

**STRATEGIC PLAN
&
FIVE-YEAR AUDIT PLAN
2001 - 2005**

National Endowment for the Arts
Office of Inspector General

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INTRODUCTION

Foreword

The Office of Inspector General (OIG) of the National Endowment for the Arts (NEA) was established in 1989 pursuant to Public Law 100-504, "The Inspector General Act Amendments of 1988" (IG Act). This document describes the plan of the OIG for discharging its ongoing responsibilities under the Act, and for meeting its operational objectives for the period from Fiscal Year 2001 through Fiscal Year 2005.

This strategic plan is also a response to the General Accounting Office Report No. B-244053, "Inspectors General: Action Needed to Strengthen OIGs at Designated Federal Entities." That report recommended that the OIGs develop strategic plans, prepare annual work plans for each year of a five-year period, and report the plans to their entity heads and, in their semiannual reports, to the Office of Management and Budget and the Congress.

OIG Mission Statement

The Office of Inspector General, National Endowment for the Arts, is a team of skilled personnel dedicated to helping the agency reach its essential goals and objectives. To this end, the Office of Inspector General independently conducts activities such as audits, investigations, surveys and special reviews with accuracy, balance and objectivity. Working with management in the hope of avoiding problems before they occur, our goals are: to promote economy, efficiency and effectiveness in NEA activities; to prevent and detect fraud, waste and abuse; to advocate ethics in government; and to keep the Chairman and the Congress fully and currently informed about problems and deficiencies relating to the administration of NEA programs and operations.

In achieving our mission, the staff of the Office of Inspector General will be fair and equitable, performing our duties with honesty and integrity. We will strive to be leaders and innovators in our field of expertise, and will be accountable for meeting our responsibilities. We will cooperate with all components of the NEA, giving proper recognition to the rights, authorities and duties of its employees and the public it serves.

Duties and Responsibilities of the Inspector General

The Inspector General shall:

- Provide policy direction for, and conduct, supervise, and coordinate audits (including surveys and other reviews that are conducted in accordance with applicable government standards) and investigations relating to the programs and operations of the NEA;
- Review existing and proposed legislation and regulations to determine their impact on economy and efficiency in the administration of, and the prevention and detection of fraud, waste and abuse in, the programs and operations of the NEA;
- Recommend policies for, and conduct, supervise, or coordinate other activities carried out or financed by the NEA for the purpose of promoting economy and efficiency in the administration of, or preventing and detecting fraud, waste and abuse in, those programs and operations;
- Recommend policies for, and conduct, supervise, or coordinate activities between NEA and other Federal agencies, State, and local government agencies, and nongovernment entities with respect to all matters relating to the promotion of economy and efficiency in the administration of, or the prevention and detection of fraud and abuse in programs and operations administered or financed by NEA, or the identification and prosecution of participants committing such fraud or abuse;
- Keep the NEA Chairman and the Congress fully and currently informed concerning fraud and other serious problems, abuses, and deficiencies relating to the administration of programs and operations administered or financed by NEA, or the identification and prosecution of participants committing such fraud or abuse;
- Comply with standards established by the Comptroller General of the United States for audits of Federal establishments, organizations, programs, activities and functions (the Government Auditing Standards);
- Give particular regard to the activities of the Comptroller General of the United States with a view toward avoiding duplication and ensuring effective coordination and cooperation;
- Establish guidelines for determining when it shall be appropriate to use non-Federal auditors, and give due regard to assuring that any work performed by non-Federal auditors complies with the Comptroller General's standards; and
- Report expeditiously to the Attorney General whenever the Inspector General has reasonable grounds to believe there has been a violation of Federal criminal law.

Authority of the Inspector General

To carry out these responsibilities, the Congress has given the Inspector General:

- Access to all records, reports, audits, reviews, documents, papers, recommendations, or other material available to the NEA which relate to programs and operations of the Endowment;
- Authority to make such investigations and reviews that are, in the judgment of the Inspector General, necessary or desirable;
- Authority to request information or assistance from any Federal, state or local government agency or unit thereof, as may be necessary for carrying out the duties and responsibilities of the Act;
- Authority to issue subpoenas;
- Authority to administer and take an oath, affirmation or affidavit from any person when necessary;
- Direct and prompt access to the Chairman;
- Authority to select, appoint and employ such officers and employees as may be necessary for carrying out the functions, powers and duties of the OIG; and
- Within the limits of the established budget, authority to contract for audits, studies, analyses and other services.

Jurisdiction of the Inspector General

The OIG consolidates audit and investigative capabilities under the direction of a single official, the Inspector General, who in turn reports directly to the Chairman and the Congress. The OIG is characterized by two important features: independence and objectivity.

Although under the general supervision of the Chairman, the Chairman may not prevent or prohibit the IG from initiating, performing, or completing any audit or investigation. The IG is also vested with special authorities that facilitate the performance of his or her mandate, and it is from these provisions that the element of independence derives.

The IG legislation assigns the IG no conflicting policy responsibilities within the agency, thereby ensuring objectivity. The IG's sole responsibility is auditing, investigating, and initiating other activities designed to promote economy and efficiency, and detect and prevent fraud and abuse.

The investigative jurisdiction of the OIG includes all allegations of fraud, abuse and mismanagement, and any apparent or suspected violations of statute, order, regulation or directive in connection with any program or operation of the NEA.

The audit jurisdiction of the OIG encompasses a wide range of audit services, including audits, special reviews and cognizant audit agency (CAA) reviews. Audits are characterized as: financial or performance; full-scope or limited-scope; and external (focusing on the records of recipients of Endowment funding) or internal (focusing on operations and activities carried on within the Endowment). Special reviews are used to appraise and provide information about particular programs or projects. They include inspections (typically focused on compliance issues), evaluations (commonly focused on assessments of effectiveness) and electronic data processing reviews (focused on data centers, application systems or telecommunication systems). CAA reviews are examinations of audit reports issued by other Federal agencies, state auditors and independent public accountants to determine whether the results of audit have either a past, current or potential effect on Endowment grants and what action, if any, is required by the Endowment.

The Inspector General's jurisdiction also includes the review of existing and proposed legislation and regulations relating to the programs and activities of the Endowment. This is essentially a reactive activity, limited to commenting on and making recommendations about the impact of the legislation or regulation on economy and efficiency or the prevention of fraud, waste and abuse. As an adjunct to the legal requirement, the Inspector General is consulted as a matter of agency policy prior to issuance of internal directives and other significant pronouncements.

The Inspector General's jurisdiction is not always limited to the areas listed above. The IG may, as circumstances dictate, be given special assignments by the Chairman or other high-level officials.

Planning Methodology

The planning methodology that we have adopted is built around the concepts of issues and issue areas. Issue areas are broad categories of prime importance: they highlight the priorities of our customers--agency management, the Congress, and the American people -- and contain numbers of narrower topics or individual issues. The individual issues, expressed as questions, represent an assessment of the most significant concerns facing the NEA.

The methodology also includes the formulation of annual audit work plans. Defining the work to be done during a given fiscal year, the annual plan: identifies individual jobs; assigns priorities; links jobs to the strategic issue areas; allocates staff among issues and issue areas; and serves as a device for communicating with Endowment officials. The work plans will, of course, require periodic updates to reflect shifts in issue emphasis as well as changes in audit resources.

It is expected that issue area planning will:

- Establish multi-year audit objectives consistent with agency and congressional needs;
- Focus OIG resources on issues that represent the greatest risk to the NEA and those that offer the most opportunity for adding value;
- Support the OIG's budget requests and resource allocation decisions; and
- Provide a basis for measuring results and ensuring accountability.

OIG Resource Requirements

Following the agency's RIF in December 1995, the OIG staff was reduced from five to three full-time employees, namely, two auditors (IG and Assistant IG) and an administrative specialist. However, our experience over the intervening period of time led us to recognize that at least one auditor's position needed to be restored. As a consequence, we have re-established and filled one of the lost positions, thus increasing our number of professional auditors from two to three.

It is possible that the resources provided for the OIG may, at some time, need to be changed again. Any such adjustment should, in large part, be based on periodic evaluations of the OIG as gauged by the performance measures identified in this strategic plan.

STRATEGIC ISSUE AREAS

Issue Area 1: NEA Program Activities

Major functions include:

- Funding policies
- Application solicitation and review
- Panel operations
- Council operations
- Project monitoring
- Matching requirements
- Allowable costs
- Indirect cost rates
- Compliance with terms and conditions
- Compliance with reporting requirements
- Audit follow-up

Issue 1.1: Are the Endowment's standards for eligibility and policies for funding consistent with the agency's mission and legislated objectives?

Strategy: The OIG will survey these measures to assess agency compliance and evaluate the extent to which stated purposes are being achieved.

Issue 1.2: Does NEA provide prospective applicants with information that is both appropriate and adequate regarding its funding initiatives?

Strategy: The OIG will survey this function to assess timeliness, adequacy of content, and effectiveness in reaching potential applicants.

Issue 1.3: Does the Endowment ensure that applications are processed and evaluated in accordance with legislative requirements and official policies?

Strategy: The OIG will survey and document the existing practices and procedures. Subsequent efforts will focus on areas in which compliance may be improved.

Issue 1.4: Does the agency ensure that the recipients of Endowment funding are held accountable for meeting their particular reporting requirements and for complying with the terms and conditions applicable to their awards?

Strategy: The OIG will conduct audits, special reviews and CAA reviews to verify accountability. In addition, the OIG will continue to review the implementation of corrective actions and advise management as to the effectiveness of the actions and whether or not the desired results are achieved.

Issue 1.5: Do those recipients of agency funding whose awards are based partly, at least, on indirect costs, adhere to the applicable Federal directives in preparing their rate proposals?

Strategy: The OIG will provide technical assistance in evaluating indirect cost rate proposals submitted for NEA approval.

Issue 1.6: Does the agency evaluate completed projects to assess the benefits and accomplishments attributable to Endowment funding?

Strategy: The OIG will work with management to assess the efficacy of agency practices for reviewing the results obtained by recipients' projects as well as NEA's own program initiatives.

Issue Area 2: NEA Administrative Operations

Major functions include:

- Information systems
- Financial management
- Budget administration
- Procurement and facilities
- Human resources
- Internal controls

Issue 2.1: Is the agency efficiently and effectively addressing the need to modernize its ADP systems, and in a manner that allows it to continue meeting current operational needs while maintaining consistency with provisions of the Computer Security Act and OMB Circular No. A-130?

Strategy: The OIG will continue to assist management by: participating in task groups; periodically reviewing and commenting on implementation issues; and performing internal control reviews on new systems with a focus on security and problem prevention.

Issue 2.2: Do the agency's financial management systems provide the management information needed for: (1) budget planning and formulation, budget allocation and distribution, and budget review and follow up; and (2) monitoring costs and expenditures in accordance with the requirements and initiatives of Congress, OMB, and the Department of the Treasury?

Strategy: The OIG will conduct financially related audits to verify the integrity of budget execution, the propriety of transactions, the validity of account balances, and the accuracy of financial reports.

Issue 2.3: Does the agency effectively assure that procurement actions comply with Federal and agency requirements and that the resulting contracts are appropriate and pertinent, satisfying user needs for a reasonable price?

Strategy: The OIG will periodically review NEA's procurement activities in light of Federal and agency requirements.

Issue 2.4: Do the Endowment's policies and practices provide a framework for the efficient and effective use of human resources that is consistent with EEO goals and objectives?

Strategy: The OIG will conduct surveys and analyses as warranted to: (1) identify patterns and trends; (2) evaluate agency responsiveness to employee complaints or grievances; and (3) assess management initiatives for promoting EEO goals and objectives.

Issue 2.5: Are the agency's internal controls adequate to deter and detect fraud, waste, abuse and mismanagement?

Strategy: The OIG will conduct audits and other reviews to uncover weaknesses in administrative controls and will prepare management reports with recommendations for corrective action.

Issue Area 3: OIG Administration and Investigations

Major Functions Include:

- Audit universe
- Lines of communication
- Allegations review
- Staff professionalism
- Regulatory review

Issue 3.1: Does the OIG maintain an up-to-date audit universe, complete with weighted criteria for assessing audit priorities?

Strategy: The OIG will update its universe of discrete auditable areas yearly, revising prioritization criteria as appropriate.

Issue 3.2: Does the OIG promote open relations and positive interaction with agency officials and others?

Strategy: The OIG will: seek frequent feedback from the Chairman, senior staff and agency managers as appropriate; actively participate on NEA committees or task forces when opportunities exist to add value; and maintain and enhance, and as necessary, establish relations with Congressional committees, GAO, the Department of Justice and other law enforcement agencies, and the OIG community.

Issue 3.3: Does the OIG maintain an investigative capability that is appropriate for the NEA?

Strategy: The OIG will continue to maintain a formal memorandum of understanding with the General Services Administration's (GSA) OIG to provide for the temporary assignment of professional criminal investigators as needed. OIG auditors will screen allegations and other indications of possible misconduct to determine whether there is sufficient basis for investigation. If so, the OIG will, as appropriate, either refer the case to another investigative authority, request the temporary assignment of criminal investigations from GSA's OIG, or investigate the case as a civil matter with the expectation that, after the necessary evidence is gathered and evaluated, the matter will be referred to NEA management for administrative action.

Issue 3.4: Does the OIG foster the professional growth of the OIG staff?

Strategy: The OIG will establish a staff feedback process to encourage the open exchange of information and ideas, and will continue to budget training funds adequate to satisfy the continuing education standards established by the Comptroller General.

Issue 3.5: Does the OIG review existing and proposed legislation and regulations to determine their effect on the programs and operations of the NEA?

Strategy: The OIG will work with management to devise a process for ensuring that regulatory and legislative proposals are evaluated for their impact on the agency.

PERFORMANCE MEASURES

These measures are expected to help the OIG recognize successes, document achievements, evaluate progress toward goals, and identify needs for improvement. The measures are structured along the requirements of the IG Act and are intended to allow comparisons to previous periods.

- Feedback from customers on the value added by audit reports and other reviews of programs and operations.
- Assessment of the number and significance of recommendations implemented by managers to correct deficiencies or improve operations.
- The number of technical and advisory activities that benefited from OIG participation.
- The number of laws and regulations reviewed.
- The amount of questioned and unsupported costs identified by the OIG.
- The amount of funds to be put to better use identified in audits and other reports.
- The extent of recoveries attributable to OIG efforts.
- The number of complaints processed.

FIVE-YEAR AUDIT PLAN 2001 - 2005

The following list of audits and audit-related efforts show how the OIG plans to use its available audit resources to implement the strategies previously discussed. The objectives of each project have been identified along with a short description of the work to be performed. While the plan is flexible and subject to revision based on management's input and changing conditions, it reflects our current assessment of relative risks and the most effective use of scarce audit resources.

Criteria for selection include:

- Statutory requirements and recommendations from other sources of Federal authority such as OMB or GAO;
- Requests from the Chairman or other high authority;
- Importance of the activity to the Endowment's mission;
- Extent of NEA resources committed to the activity;
- Potential for fraud and other unlawful or improper acts;
- Agency needs as identified through consultation with representatives of management;
- Extent of audit coverage provided by GAO, consultants or other outside sources;
- Newness, changed conditions, or sensitivity of the activity;
- Adequacy of the existing internal control systems for the activity;
- Availability of audit staff with needed expertise; and
- Extent and results of prior reviews by the OIG.

AUDIT PLAN - FY 2001

CAA Reviews. Conduct desk reviews of audit reports and other materials related to grantees that have had A-133 audits performed by independent outside auditors to 1) determine compliance with relevant OMB circulars, 2) evaluate the audit findings for past, current or potential effect on NEA grants, and 3) recommend what action, if any, is required by NEA. An indeterminate number of non-OIG audit reports (probably 30 or more) will be examined throughout the year. (Issue 1.4)

Audit Followup. Track the status of recommendations for corrective action, and provide the Audit Followup Official and other NEA managers with technical assistance in resolving audit findings. This undertaking will be ongoing throughout the year. (Issue 1.4)

Indirect Cost Rate Evaluations. Evaluate rate proposals submitted by grantees and contractors for compliance with OMB Circulars A-21, A-87, A-122 or the Federal Acquisition Regulation, as appropriate. It is estimated that about 20 proposals will be evaluated during the year. (Issue 1.5)

Regulatory Review. Review existing and proposed legislation and regulations for effect on the programs and operations of the agency. This activity will be ongoing throughout the year. (Issue 3.5)

Investigations. Investigate all allegations of fraud, waste, abuse, mismanagement, employee misconduct or any apparent or suspected violation of law or official regulations. Although the number of investigative reviews to be conducted cannot be predicted with confidence, in recent years the annual rate of new cases opened is about three. (Issue 3.3)

Grantee Audits. Conduct audits and other reviews to 1) determine the adequacy of grantees' financial systems for managing and accounting for Federal funds, 2) evaluate the current financial condition of grantee organizations, and 3) verify compliance with the terms and conditions of NEA grants. The number of on-site audits to be conducted will depend on the availability of staff auditors and travel funds. (Issue 1.4)

A-133 Non-Compliance Review. Ensure that instances of grantees' non-compliance with the audit requirements of OMB Circular A-133 are detected and reported to Agency managers for the imposition of sanctions, as appropriate. (Issue 1.4)

Information Management Review. Determine whether the agency's information management policies, procedures and practices are adequate for meeting its operational needs, and whether they conform with accepted standards. (Issue 2.1)

AUDIT PLAN - FY 2002

CAA Reviews. Conduct desk reviews of audit reports and other materials related to grantees that have had A-133 audits performed by independent outside auditors to 1) determine compliance with relevant OMB circulars, 2) evaluate the audit findings for past, current or potential effect on NEA grants, and 3) recommend what action, if any, is required by NEA. An indeterminate number of non-OIG audit reports (probably 25 or more) will be examined throughout the year. (Issue 1.4)

Audit Followup. Track the status of recommendations for corrective action, and provide the Audit Followup Official and other NEA managers with technical assistance in resolving audit findings. This undertaking will be ongoing throughout the year. (Issue 1.4)

Indirect Cost Rate Evaluations. Evaluate rate proposals submitted by grantees and contractors for compliance with OMB Circulars A-21, A-87, A-122 or the Federal Acquisition Regulation, as appropriate. It is estimated that about 20 proposals will be evaluated during the year. (Issue 1.5)

Regulatory Review. Review existing and proposed legislation and regulations for effect on the programs and operations of the agency. This activity will be ongoing throughout the year. (Issue 3.5)

Investigations. Investigate all allegations of fraud, waste, abuse, mismanagement, employee misconduct or any apparent or suspected violation of law or official regulations. Although the number of investigative reviews to be conducted cannot be predicted with confidence, in recent years the annual rate of new cases opened is about three. (Issue 3.3)

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EEO Compliance. Review the Agency's procedures and practices for compliance with laws and regulations governing equal employment opportunities and the civil rights of NEA employees. The review will be scheduled for the early part of the year. (Issue 2.4)

Budget Execution. Review the practices and procedures of the Agency's Budget Office for adherence to Federal law, OMB guidelines and legislative mandates. The review will be scheduled for the latter part of the year. (Issue 2.2)

AUDIT PLAN - FY 2003

CAA Reviews. Conduct desk reviews of audit reports and other materials related to grantees that have had A-133 audits performed by independent outside auditors to 1) determine compliance with relevant OMB circulars, 2) evaluate the audit findings for past, current or potential effect on NEA grants, and 3) recommend what action, if any, is required by NEA. An indeterminate number of non-OIG audit reports (probably 25 or more) will be examined throughout the year. (Issue 1.4)

Audit Followup. Track the status of recommendations for corrective action, and provide the Audit Followup Official and other NEA managers with technical assistance in resolving audit findings. This undertaking will be ongoing throughout the year. (Issue 1.4)

Indirect Cost Rate Evaluations. Evaluate rate proposals submitted by grantees and contractors for compliance with OMB Circulars A-21, A-87, A-122 or the Federal Acquisition Regulation, as appropriate. It is estimated that about 20 proposals will be evaluated during the year. (Issue 1.5)

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Financial Management. Review the Agency's financial management systems to ensure the propriety of transactions and to verify the validity of account balances and the accuracy of financial reports. (Issue 2.2)

Application Screening. Review the practices and procedures employed in the initial screening of grant applications to ensure their fair and equitable treatment along with proper enforcement of the rules for eligibility. (Issue 1.3)

AUDIT PLAN - FY 2004

CAA Reviews. Conduct desk reviews of audit reports and other materials related to grantees that have had A-133 audits performed by independent outside auditors to 1) determine compliance with relevant OMB circulars, 2) evaluate the audit findings for past, current or potential effect on NEA grants, and 3) recommend what action, if any, is required by NEA. An indeterminate number of non-OIG audit reports (probably 25 or more) will be examined throughout the year. (Issue 1.4)

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Procurement. Review the agency's procurement activities for compliance with Federal regulations and to assure that contracts are appropriate for satisfying user needs at a reasonable price. (Issue 2.3)

Funding Policies. Review the Endowment's funding policies and eligibility requirements for consistency with the Agency's mission and legislated objectives. (Issue 1.1)

AUDIT PLAN - FY 2005

CAA Reviews. Conduct desk reviews of audit reports and other materials related to grantees that have had A-133 audits performed by independent outside auditors to 1) determine compliance with relevant OMB circulars, 2) evaluate the audit findings for past, current or potential effect on NEA grants, and 3) recommend what action, if any, is required by NEA. An indeterminate number of non-OIG audit reports (probably 25 or more) will be examined throughout the year. (Issue 1.4)

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Application Solicitation. Review the agency's policies and procedures for providing prospective applicants with information that is appropriate and accurate. The review will assess timeliness, adequacy of content, and effectiveness in reaching potential applicants. (Issue 1.2)

Travel Utilization. Review the Endowment's administrative controls related to approving and monitoring the travel arrangements of Agency employees. (Issue 2.5)