



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

**FINANCIAL MANAGEMENT SYSTEM &
COMPLIANCE EVALUATION**

OF THE

VSA ARTS OF NEW MEXICO

Albuquerque, NM

REPORT NO. SCE-09-03

October 7, 2008

REPORT RELEASE RESTRICTION

This report may not be released to anyone outside of the National Endowment for the Arts (NEA) without the approval of the NEA Office of Inspector General.

Information contained in this report may be confidential. The restrictions of 18 USC 1905 should be considered before this information is released to the public.

Furthermore, information contained in this report should not be used for purposes other than those intended without prior consultation with the NEA Office of Inspector General regarding its applicability.

INTRODUCTION

BACKGROUND

VSA Arts of New Mexico (Center) is a contemporary art center with a social mission, which is affiliated with the John F. Kennedy Center for the Performing Arts in Washington, DC. The Center is dedicated to the full accessibility in the arts for people of all abilities, ages, cultures and income levels. Since 1981, it has focused on providing arts education and exhibition opportunities for adults with developmental disabilities. Programming includes contemporary, socially relevant, performing and visual arts, featuring artists and targeting audiences not traditionally represented by mainstream arts organizations.

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 Center. As of our site visit on July 31, 2008, the most recent issued independent auditor's report on the Center is for the years ended June 30, 2007 and 2006. The audit was conducted by Kardas, Abeyta and Weiner, PC, an independent CPA firm, which issued an unqualified (clean) opinion. The Center was not to subject to the audit requirements of OMB Circular A-133.

RESULTS OF EVALUATION

Our evaluation concluded that Center did not separate project expenditures in the accounting system and some project expenses were not properly allocated.

FINANCIAL MANAGEMENT

The Center does not identify costs by specific grant award in its accounting system. The NEA's *General Terms and Conditions for Grants and Cooperative Agreements to Organizations (General Terms)* refers to the *Financial Management Guide for Non-Profit Organizations*, which NEA provides to each applicable grantee and states in part:

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

Records of expenditures must be maintained for each grant project by the cost categories of the approved budget (including indirect costs that are charged to the project), and actual expenditures are to be compared with budgeted amounts.

In addition, the Center did not properly allocate costs among projects. An evaluation of the Center's costs indicated that some advertising costs were charged in total to the grant. However, the advertising included other projects and, therefore, the costs should have been allocated among the grant and the other benefiting projects. According to OMB A-122, if costs incurred benefits the award and other work, costs should be allocated in accordance with the relative benefits received. Based on our review, the Center had enough allowable expenses to meet its matching requirement even if the improperly allocated costs were disallowed. Therefore, no refund would be due the NEA.

EXIT CONFERENCE

An exit conference was held with the Center's officials on July 31, 2008. The Center's officials concurred with our findings and recommendations.

RECOMMENDATIONS

We recommend that the Center:

1. Implement procedures to ensure that its accounting system identifies costs by specific grant project.
2. Implement procedures to ensure that costs, which benefit the award and other work, are properly allocated and the rationale for the allocation is documented.