



NATIONAL ENDOWMENT FOR THE
Humanities

OFFICE OF INSPECTOR GENERAL

LIMITED AUDIT REPORT

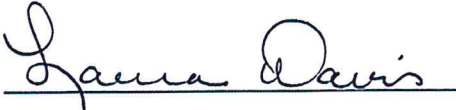
NEH GRANT AWARD

TO

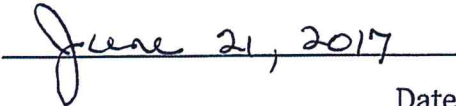
PACIFIC SYMPHONY

(GI-50294-11)

OIG-17-01(EA)



Laura Davis, Inspector General



Date

LIMITED AUDIT REPORT

NATIONAL ENDOWMENT FOR THE HUMANITIES (NEH)

GRANT AWARD TO

PACIFIC SYMPHONY

I. INTRODUCTION

The Office of Inspector General (OIG) has performed a limited audit of records maintained by Pacific Symphony related to the following NEH grant award.

<u>Grant Number</u>	<u>Grant Period</u>	<u>Amount Awarded</u>
GI-50294-11	6/1/2011 – 11/30/2014	\$300,000

Grant Expenditures: The intent of the grant award was to support the implementation of orchestra performance, a CD, and related programs exploring the history and culture informing works by Dvorak and Copland. Pacific Symphony has submitted the final Federal Financial Report (SF-425) and conveyed that the related expenditures conform to the intended grant purpose, as stipulated by the individual NEH grant award.

II. BACKGROUND

The largest orchestra in the U.S. in the last 50 years, Pacific Symphony is recognized as an outstanding ensemble making strides on both the national and international scene, as well as in its own community of Orange County, CA. Presenting more than 100 concerts and events a year and a rich array of educational and community programs, Pacific Symphony reaches more than 300,000 residents from school children to senior citizens. Pacific Symphony enriches the human spirit through superior performances of symphonic music and community engagement.

NEH awarded a grant to Pacific Symphony entitled, *Music Unwound*. The project involved a consortium of five orchestras – Pacific Symphony, the Buffalo Philharmonic Orchestra, the North Carolina Symphony, the Louisville Orchestra, and the Austin Symphony. The NEH grant was awarded to support the creation of humanities-infused thematic programming for orchestras, focusing on two topics: “Dvorak and America” and “Copland and Mexico”. Ancillary events, educational outreach, and collaborations with museums were also anticipated as part of the project.

III. LIMITED AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

The principle objectives of the limited audit were to determine whether (1) grant expenditures were made in accordance with applicable provisions of NEH’s *General Terms and Conditions for Awards* and the specific terms of the grant award; and (2) proper controls over administration of Federal awards exist in accordance with minimum standards prescribed in OMB Circulars A-110, *Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations* (2 CFR Part 215) and A-122, *Cost Principles for Non-Profit Organizations* (2 CFR Part 230).

To accomplish the objectives, we reconciled the final Federal Financial Report (SF-425), as submitted by Pacific Symphony on June 18, 2015, to the General Ledger (G/L) for the grant project. For expenditure testing, we judgmentally selected sixty-seven (67) non-payroll transactions made during fiscal years 2011 thru 2014, totaling \$246,796 (which represents approximately 82 percent of the total grant expenditures). For payroll testing, we selected salary expenditures associated with Pacific Symphony totaling \$19,297 and the Dvorak project conducted by the North Carolina Symphony totaling \$9,908 (which represents 100 percent of total salary charges to the NEH grant award). We reviewed supporting documentation provided by Pacific Symphony for the selected transactions to determine whether the grant expenditures are allowable, allocable, and reasonable, as prescribed by OMB Circular A-122. We also gained an understanding of applicable accounting procedures and internal controls.

We conducted this performance audit in accordance with *Generally Accepted Government Auditing Standards* (GAGAS) as promulgated by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

IV. RESULTS OF LIMITED AUDIT

According to the final Performance Report submitted by Pacific Symphony, the project supported by NEH grant GI-50294-11 has (1) created multi-disciplinary thematic programming for orchestras; and (2) driven collaborations with museums, schools, and universities. Pacific Symphony certified total Federal expenditures related to the project in the amount of \$300,000. Our limited audit identified questioned costs totaling \$42,824 and internal control weaknesses, as discussed below.

A. Questioned Costs

The Inspector General Act defines questioned costs as:

- Costs that are questioned because of an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or document governing expenditure of funds;
- A finding that, at the time of the audit, such cost is not supported by adequate documentation; or
- A finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable.

During the course of our audit testing, we identified questioned costs as follows:

1. Staff Time/Salary Charges [Pacific Symphony and North Carolina Symphony (Dvorak)], (\$29,205). Pacific Symphony was unable to provide documentation to properly substantiate salary charges to the NEH grant award. According to OMB Circular A-122, the distribution of salaries and wages to awards must be supported by personnel activity reports. Personnel activity reports must be maintained for all staff members (professionals and nonprofessionals) whose compensation is charged, in whole or in part, directly to awards.

Such reports should be maintained by non-profit organizations to satisfy the following standards:

(a) The reports must reflect an after-the-fact determination of the actual activity of each employee. Budget estimates (i.e., estimates determined before the services are performed) do not qualify as support for charges to awards.

(b) Each report must account for the total activity for which employees are compensated and which is required in fulfillment of their obligations to the organization.

(c) The reports must be signed by the individual employee, or by a responsible supervisory official having first-hand knowledge of the activities performed by the employee, that the distribution of activity represents a reasonable estimate of the actual work performed by the employee during the periods covered by the reports.

(d) The reports must be prepared at least monthly and must coincide with one or more pay periods.¹

SUMMARY OF THE GRANTEE'S RESPONSE

The grantee responded with a letter dated March 21, 2017 (see Attachment). The grantee asserts that application of the OMB Circular A-122 requirement that salary and wage charges must be supported by personnel activity reports would be onerous to implement for orchestras. Administrative staff regularly work on multiple projects in various stages of progression at any given time. Requiring these employees to document their time worked on every project would add too much of a time consuming burden for an accurate account of total activity.

Nonetheless, the grantee included with their response, wage allocation worksheets of estimated significant time related to the NEH funded program for administrative employees of Pacific Symphony, North Carolina Symphony (Dvorak in America), and Buffalo Philharmonic. According to the grantee, the wage allocation worksheets were created by management of each orchestra with firsthand knowledge of the activities performed by their employees during the reported periods.

OIG EVALUATION OF THE GRANTEE'S RESPONSE

During our review of the wage allocation worksheets submitted with the grantee's response, we identified errors in the salary allocations related to administrative employees of Pacific Symphony and North Carolina Symphony (Dvorak in America). Specifically, the wage allocation worksheet concerning employees of Pacific Symphony reflects instances of bi-weekly compensation for single week reporting periods. The wage allocation worksheet concerning employees of the North Carolina Symphony (Dvorak in America) reflects computational errors. The net effect of the identified errors result in an over-allocation of salary charges to the NEH award in the amount of \$1,479.

We also identified salary charges to the NEH award associated with effort expended by the VP of Operations for Pacific Symphony which appear to be duplicative charges based on the allocations documented in the worksheet provided by the grantee. The duplicative charges total \$2,625.

¹ OMB Circular A-122, Attachment B, Paragraph 8m, *Compensation for personal services – Support of salaries and wages*

Based on review of documentation submitted by the grantee to address the salary charges questioned during our limited audit, we deem it necessary to further advise that Federal standards applicable to documentation of personnel expenses stipulate that charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:

- a. Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated;
- b. Be incorporated into the official records of the organization;
- c. Reasonably reflect the total activity for which the employee is compensated by the organization, not exceeding 100 percent of compensated activities;
- d. Encompass both federally assisted and all other activities compensated by the organization on an integrated basis, but may include the use of subsidiary records as defined in the organization's written policy;
- e. Comply with the established accounting policies and practices of the organization; and
- f. Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity.²

2. Overhead Expenses [Buffalo Philharmonic Orchestra], (\$9,750). Overhead expenses, as computed by the grantee, are not allocable to the NEH grant award. This expense item was computed as 3 percent of departmental salaries plus fringe. The grantee's calculation included the Education, Marketing, and Production departments associated with the Buffalo Philharmonic Orchestra. In order to be allocable to the NEH grant award, overhead charges must be computed based on allowable direct costs of the project being supported by the NEH grant award through the use of a federally-approved indirect cost rate. Furthermore, "overhead" costs were not included in the project budget as approved by the NEH. Rather, \$9,750 is represented in the NEH-approved budget as "Salaries and Wages" associated with the Buffalo Philharmonic Orchestra, calculated as 3 percent of departmental salaries plus fringe.

SUMMARY OF THE GRANTEE'S RESPONSE

The grantee clarified what the organization regards as a terminology conflict. The "overhead" expense related to the Buffalo Philharmonic should be treated the same as the Administrative Salary expenses related to Pacific Symphony and North Carolina Symphony (Dvorak in America). The grantee included with their response, a wage allocation worksheet of estimated significant time related to the NEH funded program for administrative employees of Buffalo Philharmonic, and asserted that worksheet was created by management with firsthand knowledge of the activities performed by the administrative employees during the reported periods.

²2 CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* – Subpart A, §200.430 (i), *Standards for Documentation of Personnel Expenses*

OIG EVALUATION OF THE GRANTEE'S RESPONSE

We identified several computational errors during our review of the wage allocation worksheet submitted with the grantee's response. However, the actual "overhead" amount charged to the NEH award is less than the salary allocations documented in the worksheet, (after adjustments to correct the computational errors). Therefore, we take no exception to the salary charges to the NEH award related to effort expended by Buffalo Philharmonic Orchestra administrative employees.

3. Presenters for Art Gallery Lecture [Buffalo Philharmonic Orchestra], (\$1,850). Pacific Symphony was unable to provide sufficient supporting documentation for charges associated with presenters for an Art Gallery lecture sponsored by the Buffalo Philharmonic Orchestra. The "invoice" provided in response to our request for supporting documentation represents a document internally generated by the Buffalo Philharmonic Orchestra which reflects the cost associated with each presenter. No supporting service agreements were provided nor was any other documentation provided to substantiate services rendered.

SUMMARY OF THE GRANTEE'S RESPONSE

The grantee included with their response executed service contracts and copies of related employee paystubs.

OIG EVALUATION OF THE GRANTEE'S RESPONSE

We determined that the documentation provided with the grantee's response was sufficient to clear this exception.

4. Educational Materials (DVDs) [North Carolina Symphony (Dvorak)], (\$1,500). Pacific Symphony was unable to provide documentation to support this charge to the NEH grant award.

SUMMARY OF THE GRANTEE'S RESPONSE

The grantee is unable to locate the support for this charge to the NEH grant award.

5. Hotel Charges [Austin Symphony and North Carolina Symphony (Dvorak)], (\$519). We identified hotel charges to the NEH grant award in excess of amounts computed based on applicable maximum lodging rates established by the General Service Administration (GSA). We question the reasonableness of the excess hotel charges.

SUMMARY OF THE GRANTEE'S RESPONSE

Pacific Symphony explained that not-for-profit orchestra entities establish preferred pricing rates with hotels around their performing center as they use these facilities often for events and guest artist accommodations. While government standards may allow for a larger geographic area for non-regular travel arrangements, it is not reasonable to locate guest artist accommodations across town.

OIG EVALUATION OF THE GRANTEE'S RESPONSE

We acknowledge that non-Federal entities are not required to adhere to lodging rates established by the GSA. We utilized the maximum lodging rates as a benchmark to evaluate the reasonableness of the hotel charges to the NEH award. We conclude that the grantee's response does not substantiate the reasonableness of the hotel charges to the NEH award. Therefore, we maintain our position that hotel expenses in excess of amounts computed based on applicable maximum lodging rates established by the GSA should not be charged to the NEH grant award.

Revised Recommendation A (Based on the OIG Evaluation of the Grantee's Response)

We recommend that Pacific Symphony return \$6,122 to the NEH, which represents unallowable and unsupported charges to the NEH grant award as follows:

Over-allocation of salary charges [Pacific Symphony]	\$1,269
Over-allocation of salary charges [North Carolina Symphony (Dvorak)]	209
Unsubstantiated salary charges [Pacific Symphony]	2,625
Educational materials (DVDs) [North Carolina Symphony (Dvorak)]	1,500
Hotel charges [Austin Symphony and North Carolina Symphony (Dvorak)]	<u>519</u>
Total	<u>\$6,122</u>

B. Lack of Written Service Agreements

During the course of our audit testing, we noted four vendor invoices submitted for services rendered for which there were no related service agreements or properly executed service agreements, (i.e., signed by the appropriate parties).

Agreements for professional services should be documented in writing. Written agreements facilitate mutual understanding of expectations and enforcement of performance. According to OMB Circular A-122, an acceptable written agreement for professional services addresses, at a minimum, a description of the service to be provided, an estimate of time required, rate of compensation, and termination provisions.³

Recommendation B

We recommend that Pacific Symphony implement policies and procedures to ensure that all legal binding documents are properly executed prior to approval and disbursement of related payments.

SUMMARY OF THE GRANTEE'S RESPONSE

Pacific Symphony submitted executed service agreements for the Art Gallery Lecture presenters (Buffalo Philharmonic Symphony) and asserted that they cannot implement any of the audit recommendations into future activity since the grant-related activities have concluded.

³ OMB Circular A-122, Attachment B, Paragraph 37b(8), *Professional services costs*

C. Lack of Project Accounting and Financial Reporting Guidance for Subrecipients

Pacific Symphony does not have documented project accounting and financial reporting guidance that could be disseminated to entities participating in the NEH-supported project to ensure overall compliance with Federal financial management standards and reporting requirements.

The NEH grant award funded the activities of a collective of entities. Pacific Symphony participated in the NEH grant award as (1) the Administrator of the consortium; and (2) a participating entity. Each participating entity separately recorded their own expenses and revenues and submitted their incurred expenses to Pacific Symphony for reimbursement. After a grant-supported event, the participating entity submitted a summary report to the Administrator (i.e., Pacific Symphony) along with supporting invoices, contracts, and other documents for all NEH-reimbursable expenses. However, the summary reports were not prepared in a consistent manner by all participants. Some participants included expenses beyond those reimbursed through the NEH grant award and others did not. Due to the incomplete information received, the length of time covered by the NEH grant award, employee turnover, lack of awareness of grant reporting requirements, and other factors, the final *Federal Financial Report* (SF-425) submitted for NEH grant GI-50294-11, recounted the initial cost-sharing estimate. Pacific Symphony does not have complete “actual” cost-share information.

As the recipient of NEH grant GI-50294-11, Pacific Symphony is responsible for complying with the terms and conditions of the award, including the maintenance of financial records⁴, the submission of required financial and performance reports to the NEH, and the maintenance of an organizational prior approval system for grant administration. As administrator, Pacific Symphony must monitor the activities of and maintain contact with the participating entities to ensure compliance with the requirements of the NEH award and to ensure achievement of performance goals.

Recommendation C

In order to facilitate fulfillment of administrative responsibilities related to future NEH grant awards, we recommend that Pacific Symphony draft accounting and financial reporting guidelines that will ensure compliance with Federal financial management standards and reporting requirements, and disseminate the guidelines to participating subrecipients.

SUMMARY OF THE GRANTEE’S RESPONSE

Pacific Symphony does not have any future grants with NEH, therefore the organization will not implement the recommendation above.

⁴ Recipients of Federal awards must maintain financial management systems that provide for records that adequately identify the source and application of funds for federally-funded activities. Accounting records must be supported by source documentation. [OMB Circular A-110, Subpart C, Paragraph __.21(b), *Standards for financial management systems*]

Financial records, supporting documents, statistical records, and all other non-Federal entity records pertinent to a Federal award must be retained for a period of three years from the date of submission of the final expenditure report. [OMB Circular A-110, Subpart C, Paragraph __.53(b), *Retention and access requirements for records*]

D. Late Report Submissions

We found that all annual performance reports related to the project were submitted past the respective due dates. In addition, the final financial report was submitted past the due date (due February 28, 2015; submitted to the NEH on June 18, 2015) and the final performance report due February 28, 2015 was submitted on March 25, 2015.

According to the NEH *General Terms and Conditions for Awards*, a final performance report and a final financial report shall be submitted to the NEH Office of Grant Management within 90 days after the completion date of the award period.

Recommendation D

We recommend that Pacific Symphony draft and implement procedures ensure timely submission of required Federal reports.

SUMMARY OF THE GRANTEE'S RESPONSE

Pacific Symphony does not have any future grants with NEH, therefore the organization will not implement the audit recommendation.

V. EXIT CONFERENCE

The results of our limited audit were discussed with [REDACTED], Executive Vice President & Chief Operating Officer - Pacific Symphony; [REDACTED], Director of Finance - Pacific Symphony; and [REDACTED], independent Project Director on January 25, 2017.

ATTACHMENT

**GRANTEE RESPONSE
TO AUDIT REPORT**

National Endowment for the Humanities
Office of Inspector General
400 7th Street, SW
Washington, DC 20024
ATTN: Audit Resolution

[Redacted]
Music Director

[Redacted]
Chair, Board of Directors

[Redacted]
President

March 21, 2017

RE: Audit Report (GI-50294-11) OIG17-01 (EA)

Pacific Symphony has reviewed the audit report regarding the National Endowment for the Humanities (NEH) grant GI-50294-11 dated February 22, 2017. This letter is in response to the findings and recommendations received. We hope that we can find some middle ground regarding Administrative Salaries as it seems the application of OMB Circular A-122 requirements cannot be reasonably fully applied to orchestras regarding salaries.

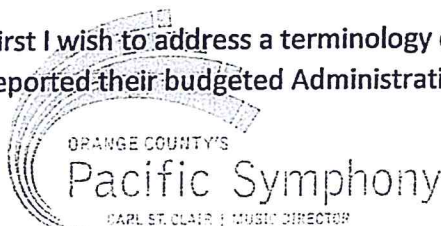
Grant GI-50294-11 was issued as the first phase of a three phase program for a consortium of symphonies in which Pacific Symphony participated in and administered the first two phases. The program is now in its third phase and the NEH grant is being administered by another participant of the consortium. We therefore we can no longer implement any of the NEH audit recommendations into future activity as our grant related activities have concluded.

It is our impression that Music Unwound is viewed as an exceptionally successful NEH Public Program allocating funding to orchestras and music festivals. Unlike museums and libraries, orchestras are new to Humanities-infused programming. This initiative is a game changer for the institutions involved. It requires mounting multimedia thematic programs unlike any the orchestras have previously produced. It generates new collaborations with institutions outside music. For the orchestras, Music Unwound is a new and labor intensive activity. To a degree exceeding our highest hopes, it has fostered new audiences, new concert formats, and new relationships with museums, public schools, and universities. We greatly appreciate being able to participate in such an initiative program.

The following responses are organized to reflect the audit report sections:

A. Questioned Costs

First I wish to address a terminology conflict. The Buffalo Philharmonic Orchestra (Buffalo) reported their budgeted Administrative "Staff Time/Salary Charges", using the label



"Overhead Expenses". I understand NEH has a different definition for Overhead Expenses verse Staff Time/Salary Charges, however the audit review should have recognized the misused terminology. Buffalo's \$9,750 expense should be treated the same as Pacific Symphony's \$19,297 and North Carolina Symphony's \$9,908 submitted Administrative Salaries expenses.

Staff Time/Salary Charges

Planning orchestra events occur over multiple years and are fluid in structure often until the day of performance. Administrative staff are regularly working on dozens of projects in various stages of progression at any given time. The application of OMB Circular A-122 requirement of the distribution of salaries and wages to awards being supported by personnel activity reports would be onerous to develop "reasonable estimates". Most of these people are non-hourly employees who do not complete time sheets. Requiring these employees to document their time worked on every project would add too much of a time consuming burden for an accurate account of total activity. Orchestras work with lean staffing levels and aggressive performance schedules that do not change once released to the public.

Attached are the wage allocation worksheets of estimated significant time related to the NEH funded program by employee for Pacific Symphony, North Carolina, and Buffalo. These documents were created by management of each orchestra with firsthand knowledge of the activities performed by their employees during the reported periods, which were then emailed (electronic signature) to me. The orchestras, prior to the audit report, were reluctant to provide confidential salary information with Pacific Symphony. This templated wage allocation worksheet was designed to meet the requirement of OMB Circular A-122 the best we could. We are willing to work with the Office of the Inspector General to provide satisfy documentation the best we can. Again, this was our first NEH grant and we are still learning what is expected of us and how we can best meet those requirements to the best of our ability.

Presenters for Art Gallery Lecture

The "invoice" provided in response to the NEH audit request was a summary recap of fees paid to employees of Buffalo. Buffalo was reluctant in providing this information as it was employee related, but your audit comments encouraged them to release the documents. Please find executed service contracts and copies of employee pay stubs attached supporting the expense.



Educational Materials (DVDs) North Carolina Symphony

To-date, the North Carolina Symphony has been unable to locate the support for their \$1,500 Educational Material expense incurred. Note this is the only missing expense invoice of the 67 non-payroll requested documents. We understand if this expense is rejected do to our failure to provide the supporting document. North Carolina Symphony recently reached out to the vendor to obtain a duplicate copy of their order. As of today, I do not know the status of the request.

Hotel Charges

Not-for-profit orchestra entities establish preferred pricing rates with hotels around their performing center as they use these facilities often for events and guest artist accommodations. While government standards may allow for a larger geographic area for non-regular travel arrangements. It is not reasonable to locate guest artist accommodations across town. Performance work does not fit within a normal 9am-6pm schedule. Like an iceberg, the performance is only the small visible piece of the larger entity. Once an orchestra has access to the performing center, which we do not own, each event requires stage setup, prop setup, equipment checks, sound tests, wardrobe checks, and many other preparations, some with and some without guest personnel being present. Artists go back and forth between the performing center and hotel for rest between rehearsals and performances. It is reasonable and necessary to establish guest performers within walking distance of the performance center. Getting lost or being stuck in traffic is not an option.

B. Lack of Written Service Agreements

This recommendation relates to the four previously missing service agreements for the Presenters for Art Gallery Lecture (Buffalo) discussed in section A. Copies of the agreements are attached to this response.

C. Lack of Project Accounting and Financial Reporting Guidance for Subrecipients

This grant was the first of two NEH grants Pacific Symphony administered. Of which, both grants have already concluded. In hindsight, there were many reporting challenges that were not thought of in advance and that are too late to implement guidance for now. We have no future NEH grants planned to correct this issue going forward.



D. Late Report Submissions

I understand that grant related financial reports were submitted late and did not include cost sharing information. I believe these reports were submitted by my predecessor, however I do not have eGMS access to this grant to confirm. I can only assume she did not fully understand the reporting schedule and requirements. I have been unable to find any reporting schedules in her binder maintained for the grant. We have no future NEH grants planned to correct this issue going forward.

Regards,

[Redacted Signature]

[Redacted Name], CPA
Director of Finance

Cc:

[Redacted Name], President
Pacific Symphony
[Redacted Name], EVP & COO
Pacific Symphony
Brian Stratton, Auditor
National Endowment for the Humanities

Attachments

- * Pacific Symphony Administrative Salary Calculation Support
- **North Carolina Symphony Administrative Salary Calculation Support
- *** Buffalo Philharmonic Orchestra Administrative Salary Calculation Support
- ****Buffalo Philharmonic Orchestra's four service agreement letters and payment stubs

