OIG. NEA OIG will provide a copy to NEA Office of Civil Rights/EEO.
5. Strengthen, formalize and implement its policies and procedures related to managing Federal awards.