



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

**Limited Scope Audit Report on Selected Awards to
Texas Commission on the Arts
Austin, TX**

Report No. LS-18-03

August 29, 2018

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INTRODUCTION

BACKGROUND

The Texas Commission on the Arts (TCA), in Austin, TX, is a state agency created under the statutory authority of Texas Government Code Chapter 444. The Board of Commissioners is composed of nine members appointed by the governor with advice and consent of the senate, with at least two members from counties with populations of less than 50,000. The TCA's mission is to advance the state economically and culturally by investing in a creative Texas. It achieves this by providing resources to enhance economic development, arts education, cultural tourism, and artist sustainability initiatives. Primary sources of funding include the State of Texas general revenue, National Endowment for the Arts (NEA) partnership grants, and proceeds from the sale of state specialty license plates.

OBJECTIVES, SCOPE, AND METHODOLOGY

We conducted a limited scope audit of the TCA for the period of April 1, 2015 through March 31, 2018 (audit period). Limited scope audits involve a limited review of financial and non-financial information of grant recipients to ensure validity and accuracy of reported information, and compliance with federal requirements.

The objective of this audit was to determine whether the TCA's financial management system and recordkeeping comply with the requirements established by the Office of Management and Budget (OMB) and NEA's *General Terms and Conditions for Partnerships (General Terms)*, including:

- the TCA fulfilled the financial and compliance requirements as set forth in the award documents;
- project costs reported under the awards were reasonable, allocable, and allowable; and
- the required cost share/match was met on NEA award funds.

The limited scope audit was conducted in accordance with applicable U.S. Government Accountability Office *Government Auditing Standards (2011), as revised (Standards)*. The *Standards* require that we obtain sufficient, competent, and relevant evidence to afford a reasonable basis for our findings and conclusions. Accordingly, we included such tests of records and other auditing procedures that were considered necessary under the circumstances. We reviewed the TCA's system of internal controls and conducted a risk assessment to determine the areas with moderate to high risk, and the level of transaction testing necessary to provide a reasonable basis for our findings and conclusions.

The TCA had three active awards during the audit period:

| Award No. | Period of Performance | Award Amount | Total Reported Costs |
|------------------|------------------------------|---------------------|-----------------------------|
| 14-6100-2026 | 9/1/14 – 8/31/15 | \$ 911,900 | \$1,826,596 |
| 15-6100-2046 | 9/1/15 – 8/31/16 | 921,900 | 1,843,800 |
| 16-6100-2024 | 9/1/16 – 8/31/17 | 970,100 | 1,940,200 |
| TOTAL | | \$2,803,900 | \$5,610,596 |

The three awards were Partnership grants requiring a one-to-one cost share/match with state appropriated funds. Awards were issued to support the TCA’s funding of arts programs and projects throughout the state. Funding included the following targeted components: General Partnerships, including Poetry Out Loud; Arts Education; and Underserved Communities. The TCA subawards (pass-through) these funds to Texas constituents (subrecipients). Federal regulations require pass-through entities to monitor subrecipient activities. The TCA must monitor activities to ensure that subawards are used for authorized purposes, in compliance with federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved.

PRIOR AUDIT COVERAGE

The NEA Office of Inspector General has not issued any audit reports on the TCA in the past five years. The TCA is subject to the Single Audit requirements of OMB *Circular A-133* and 2 *CFR 200, Subpart F - Audit Requirements*. The TCA was included in the most recent Single Audit for the State of Texas, which was for the fiscal year ended August 31, 2017. The audit was conducted by the Texas State Auditor’s Office, with KPMG, LLP, and included a review of the State of Texas’ compliance with federal regulations that could have a direct and material effect on major federal programs. The report identified material weaknesses and significant deficiencies in internal controls of certain major programs. However, the TCA was not selected for review as a major program.

The TCA was subject to an independent performance audit by the Texas State Auditor’s Office for the period of September 1, 2015 through January 31, 2017. The objective was to determine whether the TCA had processes and related controls to ensure it administers financial transactions in accordance with applicable statutes, regulations, and policies and procedures. The report found that while the TCA had controls to ensure it administered financial transactions in accordance with applicable guidance, it could improve controls over grant monitoring and information technology systems. We considered these findings during our risk assessment and adjusted our review accordingly.

AUDIT RESULTS

SUMMARY

Our limited scope audit concluded that the TCA generally complied with the financial management system and recordkeeping requirements established by the OMB and NEA. However, we identified some areas requiring improvement, as follows:

- The TCA included costs incurred outside the period of performance on the Federal Financial Report (FFR) for award No. 15-6100-2046;
- The financial management system does not reconcile to the FFRs for award Nos. 15-6100-2046 and 16-6100-2024;
- The TCA did not provide notice of federal award participation to subaward recipients used to meet the federal cost share/match;
- The TCA did not conduct reviews to ensure that subaward recipients were not suspended or debarred from receiving federal funds; and
- The TCA did not maintain a Section 504 Self-Evaluation on file during the audit period.

The following sections present more detailed discussion of the above areas.

PERIOD OF PERFORMANCE

The TCA included \$2,291 in costs incurred outside the award period for award No. 15-6100-2046. Awards issued by the NEA are subject to the following requirements:

- **2 CFR 200.309. Period of Performance:** Federal award recipients may charge to the federal award only allowable costs incurred during the period of performance, and any costs incurred before the award was made that were authorized by the awarding agency.

During our review of subaward costs reported to the TCA, we identified a \$2,499 payment for annual services which extended 11 months beyond the award period. We determined that one month of service, \$208, met award requirements. We questioned the remaining 11 months of service, \$2,291 in costs incurred outside the award period. TCA officials stated they allow subrecipients to claim costs based on when they are paid, rather than when they are incurred. Including costs incurred outside the award period in FFR totals could result in the TCA not meeting cost share/match requirements, resulting in funds due back to the NEA (see the table at Appendix A).

We recommend that the TCA establish reporting procedures that ensure costs incurred outside the award period are excluded from award FFRs.

The TCA concurs with this finding and recommendation (see Appendix B for the TCA's response).

We recommend that the NEA reviews the supporting documentation of the \$2,291 in questioned costs and determine allowability.

REPORTING FINANCIAL RESULTS

The financial management system does not reconcile to the FFRs for award Nos. 15-6100-2046 and 16-6100-2024. Awards issued by the NEA are subject to the following requirements:

- **2 CFR 200.302. Financial Management, (a) in part:** In addition, the state's and the other non-Federal entity's financial management systems, including records documenting compliance with Federal statutes, regulations, and the terms and conditions of the federal award, must be sufficient to permit the preparation of reports required by general and program-specific terms and conditions; and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and terms and conditions of the Federal award.
- **2 CFR 200.302. Financial Management, (b) in part:** The financial management system of each non-Federal entity must provide for the following: (2) Accurate, current, and complete disclosure of the financial results of each Federal award or program in accordance with the reporting requirements set forth in 200.327 Financial reporting and 200.328 Monitoring and reporting program performance.
- **NEA Instructions for Completing the Federal Financial Report, in part:** For the FFR you must report actual expenditures that you assigned to the approved NEA project, based on supporting documentation such as invoices, contracts, receipts, checks, transaction reports, and bank statements. Review your accounting and supporting documentation and report only actual, documented costs on the FFR.

Per TCA officials, the reported cost share/match is not based on a defined set of subawards. They reviewed their end-of-fiscal year expenditure report to verify that subaward expenditures issued during the award period exceeded the cost share/match requirement then recorded an exact match on the award FFRs. Per TCA officials, they had been advised by the NEA to only report a one-to-one cost share/match on the FFRs and were not aware that the cost share/match had to be traceable to actual expenditures. Per our review, subaward expenditures issued during the award period exceed the reported cost share/match. Failure to report accurate, current, and complete results that are traceable to expenditures could result in noncompliance with federal award requirements.

We recommend that the TCA establish policies and implement procedures that ensure accurate, current and complete disclosure of the financial results that reconcile to the accounting records.

The TCA concurs with this finding and recommendation (see Appendix B for the TCA's response).

SUBAWARD NOTICES

The TCA did not notify subrecipients that their subaward was used to meet the federal cost share/match. Awards issued by the NEA are subject to the following requirements:

- **NEA General Terms and Conditions for Partnerships, Appendix B: Required Data Elements for Subaward Notices, in part:**
 - Pass-through entities are required to provide subrecipients with the following information any time a subaward is made with Federal funds or funds that are used to meet the Federal grant's required match.
 - In the case of subawards that are being made only with matching funds, you would list the Federal amount as zero but include all other required data elements, so that the recipient understands this award cannot be used to match another federal grant.
 - Note: For items (vi), (vii), and (viii), if you have not determined the allocation of Federal/matching funds at the time the subaward is made, you must make provisions to convey this information to the subrecipient at the time that Federal or matching funds are obligated to their award.

The TCA has established policies and implemented procedures that ensure recipients of subawards made with NEA funds receive the required notices. However, the policies did not address notification for subawards made without NEA funds but used to meet the cost share/match requirement. Per TCA officials, they were not aware they needed to notify those subrecipients. Failure to provide the required notice could result in subrecipients not being aware that their subaward was used to meet the federal cost share/match and is subject to federal requirements.

We recommend that the TCA establish policies and implement procedures to notify subrecipients that their subaward was used to meet the federal cost share/match.

The TCA concurs with this finding and recommendation (see Appendix B for the TCA's response).

SUSPENSION AND DEBARMENT

The TCA did not conduct reviews to ensure that subrecipients were not suspended or debarred from receiving federal funds. Awards issued by the NEA are subject to the following requirements:

- **2 CFR 200.213 Suspension and Debarment:** Non-federal entities are subject to the non-procurement suspension and debarment regulations implemented in 2 CFR 180. These regulations restrict awards, subawards, and contracts with certain parties that are suspended, debarred, or otherwise excluded from or ineligible for participation in Federal assistance programs or activities.
- **2 CFR 180.300 What must I do before I enter into a covered transaction with another person on the next lower tier?** When you enter into a covered transaction with another person at the next lower tier you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:

- a. Checking SAM exclusions; or
- b. Collecting a certification from that person; or
- c. Adding a clause or condition to the covered transaction with that person.

The TCA did not have policies or procedures for verifying potential subrecipients are not suspended or debarred from receiving federal funds. We conducted a review of suspension and debarment and determined that none of the six selected subrecipients were suspended or debarred from receiving federal funds. Per TCA officials, they were not aware that the requirement applied to subaward recipients in addition to contractors. Failure to conduct reviews for suspension and debarment could result in federal funds issued to subrecipients who are not eligible to receive them.

We recommend that the TCA establish policies and implement procedures that ensure potential subaward recipients are reviewed for suspension and debarment prior to entering into agreements. We also recommend that TCA review current subaward recipients to ensure that the parties are not suspended, debarred, or otherwise excluded from or ineligible for participation in Federal assistance programs or activities.

The TCA concurs with this finding and recommendation (see Appendix B for the TCA's response).

SECTION 504 SELF-EVALUATION

The TCA did not maintain a Section 504 Self-Evaluation on file. Awards issued by the NEA are subject to the following requirements:

- ***NEA General Terms and Conditions for Partnerships, Appendix A, Section 1.d. - Section 504 - Self-Evaluation and Additional Resources:***
 - i. A Section 504 Self-Evaluation must be on file at your organization.
 - ii. The completed workbook or similar compliance and supporting documentation should be kept on file for a period of three years from the date the FFR is filed, and made available to the public and the NEA upon request.

Per TCA officials, a workbook had been completed years ago but the documentation was not maintained. Failure to maintain a Section 504 Self-Evaluation on file could result in program participants being denied required accommodations. The TCA completed the Section 504 Self-Evaluation workbook during our audit. Therefore, no further documentation is being requested.

The TCA concurs with this finding (see Appendix B for the TCA's response).

RECOMMENDATIONS

We recommend that the TCA:

1. Establish reporting procedures that ensure costs incurred outside the award period are excluded from award FFRs.
2. Establish policies and implement procedures that ensure accurate, current and complete disclosure of the financial results that reconcile to the accounting records.
3. Establish policies and implement procedures to provide notice of federal award participation to all subrecipients whose funds are used to meet the federal cost share/match.
4. Establish policies and implement procedures that ensure potential subaward recipients are reviewed for suspension and debarment prior to entering into agreements. We also recommend that TCA review current subaward recipients to ensure that the parties are not suspended, debarred, or otherwise excluded from or ineligible for participation in Federal assistance programs or activities.

We recommend that the NEA:

1. Review the supporting documentation of the \$2,291 in questioned costs and determine allowability.

BREAKDOWN OF AWARD CALCULATIONS

Award No. 15-6100-2046

| | |
|--|----------------------------|
| Total Reported Costs | \$ 1,843,800 |
| Less Questioned Costs | |
| Period of Performance | <u>(2,291)</u> |
| = Allowable Reported Costs | <u><u>\$ 1,841,509</u></u> |
| Required Minimum Reported Project Cost | \$ 1,843,800 |
| Less Allowable Reported Costs | <u>1,841,509</u> |
| = Cost Sharing Requirement Not Met | <u>\$ (2,291)</u> |
| Potential Refund | <u><u>\$ (1,146)</u></u> |



August 28, 2018

Ron Stith, Inspector General
National Endowment for the Arts
400 7th Street, SW
Washington, DC 20506

Dear Mr. Stith:

RE: Limited Scope Audit Report on Selected Awards to
Texas Commission on the Arts
Austin, TX
Report No. LS-18-03

Finding #1 – PERIOD OF PERFORMANCE

Texas Commission on the Arts concurs and will implement
recommendations contained in the audit.

Finding #2 – REPORTING FINANCIAL RESULTS

Texas Commission on the Arts concurs and will implement
recommendations contained in the audit.

Finding #3 – SUBAWARD NOTICES

Texas Commission on the Arts concurs and will implement
recommendations contained in the audit.

Finding #4 – SUSPENSION AND DEBARMENT

Texas Commission on the Arts concurs and will implement
recommendations contained in the audit.

Finding #5 – SECTION 504 SELF-EVALUATION

Texas Commission on the Arts concurs.

Gary Gibbs, Ph.D.
Executive Director
Texas Commission on the Arts