



**National
Endowment
for the Arts**

**Office of Inspector General
Semiannual Report to Congress**



NEA CELEBRATES 50 YEARS



October 1, 2015 through March 31, 2016

Highlights of NEA Activities During This Reporting Period

Arts and Cultural Production Contributed \$704.2 Billion to the U.S. Economy in 2013

THE ARTS AND ECONOMIC GROWTH

\$704.2 B

contributed to the U.S. economy in 2013

4.2% OF GDP

32.5%

growth in GDP contribution from arts and cultural production between 1998 and 2013.



Creative Arts Therapy a Useful Tool for Military Patients

National Endowment for the Arts Expands Military Healing Arts Partnership

Recipients of Nation's Highest Award in Jazz Announced



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OFFICE OF INSPECTOR GENERAL
WASHINGTON DC 20506

April 28, 2016

A MESSAGE FROM THE ACTING INSPECTOR GENERAL

On behalf of the National Endowment for the Arts (NEA) Office of Inspector General (OIG), I am pleased to present our Semiannual Report to Congress for the period ended March 31, 2016.

During this reporting period, we issued the audit of NEA's fiscal year 2015 financial statements, two audit reports on grantees, one special review report on NEA compliance with information security, one memorandum report on NEA management challenges, one briefing review on internal compliance, and issued one desk audit review and summary of a grantee Single Audit. Also, the NEA issued two debarments resulting from recommendations of a prior OIG audit report. Additionally, the OIG issued and posted several Awareness Bulletins and brochures, conducted four Congressional outreach consultations and identified several potential violations of the IG Act, that were subsequently resolved, while we will continue working with NEA management to address other IG Act related issues. There were no investigations opened or in progress. Our reports can be found at <https://www.arts.gov/oig/audits-and-reviews>.

Our most recent peer review report of our audit processes was issued on December 13, 2013. We received a clean opinion on the quality assurance system our audit organization uses to produce its reports. We were contacted for and processed one FOIA request and evaluated four hotline inquiries with appropriate action or referral for action.

NEA's leadership has been responsive in working with the OIG to resolve proposed recommendations and increase organizational awareness of OIG authorities and roles. I appreciate NEA's important mission of promoting artistic and cultural activities in our nation, as well as the creative energy that inspires advances across all disciplines and for all people. A strong OIG working with responsive NEA management to actively promote economy and efficiency, will leverage agency resources and programs for the greatest results on that mission.

Michael J. Binder
Acting Inspector General

INTRODUCTION AND DEFINITIONS

NATIONAL ENDOWMENT FOR THE ARTS

Founded in 1965, the National Endowment for the Arts (NEA) offers assistance to a wide range of non-profit organizations and individuals that carry out arts programming, as well as State Arts Agencies and Regional Arts Organizations. NEA supports exemplary projects of excellence in the artistic disciplines of artist communities, dance, design, folk and traditional arts, literature, media arts, museums, music, opera, presenting and multidisciplinary works, theater and musical theater, and visual arts, as well as for arts education projects and local arts agencies. Grants are awarded for specific projects rather than for general operating or seasonal support. Most NEA grants are matched dollar for dollar with non-Federal funds. NEA received an appropriation of \$147,949,000 through the Consolidated Appropriations Act, 2016.

OFFICE OF INSPECTOR GENERAL

THE MISSION OF THE OFFICE OF INSPECTOR GENERAL IS TO PROMOTE ECONOMY, EFFICIENCY, AND EFFECTIVENESS BY DETECTING AND PREVENTING WASTE, FRAUD, AND ABUSE.

The Inspector General Act of 1978 (IG Act), as amended (5 USC App.), established independent, objective units within Federal agencies for oversight purposes. In 1988, the Congress amended the IG Act (Public Law 100-504) to establish statutory Inspectors General at additional departments and agencies, as well as at designated Federal entities and establishments, including NEA.

On October 14, 2008, the President signed the Inspector General Reform Act of 2008 (Public Law 110-409), which amends the previous IG Act by enhancing the independence of the Inspectors General and creating a Council of the Inspectors General on Integrity and Efficiency (CIGIE).

NEA Office of Inspector General (OIG) is required by law to prepare a semiannual report summarizing the activities of the office during the preceding six-month period. The report is sent to the NEA Chairman, the National Council on the Arts, and NEA's appropriating and authorizing committees. This dual reporting requirement facilitates and ensures the independence of the OIG.

This semiannual report summarizes the OIG's major activities, initiatives, and results for the six-month period ended March 31, 2016. The OIG staff consists of the Inspector General (IG), three auditors, and a part-time administrative assistant.

Due to the retirement of the incumbent Inspector General, the NEA OIG operated without an Inspector General from early November until nearly the end of December 2015. On December 28, Michael J. Binder, a re-employed federal annuitant with over 42 years of experience between the Government Accountability Office and the Inspector General community began serving as the NEA Acting Inspector General, on detail from the Environmental Protection Agency, OIG. The period of the detail was specified as 120 days, or until a permanent Inspector General is selected. During this reporting period, the NEA has made three separate attempts to recruit a permanent Inspector General. The Inspector General Act authorizes the NEA Chairman to appoint an Inspector General. This process is initiated by a NEA recruitment announcement, preliminary screening of candidates within NEA, and review of qualified candidates by a panel from the Inspector General community, leading to a recommendation to the Chairman for review and selection.

Since a permanent Inspector General has not yet been selected, subsequent to the end of the reporting period, the Chairman has requested and the Acting Inspector General has agreed an extended detail, or until a permanent IG is selected. Also subsequent to end of the reporting period, the OIG is recruiting to fill a recent staff auditor vacancy. There is no investigator or general counsel on the staff. To provide a reactive investigative capability, we have a Memorandum of Understanding with the National Science Foundation's OIG (NSF OIG) to provide coverage on a reimbursable basis, as needed. No investigative coverage from NSF OIG was needed during the recent six-month period. We have a Memorandum of Understanding with the National Credit Union Administration's OIG (NCUA OIG) that details procedures to be used for providing the OIG with legal services pursuant to the new requirements reflected in the 2008 IG Act. A NCUA OIG staff member has been assigned to provide such services on an as-needed basis. We have a Memorandum of Understanding with the US International Trade Commission's OIG to provide technical assistance with our evaluation of NEA's compliance with the Federal Information Security Management Act of 2002 on a reimbursable basis, as needed. We also have a Memorandum of Understanding with the National Endowment for Humanities OIG to provide and receive independent quality assurance reviews of audit and review reports to ensure compliance with applicable standards.

Also, during this reporting period, potential violations of the IG Act by NEA management were brought to the attention of several Congressional committees in both Houses of Congress by the Acting Inspector General. With the assistance of the Council of Inspectors General for Integrity and Efficiency, the immediate issues were promptly resolved.

DEFINITIONS

WE PERFORM THE FOLLOWING SERVICES:

ATTESTATIONS involve examining, reviewing, or applying agreed-upon procedures on a subject matter, or an assertion about a subject matter. Attestations can have a broad range of financial or nonfinancial objectives such as NEA's compliance with specific laws and regulations, validation of performance against performance measures or reasonableness of cost.

PERFORMANCE AUDITS address the efficiency, effectiveness, and economy of NEA's programs, activities, and functions; provide information to responsible parties to improve public accountability; facilitate oversight and decision making; and initiate corrective actions as needed. These reviews also consider compliance with applicable laws and regulations and soundness of the internal organizational and operational controls.

FINANCIAL AUDITS provide an independent assessment of whether an entity's reported financial condition, results, and use of resources are presented fairly in accordance with generally accepted accounting principles. Reporting on financial audits in accordance with Government Auditing Standards also includes reports on internal control, and compliance with provisions of laws, regulations, and contracts as they relate to financial transactions, systems and processes.

INVESTIGATIONS are conducted based on alleged or suspected fraud, waste, abuse or gross mismanagement, employee and contractor misconduct, and criminal and civil violations of law that have an impact on NEA's programs and operations. The OIG refers matters to the U.S. Department of Justice whenever there is reasonable grounds to believe there has been a violation of Federal criminal law. The OIG also identifies fraud indicators and recommends measures to management to improve the agency's ability to protect itself against fraud and other wrongdoing.

INSPECTIONS AND EVALUATIONS are short term limited scope reviews generally conducted to obtain facts, answer a specific question or address an immediate urgent issue. They may also be conducted to identify trends, patterns or obtain a broad perspective of potential issues or opportunities for recommended improvement.

AWARENESS BRIEFINGS AND BULLETINS are presented to NEA management, staff and grantees as appropriate, to promote greater knowledge and understanding of potential or actual conditions, vulnerabilities, opportunities for improvement or loss prevention. Briefing may be used internally or with stakeholders in lieu of formal reports.



AUDITS, INSPECTIONS, EVALUATIONS AND RELATED ACTIVITIES

Audits, evaluations and other reviews conducted by the OIG personnel during the current and prior periods have disclosed a few instances of deficient financial management practices in some organizations that received NEA grants. Among these were:

- Ensuring that contractors and recipients are not debarred or suspended from receiving Federal assistance prior to the award or payment of Federal funds;
- Written policies and procedures for the management of Federal awards;
- Reporting accurate and allowable costs;
- Maintaining a Section 504 self-evaluation at the organization;
- Maintaining supporting documentation for costs charged to the NEA grant; and,
- Ensuring the proper accounting for and eligibility of in-kind matching funds.

During this reporting period, we issued two limited scope audit reports on NEA grantees, the Fiscal Year 2015 evaluation on NEA compliance with the Federal Information Security Management Act (FISMA), the annual Financial Statement Audit for Fiscal 2015, one briefing on internal review of compliance with OMB Circular A-50 on Audit Follow-up, and issued one desk audit review with a summary of a grantee Single Audit. We also issued one memoranda report on NEA's Management and Performance Challenges for Fiscal 2016.

The annual Financial Statement Audit for Fiscal Year 2015 provided NEA with its thirteenth consecutive "Clean Opinion" and identified one significant deficiency.

The Fiscal Year 2015 evaluation of NEA's compliance with FISMA, identified three previous unimplemented recommendations and five new recommendations.

One limited scope review of a NEA grantee identified six recommendations and \$39,142 in total questioned costs, of which \$515 was ineligible for recovery. Another limited scope audit of a NEA grantee identified six recommendations including \$1,218,275 of questioned costs.

Table 1 (page 16) provides a summary of reports issued during this period.

Summary of Completed Audits and Reports

Audit of the NEA Fiscal Year 2015 Financial Statements

The *Accountability of Tax Dollars Act of 2002* requires NEA OIG or an independent external auditor, as determined by the Inspector General, to audit the agency financial statements. Under a competitively awarded contract monitored by NEA OIG, Leon Snead & Company, an independent certified public accounting and management consulting firm, received a one-year contract, with a four-year option, in January 2011 to audit NEA's financial statements. The audit was conducted following Generally Accepted Government Auditing Standards (GAGAS) and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as revised. In addition, the firm provided reports on internal controls and compliance with laws and regulations for matters relevant to the financial statement audit. The 2015 Financial Statement Audit Report was issued November 23, 2015, and resulted in an unqualified (clean) opinion, with one significant deficiency regarding the Arts Endowment's lack of reporting required quarterly data to the Department of Treasury and the Office of Management and Budget, which caused a delay in the production of the financial statements and subsequently in the completion of audit work to issue this report.

NEA's Compliance with the Federal Information Security Management Act of 2002 (FISMA)

FISMA requires that each Federal agency develop, document, and implement an agency-wide program for providing security for the information and information systems that support the operations and assets of the agency, including those provided or managed by another agency, contractor, or other source. In December 2014, the Federal Information Security Modernization Act of 2014 further strengthened information security by updating FISMA and providing a comprehensive framework for ensuring the effectiveness of information security controls over federal information operations and assets. In June 2015, the U.S. Department of Homeland Security (DHS) issued FY 2015 FISMA reporting metrics Vi.2 which includes a checklist for Offices of Inspector General to assess the level of performance achieved by agencies in specific program areas.

NEA OIG completed a full FISMA evaluation in FY 2015 using the most recent applicable FISMA requirements and guidelines published by OMB, the U.S. Department of Homeland Security and the National Institute of Standards and Technology. The evaluation concluded that although NEA made progress in complying with FISMA, some additional improvements were needed. Three of the recommendations remained open during this reporting period. A subsequent evaluation contracted by NEA with the U.S. Department of Transportation to evaluate system compliance with FISMA identified critical operating system security issues.

During this reporting period the OIG issued its Fiscal Year 2015 Evaluation on NEA's Compliance with FISMA, Report No. R-16-01, to determine the adequacy of NEA's IT security policies and procedures and privacy management program as well as tests on the effectiveness of security controls and practices update relating to NEA's network perimeter security and patching program. The evaluation was performed by the US International Trade Commission OIG on behalf of the NEA, with NEA OIG extracting information to issue its report. The evaluation determined that NEA has not established a continuous monitoring or security configuration management program that is consistent with FISMA requirements, OMB policy and NIST guidelines. Four recommendations were issued to address this finding. The evaluation also determined NEA has not established an effective remote access program that is consistent with FISMA requirements, OMB policy and applicable NIST guidelines. One recommendation was issued to address this finding. The additional technical assessment of system vulnerabilities demonstrated an over 12,460% difference from the 2% target risk factor.

LS-16-01 Limited Scope Audit Report on Selected NEA Grants to Mississippi Arts Commission (MAC)

Our audit concluded that the Mississippi Arts Commission (MAC) requested and received multiple extensions resulting in the mismanagement of NEA funds. MAC 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. MAC also did not have a Section 504 self-evaluation on file. As a result, we questioned costs for two grants totaling \$1,218,275 as outside the period of performance for each respective grant, and potential refunds to NEA totaling \$204,534. We recommended that MAC: 1) provide documentation for funds obligated within the period of performance for two grants; 2) develop written policies and implement procedures to more accurately assess budgeted costs and the time needed to complete projects to ensure that Federal funds are used to support activities related to the state plans and the fiscal year for which the grant award was made; and 3) develop written policies and implement procedures, in line with state policy, to ensure that contractors and award recipients are not debarred or suspended from receiving Federal assistance prior to the award or payment of Federal funds. We also recommended that NEA require MAC to provide support for all extension requests. If MAC is unable to provide support, NEA should request a refund or de-obligate remaining funds.

LS-16-02 Limited Scope Audit Report on Selected NEA Grants to the National Assembly of State Arts Agencies (NASAA)

Our limited scope audit concluded that NASAA generally complied with the financial management system and recordkeeping requirements established by OMB and NEA. However, we identified some areas requiring improvement to ensure that NASAA complies with OMB and NEA grant requirements and improve its management of NEA awards. As a result, we questioned costs totaling \$39,142. We also recommended that

NASAA: 1) review 2 CFR §200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, to gain an understanding of the proper in-kind costs that can be charged to the grant; 2) obtain and maintain proper documentation for all in-kind costs in accordance with 2 CFR §200; 3) develop written policies to ensure that contractors and recipients are not currently debarred or suspended from receiving Federal assistance prior to the award or payment of Federal funds; 4) update and implement its written manual/handbook of policies and procedures relating to managing Federal awards, and to ensure that key management staff and those assigned with operational responsibilities are familiar with the revisions; 5) adhere to its policies and procedures that ensure only allowable costs are charged to NEA grants; and 6) submit a refund payment to NEA of \$515 for unallowable costs claimed to NEA Cooperative Agreement No. DCA 2013-08.

Completed Inspections and Reports

We conducted one inspection review of NEA's policy for implementation of OMB Circular A-50, *Audit Resolution*. We determined that NEA Directive 1410 as well as the OIG companion audit policy incorrectly assigned organizational responsibility for assurance of follow-up with the OIG instead of with the NEA designated Audit Follow-up Official. Agency management is responsible for assuring that agreed-to actions on audit recommendations are completed. The OIG, as an independent organization within NEA, is restricted from management authority to make decisions or compel action within the

agency or with agency grantees or contractors. The OIG's role is advisory and performs follow-up reviews as needed, to determine if the reported completed action on audit recommendations was indeed completed. NEA management agreed with the OIG findings, conclusions and recommendations presented through a briefing, to revise the policy clarifying that NEA management, rather than the OIG is responsible for 1) tracking the status of audit resolution and actions taken, as well as 2) ensuring that completed action on recommendations is taken. Revision to the NEA and OIG Policy and Procedures are in progress.

Single Audit Desk Review and Summary

During this reporting period we issued a Single Audit Desk Review and Summary on an NEA grantee, the New York Public Library, Astor, Lenox and Tilden Foundation, (SA-16-01) for consideration by NEA management. The report did not disclose any questioned costs or deficiencies applicable to the grantee.

This reporting period the OIG began a policy and procedure of actively seeking Single Audits of NEA grantees and issuing Desk Review and Summaries in a new Single Audit product line, as a way of leveraging cooperative audit work by other Federal and non-federal auditors for reporting questioned costs, recommendations or issues specific to NEA grants or grantees to NEA management. This process also helps identify NEA grantees that may be deficient in meeting Single Audit reporting requirements.

Completed Advisory Memoranda

We perform reviews of NEA and grantee programs and operations which may not result in an audit or evaluation report. Advisory memoranda and letters are issued to communicate results, verifications and recommendations, if applicable.

We issued one memoranda report to NEA on October 21, 2015, on NEA's Major Management and Performance Challenges as required by the Reports Consolidation Act of 2000 and OMB Circular A-136. The top management and performance challenges identified as facing the agency for fiscal 2016 relate to: 1) Financial Management; 2) Human Capital; 3) Information Technology; and 4) Grantee Accountability. A full discussion of the OIG report of NEA's Management and Performance Challenges is presented on page 14 of this report.

Audit Resolution and Corrective Actions

During this semiannual reporting period, NEA continued to make progress in implementing open recommendations. At the beginning of the reporting period, there were 15 open recommendations from prior reports. During the period we reported 18 new recommendations. Based on appropriate evidence and documentation provided to support implementation of corrective actions, 4 were closed with 29 recommendations remaining open. At the end of the period. Also, one non-controlled briefing recommendation was resolved.

Reports Issued with Questioned Costs

At the beginning of the six-month period, there were no reports awaiting a management decision to allow or disallow questioned costs. There were two reports issued during the period with questioned costs.

Table 2 (page 17) provides a summary of issued reports with recommendations that questioned costs.

Reports Issued with Recommendations that Funds Be Put to A Better Use

There were no reports issued with recommendations that funds be put to a better use.

Table 3 (page 18) provides a summary of the issued reports with recommendations that funds be put to a better use.

Reports Issued with Recommendations Open for More than 180 days

At the end of the period, there were three recommendations from two reports to NEA relating to its information security program which remain open for more than 180 days. Implementation of corrective actions is in progress.

Table 4 (page 19) provides a summary of reports with recommendations open 180 days or more on which corrective actions are still in progress.

Audits, Inspections, Evaluations and Activities Planned or In-Progress

We will complete two mandatory reviews during the next reporting period, and begin two mandatory reviews to be issued in the following reporting period, all to assess NEA compliance with financial management and information security requirements.

We will complete our review of NEA's compliance the *Government Charge Card Abuse Prevention Act of 2012*, and the *Improper Payments Elimination Act*.

We have initiated an Inspection Review of NEA Compliance with FMFIA and OMB A-123 which will be completed by June 30, 2016.

We will perform the required FY 2016 Evaluation of NEA's Compliance with the Federal Information Security Act of 2002 (FISMA). FISMA requires an annual evaluation of each agency's information security program and practices to determine their effectiveness. The evaluation is performed by the OIG and/or by an independent external auditor. The technical assessment will be conducted by agreement by the U.S. International Trade Commission (USITC) Office of Inspector General for issuance in the following reporting period.

Also, the USITC OIG will perform an audit assessment and prepare a report on behalf of the NEA OIG, if required, on NEA compliance with the Cyber Security Act of 2015.

We will perform the annual audit of NEA's Financial Statement in compliance with the *Accountability of Tax Dollars Act of 2002*. The report will be issued during the following reporting period.

During this reporting period, we conducted a new contract competitive evaluation and subsequent selection of a highly qualified and experienced independent public auditor at the best value to the government to perform this audit. We appreciate the assistance of NEA's procurement staff in guiding us through this successful action, and look forward to working with the new contract auditors.

OTHER PLANNED REVIEWS

Annually, NEA awards more than 2,000 grants and cooperative agreements exceeding \$100 million, funding the arts in all 50 states and six U.S. jurisdictions, including urban and rural areas, and reaching civilian and military populations. Therefore, grants management and oversight is crucial to the mission of the NEA and continued public trust.

In FY 2016, we plan to continue evaluating NEA's policies and procedures for the management of its programs and operations. We will also continue evaluating award recipients' financial management system and recordkeeping practices to determine compliance with the requirements established by OMB and NEA's *General Terms and Conditions for Grants and Cooperative Agreements to Organizations*.

INVESTIGATIVE ACTIVITIES

The IG Act authorizes the OIG to receive and investigate allegations of employee misconduct as well as fraud, waste and abuse occurring within NEA programs and operations. Matters of possible wrongdoing are referred to the OIG in the form of allegations or complaints from a variety of sources, including NEA employees, other

government agencies and the general public. Reported incidents of possible fraud, waste and abuse can give rise to administrative, civil or criminal investigations.

Criminal, Civil and Administrative Actions

A grantee and senior official were debarred subsequent to NEA OIG audit finding. On May 13, 2015, NEA OIG issued a Special Review Report on Houma Regional Arts Council (HRAC), Report No. R-15-02. The NEA OIG concluded that HRAC mismanaged Federal funds, causing financial debt and compliance issues. HRAC shutdown operations which led to the dismissal and resignation of staff and board members. Based on the deficiencies, the NEA OIG recommended that the NEA debar HRAC and a senior official.

The NEA concurred and implemented the recommendations in the report by debarring HRAC and the senior official from receiving Federal funds for five years. HRAC and the senior official were officially debarred on December 17, 2015 and will not be eligible to receive Federal funds until December 4, 2020. This action demonstrates the NEA OIG and Program Management working together to ensure accountability and integrity in the application of NEA grant funds.

OIG Hotline Activity

During this reporting period, the OIG evaluated four complaints requiring additional

consideration of corrective action. Two of the complaints concerning NEA grantees were referred for further assessment to NEA management, one was referred to the Department of Health and Human Services HHS OIG and the Massachusetts Attorney General, and one concerning an NEA grantee is currently under audit review for possible recommendation of corrective action.

Investigative Summary

We did not open any new allegation cases during the recent six-month period. No criminal investigations were performed during this period. No matters were referred to prosecutive authorities.

Table 5 (page 21) provides a summary of investigative activities during this period.

OTHER ACTIVITIES

Activities within the Inspector General Community

We have allocated resources for responding to information requests from and for the Congress and other agencies. Our staff have also participated in various efforts by CIGIE, a council of inspectors general that promotes collaboration on integrity, economy, and efficiency issues that transcend individual agencies. The NEA IG is a member of the CIGIE Inspection and Evaluation Committee and Roundtable.

During this reporting period we participated in the Federal Audit Executive Council Round Table on Using Data Analytic Methods to Utilize Audit and Investigative

Resources Better. Additionally, the NEA Acting Inspector General served as an Instructor at a CIGIE Training Institute program on Planning Techniques for Audits and Evaluations.

Significant Management Decisions

Section 5(a)(12) of the IG Act requires that if the IG disagrees with any significant management decision, such disagreement must be reported in the semiannual report to Congress. Further, Section 5(a)(11) of the IG Act requires that any decision by management to change its response to a significant resolved audit finding must also be disclosed in the semiannual report. For this reporting period, there were no significant management decisions made in which we disagreed, and management did not revise any earlier decisions on our audit recommendations.

Access to Information

The IG should be provided with ready access to all agency records, information, or assistance when conducting an investigation or audit.

Section 6(b)(2) of the IG Act requires the IG to report to the agency head, without delay, if the IG believes that access to required information, records or assistance has been unreasonably refused, or has not been provided. A summary of each report submitted to the agency head about any refusal, must be provided in the semiannual report. During this reporting period, we did not have a problem in obtaining assistance or access to agency records.

Review of Legislation and Regulations

Section 4(a)(2) of the IG Act authorizes the IG to review and comment on proposed legislation or regulations relating to the agency or, upon request, affecting our operations. During this reporting period, we provided analyses and written commentaries on several NEA policies.

Peer Review Activity

Section 989C of the Dodd-Frank Act contains additional semiannual reporting requirements pertaining to peer review reports. Federal IGs are required to engage in peer review processes related to both their audit and investigative operations. These activities cover our role as both the reviewed and the reviewing OIG and relate to both audit and investigative peer reviews. In keeping with Section 989C, we are reporting the following information related to its peer review activities.

Audit Peer Reviews

On a 3-year cycle, peer reviews are conducted of an OIG audit organization's system of quality control in accordance with the *CIGIE's Guide for Conducting External Peer Reviews of the Audit Organizations of Federal Offices of Inspector General*. These guidelines are based on requirements in the *Government Auditing Standards*. Federal audit organizations can receive a rating of pass, pass with deficiencies, or fail.

The U.S. Consumer Product Safety

Commission's OIG conducted our peer review and issued its system review report on December 13, 2013. In the U.S. Consumer Product Safety Commission OIG's opinion, the system of quality control for our audit organization in effect for the year ended March 31, 2013, had been suitably designed and complied with to provide our office with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. We received a peer review rating of pass. The report's accompanying letter of comment contained five recommendations that, while not affecting the overall opinion, were designed to further strengthen our system of quality control. We agreed with four of the five findings and have completed corrective actions for all five of the recommendations. The system review report is posted on our Web site at <https://www.arts.gov/oig/reports/external-peer-reviews>. Our next peer review is scheduled to occur during 2016.

During FY 2015, we conducted a peer review of the U.S. Government Accountability Office OIG. The report can be found on their website.

OUTREACH AND AWARENESS

Web Site

We maintain an ongoing Internet presence <https://www.arts.gov/oig> to assist and inform NEA employees, grantees and the public. The site includes pages for *Whistleblower Protections*, *Reporting Fraud, Waste and Abuse; Reports; Guidance; Career Opportunities, Frequently Asked Questions* and *Other Resources*.

Consultations with Congress

The IG Act directs IGs to keep The Head of the Establishment and Congress fully and current informed. During this reporting period we initial outreach consultation with four Congressional Committees to present our current plans, discuss relevant issues and obtain their input about concerns and needs. All meetings included both the majority and minority staff members. We met with:

- 1) House Appropriations Sub-Committee on Interior, Environment and Related Agencies;
- 2) House Committee on Government Oversight and Reform;
- 3) Senate Appropriations Sub-Committee on Interior, Environment and Related Agencies; and,
- 4) Senate Committee on Homeland Security and Government Affairs.

IG Act Highlights Brochure

To inform both NEA staff and interested members of the public, we produced and posted on our website a brochure summarizing highlights of the IG Act.

Awareness Bulletins

A mission objective of the OIG is to promote economy efficiency and effectiveness and to prevent fraud waste and abuse. To help fulfill this objective, the OIG produced two Awareness Bulletins on 1) Grant Fraud and 2) Surviving an Active Shooter Event. Both are available on the NEA OIG website <https://www.arts.gov/oig>

Chairman’s Memo to NEA Staff Promoting Support the OIG

Following the reporting by our office of potential violations of the IG Act, we recommended that the Chairman follow the example of most heads of Federal departments and agencies by issuing a memo to all NEA staff describing and supporting the independent role of the OIG in NEA. On March 14, 2016, Jane Chu, Chairman, issued a Memo to all NEA staff describing the purpose of the OIG and how to best work with the NEA OIG. We believe that this is an important step in demonstrating NEA’s commitment to a strong and independent OIG. The memo is presented in the Appendix of this report.

OIG Hotline Advisory in NEA Grant Documents

To help further the visibility of the OIG and help serve as a deterrent to potential abuse within the grantee community, the OIG suggested, and the agency agreed to publicize an OIG Hotline “advisory” in NEA grant documents. The “advisory” is shown below.



NEA’s Office of Inspector General (OIG): *Helping what works- work better!* NEA grantees have a fiduciary obligation to ensure absolute integrity in the use of, and accountability for tax payer’s dollars. Please report any possible fraud, waste and abuse to NEA Office of Inspector General (OIG). You may report anonymously and your identity will remain confidential (*unless unavoidable*). **Call the OIG Hotline 1-877-535-7448 or report to <https://www.arts.gov/oig>**

NEA's Top Management and Performance Challenges for Fiscal 2016 (M-16-01 issued 10/21/15)

The Consolidated Reports Act of 2000 and OMB Circular A-136 require Offices of Inspector General to annually assess and report on their respective agency's Top Management and Performance Challenges.

Financial Management. NEA's top financial management challenges for FY 2016 will be to keep pace with the various government-wide modernization efforts and regulatory changes, while maintaining accounting operations and improving efficiency and effectiveness of NEA work procedures, systems and staff cross-training. During FY 2016, the Finance Office will face the following challenges: 1) Filling key staff positions. The Finance Office lost two well-trained, experienced systems accountants. Those accountants performed many of the financial reporting tasks for NEA and were familiar with both DELPHI and Treasury systems. The Director also plans to retire in early 2016. Fully implement reporting processes for the Government-wide Treasury Account Symbol Adjusted Trial Balance System to ensure compliance with financial reporting laws and related government-wide policies and requirements. 2) Work with the National Endowment for the Humanities (NEH), as a cross-servicer, to develop eGMS grants and panel processes that will interface with the financial system. 3) Streamline the number of required DELPHI Discoverer reports and set up a library for all Finance staff to access the same versions of the reports, which will maintain data integrity.

Human Capital. FY 2016 will be focused on the Office of Human Resources continuing to work with management to ensure that recruitment efforts are targeted and effective in attracting people with the right competencies and skills to serve NEA's mission. There continues to be a slight increase in recruitment as a result of attrition and as we move closer to calendar year 2016 there will possibly be an increase in the number of retirements and the issue of retaining institutional knowledge. NEA will focus on retirement data and human capital analysis to determine the correct human capital strategy as we deal with the challenges of retirement and also a change in administration from Presidential election.

Information Technology. NEA's top information technology management challenge continues to be the need to transition to a new, more robust grants management system (GMS). This need is being addressed through an OMB-approved partnership with NEH to jointly develop a new shared system. Work on this cloud-based system began in September 2012. The new GMS, built on a more flexible, operationally efficient platform, will be fully integrated with NEA business processes and seamlessly connected to both Grants.gov and the DELPHI financial system. NEA expects to transition to the system in FY 2017. New government-wide requirements for information security in recent years provide challenges to all Federal agencies, including NEA. The Federal Information Security Management Act of 2002 (FISMA), as amended, requires each Federal agency to develop, document, and implement an agency-wide information security program to provide information security over the operations and assets of the agency. Although

we have identified improvement opportunities in the information security program, NEA continues to make progress to comply with these requirements. Privacy reporting has been included as part of the FISMA reporting process in light of the occurrence of data theft and losses at several Federal agencies. The E-Government Act and Privacy Act provide legislative guidance for the control and dissemination of personal information and personally identifiable information. This will continue to be an area requiring attention in NEA.

Grantee Accountability. Full implementation by the grantee community of 2 CFR Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). There continues to be a limited number of grantees that have not complied with all applicable Federal grant requirements. These organizations are typically identified by NEA's G&C and referred to NEA OIG for audit or review. Upon evaluating these organizations, NEA OIG has identified the following five most common findings: (1) not ensuring that contractors and recipients are not debarred or suspended from receiving Federal assistance prior to the payment or award of Federal funds; (2) not having written policies and procedures for the management of Federal awards; (3) not reporting accurate and allowable costs incurred on the Federal Financial Report; (4) not maintaining a Section 504 self-evaluation at the organization, and (5) not maintaining supporting documentation for costs charged to NEA grants.

Internal Operational Improvements Within the NEA OIG

To better capture and account for the value added performance of the NEA OIG, we initiated a new Performance Scorecard along with definitions of the applied output and outcome measures. These measures go beyond those required for reporting by the IG Act, to better align with the IG mission and strategic plan. The new performance measures emphasize both value added outputs and result driven outcomes, as prescribed by the Government Performance and Results Act. A brochure listing those performance measure with definitions is available at <https://www.arts.gov/sites/default/files/performance-results-feb2016-rev.pdf>.

TABLE 1: SUMMARY OF REPORTS ISSUED DURING THE REPORTING PERIOD

Report No.	Report Date	Report Title	Questioned Costs	Unsupported Costs	Funds Put To A Better Use
LS-16-01	November 3, 2015	Limited Scope Audit Report on Selected NEA Grants to the Mississippi Arts Commission	1,218,275	1,218,275	0
LS-16-02	February 29, 2016	Limited Scope Audit Report on Selected NEA Grants to The National Assembly of State Arts Agencies	39,142	39,142	0
A-16-01	November 23, 2015	Fiscal Year 2015 Audit of NEA's Financial Statement	0	0	0
R-16-01	October 28, 2015	Fiscal Year 2015 Evaluation of NEA's Compliance with the Federal Information Security Management Act of 2002	0	0	0
SA-16-01	February 19, 2016	Desk review of this single audit report of the New York Public Library, Astor, Lenox and Tilden Foundations	0	0	0
M-16-01	October 21, 2015	Top Management Challenges for the National Endowment for the Arts	0	0	0
TOTAL			\$1,257,417	\$1,257,417	0

TABLE 2: INSPECTOR GENERAL ISSUED REPORTS WITH QUESTIONED COSTS

		Dollar Value			
		Number of Reports	Questioned Costs	Unsupported Costs	Potential Refunds
A.	For which no management decision has been made by the commencement of the reporting period	1	11,500	11,500	11,500
B.	Which were issued during the reporting period	2	1,257,417	1,257,417	205,049
	Subtotals (A+B)	3	1,268,917	1,268,917	216,549
C.	For which a management decision was made during the reporting period	2	50,642	50,642	12,015
	(i) dollar value of the disallowed costs	2	12,015	12,015	12,015
	(ii) dollar value of the cost not disallowed	1	38,627	38,627	0
D.	For which no management decision was made by the end of the reporting period	1	1,218,275	1,218,275	204,534
E.	Reports for which no management decision was made within six months of issuance	0	0	0	0

TABLE 3: INSPECTOR GENERAL ISSUED REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE

		Number of Reports	Dollar Value
A.	For which no management decision has been made by the commencement of the reporting period	0	0
B.	Which were issued during this reporting period	0	0
C.	For which a management decision was made during the reporting period	0	0
	(i) dollar value of recommendations that were agreed to by management	0	0
	- based on proposed management actions	0	0
	- based on proposed legislative action	0	0
	(ii) dollar value of recommendations that were not agreed to by management	0	0
D.	For which no management decision has been made by the end of the reporting period	0	0
E.	Reports for which no management decision was made within six months of issuance	0	0

TABLE 4: REPORTS WITH RECOMMENDATIONS ON WHICH CORRECTIVE ACTIONS HAVE NOT BEEN COMPLETED

Report Number	Report Date	Report Title	Brief Summary of Significant Recommendations/Planned Corrective Actions
R-13-01	Dec 17, 2012	FY 2012 Evaluation of NEA's Compliance with the Federal Information Security Act of 2002	The report included four recommendations; of which one does not have completed corrective action. NEA should implement the use of PIV smartcard credentials for access to its network and information systems. NEA has implemented the capability for PIV smartcard access to its network; however, it has not been fully implemented as a mandatory requirement. Corrective actions are in progress.
R-13-03	Feb 15, 2013	Evaluation of NEA Perimeter Security	The report included seven recommendations; of which two do not have completed corrective actions. NEA should improve its perimeter security by performing scheduled, routine scanning of the perimeter on at least a monthly basis and perform perimeter scans after new hardware or software is introduced to the NEA perimeter network. Corrective actions are in progress.

TABLE 4: REPORTS WITH RECOMMENDATIONS ON WHICH CORRECTIVE ACTIONS HAVE NOT BEEN COMPLETED (CONTINUED)

Report Number	Report Date	Report Title	Brief Summary of Significant Recommendations/Planned Corrective Actions
LS-13-02	Mar. 1, 2013	Limited Scope Audit Report on selected NEA Grants to Music-Theatre Group	The report included 11 recommendations; of which five do not have completed corrective actions. Music-Theatre Group has to repay \$135,000 and provide documentation of compliance with Internal Revenue Service. Music-Theatre Group should also provide written policies. This grantee is in the third year of a three-year debarment.
M-15-07	Sept. 17, 2015	Management Advisory Report—NEA’s Freedom of Information Act Program	The report included three recommendations which do not been completed corrective actions. NEA should revise the FOIA policies and procedures, update their website and develop and implement a process for non-career officials are informed of their responsibilities for the handling of FOIA requests.

TABLE 5: INVESTIGATIVE AND ADMINISTRATIVE ACTION DATA

Civil/Criminal Investigative/Administrative Activities	Number of Actions
Referrals to Prosecutors	0
Civil Settlements	0
Investigative Recoveries	0
Debarments/Suspensions	2
Administrative Actions	1
Hotline Contacts	
Telephone Calls Evaluated as With Possible Merit	4
Email	0
Standard Mail	0
Referred by Other Sources	0
Referred to Other Sources	3
In Assessment Process for Possible Action	1
Closed with Recommended Action	0
Fax	0
Total	4
Freedom of Information Act Requests	
Requests Received	1
Requests Processed or Referred	1
Total	1

TABLE 6: SUMMARY OF INSPECTOR GENERAL REPORTING REQUIREMENTS

IG ACT Reference	Reporting Requirement	Page(s)
Section 4(a)(2)	Review of legislation and regulations	11
Section 5(a)(1)	Significant problems, abuses and deficiencies	5-9
Section 5(a)(2)	Recommendations with respect to significant problems, abuses and deficiencies	5-9
Section 5(a)(3)	Prior significant recommendations on which corrective actions have not been completed	8 and 19
Section 5(a)(4)	Matters referred to prosecutive authorities	10 and 21
Section 5(a)(5)	Summary of instances where information was refused	11
Section 5(a)(6)	List of audit reports by subject matter, showing dollar value of questioned costs and funds put to better use	16
Section 5(a)(7)	Summary of each particularly significant report	5-7 and 14
Section 5(a)(8)	Statistical tables showing number of reports and dollar value of questioned costs	17
Section 5(a)(9)	Statistical tables showing number of reports and dollar value of recommendations that funds be put to better use	18
Section 5(a)(10)	Summary of each audit reports issued before this reporting period for which no management decision was made by the end of the reporting period	8
Section 5(a)(11)	Significant revised management decisions	8
Section 5(a)(12)	Significant management decisions with which the inspector general disagrees	11
Section 6(b)(2)	Access to information	11
Section 989(c)	<i>Peer Review—Sec. 989C of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Public Law 111-203) requires Inspectors General to include the results of any peer review conducted by another Office of Inspector General during the reporting period; or if no peer review was conducted, a statement identifying the date of the last peer review.</i>	11

APPENDIX

MEMO



DATE: 14 March 2016
TO: National Endowment for the Arts staff
FROM: Jane Chu, Chairman
RE: Office of Inspector General

The National Endowment for the Arts (NEA) has an outstanding mission to support the arts and diverse creative endeavors toward our vision of all Americans having the opportunity to be engaged with and benefit from the arts. The results of our work together, far beyond the obvious benefit within the arts community, have an immeasurable impact on the quality of life through the achievements and advances it inspires across cultures and disciplines.

PURPOSE OF THE OFFICE OF INSPECTOR GENERAL

The Office of Inspector General (OIG) is an essential partner to this work. The OIG serves as an independent office within our agency designed to prevent fraud, waste, and abuse in agency programs and operations, largely through independent and objective audits and investigations. This important work enables us all to be more effective in achieving the agency's mission, including leading to opportunities for improvement and maintaining strong public confidence in the operations of the National Endowment for the Arts.

WORKING WITH THE OIG

We can all ensure that we support the internal review and oversight carried out by our OIG. National Endowment for the Arts' employees are critical to this process. The OIG routinely needs information from agency offices and our grantees to conduct its work effectively and fully determine how the NEA or its recipients of funding are fulfilling their respective responsibilities. NEA employees must take an active role in supporting the OIG's activities and in recognizing the statutory authority, mission and duties of an independent NEA OIG. This collaboration is built on mutual respect, professionalism and a shared mission to serve the American people.

One way we do this is for NEA personnel to produce materials requested by the OIG in a timely and complete fashion and be accessible for discussion, without requiring permission or approval of a supervisor. NEA employees should make the OIG aware when requested materials contain classified national security information, privacy protected materials, attorney-client or deliberative communications or other sensitive information. However this should not delay or prevent the production of materials. Because accountability makes us better and is aligned with the NEA's Organizational Values, all NEA employees and grantees have a responsibility to report instances of possible fraud, waste and abuse directly to the OIG. All managers should respect the employee's right to speak directly and confidentially with the OIG, whether the communication is initiated by the OIG or the employee. OIG will maintain employee confidentiality when requested, consistent with legal requirements and Whistleblower Protection laws.

THANK YOU FOR YOUR WORK

I want to thank you for your work. Together through collaboration, we can continue to advance the mission and the vision of the National Endowment for the Arts. For more information, please visit the OIG's website page at <https://www.arts.gov/oig>.

Jane Chu
Chairman

CONTACTING THE OFFICE OF INSPECTOR GENERAL

HELP PROMOTE INTEGRITY, ECONOMY AND EFFICIENCY

REPORT SUSPECTED FRAUD, WASTE, ABUSE OR MISMANAGEMENT

COMPLAINT MAY BE MADE ANONYMOUSLY

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ANY INFORMATION YOU PROVIDE WILL BE HELD IN CONFIDENCE.

**HOWEVER, PROVIDING YOUR NAME AND MEANS OF COMMUNICATING
WITH YOU**

MAY ENHANCE OUR ABILITY TO INVESTIGATE.