



OFFICE OF INSPECTOR GENERAL

**FINANCIAL MANAGEMENT SYSTEM &
COMPLIANCE EVALUATION**

**ON SELECTED
NEA GRANTS TO**

Art 21, Inc.

New York, New York

REPORT NO. SCE-17-01

July 27, 2017

REPORT RELEASE RESTRICTION

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INTRODUCTION

BACKGROUND

Art 21, Inc. located in New York, New York is a nonprofit contemporary art organization that was incorporated on July 15, 1997. Art 21 introduces broad public audiences to today's visual artists, stimulating critical reflection as well as conversation through the production of films, publications, digital resources, and educational programs.

OBJECTIVE AND SCOPE

The review was conducted in accordance with the Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Inspections and Evaluations*, as applicable. Accordingly, we included such tests of records and other procedures that were considered necessary under the circumstances. The Standards require that we obtain sufficient, competent and relevant evidence to support a reasonable basis for our findings and conclusions.

During the period under review (Fiscal Year 2012 –2016), Art 21 had eight National Endowment for the Arts (NEA) grants, with funding of \$720,000. We judgmentally selected and reviewed three of the eight grants.

The project details for the three grants we reviewed are as follows:

1. Grant No. 12-3446-7103 was awarded to support the production of the seventh season of the public television series “Art in the Twenty-First Century”. The media arts award was \$100,000, with a one-to-one matching requirement. The reported outlays for the series totaled \$301,470.
2. Grant No. 13-3400-7072 was awarded to support production and post-production of the seventh season for the public television series “Art in the Twenty-First Century”. The media arts award was \$100,000, with a one-to-one matching requirement. The reported outlays for the series totaled \$514,827.
3. Grant No. 14-3400-7086 was awarded to support production and post-production costs for the eighth season of the public television series “Art in the Twenty-First Century”. The media arts award was \$100,000, with a one-to-one matching requirement. The reported outlays for the series totaled \$482,825.

PRIOR AUDIT COVERAGE

During the past five years, the NEA Office of Inspector General (OIG) has not issued any audit reports on Federal grants awarded to Art 21. Prior to the evaluation, the most recent independent auditor's report on Art 21 was for the years ended September 30, 2014 and 2013. The audit was performed by Wagner & Zerman LLP, which issued an unmodified opinion. Art 21 was not subject to the audit requirements of Office of Management and Budget (OMB) Circular A-133.

RESULTS OF EVALUATION

The evaluation concluded that Art 21 did not fully comply with the financial management system and recordkeeping requirements established by OMB and NEA. We identified some areas for improvement to ensure Art 21 is in full compliance with OMB and NEA grant requirements. For instance, Art 21 did not have:

- NEA grant awards separately identified in its financial system.
- Federal Financial Reports (FFR) accurately completed.
- Written documentation that adequately clarifies the method used to allocate costs.
- Personnel activity reports.
- Policies and procedures for debarred or suspended contractors or recipients.
- Section 504 Self-evaluation on file.

Following is a summary of the findings.

FINANCIAL MANAGEMENT

Art 21 did not separately identify NEA funds by the specific grant award in its financial system. During the evaluation, Art 21 provided profit and loss documentation to support revenues and expenses for the production and post-production for the seventh and eighth season of the public television series "Art in the Twenty-First Century". Based on our review of the profit and loss documentation for the media arts awards, we identified a NEA visual arts grant award within the documentation. The NEA's *General Terms and Conditions for Grants and Cooperative Agreements to Organizations* (General Terms) states in part:

There can be no overlapping project costs between Federal awards. Therefore, separate accounting records must be maintained for each award.

Art 21 did not have policies and procedures requiring that it separately account for the source and application of Federal awards. Therefore, we recommend that Art 21 develop written policies and implement procedures that ensure each Federal award is separately identifiable in its financial system.

FEDERAL FINANCIAL REPORT

Art 21 did not accurately complete the FFR for Grant Nos. 12-3446-7103 and 13-3400-7072. According to the FFR for these grants, Art 21 claimed total outlays in the amounts of \$301,470 and \$514,827. However, the profit and loss documentation for the awards show outlays of \$201,470 and \$414,827. Therefore, total outlays reported on the FFR do not match the amount claimed in the profit and loss documentation provided. The NEA *Instructions for Completing the FFR* (SF-425) states in part:

The FFR is used to confirm that you have received and spent all NEA award funds and that you have met the matching requirement for your award. The amounts reported on it must show actual allowable expenditures (not simply restatements of your original budget or another estimate). The figures must be supported by documentation.

Failure to complete the FFR accurately could result in noncompliance of the matching requirement and a potential refund could be due to the NEA. As a result, we recommend Art 21 develop written policies and implement procedures for financial officials to review and follow instructions for completing the FFR to ensure the form is completed accurately.

COSTS METHODOLOGY

Art 21's policies and procedures provided a general methodology for recording grant costs in its financial system; however, we were unable to determine the method used to allocate costs to the NEA grants. According to 2 CFR 200.302, *Financial Management*, recipients of Federal awards should maintain:

Written procedures for determining the reasonableness, allocability and allowability of costs in accordance with provisions of the applicable Federal cost principles and the terms and conditions of the awards.

As a result, we recommend Art 21 clarify the policy to require written documentation of the method used to allocate costs to each grant.

PERSONNEL ACTIVITY REPORTS

Art 21 did not maintain personnel activity (time and effort) reports for NEA awards. At the time of the awards, personnel activity reports were required for all employees whose salaries and fringe benefits were charged, in whole or in part, to either the award or the matching funds if the award was \$50,000 or more.

Art 21 provided payroll journals to support salary costs for staff; however, the documentation does not include an explanation of project roles, responsibilities, and

efforts contributed to the projects. Therefore, we are questioning all salary and fringe benefit costs charged to each of the awards. (*See Appendix*)

Grant No. 12-3446-7103. Art 21 charged salary costs that included fringe benefits in the amount of \$96,400. We recommend Art 21 provide additional documentation to support the salary and wages charged to the award. Without additional documentation, a potential refund of \$47,465 could be due to the NEA.

Grant No. 13-3400-7072. Art 21 charged salary costs that included fringe benefits in the amount of \$174,883. We recommend NEA review the supporting documentation and determine the final decision.

Grant No. 14-3400-7086. Art 21 charged salary costs that included fringe benefits in the amount of \$252,851. We recommend NEA review the supporting documentation and determine the final decision.

As of December 26, 2014, OMB guidance requires the maintenance of salary and wage expenses to be based on records that accurately reflect the work performed. The records must be supported by a system of internal controls which provide reasonable assurance that the charges are accurate, allowable, properly allocated and reflect the total activity for which the employee is compensated¹. Therefore, we recommend Art 21 develop written policies and implement procedures for maintaining documentation of salary and wages expenses that adheres to 2 CFR 200.

SUSPENSION AND DEBARMENT

Art 21 did not have policies and procedures in place to ensure that contractors or recipients were not debarred or suspended from receiving Federal assistance prior to the payment or award of Federal funds.

NEA *General Terms* states:

You must comply with requirements regarding debarment and suspension in Subpart C of 2 CFR part 180, as adopted by the Arts Endowment in Title 2 CFR, Chapter 32, Part 3254.

Subpart C of 2 CFR Part 180.300, *OMB Guidelines to Agencies on Government-wide Debarment and Suspension (Non-procurement)*, states, in part:

¹ Effective December 26, 2014, the OMB Circulars which governed the management of Federal assistance awards will be replaced with 2 CFR 200 *Uniform Guidance: Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. The guidance supersedes and streamlines OMB Circulars A-21, A-87, A-110, A-122, A-89, A-102, A-133 and A-50. The guidance can be found at http://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr200_main_02.tpl. Furthermore, NEA's General Terms for Fiscal Year 2015 awards will include new guidance, incorporating 2 CFR 200.

You must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:

- (a) Checking the EPLS²; or**
- (b) Collecting a certification from that person if allowed by the Federal agency responsible for the transaction; or**
- (c) Adding a clause or condition to the covered transaction with that person**

We recommended that Art 21 develop written policies and implement procedures to ensure that contractors and recipients are not debarred or suspended from receiving Federal assistance prior to the payment or award of Federal funds.

SECTION 504 SELF-EVALUATION

Art 21 did not have the Section 504 Self-evaluation on file as required by NEA General Terms. During the evaluation we requested Art 21 to provide the most current Section 504 Self-evaluation on file. Art 21 provided policy documentation however the NEA determined that the policy does not address physical accessibility as required under the Section 504 Self-evaluation. As noted in the *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.

We recommend that Art 21 complete a Section 504 self-evaluation to ensure compliance with the Rehabilitation Act of 1973, as amended. A copy of the self-evaluation should be submitted to NEA OIG.

EXIT CONFERENCE

Subsequent to our site visit, a telephone exit conference was held with Art 21 officials on July 13, 2017. Art 21 officials concurred with our findings and recommendations.

² Now part of the System for Awards Management (SAM).

RECOMMENDATIONS

We recommend Art 21:

1. Develop written policies and implement procedures that ensures each Federal award is separately identifiable in its financial system.
2. Develop written policies and implement procedures for financial officials to review and follow instructions for completing the FFR to ensure the form is completed accurately.
3. Clarify the policy to require written documentation of the method used to allocate costs to each grant.
4. Develop written policies and implement procedures for maintaining documentation of salary and wages expenses that adheres to 2 CFR 200.
5. Provide additional documentation for Grant No. 12-3446-7103 to support the salary and wages charged to the award. Without additional documentation, a potential refund in the amount of \$47,465 could be due to the NEA.
6. Develop written policies and implement procedures to ensure that contractors and recipients are not debarred or suspended from receiving Federal assistance prior to the payment or award of Federal funds.
7. Complete a Section 504 self-evaluation to ensure compliance with the Rehabilitation Act of 1973, as amended.

We recommend the NEA:

1. Review the supporting documentation of questioned costs for three grants in the total amount of \$524,134 and determine the final decision.

APPENDIX

Art 21, Inc. Breakdown of Grant Calculations

Grant No. 12-3446-7103

Total Outlays	\$201,470
Less Questioned Costs: Salary and Fringe Benefits	<u>(96,400)</u>
Adjusted Total Outlays	105,070
Less: Art 21 1:1 Match	<u>(52,535)</u>
Total NEA Share of Allowable Costs	52,535
NEA Disbursement	100,000
Less: NEA Share of Allowable Costs	<u>(52,535)</u>
Potential Refund	<u>\$47,465</u>

Grant No. 13-3400-7072

Total Outlays	\$414,827
Less Questioned Costs: Salary and Fringe Benefits	<u>(174,883)</u>
Adjusted Total Outlays	239,944
Less: Art 21 1:1 Match	<u>(100,000)</u>
Subtotal	139,944
Less: NEA Share of Allowable Costs	<u>(100,000)</u>
Overmatched	<u>\$39,944</u>

Grant No. 14-3400-7086

Total Outlays	\$482,825
Less Questioned Costs: Salary and Fringe Benefits	<u>(252,851)</u>
Adjusted Total Outlays	229,974
Less: Art 21 1:1 Match	<u>(100,000)</u>
Subtotal	129,974
Less: NEA Share of Allowable Costs	<u>(100,000)</u>
Overmatched	<u>\$29,974</u>