



NATIONAL ENDOWMENT FOR THE ARTS
OFFICE OF INSPECTOR GENERAL

LIMITED SCOPE AUDIT REPORT

**ON SELECTED
NEA GRANTS TO**

**AMERICAN SAMOA COUNCIL ON ARTS,
CULTURE AND HUMANITIES**

REPORT NO. LS-11-01

July 15, 2011

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INTRODUCTION

BACKGROUND

The American Samoa Council on Arts, Culture and Humanities (Council) focuses its resources on fostering and strengthening indigenous art forms throughout the Territory.

OBJECTIVE, SCOPE AND METHODOLOGY

Limited scope audits involve a limited scope review of financial and non-financial information of grant recipients to ensure validity and accuracy of reported information, and compliance with state and federal requirements. The objective of this limited scope audit was to determine whether:

- The grantee fulfilled the financial and compliance requirements as set forth in the grant awards;
- The total project costs claimed under the grants were reasonable, allocable and allowable;
- The required match was met on National Endowment for the Arts (NEA) grant funds.

Our audit was conducted in accordance with the *Government Auditing Standards (2007)*, issued by the Comptroller General of the United States. Accordingly, we included such tests of records and other auditing procedures that were considered necessary under the circumstances. The “Standards” require that we obtain sufficient, competent, and relevant evidence to afford a reasonable basis for our findings and conclusions. We reviewed the Council’s system of internal control and judgmentally selected a sample of transactions for testing from each of the grants reviewed.

During the period under review, the Council had six NEA grants active with awards totaling \$1,352,060 (see Appendix A). Our audit was limited to those four grants in which NEA funds had been drawn down and costs had been reported. The Council received a waiver from the one-to-one matching requirement from the NEA. For each of the grants reviewed, a partial match was required.

PRIOR AUDIT COVERAGE

During the past five years, the NEA Office of Inspector General has not issued any audit reports on federal grants awarded to the Council. However, the Council was included in the Territory of American Samoa United States Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profits Organizations*, audits for the years ended 2007 and 2008. RC Holsinger Associates, P.C., an Independent Certified Public Accounting firm, performed the audits, which resulted in qualified opinions for both years. The audit reports noted weaknesses in internal control and instances of noncompliance with federal awards program requirements that were considered to be material. None of the issues of internal control and noncompliance were associated with NEA grants at the Council. The Council is not considered a major program because NEA grants did not meet the dollar threshold (\$3,000,000) to be considered a major Federal Program for the years indicated.

RESULTS OF AUDIT

The Council's financial management system is administered in conjunction with the American Samoa Government (ASG). The ASG Department of Treasury's accounting system tracks NEA and local funds for the Council separately. In addition, the Council maintains a tracking system to monitor the activities and expenditures of each grant. However, we found that internal controls could be strengthened and we identified instances of noncompliance with NEA and OMB requirements, a potential conflict of interest and questionable costs charged to the grants. The Council did not have a completed Section 504 self-evaluation workbook on file, as required.

According to the NEA *General Terms and Conditions for Grants and Cooperative Agreements to Organizations (General Terms)*, and applicable OMB Circulars:

Recipients must have accounting structures that provide accurate and complete information about all financial transactions related to each Federally-supported project.

A description of our findings for each of the grants reviewed is indicated as follows:

INTERNAL CONTROLS

Questioned Costs

During our review, we identified several questionable costs charged to the selected grants. Specifically, the following *costs are questioned*:

For Grant Numbers 08-6100-2018, 07-6100-2067, 06-6100-2057 and 05-6100-2055,

A. Unsupported/Duplicate Expenditures

- Grant Numbers 06-6100-2057 and 07-6100-2067 included payments in the amount of \$8,500 and \$5,600, respectively, for grant writing services for the same period from two service providers. The supporting documentation described the service as: *grant writing and Territorial strategic planning for NEA funding period 2009-2011*. We are questioning \$8,500 charged to Grant Number 06-6100-2057 and \$5,600 charged to Grant Number 07-6100-2067 because of possible "overlapping" costs.
- Grant Numbers 05-6100-2055 and 08-6100-2018, included charges for website development services. The services included creating, developing and designing a customized web site with online donations and shopping capabilities. However, we could not verify that the work was performed because we were unable to locate a dedicated website or a webpage on the ASG website for the Council. Therefore we are questioning the following costs:
 - Grant Number 05-6100-2055, \$1,450 and \$1,500 charged for 6 months of website maintenance, domain restoration and website services.
 - Grant Number 08-6100-2018, \$6,000 charged for website development, "from scratch," and "to be started up before the end of 2008."

- For Grant Number 07-6100-2067, we found that the federal share of expenditures reported on the final Financial Status Report (FSR) were overstated in the amount of \$1,171, which indicates that the **total** NEA grant award was not expended, as required. The FSR reported \$252,055 for the federal share of outlays which was also the total award amount. The expenditure listing provided for the federal share of total outlays documented \$250,884. Although the total expenditures exceeded the award amount, the Council should ensure that its financial management system accurately reflects the total expenditure of the federal award.

OMB Circular A-110, 215.20 Subpart C, states in part:

Federal fund recipients are required to maintain an adequate financial system which will provide effective control over and accountability for all funds, property and other assets.

For Grant Numbers 07-6100-2067, 06-6100-2057 and 05-6100-2055,

B. Reporting Actual Expenditures

Our review found that although the Council, in conjunction with the ASG, Department of Treasury Grants Office has a system in place to track actual expenditures for each grant, the Council did not report actual expenditures on its final FSR as required. For the above grants, we found that the Council reported the local appropriation as the “recipient’s share of outlays,” instead of actual expenditures. The NEA *Instructions for Completing the FSR* stated that “total **actual** project outlays” are to be reported.

For example, \$44,000 was required as a partial match for Grant Number 05-6100-2055.¹ The Council reported \$44,000 on its final FSR as the “recipient’s share” which was also the total amount of the appropriated local funding to the Council for that fiscal year. However, the expenditure listing provided documented \$38,598 charged as matching expenditures. As a result, the total outlays were overstated by \$5,402. Therefore, we are questioning \$5,402 in matching costs.

We believe that a more accurate reflection of actual costs would occur if the Council and the ASG’s Department of Treasury Grant Office work together to prepare the financial reports.

For Grant Numbers 05-5100-2055 and 06-6100-2057,

C. Potential Conflict of Interest

- We identified a potential conflict of interest between a service provider and a Council official, who has the authority to request and approve payments. The provider received a total of \$12,215 in payments from Grants 05-5100-2055 (\$3,715) and 06-6100-2057 (\$8,500). However, \$11,450 is included in the questioned costs above. As a result, we are questioning an additional \$765.

¹ Grant Number 05-6100-2055 is the only grant reviewed which required a specific amount of matching expenditures.

OMB Circular A-110, Para. 215.42 Codes of Conduct states, 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. Such a conflict would arise when the employee, officer or agent, any member of his or her immediate family, his or her partner, or an organization which employs or is about to employ any of the parties indicated herein, has a financial or other interest in the firm selected for an award.

Recommendation – Questioned Costs

We are not requiring any additional documentation to support the total questioned costs in the amount of \$30,388 for Grant Numbers 05-6100-2055, 06-6100-2057 and 07-6100-2067 and 08-6100-2018 (see Appendix A) because if all of the questioned costs were disallowed under each of the grants, the partial matching requirements would still be met. For each grant reviewed, the Council's *total adjusted* outlays² exceeded the NEA award amount. However, we recommend the Council develop policies and implement procedures to ensure:

- The financial management system accurately reflects the total expenditure of federal awards.
- Only *actual* and *allowable* costs are reported on its Requests for Advance or Reimbursement (payment requests) and final Federal Financial Reports (FFR)³.
- Coordination with the ASG Department of Treasury Grants Office to verify total expenditures prior to submission of the financial reports to the NEA to ensure that the reports are supported by actual expenditures recorded in the ASG's financial system for both the NEA grant and any matching funds, as required by the NEA award agreement; and.
- The Council develops a written policy governing code of conduct and conflict of interest standards in accordance with the NEA *General Terms* and OMB Circular A-110.

In-Kind Contributions

In the above grants, in-kind contributions were included in the approved project budgets; however, in-kind contributions were not included in the total outlays reported on the final FSRs. During our review, we were provided with documentation, including the determination of value, to support in-kind contributions. However, in some instances, the documentation did not have the required approval signatures (donor and official), grant numbers and project periods.

We believe that a more accurate reflection of program costs would occur if the Council includes in-kind contributions, in its recipient's share of total outlays.

² *Adjusted Outlays* – Total outlays reported on the final FSR minus the total questioned costs.

³ Formerly the Financial Status Report

Recommendation

We recommend the Council develop written policies and implement procedures to ensure that in-kind contributions are adequately documented and included in its total outlays.

Indirect Costs

Indirect cost rates are negotiated by the ASG Department of Treasury. However, during our review we found that the Council included indirect costs using expired rates on its final FSRs. According to *General Terms, Section 15*:

If the rate expires during the period of support, a proposal must be submitted in time for the rate to be renegotiated *before* the end of the period of support.

Recommendation

We recommend the Council develop written policies and implement procedures to ensure that only current indirect cost rates are used for reporting indirect costs on its FFR.

Final Report Submissions

The Council did not submit final financial status reports (FSR) and final descriptive reports (FDR), within 90 days of the project period end date in accordance with NEA and OMB guidelines. Although the Council requested extensions, in most cases the requests were made after the due date of the final reports. *NEA General Terms, Section 7(g)* states, in part:

All final reporting requirements must be fulfilled within 90 days of the project period end date. Extension requests submitted after the fact may not be approved and may jeopardize future Arts Endowment funding.

OMB Circular A-110, Para 215.25, Revision of Budget and Program Plans, states, in part:

The recipient must notify the Federal awarding agency with the supporting reasons and revised expiration date at least 10 days before the expiration date in the award.

Recommendation

We recommend that the Council develop written policies and implement procedures to ensure that the Final Report package including the FFR and FDR, and any required work products(s) are submitted no later than 90 days after the project period end date. The policy should also ensure that if the due date cannot be met, a request for extension is submitted to NEA, in writing, at least 10 days before the due date of the final reports.

For Grant Numbers 07-6100-2067 and 06-6100-2057:

Inaccurate Expenditures

During our review of expenditures we noted that expenditures for Grant Number 07-6100-2067 were incorrectly charged to Grant Number 06-6100-2057. The mistake appeared to be an isolated case as a result of a hand written correction on the payment voucher.

Recommendation

We recommend that the Council develop policy and implement procedures to monitor grant expenditures to ensure that only allowable and accurate charges are made to the appropriate grant.

COMPLIANCE

Subrecipient Monitoring

Federal laws, rules, regulations and OMB Circulars that apply to NEA recipients generally also apply to subrecipients of NEA supported awards. As part of our review, we selected an Arts in Education mini grant charged to Grant Number 08-6100-2018 to determine whether the Council provided its subrecipients instructions and information as required by NEA *General Terms* and OMB regulations. Our review of the application and award materials found that the Council included the NEA logo, acknowledgment of NEA support, and the recipient's responsibility to comply with federal regulations. However, the Council did not provide subrecipients with identification information such as the Catalogue of Federal Domestic Assistance (CFDA) title and Federal award number. NEA's *General Terms, Section 31, Subgranting*, state, in part, that:

The grantee must provide potential subrecipients with your Federal award and associated Catalog of Federal Domestic Assistance (CFDA) numbers.

Recommendation

We recommend the Council include the CFDA and federal grant numbers in its subrecipient application and award materials.

Debarment and Suspension

The Council did not have procedures in place to ensure that recipients were not debarred or suspended prior to the award of Federal funds⁴. OMB Circular 102, Subpart C Section 35 states in part:

Federal awarding agencies and recipients shall comply with the nonprocurement debarment and suspension common rule implementing E.O.s 12549 and 12689, "Debarment and Suspension." This common rule restricts

⁴ Information may be obtained on parties that are debarred or debarred from receiving Federal funds from the General Services Administration (GSA) Excluded Parties List System web site at: <https://www.epls.gov>.

subawards and contracts with certain parties that are debarred, suspended or otherwise excluded from or ineligible for participation in Federal assistance programs or activities.

Recommendation

We recommend that the Council develop written policies and implement procedures to ensure that grants are not awarded to companies and or individuals which have been debarred or suspended from receiving Federal funds.

Section 504 Self-Evaluations

The Council did have the required Section 504 self-evaluation on file, however it was not completed. As noted in NEA's *General Terms*, "A Section 504 self-evaluation must be on file at your organization." A Section 504 Self-Evaluation Workbook, which can be completed online, is available at www.arts.gov/about/504Workbook.html.

Section 504 of the rehabilitation Act of 1973, as amended, provides for equal opportunity to enter facilities and participate in programs and activities. It does not require that every part of every facility or program be accessible. The important considerations are that individuals with disabilities have the same opportunities in employment, the same opportunities to enter and move around in facilities, the same opportunities to communicate and the same opportunities to participate in programs and activities as non-disabled people. Further, it is important to offer employment, programs, and services in settings that are integrated rather than to segregate individuals with disabilities with special programs.

Recommendation

We recommend the Council complete, and update as necessary, a Section 504 self-evaluation workbook to ensure compliance with the Rehabilitation Act of 1973, as amended. A copy of the self-evaluation should be submitted to the OIG. The OIG will provide a copy to NEA's Office of Civil Rights/EEO.

EXIT CONFERENCE

An exit conference was held with Council officials and staff on September 10, 2009, with a follow-up telephone conference July 5, 2011. The officials acknowledged the findings and recommendations and indicated they were in agreement on implementing the recommendations.

RECOMMENDATIONS

We also recommend the Council develop policies and implement procedures to ensure:

1. The financial management system accurately reflects the total expenditure of federal awards.
2. Code of conduct and conflict of interest standards are established in accordance with NEA *General Terms* and OMB Circular A-110.

3. Only actual and allowable costs are reported on its Requests for Advance or Reimbursement (payment requests) and final Federal Financial Report (FFR). Those procedures should also ensure:
 - a. Employees, who prepare the payment requests and FFRs, are familiar with the cost principles of OMB Circulars A-102 and A-87.
 - b. All reports and payment requests should be prepared in accordance with instructions from the NEA Grants and Contracts Office
 - c. An independent review of reports/payment requests is performed prior to submission to the NEA.
4. Grant expenditures are monitored to ensure that only allowable and accurate charges are made to the appropriate grant.
5. Coordination with the ASG Department of Treasury Grants Office to verify total expenditures prior to submission of the financial reports to the NEA to ensure that the reports are supported by actual expenditures recorded in the ASG's financial system for both the NEA grant and any matching funds, as required by the NEA award agreement
6. In-kind costs are adequately documented and included in its total outlays.
7. The inclusion of indirect costs, as allowed by a Federally-negotiated agreement, is approved by the NEA as required by the General Terms. The policy should ensure that only current indirect cost rates are used for reporting total outlays.
8. Final Report packages including the FFR and FDR, and any required work products(s) are submitted no later than 90 days after the project period end date. The policy should also ensure that if the due date cannot be met, a request for extension is submitted to NEA, in writing, at least 10 days before the due date of the final reports.
9. The CFDA title and federal grant numbers are included in the subrecipient application and award materials.
10. Grants are not awarded to companies and or individuals that have been debarred or suspended from receiving Federal funds.
11. A Section 504 self-evaluation is conducted to ensure compliance with the Rehabilitation Act of 1973, as amended.

American Samoa Council on the Arts, Culture and Humanities

SCHEDULE OF GRANTS SELECTED FOR AUDIT

Grant Amount	Grant Number	Grant Period	Reported Outlays	Questioned Costs	Project Description
\$ 25,000	09-6188-2122*	4/1/09-3/31/10	\$0	\$0	Purpose was to preserve jobs in the nonprofit arts sector (American Recovery and Reinvestment Act)
\$ 287,355	09-6100-2064*	10/1/09-9/30/10	\$0	\$0	Purpose was to support partnership agreement activities.
\$ 284,355	08-6100-2018**	10/1/08 - 9/30/09	\$ 196,532	\$ 6,000	Purpose was to support partnership agreement activities.
\$ 252,055	07-6100-2067	10/1/07 - 9/30/09	\$ 302,055	\$ 6,771	Purpose was to support partnership agreement activities.
\$ 253,155	06-6100-2057	10/1/06 - 9/30/07	\$ 276,575	\$ 8,500	Purpose was to support partnership agreement activities.
<u>\$ 250,140</u> <u>\$1,352,060</u>	05-6100-2055	10/1/05 - 9/30/06	<u>\$ 294,140</u>	<u>\$ 9,117</u> <u>\$ 30,388</u>	Purpose was to support partnership agreement activities.

*These grants were not selected for audit since no costs were reported under the two grants at the time of the site visit.

** Grant was reviewed, however; it was not closed at the time of the site visit. Reported outlays as of May 31, 2009.