



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

**Limited Scope Audit Report on Selected Awards to
The American Architectural Foundation**

Report No. LS-18-02

August 2, 2018

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INTRODUCTION

BACKGROUND

The American Architectural Foundation (AAF), in Washington, D.C., is a national organization dedicated to equipping leaders with the knowledge, inspiration, and resources they need to lead their communities to transformative change through design. In partnership with the National Endowment for the Arts (NEA) and the U.S. Conference of Mayors, the AAF managed the Mayors' Institute on City Design (MICD) program for 20 years, ending in 2016. The MICD's mission is to help transform communities through design by preparing mayors to be the chief urban designers of their cities. To fulfill that mission, the AAF planned and managed six annual conferences across the country where mayors engage with leading design and development experts to find solutions to the most critical planning and design challenges facing their cities.

OBJECTIVES, SCOPE, AND METHODOLOGY

We conducted a limited scope audit of the AAF for the period of May 1, 2014 through April 30, 2017. Limited scope audits involve a review of financial and non-financial information of grant recipients to ensure validity and accuracy of reported information, and compliance with federal requirements. The objectives of this audit were to determine whether:

- The AAF's financial management system and recordkeeping complied with the requirements established by the Office of Management and Budget (OMB), including Title 2 of the Code of Federal Regulations, Subtitle A: *OMB Guidance for Grants and Agreements Part 200 – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (2 CFR 200)*, and the NEA's *General Terms and Conditions for Grants and Cooperative Agreements to Organizations (General Terms)*;
- The AAF fulfilled financial and compliance requirements set forth in 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 according to 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 AAF'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 AAF had three active awards during the audit period as follows:

Cooperative Agreement No.	Period of Performance	Original Award Amount	Amendment Amount	Total Adjusted Award	Total Reported Costs
DCA 2014-01	11/1/13 – 3/31/15	\$ 400,000	\$ 0	\$ 400,000	\$ 895,278
DCA 2015-01	11/1/14 – 3/31/16	400,000	47,000	447,000	1,023,796
DCA 2016-01	11/1/15 – 1/31/17	400,000	0	400,000	805,021
TOTAL		\$1,200,000	\$47,000	\$1,247,000	\$2,724,095

The three NEA Cooperative Agreements were Design awards requiring a one-to-one cost share/matching with non-federal funds to provide support for the MICD programs. Each award required the AAF to plan and implement six design conferences, maintain the MICD website, and develop marketing material during the respective periods of performance. DCA 2015-01 included a \$47,000 amendment not subject to cost share/matching for development of case studies and other media for the MICD website.

PRIOR AUDIT COVERAGE

The NEA Office of Inspector General (OIG) has not issued any audit reports on the AAF in the past five years. The most recent independent audit report of the AAF's financial statements was issued by Raffa, P.C. Per the report, the financial statements for FY 2014 and FY 2015 presented fairly, in all material respects, the financial position of the AAF for the periods reviewed, and the supplemental information was fairly stated, in all material respects, in relation to the financial statements. However, the FY 2016 audit report was still in draft form during our review.

AUDIT RESULTS

SUMMARY

Our limited scope audit concluded that the AAF generally did not comply with the financial management system and recordkeeping requirements established by the OMB and NEA. While performance requirements were generally satisfied, we identified multiple financial management areas requiring improvement to ensure that the AAF complies with OMB and NEA award requirements as follows:

- The AAF included unallowable alcohol costs on all of the awards' Federal Financial Reports (FFRs).
- The AAF generally did not administer NEA awards in compliance with NEA and federal regulations, specifically regarding in-kind contribution costs, general and administrative costs, internal controls, submitting final reports, or procuring goods and services.
- The AAF included unsupported costs on all of the awards' FFR.
- The AAF included costs incurred outside the award period on the FFR for DCA 2016-01.

- The AAF did not provide accurate, current, and complete disclosure of the financial results of federal awards.
- The AAF did not comply with federal suspension and debarment requirements regarding contractors and Institute speakers.
- The AAF did not comply with NEA requirements to complete and maintain on file a Section 504 Self-Evaluation.

The following sections present more details in the areas identified as requiring improvement, and the related criteria.

ALCOHOL

The AAF included unallowable alcohol costs on the NEA award FFRs. Awards issued by the NEA are subject to the following requirements:

- **2 CFR 200.423. Alcoholic Beverages:** Costs of alcoholic beverages are unallowable.
- **NEA FFR Instructions:** All project costs claimed on the FFR must be supported, allowable, and meet federal requirements, even if paid with private funds. All unallowable costs are required to be excluded from the FFR.

We identified \$45,507 in alcohol costs in the AAF’s shared costs reported on the FFRs, which we are questioning (see table below). AAF officials stated they thought that since the costs were not included in the NEA share of funds they were in compliance.

Award Name	DCA 2014-01	DCA 2015-01	DCA 2016-01	Total
Alcohol Reported	\$15,725	\$20,715	\$9,067	\$45,507

Including unallowable costs on the FFRs could result in failure to meet the required cost share/matching amounts, resulting in a potential refund due back to NEA (see the tables at Appendix A).

We recommend that the AAF establish and implement a reporting process that ensures unallowable costs are excluded from award FFRs.

We recommend that the NEA disallow \$45,507 in unallowable alcohol costs, with a potential refund due to the NEA.

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

IN-KIND CONTRIBUTIONS

The AAF did not comply with NEA and federal requirements when reporting third party in-kind contribution costs on the FFRs. Awards issued by the NEA are subject to the following requirements:

- **2 CFR 200.306. *Cost Sharing or Matching, (f)*:** When a third-party organization furnishes the services of an employee, these services must be valued at the employee's regular rate of pay plus an amount of fringe benefits that is reasonable, necessary, allocable, and otherwise allowable.
- **2 CFR 200.306. *Cost Sharing or Matching, (j)*:** For third-party in-kind contributions, the fair market value of goods and services must be documented and, to the extent feasible, supported by the same methods used internally by the non-federal entity.
- **2 CFR 200.434. *Contributions and Donations, (d)*:** To the extent feasible, services donated to the non-federal entity will be supported by the same methods used to support the allocability of regular personnel services.
- **NEA FFR Instructions:** All project costs claimed on the FFR must be supported, allowable, and meet federal requirements, even if paid with private funds. All unallowable costs are required to be excluded from the FFR.
- **NEA General Terms, 12.2. *Use of Third-Party In-kind Contributions*:** Volunteer and donated goods and services must be documented and their fair market value determined per 2 CFR 200.306 *Cost Sharing or Matching, (j)*.

We identified \$276,415 in unsupported in-kind contribution costs (see table below), which we are questioning.

The AAF did not obtain documentation of donated time from speakers during the award period. However, agendas from each Institute were available and documented 20 of the 24 hours reported for each speaker. The AAF was unable to provide support for the additional 4 hours, but AAF officials stated they likely decided 24 hours per person to account for speakers' travel time. We have determined estimates do not meet NEA and 2 CFR 200 requirements regarding support documentation. Based on our review, we identified \$86,535 in unsupported costs (see table below), which we are questioning.

Also, the AAF was unable to provide documentation for the calculation of hourly rates used for multiple speakers across the awards. The AAF stated they applied a standard default rate of \$250 per hour toward any speaker who did not provide a rate. The AAF stated the \$250 rate was likely a historical average of speaker costs that was established prior to the audit period. NEA and 2 CFR 200 requirements do not allow for an average hourly rate to be used as support documentation for third party contributions. Based on our review, we identified \$188,380 in unsupported costs (see table below), which we are questioning.

Finally, we determined that the journal entry recording the value of donated services for DCA 2014-01 in the financial ledger was \$1,500 higher than the AAF's calculation of costs. AAF Finance Department officials were unable to explain why the journal entry was higher. Based on

our review, we identified \$1,500 in unsupported costs (see table below), which we are questioning.

Award Name	DCA 2014-01	DCA 2015-01	DCA 2016-01	Total
Unsupported Time	\$30,157	\$ 30,248	\$26,130	\$ 86,535
Unsupported Rate	62,928	80,812	44,640	188,380
Unsupported Journal Entry	1,500	0	0	1,500
Total Unsupported In-Kind Contribution Cost	\$94,585	\$111,060	\$70,770	\$276,415

Including unsupported costs on the FFRs could result in the AAF’s failure to meet the required cost share/matching amount, resulting in a potential refund due back to NEA (see the tables at Appendix A).

We recommend that the AAF establish policies and implement procedures that ensure in-kind contribution costs are calculated and documented in accordance with NEA and federal requirements. We also recommend that the AAF submit any additional supporting documentation for the \$276,415 in questioned costs to the NEA for review.

We recommend that the NEA review supporting documentation for the \$276,415 in questioned costs and determine allowability.

The AAF does not concur with this finding but does concur with the recommendation (see Appendix B for the AAF’s response).

INDIRECT COSTS

The AAF did not comply with federal requirements when recording general and administrative expenses (indirect costs) on the NEA award FFRs. Awards issued by the NEA are subject to the following requirements:

- **2 CFR 200, Appendix IV, B.4. Direct Allocation Method**
 - (b): This method is acceptable provided each joint cost is prorated using a base which accurately measures the benefits provided to each federal award or other activity. The bases must be established in accordance with reasonable criteria and be supported by current data.
 - (c): Under this method, indirect costs consist exclusively of general administration and general expenses.

We identified \$419,696 in unsupported indirect costs (see table below), which we are questioning. The AAF allocated indirect costs based on a percentage of total monthly program expenditures, less alcohol. AAF officials did not have documentation to support the base rate, but stated that it was the standard procedure for recording indirect costs to individual programs.

Per the AAF Finance Department officials, they were not aware of federal or award requirements. Based on our review, we determined that the method the AAF used did not comply with 2 CFR 200 requirements for allocating indirect costs to the awards.

Award Name	DCA 2014-01	DCA 2015-01	DCA 2016-01	Total
Administrative Costs Reported	\$108,690	\$170,745	\$140,261	\$419,696

Including unsupported costs on the award FFRs could result in failure to meet the required cost share/matching amount, resulting in a potential refund due back to the NEA (see the tables at Appendix A).

We recommend that the AAF establish policies and implement procedures that ensure indirect costs are allocated in compliance with federal award requirements. We also recommend that the AAF submit any additional supporting documentation for the \$419,696 in questioned costs to the NEA for review.

We recommend that the NEA review the supporting documentation of the \$419,696 in questioned costs and determine allowability.

The AAF does not concur with this finding but does concur with the recommendation (see Appendix B for the AAF's response).

AMENDMENT COSTS

The AAF was unable to provide support for \$29,778 in amendment costs reported on the FFR for DCA 2015-01. Awards issued by the NEA are subject to the following requirements:

- **2 CFR 200.403. Factors Affecting Allowability of Costs (b):** In order to be allowable, costs must conform to any limitations or exclusions set forth in the federal award as to types of cost items.
- **2 CFR 200.403. Factors Affecting Allowability of Costs (g):** In order to be allowable, costs must be adequately documented.
- **2 CFR 200.405. Allocable Costs (c):** Any cost allocable to a particular federal award may not be charged to other federal awards to overcome fund deficiencies.
- **NEA FFR Instructions:** All project costs claimed on the FFR must be supported, allowable, and meet federal requirements, even if paid with private funds. Exclude all unallowable costs from the FFR.

We identified \$29,778 in unsupported amendment costs for DCA 2015-01, which we are questioning. Per DCA2015-01 award documentation, the AAF was granted a pre-award amendment of \$47,000 for costs related to videography and professional writing costs for creating case studies and other media for the MICD website. Per the NEA, the AAF was not required to obtain a cost share/match for these funds. The AAF requested reimbursement for the \$47,000 in costs but was only able to provide support for \$17,222. AAF Finance Department

officials stated they were not aware that the additional \$47,000 was an amendment associated with specific activities and costs, and could not be applied to the original DCA 2015-01 project costs. Including unsupported costs on award FFRs could result in failure to meet the required cost share/matching amount, resulting in a potential refund due back to the NEA (see the table at Appendix A).

We recommend that the AAF establish policies and implement procedures to ensure that reported costs are allocable, allowable, and supported. We also recommend that the AAF submit any additional supporting documentation for the \$29,778 in questioned costs to the NEA for review.

We recommend that the NEA review supporting documentation for the \$29,778 in questioned costs and determine allowability.

The AAF does not concur with this finding but does concur with the recommendation (see Appendix B for the AAF's response).

PERIOD OF PERFORMANCE

The AAF included \$3,664 in costs that were incurred outside the award period on the FFR for DCA 2016-01. 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.
- **NEA General Terms. *Period of Performance*:** Only costs and activities incurred between the start and end date of the award (period of performance) may be charged to the award.

We identified \$3,664 in travel costs incurred outside of the grant period for DCA 2016-01, which we are questioning. Per the MICD Director, she was not thinking of the award start period when scheduling and incurring travel costs. The AAF Finance Department and Executive Management were unable to explain why the costs were included in the FFR, citing Finance staff turnover. Including costs outside of the award period on the FFRs could result in failure to meet the required cost share/matching amount, resulting in a potential refund due back to the NEA (see the table at Appendix A).

We recommend that the AAF establish policies and implement procedures to ensure that reported costs are incurred during the period of performance. We also recommend that the AAF submit any additional supporting documentation for the \$3,664 in questioned costs to the NEA for review.

We recommend that the NEA review supporting documentation for the \$3,664 in questioned costs and determine allowability.

The AAF does not concur with this finding but does concur with the recommendation (see Appendix B for the AAF's response).

MANAGEMENT OF FEDERAL AWARDS

The AAF generally did not administer NEA awards in compliance with NEA and federal requirements. Awards issued by the NEA are subject to the following requirements:

- **NEA General Terms. 1 *Applicability 1.3*:** The *General Terms* implements NEA legislation and policies, along with 2 CFR 200 and other federal statutes, regulations, and Executive Orders that apply to grants and cooperative agreements. Award recipients must be familiar with and comply with these requirements.
- **NEA General Terms. 2 *Your Responsibilities*:** By accepting an NEA award the organization assumes legal, financial, administrative, and programmatic responsibility for administering the award in accordance with any provisions included in the award; the statutes, regulations, and Executive Orders governing federal awards; and these general terms and conditions, all of which are hereby incorporated into your award by reference.

Cost Allowability

- **2 CFR 200.302. *Financial Management, (b)7*:** The financial management system for federal award recipients must provide written procedures for determining the allowability of costs in accordance with the 2 CFR 200 Subpart E – Cost Principles and terms and conditions of the award.

The AAF did not have written policies and procedures for determining the allowability of costs incurred under the awards. The AAF financial management policies and procedures are documented in its *Accounting Policies and Procedures Manual (Manual)* and *Travel Policy and Procedures for Employees (Travel Policy)*, which did not fully address determining cost allowability in accordance with federal regulation. Nor did the *Manual* or *Travel Policy* incorporate or reference federal and NEA award publications, such as the OMB 2 CFR 200 or NEA *General Terms*. AAF officials stated that they did not establish written documentation because they were not aware of the requirement. Failure to establish written procedures for determining cost allowability could result in improper financial procedures and unallowable costs being claimed on the FFRs.

We recommend that the AAF establish documented policies and implement procedures for determining the allowability of costs in accordance with federal requirements.

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

Record Retention

- **2 CFR 200.333. *Retention Requirements for Records*:** 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.

The AAF did not comply with federal requirements regarding record retention. The AAF *Manual* states that invoices, bank reconciliations, employee expense reports, and payroll records are to be retained for four years. We determined this does not ensure that all records will be retained during the federally required retention period of three years following the date of final FFR submission. Failure to establish record retention policies and procedures in accordance with federal requirements could result in the destruction of pertinent award documents prior to the end of the required federal retention period.

We recommend that the AAF establish record retention policies and implement procedures that meet federal award requirements.

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

Internal Controls

- **2 CFR 200.303. *Internal Controls* (c):** Federal award recipients must evaluate and monitor internal compliance with statutes, regulations, and the terms and conditions of the award.
- **NEA General Terms. 9.2 *Financial Management and Internal Controls*:** Awardees must establish and maintain effective internal controls over the award and provide reasonable assurance that the award is managed in compliance with federal statutes and regulations, and the terms and conditions of the award.

The AAF did not comply with federal and NEA requirements for establishing and maintaining internal controls over federal funds. The AAF *Manual* requires internal controls to be established by the President and Board Treasurer, with consultation by the Director of Finance. AAF's President stated he relied on the Director of Finance and MICD Director to establish and maintain internal controls that ensured proper award management. However, the Directors stated they were not responsible for maintaining or updating internal controls, and no documentation was provided showing the authority was delegated. As a result, internal controls over federal awards were not established during the award period to provide reasonable assurance that award funds were managed in compliance with federal statutes and regulations and the terms and conditions of the award.

The AAF *Manual* also requires a review of the internal control system following changes in administrative personnel or organizational operating structure. This was not done despite multiple changes to the Finance Department's structure and personnel during the period under

review. As a result, we identified the following internal control deficiencies related to cash disbursements, record retention, bank reconciliations, and journal entries:

- Internal controls procedures over cash disbursements were not followed. The *Manual* requires pre-approval of all cash disbursements greater than \$300 through the use of a purchase order, which the Finance Department is to verify against the invoice prior to payment. Rather than following the *Manual*, the AAF followed policies and procedures established in the *Travel Policy*, which did not require purchase orders. However, the *Travel Policy* only applies to entertainment and travel costs. AAF and MICD employees stated they were unaware of the *Manual's* purchase order requirement. Failure to follow internal procurement procedures could result in purchasing unnecessary or overpriced goods and services.
- Internal controls over record retention were not followed. The *Manual* states that contract and agreement records are to be retained for seven years. The AAF did not retain any non-financial MICD supporting documents for the awards under review. AAF officials stated that when management of the program was transferred to a new entity the Board approved the release of program documents to the new entity and did not retain copies. Failure to retain pertinent award documents could result in the inability to provide support that work was performed in accordance with the award.
- Internal controls over bank reconciliations were not maintained. Compensating controls were not established for independent review and approval of bank reconciliations following changes to the Finance Department's structure and personnel. AAF officials were unable to explain why new procedures were not established. Failure to maintain independent review over bank reconciliations could lead to improper payments going undetected.
- Internal controls over journal entries were not established. The AAF *Manual* states that monthly journal entries are prepared and posted by the Director of Finance. The entries are then reported on monthly financial statements, which are reviewed and approved by the President. The financial statements are presented to the Board with a list of posted journal entries for further review and approval. We determined this process did not include an independent review and approval of journal entries to supporting documentation prior to posting. AAF officials stated they believed the Board's approval of the financial statements served as independent review and approval of the journal entries. However, their review was from the financial statement to the list of entries rather than to entry supporting documentation (e.g., applicable award requirements and internal calculations). Failure to review supporting documentation for the journal entries could result in improper costs recorded to the awards.

We recommend that the AAF establish policies and implement procedures for the review and enforcement of internal controls over federal awards.

The AAF does not concur with this finding but does concur with the recommendation (see Appendix B for the AAF's response).

Training

During our review, we were repeatedly informed by the AAF and MICD staff that they were not aware of federal and NEA award requirements. Per the MICD employees, they had never received training on the management of federal awards. Failure to ensure training on managing federal awards contributed to improper management, inadequate record retention policies, and ineffective internal controls.

We recommend that the AAF establish policies and implement procedures that ensure all employees working with NEA awards are trained on the management of federal awards.

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

REPORTING FINANCIAL RESULTS

The AAF did not report accurate, current, and complete financial results on the NEA award FFRs. Awards issued by the NEA are subject to the following requirements:

- **2 CFR 200.302. *Financial Management, (b)2:*** The financial management system of each non-federal entity must provide for the following: accurate, current, and complete disclosure of the financial results of each award in accordance with the reporting requirements set forth in *200.327 Financial Reporting* and *200.328 Monitoring and Reporting Program Performance*.

FFR results reported costs incurred during the first 14 months of performance, though the AAF incurred costs during the remaining months. Due to high staff turnover in the Finance Department, AAF officials were unable to explain why the reports did not cover the full periods of performance. Failure to submit accurate, current, and complete FFRs could result in allowable costs being excluded from consideration during an audit, resulting in a potential refund due back to the NEA.

We recommend that the AAF establish policies and implement procedures that ensure accurate, current, and complete disclosure of the financial results of each federal award.

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

SUBMISSION OF FINAL REPORTS

The AAF did not submit the required final reports within 90 days of the end of the period of performance for DCA 2014-01 and DCA 2015-01. Awards issued by the NEA are subject to the following requirements:

- **2 CFR 200.343. Closeout (a):** The awardee must submit, no later than 90 days after the end of the period of performance, all financial, performance, and other reports as required by the terms and conditions of the federal award.
- **NEA General Terms. 16.3. Final Reports:** Awardees must submit a Final Descriptive Report (FDR) and Federal Financial Report (FFR) no later than 90 days after the end of the period of performance.

The final reports for DCA 2014-01 and 2015-01 were submitted after the reporting deadline (see tables below). As noted in the previous finding, AAF officials were not able to explain their reporting process.

FFR	DCA 2014-01	DCA 2015-01
Performance End Date	March 31, 2015	March 31, 2016
Date Due	June 29, 2015	June 29, 2016
Date Submitted	September 29, 2015	July 28, 2016
Days Late	92	29

FDR	DCA 2014-01	DCA 2015-01
Performance End Date	March 31, 2015	March 31, 2016
Date Due	June 29, 2015	June 29, 2016
Date Submitted	October 1, 2015	July 28, 2016
Days Late	94	29

Failure to submit final reports could render awardees ineligible to receive funding until the reports are submitted or for five years from the submission due date, whichever is sooner.

We recommend that the AAF establish policies and implement procedures to ensure that final reports are submitted within 90 days of the end of the period of performance.

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

PROCUREMENT OF GOODS AND SERVICES

The AAF did not follow federal procurement requirements when procuring goods and services under the awards. Awards issued by the NEA are subject to the following requirements:

- **Circular A-110; 215.42 Codes of Conduct (in part):** The recipient shall maintain written standards of conduct governing the performance of its employees engaged in the

award and administration of contracts. No employee, officer, or agent shall participate in the selection, award, or administration of a contract supported by federal funds if a real or apparent conflict of interest would be involved.

- **Circular A-110; 215.44 Procurement Procedures (a) (in part):** All recipients shall establish written procurement procedures. These procedures shall provide for, at a minimum, that paragraphs (a)(1), (2), and (3) of this section apply.
- **Circular A-110; 215.45 Cost and Price Analysis (in part):** Some form of cost or price analysis shall be made and documented in the procurement files in connection with every procurement action.
- NEA award documentation requires the AAF to follow its Board-established procurement policy or, in the absence of one, the federal procurement policies for contracts issued under projects funded with federal awards.

Effective May 2017, the following criteria replaced the Circular criteria stated above:

- **2 CFR 200.318. General Procurement Standards (c)1:** Federal award recipients must maintain written standards of conduct covering conflicts of interest and governing the actions of its employees engaged in the selection, award, and administration of contracts;
- **2 CFR 200.320. Methods of Procurement to be Followed (b):** Federal award recipients must use Procurement by Small Purchase procedures for the purchase of goods and services from \$3,000 – \$149,999. Small purchase procedures require obtaining price or rate quotations from an adequate number of qualified sources.

We reviewed the AAF *Manual* and determined the established procurement policies and procedures did not meet the federal procurement requirements. AAF officials stated that they were not aware of federal procurement requirements and generally obtained goods and services for the MICD program from contractors commonly used by the AAF for other projects. Failure to follow federal procurement standards could result in the AAF overpaying for goods and services funded by federal awards.

We recommend that the AAF update and implement documented procurement policies and procedures that meet federal procurement requirements.

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

SUSPENSION AND DEBARMENT

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

- **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 may 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.
- **NEA General Terms. Appendix A, 3. Debarment and Suspension:** Award recipients must comply with federal requirements regarding debarment and suspension in 2 CFR 180 Subpart C.

The AAF did not conduct reviews for suspension and debarment. AAF officials stated they were not aware of the federal requirement; therefore, did not establish policy or procedures to ensure reviews were conducted. Failure to conduct reviews for suspension and debarment could result in federal funds being issued to ineligible recipients.

We recommend that the AAF establish policies and implement procedures that ensure potential recipients of MICD funds are reviewed for suspension and debarment prior to entering into agreements.

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

SECTION 504 SELF-EVALUATION

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

- **NEA General Terms. Appendix A, 1.d – Section 504 of the Rehabilitation Act of 1973, as amended; (i):** A Section 504 Self-Evaluation must be on file at your organization.

AAF officials stated they were unaware of the NEA requirement. Failure to maintain a Section 504 Self-Evaluation could result in program participants being denied required accommodations.

We recommend that the AAF establish policies and implement procedures that ensure a Section 504 Self-Evaluation is completed and maintained on file. We also recommend that the AAF complete a Section 504 Self-Evaluation and submit a copy to the NEA.

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

RECOMMENDATIONS

We recommend that the AAF:

1. Establish and implement a reporting process that ensures unallowable costs are excluded from award FFRs.
2. Establish policies and implement procedures that ensure in-kind contribution costs are calculated and documented in accordance with NEA and federal requirements.
3. Establish policies and implement procedures that ensure indirect costs are allocated in compliance with federal award requirements.
4. Establish policies and implement procedures to ensure that reported costs are incurred, allowable, and supported.
5. Establish policies and implement procedures to ensure that reported costs are incurred during the period of performance.
6. Submit any additional supporting documentation for the \$729,553 in total questioned costs to the NEA for review.
7. Establish policies and implement procedures for determining the allowability of costs in accordance with federal requirements.
8. Establish record retention policies and implement procedures that meet federal award requirements.
9. Establish policies and implement procedures for the review and enforcement of internal controls over federal awards.
10. Establish policies and implement procedures that ensure all employees working with NEA awards are trained on the management of federal awards.
11. Establish policies and implement procedures that ensure accurate, current, and complete disclosure of the financial results of each federal award.
12. Establish policies and implement procedures to ensure that final reports are submitted within 90 days of the end of the period of performance.
13. Update and implement documented procurement policies and procedures that meet federal procurement requirements.
14. Establish policies and implement procedures that ensure potential recipients of MICD funds are reviewed for suspension and debarment prior to entering into agreements.
15. Establish policies and implement procedures that ensure a Section 504 Self-Evaluation is completed and maintained on file.
16. Complete a Section 504 Self-Evaluation and submit a copy to the NEA.

We recommend that the NEA:

1. Disallow \$45,507 in unallowable alcohol costs.
2. Review the supporting documentation for the total \$729,553 in questioned costs to determine allowability and if a refund is due.

APPENDIX A

BREAKDOWN OF AWARD CALCULATIONS

Award No. DCA 2014-01 (MICD 285)

Total Reported Costs	\$ 895,278
Less Questioned Costs	
Alcohol	15,725
In-Kind Contributions	94,585
Administrative Costs	108,690
= Allowable Reported Costs	\$ 676,278
Required Minimum Reported Project Cost	\$ 800,000
Less Allowable Reported Costs	676,278
= Cost Share/Match Requirement Shortage	(123,722)
Potential Refund Due to the NEA	\$ 61,861

Award No. DCA 2015-01 (MICD 286)

Total Reported Costs	\$1,023,796
Less Amendment Related Costs	47,000
= Total Award Costs	\$ 976,796
Less Questioned Costs	
Alcohol	\$ 20,715
In-Kind Contributions	111,060
Administrative Costs	170,745
= Allowable Reported Costs	\$ 674,276
Required Minimum Reported Project Cost	\$ 800,000
Less Allowable Reported Costs	674,276
= Cost Share/Match Requirement Shortage	(125,724)
Potential Refund Due to the NEA	\$ 62,862

Amendment 1, DCA 2015-01

Total Reported Costs	\$1,023,796
Less Award Related Costs	976,796
Total Amendment Costs	\$ 47,000
Less Questioned Costs	
Lack of Documentation	29,778
= Allowable Reported Costs	\$ 17,222
Required Minimum Reported Project Cost	\$ 47,000
Less Allowable Reported Costs	17,222
= Cost Share/Match Requirement Shortage	(29,778)
Potential Refund Due to the NEA	\$ 29,778

Award No. DCA 2016-01 (MICD 287)

Total Reported Costs	\$ 805,021
Less Questioned Costs	
Alcohol	9,067
In-Kind Contributions	70,770
Administrative Costs	140,261
Period of Performance	3,664
= Allowable Reported Costs	\$ 581,259
Required Minimum Reported Project Cost	\$ 800,000
Less Allowable Reported Costs	581,259
= Cost Share/Match Requirement Shortage	(218,741)
Potential Refund Due to the NEA	\$ 109,371

Total Potential Refund Due to the NEA

DCA 2014-01	\$ 61,861
DCA 2015-01	92,640
DCA 2016-01	109,371
Potential Refund Due to the NEA	\$263,872

July 30, 2018

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

Re: Response to NEA Draft Audit Report Dated July 13, 2018

Dear Mr. Stith:

The American Architectural Foundation (AAF) was the Cooperator for the Mayors' Institute on City Design, a leadership initiative of the National Endowment for the Arts, from 1998 until early 2018. During this 20-year period AAF worked under four NEA design directors helping assure continuity in the consistency and quality of program. During this period, the Mayors' Institute has received widespread national and international praise and MICD has often been called the crown jewel of NEA programs.

As Cooperator, AAF and our MICD team worked with more than 840 mayors and built a national coalition of over 800 of the nation's top urban planners and architects as MICD Resource Team Members. In the management of MICD the AAF actively sought to understand and follow all policies, guidelines and directives provided by the NEA while also meeting the 1-to-1 financial match which exceeded \$8 Million in private support during our administration of the program.

For two decades AAF worked to maintain a collegial yet professional relationship with the NEA Design staff and adhered to NEA approved practices in accounting for MICD expenses. As a result of our effective management of the MICD program, our cooperative agreement was renewed for 20 consecutive years.

We sincerely hope that the information included in this response to the NEA Draft Audit will provide adequate documentation and/or explanation of the areas addressed by the MICD Audit and will be persuasive in leading to a more significantly more moderate resolution of the current financial requirements.

On the following pages, the American Architectural Foundation submits our responses to the National Endowment for the Arts (NEA) Draft Audit Report No. LS-18-02 in response to your letter of July 13, 2018. Worksheets supporting AAF's response calculations are provided as attachments (Schedules 1 – 3) to this letter.

AAF Responses

ALCOHOL - Concur

Response

In the month-to-month administration of the Mayor's Institute, AAF was careful to exclude any alcohol related expenses in our reimbursement reports to the NEA Office of Design. However, alcohol related transactions were inadvertently included in AAF's Federal Financial Reports (FFR). Therefore, AAF agrees with the exclusion of alcohol as recommended by the NEA auditor.

IN-KIND CONTRIBUTIONS – Non-concur

The NEA recognized as a portion of AAF's one-to-one match the in-kind contributions of time provided by the MICD Resource Team Members (sometimes referred to as speakers or volunteers). These donated services were provided by professional architects and urban planners. The individuals donating time were selected in consultation with NEA for their unique skills and abilities. The method for computing the value of their time was to request from each Resource Team Member a signed statement on which they reported their hourly fees. In those situations where the Resource Team Member did not submit their fees per hour form, the MICD staff computed the value of their time based on an average fee per hour of \$250.00. This was the practice of the MICD staff for 20 years. The NEA audit questions this practice.

Response

AAF disagrees with questioned In-Kind Contributions of MICD Resource Team Members totaling \$276,415 and alternatively has found that the supported cost should actually be increased by \$49,165 for the following reasons:

1. Hourly rates: NEA questioned \$188,380 of donated services based on lack of support for the hourly rate claimed. NEA does not question that the services were provided. These types of service are properly valued as volunteer services furnished by third-party professionals in accordance with CFR 200.306 (e) which states,

"...Rates for third-party volunteer services must be consistent with those paid for similar work by the non-Federal entity. In those instances which the required skills are not found in the non-Federal entity, rates must be consistent with those paid for similar work in the labor market in which the non-Federal entity competes for the kind of services involved."

- a. As stated above, MICD staff requested hourly rate information from all Resource Team Members. In those cases where a rate was not provided, MICD staff used an estimated rate of \$250 per hour based on its knowledge of the market. In response to audit questions, AAF re-computed an average of the rates provided by other Resource Team Members which resulted in a slightly lower average rate of \$223 per hour. AAF believes that the computed average rate of \$223 is

reasonable and meets the requirements of CFR 200.306 in that it is consistent with rates paid for similar work in the labor market. The questioned amount of (\$188,380) is equivalent to 754 hours at \$250 per hour. Adjusting the hourly rate to \$223 results in a value of \$168,142. AAF agrees that the difference of (\$20,238) between the questioned cost and the recalculated amount is a proper reduction of the In-Kind Matching Contribution. (See Schedule 2.)

- b. Travel Time: The amount questioned as unsupported time (\$86,535) should be removed and an instead should be replaced by additional supported time of \$70,903.

The amount questioned represents the value of travel time for Resource Team Member volunteers questioned as unsupported. The amount questioned is equivalent to 346 hours of travel time at an estimated average rate of \$250 per hour. Travel time was estimated at a very conservative 4 hours per Resource Team Member volunteer per MICD session. In response to audit inquiries, AAF performed a comprehensive analysis of travel time required based on review of actual travel/expense reports and flight itineraries each Resource Team member. This analysis showed average travel time of 8.15 hours per Team member for each MICD session. This analysis meets the CFR requirement of documenting donated services "to the extent feasible". Since AAF does not have the authority of an employer, it cannot require volunteers to complete time reports. It has, however, documented the donated travel hours by the means available.

Insofar as the claimed travel time was estimated at 4 hours per Resource Team Member and the actual average per the analysis of travel itineraries was 8.15 per volunteer, the donated hours should be increased by a factor of 2.04. (8.15 divided by 4 equals 2.04.) Multiplying 346 by 2.04 results in the corrected donated hours of 706. Multiplying 706 by the average hourly value of donated services of \$223 per hour results a total value of \$157,438. Subtracting the value previously claimed of \$86,535 results in an increase to the claimed services of \$70,903. (See Schedule 2.)

2. Journal Entry Recording: AAF does not challenge the questioned cost of a \$1,500 journal entry based on materiality considerations.

Summary

These three adjustments (decrease of \$20,238; increase of \$70,903 and decrease of \$1,500) result in a net increase to the In-Kind Contribution Cost of \$49,165.

INDIRECT COSTS – Non-Concur

Response

AAF disagrees with the auditors' findings in their entirety. AAF had a process of allocating administrative/indirect costs to all AAF departments. The actual administrative/indirect expense rate, supported by audited financial statements, shows that the administrative expenses ranged from 31% to 41% of direct costs during the years under audit. AAF charged a rate 20% which was considered a conservative estimate, since AAF had more than enough matching costs to apply to the grant and there seemed little need to go through the time and effort of adjusting the 20% estimated overhead to the actual overhead. The audited financial statements were supported by actual invoices, payroll, benefits and related costs used for AAF G&A department, and employees used time sheets for direct allocation of salary and benefits to each department, including G&A. This questioned cost should be removed in its entirety and, if an adjustment is made, the allowable cost should be increased by \$456,074. (See Schedule 3.)

AMENDMENT COSTS – Non-Concur

Response

These costs involved web site design, development and hosting, as well as case study research and MICD video development, as described in the award memorandum dated 10/31/15. AAF reported these costs in the NEA FFR DCA 2015-01, and believes that including the labor costs should be allowed since the award memorandum letter specifically allows these costs, and the fact that AAF used an intern for some of this work should not disallow the costs.

PERIOD OF PERFORMANCE – Non-Concur

Response

AAF believes these costs should be allowed since they were necessary to the performance of the grant activity, were incurred approximately one month prior to the grant start date and were related to site selection trip requested by the MICD office at NEA.

MANAGEMENT OF FEDERAL AWARDS – (See below)

A. Cost Allowability – Concur

AAF acknowledges its accounting and travel policies and procedures did not fully address determining cost Allowability in accordance with federal regulation or reference NEA award publications. Despite these shortcomings, AAF believes that, other than the inadvertent inclusion of alcohol costs in the FFR reports, no unallowable costs were charged to Federal grants.

B. Internal Controls - Non-concur

AAF believes that its internal controls were appropriately managed despite any apparent miscommunication of responsibilities between its board and management officials. AAF acknowledges it did employ a purchase order system but only for certain large purchases. Purchases were normally made by department heads, within their BOD approved budgets. Before payments were made, invoices for all purchases were approved and coded by the accounting department or CFO. In addition, the CEO approved invoices and purchases over \$10,000 were counter signed by a second signatory, often the Treasurer. . AAF believes the procedures employed were appropriate in the circumstances and is not aware of any unauthorized or inappropriate purchases.

C. Record Retention – Concur

AAF believed that its policy of keeping records for four years met the requirement of retaining grant-related records for three years following the date of FFR submission. Regarding record retention, the records in question were transferred to the new MICD Cooperator at the instruction of NEA. AAF did not obtain copies of the records as the new grant recipient was deemed a responsible custodian, insofar as they were selected by NEA, and the copying was considered unnecessary cost which would have been a waste of Government money.

Regarding controls over bank reconciliations and journal entries, AAF is not aware of any improper payments resulting from any lack of control.

D. Training – Concur

AAF believed that its staff was adequately trained. AAF is not aware of any mischarges to the Government as a result of any training shortcomings.

REPORTING FINANCIAL RESULTS - Concur

The FFRs reported substantially all of the costs related to the grants in question. Small amounts of cost were incurred after the FFRs were completed. AAF considered the cost of preparing supplemental reports to outweigh the benefits of the increased accuracy obtained. No overcharge to the Government resulted from any reporting deficiency.

SUBMISSION OF FINAL REPORTS - Concur

AAF acknowledges the late filing of reports.

PROCUREMENT OF GOODS AND SERVICES – Concur

AAF is not aware of any overpayments or conflicts of interest related to its procurement of goods and services. AAF is no longer the MICD manager and no longer receiving any federal grants. If future federal grants are applied for, AAF will review and revise its policies and procedures as deemed appropriate.

SUSPENSION AND DEBARMENT - Concur

AAF performed this process but did not document it. Since there were no vendors used that were disbarred or suspended, this finding appears to be not applicable.

SECTION 504 SELF-EVALUATION - Concur

AAF is no longer the MICD Cooperator and is no longer receiving federal grants. If future federal grants are applied for, AAF will implement this recommendation.

RECOMMENDATIONS - Concur

AAF generally concurs with the recommendations submitted by the auditor. However, since AAF is not currently a recipient federal grants AAF believes the completion of a Section 504 Self-Evaluation (NEA recommendation No. 16) would be of no value at this time. If future federal grants are applied for, AAF will review and revise its policies and procedures and implement the recommendations as deemed appropriate at that time.

We understand from the NEA auditors that their role is limited to reporting on the amounts submitted in the FFR reports. As a result, the questioned costs are effectively valued at zero in the audit. As shown in the attached summary (Schedule 1), AAF's analysis of the questioned costs for the three grant years under audit indicate that AAF has provided approximately \$700 thousand more than the required matching expenses of \$2,447,000. The NEA auditors have recommended to the NEA that it review the supporting documentation for the amounts questioned in its limited scope audit. NEA would like to resolve the audit questions as efficiently and expeditiously as possible in best interests of both AAF and NEA. As you can see from the table below, there are significant differences between the audit results and the costs which AAF feels are proper.

AAF - NEA Audit Summary				
			NEA Audit	AAF Response
Alcohol			\$ (45,507)	\$ (45,507)
In-Kind contributions - hourly rate			\$ (86,535)	\$ (20,238)
In-Kind contributions - travel			\$ (188,380)	\$ 70,903
Unsupported journal entry			\$ (1,500)	\$ (1,500)
Administrative costs			\$ (419,696)	\$ 456,074
Period of performance			\$ (3,664)	\$ -
			<u>\$ (745,282)</u>	<u>\$ 459,732</u>
(reduction) addition in allowed costs				

American Architectural Foundation

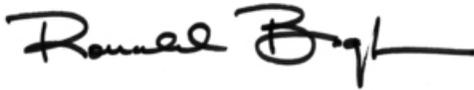
Address 740 15th Street NW, Suite 225, Washington, DC 20005

Phone 202.787.1001 **Web** archfoundation.org

Based on our calculations, which are supported by the documentation described, AAF believes that we have responsibly managed the Mayors' Institute on City Design, followed the spirit and intent of the regulations, and faithfully followed our agreements with NEA. Based on the table above, we believe additionally that we have been extremely conservative in our estimating in-kind and administrative costs and that recalculated costs are far greater than the costs claimed.

We are available to meet with the appropriate NEA official and provide supporting documentation as may be necessary to resolve any questions that remain.

Very truly yours,

A handwritten signature in black ink, appearing to read "Ronald Bogle". The signature is fluid and cursive, with a long horizontal stroke at the end.

Ronald E. Bogle, Hon AIA
President & CEO
American Architectural Foundation

cc: AAF Board of Trustees
Al Deleon
Matt Kraft

**American Architectural Foundation
Summary of Allowable Costs
After Removal of Unallowable Costs
and Adjustment to Questioned Costs
Based on AAF Analysis of Audit Findings**

<u>Description</u>	<u>DCA 2014-01 MICD 285</u>	<u>DCA 2015-01 & Amendment 1 MICD 286</u>	<u>DCA 2016-01 MICD 287</u>	<u>Total</u>	<u>AAF Response Letter Ref. (Par. No.)</u>
Total per FFR	\$ 895,278	\$ 1,023,796	\$ 805,021	\$ 2,724,095	
Less unallowable costs:					
Alcohol	(15,725)	(20,715)	(9,067)	(45,507)	1
Questioned Costs (Adjusted per AAF Analysis)					
In-kind contributions, hourly rate				(20,238)	4
In-kind contributions travel				70,903	7
Unsupported journal entry				(1,500)	8
Administrative costs				456,074	10
Period of performance				(3,664)	
Lack of documentation				-	11
Total Adjustments				<u>456,068</u>	line 10-17
Adjusted Allowable Costs				3,180,163	line 8+18
Required Minimum Reported Project Costs	\$ 800,000	\$ 847,000	\$ 800,000	<u>\$ 2,447,000</u>	
Excess of Costs Incurred Over Required Costs				<u><u>\$ 733,163</u></u>	

Note:

1. AAF has not completed the analysis of questioned cost adjustments by year but believes the total excess of costs incurred over the matching requirement of the three year period is indicative that the matching requirements of the individual years are also met.

**American Architectural Foundation
Analysis of Questioned In-Kind Labor Contributions**

<u>Description</u>	<u>Amount</u>	
Questioned as Unsupported Rate	\$ 188,380	A
Estimated Hourly Value Claimed	\$ 250	B
Number of Hours Questioned	754	C=A/B
Average Hourly Value of Donated Services	\$ 223	D
Recomputed value	<u>168,142</u>	E=CxD
Proposed adjustment	<u>\$ (20,238)</u>	F=E-A
Actual Average Travel Time per Volunteer	8.15	G
Claimed Average Travel per Volunteer	4.00	H
Actual Hours as Percentage of Claimed	204%	I=G/H
Claimed Value of Travel Time	\$ 86,535	J
Estimated Hourly Value Claimed	\$ 250	K
Travel Hours Questioned	346	L=J/K
Ratio of actual travel hours to estimated	204%	M
Supported Travel Hours	706	N=LxM
Average Hourly Value of Donated Services	\$ 223	O
Recomputed Value of Travel Based on Actual Travel Time and Actual Average Hourly Rate	<u>\$ 157,438</u>	P=NxO
Proposed Travel Adjustment (Matching Cost Increase)	<u>\$ 70,903</u>	Q=P-J
Unsupported Journal Entry	<u>\$ (1,500)</u>	R
Increase in In-kind Labor Contribution	<u>\$ 49,165</u>	S=F+Q+R

**American Architectural Foundation
Summary of Management and General Expenses**

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>Total</u>	
Management and General					
Amount per Audited Financial Statements (Net of allocation to Programs)	\$ 658,387	\$ 640,985	\$ 818,711	\$ 2,118,083	
Allocation to Programs	<u>190,312</u>	<u>328,171</u>	<u>283,468</u>	<u>801,951</u>	
Total Management and General	848,699	969,156	1,102,179	2,920,034	
Less: President's Salary (excluded per Award Proposal)	<u>(222,391)</u>	<u>(323,710)</u>	<u>(325,051)</u>	<u>(871,152)</u>	
Adjusted Management and General	<u>626,308</u>	<u>645,446</u>	<u>777,128</u>	<u>2,048,882</u>	A
Direct Activities					
MICD	786,957	858,597	673,748	2,319,302	B
Other Program Services	481,679	908,032	872,667	2,262,378	
Fundraising	<u>253,539</u>	<u>269,311</u>	<u>325,055</u>	<u>847,905</u>	
Total Direct Activities	<u>1,522,175</u>	<u>2,035,940</u>	<u>1,871,470</u>	<u>5,429,585</u>	C
MICD as Percent of Total Direct	51.7%	42.2%	36.0%	42.7%	D=B/C
Management and General Directly Allocable to MICD	323,798	272,197	279,774	875,770	E=AxD
Management and General Reported on FFRs	<u>108,690</u>	<u>170,745</u>	<u>140,261</u>	<u>419,696</u>	F
Excess of Allocable Management Costs over amount Claimed	<u>\$ 215,108</u>	<u>\$ 101,452</u>	<u>\$ 139,513</u>	<u>\$ 456,074</u>	G=E-F
Total Expenses	<u>2,370,874</u>	<u>3,005,096</u>	<u>2,973,649</u>	<u>8,349,619</u>	
Adjusted Management and General as Percentage of Total Direct	41.1%	31.7%	41.5%		H=A/C

American Architectural Foundation
Comparison of NEA Audit and AAF Response

	<u>NEA Audit</u>	<u>AAF Response</u>	<u>Difference</u>
Adjustments			
Alcohol	\$ (45,507)	\$ (45,507)	\$ -
In-kind Contributions			
Hourly Rate	(86,535)	(20,238)	(66,297)
Travel	(188,380)	70,903	(259,283)
Unsupported Journal Entry	<u>(1,500)</u>	<u>(1,500)</u>	<u>-</u>
Subtotal In-kind	(276,415)	49,165	(325,580)
Indirect Administrative Costs	(419,696)	456,074	(875,770)
Period of Performance	<u>(3,664)</u>	<u>-</u>	<u>(3,664)</u>
Total Questioned	<u>\$ (699,775)</u>	<u>\$ 503,739</u>	<u>\$ (1,203,514)</u>
Total Adjustments and Questioned	<u><u>\$ (745,282)</u></u>	<u><u>\$ 458,232</u></u>	<u><u>\$ (1,203,514)</u></u>