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R. L. Krieger

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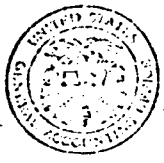
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Sen. Pell

Paul Berman



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON REGIONAL OFFICE
FIFTH FLOOR
803 WEST BROAD STREET
FALLS CHURCH, VIRGINIA 22046

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GAO - Review
Audit
Green

AUG 15 1974

The Honorable Nancy Hanks, Chairman
National Endowment for the Arts

The Honorable Ronald S. Berman, Chairman
National Endowment for the Humanities

Dear Miss Hanks and Mr. Berman:

We appreciated very much the full and frank discussion at our August 6 meeting during which we provided you those observations on the operation of the Endowments that developed from our work. We had previously discussed with your associates our work on two congressional inquiries and you will be furnished copies of our letters on these matters. You encouraged us to summarize our thoughts so you would be able to further consider them and provide us with your reactions.

Our discussions touched on the unique nature and the diverse scope of the Foundation's programs and the complexity that this brings about. The varying size and needs of your grantees makes difficult striking a reasonable balance in designing management and financial controls that will serve your needs without imposing excessive burdens on the grantees. It is useful, however, to give further thought to improving existing procedures, especially in light of the Foundation's growth. We were therefore encouraged by your interest in these problems and your willingness to consider improvement of management and financial procedures that would help you in managing your affairs.

RESPONSIBILITIES OF THE NATIONAL
COUNCILS AND GRANT PANELS

The National Councils could well focus more on such substantive issues as policy and program formulation, and the allocation of scarce resources to competing art and humanity programs, rather than on reviewing and approving specific grant applications. We recognize,

cc: W. Rege

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however, that the Foundation's authorizing legislation requires each National Council to review proposed grants and recommend approval of applications to the Endowment Chairmen.

One way to allow the Councils to spend more time on substantive matters might be to increase the percentage limitation of total funds which can be awarded to grantees by the Chairmen without specific Council approval. The Councils could continue to review grants awarded in this way but perhaps in broader terms as they relate to overall program objectives. The Endowments could also bring to the Councils' attention specific grants which raise policy issues.

Another of our concerns relates to the criteria for selection of the panel members who must review grant applications and make grant award recommendations to the National Councils. There was considerable variation between the Endowments and among programs as to how panel members were selected and, in turn, how projects were selected.

Generally, the National Endowment for the Humanities had more specific criteria than the Endowment for the Arts regarding the selection of panel members and specific projects. Within the Endowment for the Arts there was considerable variation. For example, the Endowment's Public Media Division has specific criteria that panel members must use to select projects. The City Edges Panel, however, received no written instructions or specific criteria for evaluating proposals.

We are aware of the difficulty of specifying criteria in programs dealing with the arts, but it would be useful to have criteria for selecting panels and specific grantees. This would enable the Endowments to better explain to the Congress and the public how decisions are reached.

GRANTS MANAGEMENT

We had several observations relative to grants management.

One was that grantees may not at all times be adequately accounting for funds. This to a large degree was confirmed by the work of the Endowments' external auditors. Contributing to this was the philosophy that the Endowments provide only general financial guidance

to the grantees and place most responsibility for such matters on the grantees. Program staffs placed varying degrees of emphasis on financial matters while the Foundation's shared staff was more concerned about financial matters. We discussed the possibility of program and financial staff working more closely together to develop and implement financial accounting procedures so financial accountability would receive the proper emphasis. This would be most beneficial if it was done concurrently with grant approval.

Another cause of the problem may be the nature of most groups that receive grants, particularly from the National Endowment for the Arts. As we discussed at our meeting, many of the groups may not be capable of following all the required accounting procedures. Thus the Foundation may want to review its procedures to determine whether fiscal requirements could be varied depending on grant size or other criteria.

Regarding this, you may wish to seek the advice of the Joint Financial Management Improvement Program, whose Executive Director, Donald C. Kull, can be reached on 376-5372 (code 196-65372).

The Foundation's general grant provisions require grantees to submit final expenditure and narrative reports 90 days after the project ends; however, many grantees have not submitted the reports on time. This problem has been noted by the Foundation's internal auditor and confirmed by our own work.

Although the grants office has begun taking action to correct the problem, improvements could be made. For example, within the National Endowment for the Humanities, 60 grantees, or 7.4 percent of all grantees, were delinquent in submitting final expenditure reports. Ninety-three, or 11.4 percent, were delinquent in submitting final descriptive reports. Within the National Endowment for the Arts, 599, or 13.9 percent of the grantees, were delinquent with expenditure reports and 763, or 17.7 percent, were delinquent with narrative reports. Moreover, at least 10 grantees receiving Humanities funds who were delinquent in filing reports subsequently received grants over \$100,000. If the Endowments consider these reports to be necessary, due effort should be made to obtain them.

A final point discussed had to do with followup on audit report recommendations and your use of the work of the auditors to highlight

matters of management concern. The audit staff had issued 40 reports through fiscal year 1973, 27 of which were issued during that fiscal year. In the five reports we examined, costs of about \$388,000 were identified by the auditors as being related to activities considered inconsistent with Foundation policies. The auditors recommended recovery of about \$81,000. The Endowments officially requested grantees to return about \$33,000, but at the time of our review no funds had been recovered. Moreover, information provided to us by Foundation staff showed that about 48 percent of the auditors' recommendations had been outstanding for over 10 months with little done to resolve the open issues.

An effective audit staff could be a great help to you in assuring that proper program and financial accountability is being achieved. One step in accomplishing this would be periodically reviewing with the audit staff the results of their work and the status of follow-through action on their recommendations. This could foster better followthrough by program staff on audit recommendations or resolution of issues raised. Moreover, this could possibly improve communication and provide an additional avenue to exchange useful operating procedures between the Endowments.

Thank you for the splendid cooperation extended to us during our work. We would be pleased to meet with you again to discuss these matters. We also would welcome any written comments you may want to make regarding our observations.

Sincerely yours,

H. L. Krieger

H. L. Krieger
Regional Manager