



NATIONAL
ENDOWMENT
FOR THE ARTS

OFFICE OF INSPECTOR GENERAL

FINANCIAL MANAGEMENT SYSTEM & COMPLIANCE EVALUATION OF THE

DETROIT SYMPHONY ORCHESTRA HALL Detroit, MI

Report No. SCE-10-03
August 5, 2010

REPORT RELEASE RESTRICTION

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INTRODUCTION

BACKGROUND

Detroit Symphony Orchestra, Inc. (Orchestra) was founded in 1914. The Orchestra is dedicated to bringing to the stage the highest quality of artistic performance and educational programming.

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 Orchestra. As of our site visit October 9, 2008, the most recent issued independent auditor's report on the financial statements of the Orchestra was for the year ended August 31, 2007. The audit was conducted by Plante & Moran, PLLC, which issued an unqualified (clean) opinion. The Orchestra was not subject to the audit requirements of OMB Circular A-133.

RESULTS OF EVALUATION

For selected Grant No. 06-5100-8124, our evaluation concluded that the Orchestra did not accurately report expenditures on its Financial Status Report (FSR). In addition, the Orchestra did not maintain personnel activity reports (time and effort) and did not have the required Section 504 self-evaluation on file as required. Details are presented in the following narrative.

FINANCIAL MANAGEMENT

REPORTED EXPENDITURES

The Orchestra did not report actual expenditures on its FSR to the NEA. The amount reported on the FSR was \$250,370. However, expenditure listings provided by the Orchestra showed costs totaling \$112,215. The NEA *Instructions for Completing the Financial Status Report and General Terms* stated that organizations are to:

Indicate total *actual* project outlays (total funds spent minus any refunds) within the period of support indicated in your award letter or as amended.

We are recommending the Orchestra develop and implement written procedures to ensure that actual expenditures are reported on its Federal Financial Report¹ (FFR) and include only those amounts that are allowable per the approved budget, OMB Circulars and NEA *General Terms*.

EXPENSES NOT INCURRED IN THE GRANT PERIOD

The Orchestra included \$5,381 of costs incurred prior to the grant period on its final FSR. The NEA *Instructions for Completing the Financial Status Report* and *General Terms* stated that:

All project activities and the commitment of project funds must take place within the period of support set out in your award document.

We are recommending the Orchestra develop and implement written procedures to ensure that only expenditures for the specific grant period are reported on its FFRs and Requests for Advance/Reimbursement.

PERSONNEL ACTIVITY REPORTS

The Orchestra did not maintain personnel activity (time and effort) reports. At the time of the award, personnel activity reports were required for all employees whose salaries and fringe benefits are charged, in whole or in part, to either the award or the matching funds if the award is \$50,000 or more. This requirement is mandated by OMB and is detailed in NEA's *General Terms*. A sample personnel activity report is also provided in the *General Terms*.

As a result of not maintaining personnel activity reports, we are questioning salaries and fringe benefits totaling \$76,682. The Orchestra did not meet the matching requirements without including the questioned salaries and fringe benefits. Therefore, the Orchestra should provide documentation to support the questioned salary and fringe benefit costs of \$76,682 claimed under the grant. Without additional documentation a potential refund may be due to the NEA.

We are recommending the Orchestra develop and implement written procedures to ensure that personnel activity reports are maintained for employees whose salaries are charged, in whole or in part, to future grant awards that are \$50,000 or more.

¹ Formerly Financial Status Report (FSR).

INADEQUATE DOCUMENTATION

The Orchestra could not provide adequate support documentation for \$11,050 of costs reported as total outlays on its final Financial Status Report. The NEA *Instructions for Record Retention* state:

“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 consistent with the provisions outlined in OMB Circular A-110, Section 53, or the “Common Rule” Section 1157.42, as applicable. Generally, the retention period is three years from the date the final Financial Status Report is filed.”

We are also recommending that the Orchestra develop and implement written procedures to ensure that supporting documentation for all expenditures is maintained.

Based on the findings above, we are questioning and reducing costs claimed under the grant by \$93,113², resulting in allowable expenditures of \$19,102. Based on allowable expenditures, the Orchestra did not meet its one-to-one matching requirement. A potential refund of \$45,449 may be due without additional documentation for \$90,898 of the questioned cost.

SECTION 504 SELF-EVALUATION

The Orchestra 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.

We are recommending the Orchestra conduct a Section 504 self-evaluation to ensure compliance with the Rehabilitation Act of 1973, as amended.

² This amount reflects the difference in the total outlays reported on the FSR minus the presented expenditures plus unallowable/questioned costs: $\$112,215 - (\$5,381 + \$87,732) = \$19,102$.

EXIT CONFERENCE

An exit conference was held with the Orchestra officials on October 9, 2008 with a follow-up telephone call on July 15, 2010. They concurred with our findings and recommendations.

RECOMMENDATION

We recommend that the Orchestra:

1. Develop and implement written procedures to ensure that actual expenditures are reported on its FFR and include only those amounts that are allowable per the approved budget, OMB Circulars and NEA *General Terms*.
2. Develop and implement written procedures to ensure that only expenditures for the specific grant period are reported on final FFR and Requests for Advance/Reimbursement.
3. Develop and implement written procedures to ensure that individual personnel activity reports are maintained for employees whose salaries are charged, in whole or in part, to future grant awards that are \$50,000 or more.
4. Develop and implement written procedures to ensure that supporting documentation for all expenditures is maintained.
5. Provide additional documentation to support the questioned costs (See Attachment 1) reported on the Final Status Report. Based on our review of the documentation provided, we will determine if any refund is due to the NEA. Without additional documentation, the potential refund is \$45,449 under this grant.
6. 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.)

Detroit Symphony Orchestra Hall
Grant No. 06-5100-8124
6/1/2006 – 5/31/2007

Total Outlays		\$112,215
Less: Unallowable Costs		
<i>Expenditures outside of grant period</i>		<u>(5,381)</u>
<i>Guest Artists</i>		(2,181)
Wilkins	514	
Oundjian	214	
Jarvi	1453	
<i>Tickets</i>		(3,200)
Wigglesworth	800	
Davis	800	
Wilkins	800	
Midori/Jarvi	800	
Subtotal Allowable Costs		106,834
Less: Questioned Costs		
<i>Salaries & Wages</i>		(76,682)
<i>Inadequate Documentation</i>		<u>(11,050)</u>
<i>Expenses paid directly:</i>		(1,760)
DSA – Achiever’s Ladies Ens	300	
DSA – Jazz Combo	200	
DSA – fee for Super Saturday	200	
Joseph Crachiola	200	
DSA – rental fee	860	
<i>Payroll items:</i>		(3,720)
Teaching & Honorarium – Feb. – Mar. 07		
<i>From Patron Edge:</i>		(5,570)
DSA Comp tickets to Motown Magic	2,820	
DSA use of DSO box office	2,750	
Total Allowable Costs		<u>\$19,102</u>

**Detroit Symphony Orchestra Hall
Calculation of Potential Refund
Grant No. 06-5100-8124**

Total Costs Claimed	\$112,215
Less: Unallowable/Questioned Costs	<u>(93,113)</u>
Total Allowable Costs	19,102
Less: NEA Share of Allowable Costs	<u>(9,551)</u>
Matching Amount	<u>9,551</u>
Amount Disbursed	55,000
Less: NEA Share of Allowable Costs	<u>(9,551)</u>
Potential Refund	<u>\$45,449</u>