



OFFICE OF INSPECTOR GENERAL
FINANCIAL MANAGEMENT SYSTEM
AND COMPLIANCE EVALUATION

ON SELECTED
NEA GRANTS TO

BRIC Arts/Media/Bklyn, Inc.

New York, NY

REPORT NO. SCE-14-01

March 25, 2014



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INTRODUCTION

BACKGROUND

Brooklyn Information and Culture Arts/Media/Bklyn, Inc. (BRIC Arts) was established in 1979, to enrich the cultural landscape of Brooklyn by presenting, producing and enabling a wide array of quality contemporary art, performing arts and community media programs that reflect Brooklyn's creativity and diversity. BRIC Arts also provides resources to launch, nurture and showcase artists and media makers.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of this financial management system and compliance evaluation by the National Endowment for the Arts (NEA) Office of Inspector General (OIG) is to determine whether the organization's financial management system and recordkeeping complies with the requirements established by the Office of Management and Budget (OMB), and NEA's *General Terms and Conditions for Grants and Cooperative Agreements to Organizations (General Terms)*. In addition, we evaluated the recipient's compliance with OMB and NEA guidance for the management of the American Reinvestment and Recovery Act of 2009 (Recovery Act) funding.

The Recovery Act provided \$50 million to NEA to be distributed in direct grants to fund arts projects and activities which preserve jobs in the nonprofit arts sector threatened by declines in philanthropic and other support during the economic downturn. Consistent with the language in the Act, eligible projects were generally limited to salary support and fees for artists or contracted personnel.

The review was conducted in accordance with the Council of the Inspectors General on Integrity and Efficiency 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 and appropriate evidence to support a reasonable basis for our findings and conclusions.

During the period under review, BRIC Arts had twelve NEA grants opened or closed within the last three years, with awards totaling \$459,000. We judgmentally selected and reviewed two of the twelve grants in which NEA funds had been drawn down and costs had been reported.

The two grants we reviewed were as follows:

Grant No.	Award Amount	Total Outlays Reported
09-4188-7140	\$ 50,000	\$ 50,000
09-5100-8137	54,000	451,555
Totals	\$104,000	\$501,555

PRIOR AUDIT COVERAGE

During the past five years, NEA OIG has not issued any audit reports on Federal grants awarded to BRIC Arts. As of our site visit on June 18, 2012, the most recent independent auditor's report on BRIC Arts was for the year ended June 30, 2011. This audit was conducted by Loeb & Troper LLP, Certified Public Accountants, which issued an unqualified (clean) opinion. BRIC Arts was not subject to the audit requirements of OMB Circular A-133.

RESULTS OF EVALUATION

Our evaluation concluded that BRIC Arts did not comply with the financial management system requirements established by OMB and NEA for Federal awards. BRIC Arts did not separately identify Federal funds in its financial system, did not maintain personnel activity reports, reported unallowable costs and costs incurred outside of the grant period in its total outlays. BRIC Arts did not have written policies and procedures in place for the management of Federal awards and to ensure that debarred or suspended contractors or recipients did not receive Federal assistance. BRIC Arts also did not have a Section 504 self-evaluation on file, as required.

FINANCIAL MANAGEMENT

RECOVERY ACT GRANT NO. 09-4188-7140

BRIC Arts was awarded a Recovery Act grant in the amount of \$50,000 with no matching requirement. During our site visit, BRIC Arts provided documentation in the amount of \$50,000 to support salary costs.

Documentation of Federal Awards

Recovery Act fund recipients were required by OMB and NEA to separately identify the source and application of Federal funds. During our site visit, BRIC Arts provided expenditure listings that did not separately identify Federal awards.

We were informed by BRIC Arts that costs for this award were distributed between two cost centers, Contemporary Arts - Exhibition (701) and Contemporary Arts - Education (703). However, expenditures for Grant No. 09-5100-8137 were also charged to cost center 703. Expenditures within the cost center were not separately identified by grant or project, therefore we were unable to identify specific expenditures for each grant charged to the cost center.

Our review of the Federal Financial Reports (FFR) and the expenditure listings provided, found that BRIC Arts reported overlapping costs between this award and NEA Grant No. 09-5100-8137. In one instance, BRIC Arts charged an allocation of \$13,600 of an annual salary to this grant and 100% of the same annual salary to Grant No. 09-5100-8137. In

another instance, costs for teaching artists, in the amount of \$14,400 were included in total outlays reported on both awards.

NEA's *General Terms*, which addresses the requirement to have an adequate financial management system, states, in part:

There can be no overlapping project costs between Federal awards. Therefore, separate accounting records must be maintained for each award. OMB Circular A-110 (2 CFR 215), Section 2, and the "Common Rule," Section 1157.20, as applicable, establishes standards for financial management systems of recipients (i.e., accounting systems, internal controls, allowable costs, cash management, etc.). The financial management systems of recipient organizations and their subrecipients must meet these standards.

Without policies and procedures in place to adequately identify the source and application of Federal awards separately, costs charged to the award cannot be determined and may result in overlapping costs. As a result, we questioned the above costs in the amount of \$28,000. However, BRIC Arts provided adequate supporting documentation for these costs. Therefore, we are accepting the costs for this grant and disallowing the overlapping costs under Grant No. 09-5100-8137. We are not requiring any additional documentation to support costs for this grant.

Although the Recovery Act funding program has been completed, NEA requires that grant recipients maintain separate accounting records for each award. Therefore, we are recommending that BRIC Arts develop written policies and implement procedures to ensure each Federal award is separately identified in its financial system.

Summary of Grantee Response: BRIC Arts' response stated that the appearance of overlapping costs is due to the fact that the project for Grant 09-5100-8137 was defined as the overall Contemporary Arts Education program; all expenses, including those covered from this grant, were therefore included as part of the project. No expense was allocated to multiple funding streams. However, BRIC Arts concurs with the recommendation and agreed to implement corrective actions to separately identify Federal awards.

Personnel Activity Reports

BRIC Arts did not provide personnel activity reports (time and effort reports) documenting the distribution of activity for salaries charged to the award. OMB and NEA required recipients of Recovery Act funding to maintain adequate personnel activity reports when charging a person's salary in whole or in part to this award.

NEA and OMB guidelines for the Recovery Act awards states, in part:

Recipients must maintain adequate time-and-effort reports (i.e., personnel activity reports) when charging a person's salary in whole or in part to the grant.

Without project specific personnel activity reports, the actual time allocated to this project cannot be determined. As a result, we are questioning costs in the amount of \$35,600. However, BRIC Arts provided adequate documentation (salary expenditure listing from BRIC Arts' financial management system, Internal Revenue Service's Form W-2s, Employee Earnings Record and Attendance Sheets) to support salary costs charged to the Recovery Act grant. We were able to determine, from the documentation provided, that the salaries charged to this award were for the approved positions. Therefore, no further documentation for this award is being requested.

Although the Recovery Act funding program has been completed, NEA requires recipients to maintain personnel activity reports for awards that are \$50,000 or more. We are recommending that BRIC Arts develop written policies and implement procedures to ensure that individual personnel activity reports are maintained for employees whose salaries are charged, in whole or in part, to future grant awards that are \$50,000 or more. An example of a personnel activity report can be found on NEA's website at <http://arts.gov/grants/manage-your-award/grants-organizations-fy12-later>.

GRANT NO. 09-5100-8137

BRIC Arts was awarded an Arts Education grant in the amount of \$54,000 with a 1:1 matching requirement. BRIC Arts reported total outlays of \$451,555 on their FFR. During our site visit, BRIC Arts provided documentation in the amount of \$450,417 to support grant costs.

Documentation of Federal Awards

We were informed by BRIC Arts that costs for this award were charged to the cost center, Contemporary Arts - Education (703). However, expenditures for Grant No. 09-4188-7140 was also charged to cost center 703. Expenditures within the cost center were not separately identified by grant or project, therefore we were unable to identify specific expenditures for each grant charged to the cost center.

As discussed above, BRIC Arts reported overlapping costs between this award and NEA Grant No. 09-4188-7140 in the amount of \$28,000. We accepted these costs on Grant No. 09-4188-7140 and are disallowing \$28,000 charged to this grant.

BRIC Arts total costs for this award exceeded the matching requirement, even if all of the costs in the amount of \$28,000 were disallowed (see table below). Therefore, we are not requiring any additional documentation to support costs for this grant and no additional recommendation will be made. (See recommendation under Grant No. 09-4188-7140, *Documentation of Federal Awards*.)

Costs Incurred Outside of the Award Period

BRIC Arts included costs in the amount of \$77,257 in its total outlays which were incurred outside the award period. The documentation provided to support costs were from June 1, 2009 through June 30, 2010, however, the grant period ended May 31, 2010.

NEA *General Terms* states, in part:

All costs must be incurred within the project period specified in the award document or an approved amendment.

Costs which are not incurred within the award period will be disallowed and reduce total outlays, which may result in potential refunds.

Based on the finding above, we are disallowing and reducing costs claimed under the grant by \$77,257. BRIC Arts total costs for this award exceeded the matching requirement, even if the above costs were disallowed (see table below). Therefore, we are not requiring any additional documentation to support costs for this grant.

We recommend that BRIC Arts develop written policies and implement procedures to ensure that only actual and allowable costs, within the award period, are reported on the FFR. Those procedures should ensure that employees, who prepare the FFRs, are familiar with NEA guidance and the cost principles of relevant OMB guidance.

Personnel Activity Reports

BRIC Arts included \$137,133 for salary expenses and fringe benefits in its total outlays. BRIC Arts did not maintain adequate personnel activity reports for employees whose salaries were charged, in whole or in part, to either the award or the matching funds for awards exceeding \$50,000, as required by NEA. The documentation provided to support salary costs was not project specific. Therefore, we were unable to determine the actual time spent on this grant.

2 CFR Part 230, 8.m. states, in part:

(1) Charges to awards for salaries and wages, whether treated as direct costs or indirect costs, will be based on documented payrolls approved by a responsible official(s) of the organization. The distribution of salaries and wages to awards must be supported by personnel activity reports, as prescribed in subparagraph 8.m.(2) of this appendix, except when a substitute system has been approved in writing by the cognizant agency.

(2) Reports reflecting the distribution of activity of each employee must be maintained for all staff members (professionals and nonprofessionals) whose compensation is charged, in whole or in part, directly to awards. . . . Reports maintained by non-profit organizations to satisfy these requirements must meet the following standards:

(a) The reports must reflect an after-the-fact determination of the actual activity of each employee. Budget estimates (*i.e.*, estimates determined before the services are performed) do not qualify as support for charges to awards.

(b) Each report must account for the total activity for which employees are compensated and which is required in fulfillment of their obligations to the organization.

(c) The reports must be signed by the individual employee, or by a responsible supervisory official having first hand knowledge of the activities performed by the employee, that the distribution of activity represents a reasonable estimate of the actual work performed by the employee during the periods covered by the reports.

(d) The reports must be prepared at least monthly and must coincide with one or more pay periods.

As discussed above, the Recovery Act Grant No. 09-4188-7140 was charged \$13,600 of an employee's annual salary and 100% was charged to this grant, resulting in the same salary being reported on two grant awards. Therefore, we are disallowing \$13,600 of the annual salary charged to this grant. We have also disallowed salary and fringe benefits costs incurred outside the award period in the amount of \$13,561, which is included in the disallowed costs above (*See Costs Incurred Outside of the Award Period.*) As a result, salary costs are reduced by \$27,161, resulting in \$109,972 total allowable salary costs. However, BRIC Arts did not maintain personnel activity reports, as required. Therefore, we are questioning salary costs in the amount of \$109,972.

BRIC Arts total costs for this award exceeded the matching requirement, even if all of the questioned salary costs in the amount of \$109,972 were disallowed (see table below). Therefore, we are not requiring any additional documentation to support costs for this grant and no additional recommendation will be made. (See recommendation under Grant No. 09-4188-7140, *Personnel Activity Reports.*)

Unallowable Costs

BRIC Arts included costs of \$5,444 (for hospitality and a project described as, "Family Day" that were not consistent with the project budget approved by NEA. According to 2 CFR 230, Appendix B, costs must be allowable, reasonable and allocable for the performance of an award.

NEA *General Terms* states, in part:

Project activities must be consistent with those approved for funding by the Arts Endowment.

Costs which are not consistent with those approved for funding may be disallowed and reduce total outlays, which may result in potential refunds.

BRIC Arts total costs for this award exceeded the matching requirement even if all of the above costs in the amount of \$5,444 were disallowed (see table below). Therefore, we are not requiring any additional documentation to support costs for this grant and no additional recommendation will be made. (See recommendation under *Costs Incurred Outside of the Award Period.*)

Total Outlays	\$450,417
Less: <i>Disallowed Costs</i>	
Overlapping Costs	(28,000)
Costs Incurred Outside of the Award Period	(77,257)
Unallowable Costs	(5,444)
 <i>Questioned Costs</i>	
Salary and Fringe Benefits	<u>(109,972)</u>
 Adjusted Total Outlays	\$229,744
NEA Share & Recipient's Required Match	<u>(108,000)</u>
Overmatched	<u>\$121,744</u>

Summary of Grantee Response: BRIC Arts' response stated that Family Day was a family arts education program funded by IMLS; hospitality expenses were very modest snacks for community events. These activities were included because the project for this grant was defined as the overall Contemporary Arts Education program. These expenses were not charge to the NEA. However, BRIC Arts concurs with the recommendation and agreed to implement corrective actions to ensure that only actual and allowable costs, within the award period, are reported on the FFR.

Debarment and Suspension

BRIC Arts 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 Governmentwide Debarment and Suspension (Nonprocurement)*, states, in part:

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 EPLS¹; 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

¹ Now part of the System for Awards Management (SAM).

We recommended that BRIC Arts 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.

Management of Federal Awards

BRIC Arts did not have a written manual/handbook with formal policies and procedures for the management of Federal awards.

2 CFR Part 215 states the recipients of Federal awards should have:

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

The handbook/manual could include policies and procedures for documenting Federal awards, accounting for program income and expenses, maintaining personnel activity reports and ensuring that debarred or suspended contractors or recipients do not receive Federal assistance. It could also incorporate publications such as the NEA *General Terms*, NEA-OIG's *Financial Management Guide for Non-profit Organizations*, and the cost principles of relevant OMB guidance.

We recommend that BRIC Arts develop and implement a written manual/handbook containing policies and procedures relating specifically to managing Federal awards.

Section 504 Self-Evaluation

BRIC Arts provided the auditor with correspondence regarding accessibility. However, BRIC Arts did not have a completed Section 504 self-evaluation on file.

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.

We recommend BRIC Arts complete, and update as necessary, 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 the OIG. The OIG will provide a copy to NEA's Office of Civil Rights/EEO.

EXIT CONFERENCE

A preliminary exit conference was held with BRIC Arts officials on June 18, 2012. Subsequent to our site visit, a telephone exit conference was held with BRIC Arts on March 21, 2014 to discuss the draft report. BRIC Arts officials agreed with our recommendations and provided responses to two of the findings, as indicated above.

RECOMMENDATIONS

We recommend that BRIC Arts:

1. Develop written policies and implement procedures to ensure each Federal award is separately identified in its financial system.
2. Develop written policies and implement procedures to ensure that individual personnel activity reports are maintained for employees whose salaries are charged, in whole or in part, to future grant awards that are \$50,000 or more.
3. Develop written policies and implement procedures to ensure that only actual and allowable costs, within the award period, are reported on the FFR. Those procedures should ensure that employees, who prepare the FFRs, are familiar with NEA guidance and the cost principles of relevant OMB guidance.
4. 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.
5. Develop and implement a written manual/handbook containing policies and procedures relating specifically to managing Federal awards.
6. Complete, and update as necessary, 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 the OIG. The OIG will provide a copy to NEA's Office of Civil Rights/EEO.