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## MEMORANDUM

DATE: January 5, 2015

TO: Winona H. Varnon, Audit Followup Official  1/6/15

FROM: Tonie Jones, Inspector General 

SUBJECT: Payment Request Review for Commonwealth Council for Arts and Culture of the Northern Mariana Islands (CCAC), Grant No. 13-6100-2063

We have completed our review of CCAC's payment request in the amount of \$109,800, for the period of January 1, 2014 through August 21, 2014. CCAC submitted the required documentation before the September 30, 2014 deadline, as stated in the agency suspension notification. CCAC is on the cost reimbursement method of funding and is required to provide appropriate documentation for the allowable expenditures incurred on the grant.

During our review, we identified repeated deficiencies, such as inadequate oversight of subrecipient awards, inadequate documentation to support expenses (e.g., missing payment vouchers, invoices), unallowable costs, incomplete personnel activity reports, ineffective management of program plans and inadequate staff training. Examples of the deficiencies are detailed below:

### **Inadequate Oversight of Subrecipient Awards**

NEA *General Terms* requires subgrant agreements to include a requirement for final reports and the maintenance of records pertinent to the subgrant for a period of three years following the submission of the organization's final report to NEA.

CCAC continues to demonstrate a lack of basic oversight of the subrecipient award process. CCAC has not implemented adequate procedures, such as ensuring applications and final reports are properly completed and maintained. There were five instances totaling \$6,934 where award documentation did not fully describe services, applications were not completed, and/or in most cases, no final reports were provided. For example, a payment of \$2,074 for "professional fees" under Arts Education for Professional Development Workshops conducted had no application, agreement or final report. (Attachment A)

Based on the above, we recommend NEA disallow \$6,934 in unsupported costs for subrecipient

awards.

### **Inadequate Documentation to Support Expense**

NEA *General Terms*, Section 16. Record Retention, states:

**You must maintain financial records, supporting documents (such as cancelled checks, invoices, contracts, travel reports, donor letters, in-kind contribution reports, and personnel activity reports), statistical records, and all other records pertinent to an award according to the provisions outlined in OMB Circular A-110 (2 CFR 215), Section 53, or the "Common Rule," Section 1157.42, as applicable. Generally, the retention period is three years from the date the final FFR is filed.**

Our review of accounting records and documentation provided by CCAC found several instances of noncompliance.

- Lack of supporting documentation (e.g. invoices) - National Business Supply - 3 instances totaling \$738. (Attachment B)
- Inadequate documentation to support "payments" to volunteers - 11 instances totaling \$1,200

Volunteer forms for the *Flame Tree Arts Festival* did not include an agreement for payment or a base of pay such as hourly or number of days. Therefore, we could not test the base of pay for reasonableness. (Attachment C)

Based on the above, we recommend NEA disallow \$1,938 in unsupported costs.

### **Unallowable Costs**

The allowable costs for work performed under a NEA award is determined in accordance with the applicable Federal cost principles and the terms and conditions of the award. CCAC included the following unallowable costs in its reported outlays:

- Automobile fuel, maintenance and rental cars were included in total costs - 5 instances totaling \$5,112

These costs were not approved in the budget based on prior mismanagement and personal use of vehicles. CCAC has been advised of this requirement on several occasions by NEA staff.

- Inadequate documentation to support capital equipment - Island Business Systems - 1 instance totaling \$6,357

A "*Completion of Contract Processing*" memorandum issued by CCAC's internal finance office for the purchase of a copier did not include a date of purchase, amount or contract. Furthermore, according to CCAC internal policy and the Office of Management and Budget (OMB) guidelines, this is considered a capital equipment expense, which require prior approval from NEA. (Attachment D)

Based on the above, we recommend NEA disallow \$11,469 in unallowable costs.

### **Incomplete Personnel Activity Reports**

Organizations on the cost reimbursement method of funding are required to submit Personnel Activity Reports (PARs) with each payment request.

To support personnel costs, CCAC submitted the general ledger, time and attendance reports and PARs. The PARs did not account for all compensated time, including time spent on non-NEA grant activities. For example, CCAC included one employee's full-time salary costs in its total outlays; however, the PARs for the same period indicated zero number of hours worked.

Although the PARs were not prepared properly, the time and attendance reports and general ledgers support the personnel costs and NEA approved 100% of salary costs in CCAC's project budget. The time and attendance reports accounted for all compensated time and were signed by the executive director. Therefore, we recommend accepting the payroll costs in the amount of \$36,944. (Attachment E)

### **Ineffective Management of Program Plan**

CCAC was awarded a partnership grant in the amount of \$281,225. In its application narrative, CCAC indicated that 30% of its funding would be designated for grants to artists. As of August 21, 2014, CCAC had granted approximately 37 awards in the amount of \$26,267. We noted that 27 of the 37 grants were awarded in July and August 2014. CCAC had awarded just 9% of its NEA award, with less than 60 days before the performance period ended. ( $\$26,267/281,225 = 9\%$  of the NEA award).

### **Inadequate Staff Training**

To effectively manage Federal funds, all of CCAC's staff involved in the grant management process, including the Executive Director, should be familiar with and have an understanding of OMB and NEA award requirements. CCAC has not requested or arranged for training from Pacific Resources for Education and Learning (PREL) as agreed; however, the staff received extensive technical assistance from PREL to complete the requested progress report. CCAC submitted consultant expenditures for staff and Board members' training on its internal grant management policies. The repeated findings and the extensive technical assistance needed clearly demonstrate that all employees involved in the management of NEA awards do not have adequate competency in the requirements of NEA *General Terms* and the cost principles of OMB.

## **OVERALL ASSESSMENT**

As a result of the above findings and if NEA accepts the questioned payroll costs, the remaining questioned/unallowable costs in the amount of \$20,341 will reduced the allowable costs claimed, as of the August 21, 2014, to \$89,459.

Based on the above deficiencies and those outlined in the August 11, 2014, Report No. R-14-03, *Recommendation for Agency Suspension Action*, we believe CCAC has failed to comply with the grant terms and conditions and has not demonstrated the ability to adequately manage Federal awards. Therefore, we recommend that NEA terminate Grant No. 13-6100-2064 as of August 21, 2014, request final reports and deem CCAC ineligible to apply for or receive NEA awards for a period of three years effective immediately.

**RECOMMENDATIONS**

Based on our review and CCAC's prior performance, we recommend the following to NEA:

**Recommendation No. 1**

Disallow \$20,341 in unsupported costs.

**Management Decision (Recommendation No. 1)**

- a. Concur. \_\_\_\_\_ ✓
- b. Do not concur. \_\_\_\_\_
- c. Other \_\_\_\_\_

**Recommendation No. 2**

Allow the questioned payroll costs in the amount of \$36,944.

**Management Decision (Recommendation No. 2)**

- a. Concur. \_\_\_\_\_ ✓
- b. Do not concur. \_\_\_\_\_
- c. Other \_\_\_\_\_

**Recommendation No. 3**

Terminate Grant No. 13-6100-2064, as of August 21, 2014

**Management Decision (Recommendation No. 3)**

- a. Concur. \_\_\_\_\_ ✓
- b. Do not concur. \_\_\_\_\_
- c. Other \_\_\_\_\_

**Recommendation No. 4**

Request CCAC submit the Federal Financial Report and Final Descriptive Report for Grant No. 13-6100-2064, as of August 21, 2014

**Management Decision (Recommendation No. 4)**

a. Concur.

  
\_\_\_\_\_

b. Do not concur.

\_\_\_\_\_

c. Other

\_\_\_\_\_

**Recommendation No. 5**

Deem CCAC ineligible to apply for or receive NEA awards for a period of three years effective immediately.

**Management Decision (Recommendation No. 5)**

a. Concur.

  
\_\_\_\_\_

b. Do not concur.

\_\_\_\_\_

c. Other

\_\_\_\_\_

To assist you in making a management decision on CCAC's eligibility status, we are including CCAC's progress report and supporting documentation for the findings above. The documentation is too voluminous to provide by email; however, I will make it available for your review upon request.

Please provide your concurrence/non-concurrence to the recommendations by January 20, 2015. If you have any questions, please contact me at (202) 682-5774 or email me at [jonest@arts.gov](mailto:jonest@arts.gov).

- cc: Laura Scanlan, State and Regional Director
- Nicki Jacobs, Grants and Contracts Director
- Mike Griffin, Chief of Staff
- Caralyn Spector, Senior Advisor to the Chairman
- India Pinkney, General Counsel, Office of the General Counsel
- Diane Biddle, Lead Grant Management Specialist