OFFICE OF INSPECTOR GENERAL

FINANCIAL MANAGEMENT SYSTEM & COMPLIANCE EVALUATION

ON SELECTED
NEA GRANTS TO

Confluences

Vancouver, Washington

REPORT NO. SCE-15-01

October 20, 2014

REPORT RELEASE RESTRICTION

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INTRODUCTION

BACKGROUND

Confluences (aka Confluence Project) supports renowned artist Maya Lin and a collaboration of Pacific Northwest tribes, civic groups from Washington and Oregon and other artists, architects and landscape designers. The Confluence Project has engaged communities along the Columbia River Basin, working with leaders in each of its six site communities to create connections with Maya Lin’s artworks. Projects have also helped forge new bonds between local and regional groups to benefit the entire region.

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 Budget (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, Confluences had four NEA grants opened or closed within the last three years, with awards totaling $148,250. We judgmentally selected and reviewed three of the four grants from the period under review.

The three grants reviewed were as follows:

1. Grant No. 10-4200-7004 was awarded to support design development of a landscape artwork by Maya Lin at Celilo Park, Oregon, including travel expenses. This grant award was in the amount of $32,000; however, the award was later reduced to $25,250 because Confluences could not provide enough allowable costs to meet the one-to-one matching requirement. Total reported outlays for this grant were in the amount of $50,500.

2. Grant No. 10-4200-7035 was awarded to support an interactive multimedia website, in consortium with the Benton-Franklin River Heritage Foundation. This grant award was in the amount of $18,000, and total reported outlays were in the amount of $37,379.
3. Grant No. 12-4292-7067 was awarded to support design and installation of interpretive elements by the artist Maya Lin for the Celilo Falls Tribute Project, as well as related community events and school-based arts programming with the City of Dufur, Oregon. This grant award was in the amount of $75,000. 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 Confluences. As of our site visit, the most recent issued independent auditor’s report on Confluences was for the fiscal year ended December 31, 2012. The review was conducted by Schiller & Company, P.C., an independent CPA firm, which did not find any material modifications that should be made to the financial statements. This was a review and not an independent audit that was conducted for Confluences. Confluences was not subject to the audit requirements of OMB Circular A-133.

RESULTS OF EVALUATION

Our evaluation concluded that Confluences did not comply with the financial management system requirements established by OMB and NEA for Federal awards. Confluences had significant delays in projects funded by NEA grants. Confluences did not maintain adequate supporting documentation for in-kind costs. Confluences did not have written policies and procedures in place for the management of Federal awards and to ensure that debarred or suspended contractors or recipients did not receive Federal assistance. Also, Confluences did not have the Section 504 self-evaluation on file.

FINANCIAL MANAGEMENT

GRANT PERIOD OF SUPPORT EXTENSIONS

We noted significant delays in projects funded by NEA grants for Confluences. Grant periods of support were extended by NEA, for various reasons, for each of the grants under review. In one instance, the grant period of support was extended for 2 1/2 years. All project activities and the commitment of project funds must take place within the period of support set out in the award document.

NEA General Terms, Section 7. Award Amendments, states:

You are required to carry out a project consistent with the application or proposal approved for funding by the Arts Endowment. As soon as you know that changes are necessary, and before implementation, you must submit a written request to G&C for approval. Requests submitted to other Arts Endowment offices often result in a delayed response.
Confluences should implement procedures to more accurately assess the time needed to complete projects. Also, Confluences should notify NEA as soon as possible when changes to the grant are necessary.

We recommend that Confluences develop written policies and implement procedures to more accurately assess the time needed to complete projects.

**IN-KIND COSTS**

Confluences did not provide adequate documentation for in-kind costs claimed to NEA Grant No. 10-4200-7035.

NEA *General Terms*, Section 16. Record Retention, states:

> You must maintain financial records, supporting documents (such as cancelled checks, invoices, contracts, travel reports, donor letters, in-kind contribution reports, and personnel activity reports), statistical records, and all other records pertinent to an award according to the provisions outlined in OMB Circular A-110 (2 CFR 215), Section 53, or the "Common Rule," Section 1157.42, as applicable. Generally, the retention period is three years from the date the final FFR is filed.

Without adequate documentation of in-kind costs, we were unable to determine whether in-kind costs were properly claimed to the grant. As a result of Confluences charging unsupported in-kind costs to the grant, we are questioning $1,453. We recommend Confluences provide proper documentation to support the in-kind costs questioned. Without additional documentation, a potential refund in the amount of $37 could be due to NEA. *(See Appendix I).*

We recommend that Confluences develop written policies and implement procedures to ensure that accurate in-kind costs are reported as required by OMB and NEA. The documentation should be prepared and maintained as part of the accounting records to support reported outlays.

**MANAGEMENT OF FEDERAL AWARDS**

Confluences did not have a written manual/handbook with formal policies and procedures for the management of Federal awards.

OMB's 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’s Financial Management Guide for Non-profit Organizations, and the cost principles of relevant OMB guidance.

We recommend that Confluences develop and implement a written manual/handbook containing policies and procedures relating specifically to managing Federal awards.

**SUSPENSION AND DEBARMENT**

Confluences 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 EPLS\(^1\); 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 recommended that Confluences 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**

Confluences 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](http://www.arts.gov/about/504Workbook.html).

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\(^1\) Now part of the System for Awards Management (SAM).
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 Confluences 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’s Office of Civil Rights/EEO.

**METHOD OF FUNDING**

During our evaluation, we identified several areas for Confluences to improve its management of Federal awards. The financial system should provide accurate, current, and complete financial information for each Federally sponsored program, and the project should be managed in accordance with the agreed upon conditions of the award.

According to Subpart C of 2 CFR 215.62, if a recipient materially fails to comply with the terms and conditions of an award, whether stated in a Federal statute, regulation, assurance, application, or notice of award, the Federal awarding agency may take any remedy legally available such as imposing special conditions, temporarily withholding cash and wholly or partly suspending or terminating the award.

Based on past performance for managing NEA awards, NEA has required Confluences to submit supporting documentation prior to reimbursement. In addition to the significant delays in projects discussed above, we also noted during our review of the grant files that submissions were often revised based on unallowable costs, incomplete and inaccurate information. Therefore, we recommend that NEA formally place Confluences on an alternative method of funding (Cost Reimbursement method) until Confluences demonstrates the ability to adequately manage its awards.

Under the Cost Reimbursement method of funding, the grantee is required to finance its operations with its own working capital with payments being made to reimburse the grantee for actual cash disbursements supported by adequate documentation. Costs are only reimbursed when required matching costs have also been incurred. Documentation, generally, will take the form of an invoice, receipt or contract supported by a copy of a cancelled check/electronic copy or other document supporting that the transaction was enacted; e.g., bank statement, electronic reference, etc. Specific documentation requirements will be established by NEA’s Grants and Contracts Office.
EXIT CONFERENCE

A telephone exit conference was held with Confluences officials on October 20, 2014. Confluences officials concurred with our findings and recommendations and agreed to implement corrective actions.

RECOMMENDATIONS

CONFLUENCES

We recommend that Confluences:

1. Develop written policies and implement procedures to become more accurate in assessing the time needed to complete projects.

2. Provide documentation for Grant No. 10-4200-7035 to support questioned in-kind costs. Without additional documentation, a potential refund of $37 may be due to NEA.

3. Develop written policies and implement procedures to ensure that accurate in-kind costs are reported as required by OMB and NEA. The documentation should be prepared and maintained as part of the accounting records to support reported outlays.

4. Develop and implement a written manual/handbook containing policies and procedures relating specifically to managing Federal awards.

5. 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.

6. 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’s Office of Civil Rights/EEO.

NEA

We recommend that NEA formally place Confluences on an alternative method of funding (Cost Reimbursement method) until Confluences demonstrates the ability to adequately manage its awards.
## APPENDIX I

### Confluences

**Calculation of Potential Refund**

*Grant No. 10-4200-7035*

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<tr>
<th>Description</th>
<th>Amount</th>
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<tbody>
<tr>
<td>Total Outlays</td>
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<td>Less: Questioned In-Kind Costs</td>
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<td>Adjusted Total Outlays</td>
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<tr>
<td>Less: NEA Share of Allowable Costs</td>
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<tr>
<td>Less: NEA Disbursement</td>
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<tr>
<td>Potential Refund Due to NEA</td>
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