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OFFICE OF INSPECTOR GENERAL**

**Limited Scope Audit Report on Selected Grants to
California Arts Council**

Report No. LS-18-01

March 29, 2018

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Table of Contents

INTRODUCTION

Background	1
Objective, Scope, and Methodology	1
Prior Audit Coverage	2

AUDIT RESULTS

Summary.....	3
Federal Financial Report Overstated.....	3
Unsupported Costs.....	4
Untimely Final Reports	5
Suspension & Debarment.....	5
Management of Federal Awards	6
Section 504 Self-Evaluation.....	7

RECOMMENDATIONS	7
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APPENDIX

A – Breakdown of Award Calculations	9
B – California Arts Council Responses.....	10

INTRODUCTION

Background

The California Arts Council (CAC) is a state agency that consists of eleven council members; nine appointed by the Governor, one appointed by the President pro Tempore of the Senate, and one appointed by the Speaker of the Assembly. The Council establishes general policy and approves program allocations. Its mission is to advance California through the arts and creativity, and its vision is for Californians to thrive from public belief in the arts and support of creativity. CAC is funded through four primary sources:

1. National Endowment for the Arts (NEA);
2. California State General Fund;
3. Proceeds from sales and renewals of California's Arts Plate; and
4. Donations from the "Keep Arts in Schools" Voluntary Contribution Fund.

Objectives, Scope and Methodology

Limited scope audits involve a limited 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. CAC had five NEA grants and we limited our audit to the four NEA grants with activity during the period under review – July 1, 2014 through June 30, 2017. The objective of our audit was to determine whether:

- CAC'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)*, which implements Title 2 of the Code of Federal Regulations (2 CFR) *Subtitle A – OMB Guidance for Grants and Agreements Part 200 – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance, or 2 CFR 200);
- CAC fulfilled the financial and compliance requirements as set forth in the NEA grant awards;
- The total project costs reported under the NEA grants were reasonable, allocable, and allowable; and
- The required cost share/matching was met on NEA grant funds.

The audit was conducted in accordance with applicable U.S. Government Accountability Office (GAO) *Government Auditing Standards (2011), as revised (Standards)*, issued by the Comptroller General of the United States. Accordingly, we will include 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 CAC’s system of internal control and judgmentally selected a sample of transactions for testing from each of the following four grants that reported costs on its Federal Financial Report (FFR).

Grant/ Cooperative Agreement No.	Original Award Amount	De-Obligated Amount	Adjusted Award Amount
14-6100-2036	\$1,081,400	\$ 0	\$1,081,400
15-6100-2005	1,089,900	0	1,089,900
15-6100-7068	1,750	0	1,750
16-6100-2046	1,136,100	100	1,136,000
TOTAL	\$3,309,150	\$100	\$3,309,050

NEA Grant Nos. 14-6100-2036 and 15-6100-2005 were State & Regional grants that required one-to-one cost share/matching. The grants were awarded to support partnership agreement activities, as described in CAC grant applications, which consists of the following components: (1) State Arts Plan/General Partnership (including Poetry Out Loud), (2) Arts Education, and (3) Underserved Communities.

NEA Grant No. 15-6100-7068 was a State & Regional grant that did not require cost share/matching. The grant was awarded to support a roundtable for the Creativity Connects program.

NEA Grant No. 16-6100-2046 was a State & Regional grant that required one-to-one cost share/matching, with the exception of \$6,000 awarded for roundtables. The grant was awarded to support partnership agreement activities described in the CAC grant application including (1) State Arts Plan/General Partnership (including Poetry Out Loud), (2) Arts Education, (3) Underserved Communities, and (4) NEA Creativity Connects Roundtables.

NEA Grant No. 14-6100-2036 had a final FFR, NEA Grant No. 15-6100-7068 did not have final reporting requirements, and NEA Grant Nos. 15-6100-2005 and 16-6100-2046 did not have completed FFRs reported in a timely manner and prior to our audit.

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 CAC. As of our site visit on December 11, 2017, the most recently-issued Single Audit for the State of California was for the fiscal year ended June 30, 2016. The audit was contracted out by the California State Auditors to Macias, Gini & O’Connell, LLP (MGO), an independent CPA firm. There were no material weaknesses identified for the internal controls over financial reporting, but there were significant deficiencies identified. Also, there were material weaknesses identified for the internal controls over major federal programs, and there were significant deficiencies identified. However, these material weaknesses and significant deficiencies identified did not pertain to CAC. CAC, a government agency in the State of

California, was subject to the audit requirements of OMB Circular A-133 and 2 CFR 200, Subpart F (Audit Requirements). However, CAC Federal programs were not selected as a major program and were not reviewed during the single audit.

AUDIT RESULTS

Summary

Our limited scope audit concluded that CAC generally complied with the financial management system and recordkeeping requirements established by OMB and NEA. However, we identified some areas requiring improvement to ensure that CAC complies with other OMB and NEA requirements. Following are the specific deficiencies requiring corrective action:

1. CAC overstated grant expenditures reported on NEA Grant No. 14-6100-2036 FFR submitted to NEA.
2. CAC did not adhere to Federal requirements when reporting costs to NEA Grant No. 14-6100-2036. This resulted in unsupported costs included on the FFR.
3. CAC did not submit final reports for NEA Grant Nos. 15-6100-2005 and 16-6100-2046.
4. CAC 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 award or payment of Federal funds.
5. CAC did not have written policies and procedures in place for the management of Federal awards.
6. CAC did not have a Section 504 Self-Evaluation on file as required by NEA *General Terms*.

Federal Financial Report Overstated

CAC overstated grant expenditures reported on NEA Grant No. 14-6100-2036 FFR submitted to NEA by a total of \$1,400.10. CAC was unable to reconcile costs reported on the FFR to its financial management system.

Grants issued by the NEA are subject to the following requirements:

- **2 CFR 200.302. Financial Management. (b)(2):** *The financial management system for federal award recipients must provide accurate, current, and complete disclosure of the financial results of each federal award in accordance with reporting requirements established in 2 CFR 200.327.*

- **2 CFR 200.327. Financial Reporting:** *Unless otherwise approved by OMB, the Federal awarding agency may solicit only the standard, OMB-approved government-wide data elements for collection of financial information. This information must be collected with the frequency required by the terms and conditions of the Federal award, but no less frequently than quarterly except in unusual circumstances, for example where more frequent reporting is necessary for the effective monitoring of the Federal award or could significantly affect program outcomes, and preferably in coordination with performance reporting.*
- **NEA Instructions for Completing the Federal Financial Report** states that award recipients must report actual expenditures that you assigned to the approved NEA project, based on supporting documentation such as invoices, contracts, receipts, checks, transaction reports, and bank statements. Recipients must review accounting and supporting documentation and report only actual, documented costs on the FFR.

Per our review of the discrepancies, we identified \$1,400.10 in overstated costs for NEA Grant No. 14-6100-2036. Thus, we will question costs of \$1,400.10 for this NEA Grant. However, if these questioned costs were disallowed for NEA Grant No. 14-6100-2036, the cost share/matching requirement would still be met and no refund would be due to the NEA (see cost calculations at Appendix A).

We recommend that CAC establish written review policies and implement procedures that allow for accurate, current, and complete disclosure of financial results in accordance with reporting requirements.

CAC concurs with this finding and recommendation (see CAC's response at Appendix B).

Unsupported Costs

CAC did not maintain adequate support for eight of the 35 cost transactions reviewed for NEA Grant No. 14-6100-2036. These unsupported cost transactions were in the amount of \$202,692.76. We will question the allowability of these costs. 2 CFR 200.333. *Retention requirements for records*, states:

Financial records, supporting documentation, statistical records, and all other non-Federal entity records pertinent to a Federal award must be retained for a period of three (3) years from the date of submission of the final expenditure report or, for Federal awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report, respectively, as reported to the Federal awarding agency or pass-through entity in the case of the sub-recipient.

CAC did not adhere to its policies and procedures to ensure that supporting documentation is maintained for each expenditure charged to the NEA grant. Therefore, we recommend CAC adhere to its policies and procedures to ensure supporting documentation for expenditures charged to NEA grants is maintained for a period of at least three years after submission of the final report.

Although we are questioning costs for the grant, the cost share/matching requirement would still be met and no refund would be due to the NEA (see cost calculations at Appendix A).

CAC concurs with this finding and recommendation (see CAC's response at Appendix B).

Untimely Final Reports

CAC did not submit final reports within 90 days from the end of the grant period for grant Nos. 15-6100-2005 and 16-6100-2046.

For instance, reports for NEA Grant No. 15-6100-2005 were due September 28, 2016. NEA did not receive a time extension request until October 28, 2016. With the extension, reports were due by August 29, 2017; however, CAC again did not submit the reports. CAC submitted another time extension request on December 10, 2017.

Additionally, the reports for NEA Grant No. 16-6100-2046 were due September 28, 2017; however, the reports were never received. CAC submitted a time extension request on December 10, 2017. 2 CFR 200.343a. *Closeout*, states:

The non-Federal entity must submit, no later than 90 calendar days after the end date of the period of performance, all financial, performance, and other reports as required by or the terms and conditions of the Federal award. The Federal awarding agency or pass-through entity may approve extensions when requested by the non-Federal entity.

Prior to completion of our fieldwork, NEA approved extensions for both NEA Grant Nos. 15-6100-2005 and 16-6100-2046. The new report deadline for NEA Grant No. 15-6100-2005 was January 31, 2018; NEA received the final reports on January 31, 2018. The new report deadline for NEA Grant No. 16-6100-2046 is December 29, 2018.

Failure to submit final reports timely could result in future grant applications being rejected. Therefore, we recommend CAC develop written policies and implement procedures to ensure that final reports are submitted timely.

CAC concurs with this finding and recommendation (see CAC's response at Appendix B).

Suspension & Debarment

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

Grants issued by the NEA are subject to the following requirements:

- **2 CFR 200.213. Suspension and Debarment:** *Non-federal entities are subject to the non-procurement debarment and suspension regulations implementing Executive Orders 12549 and 12689, 2 CFR part 180. These regulations restrict awards, subawards, and contracts with certain parties that are debarred, suspended, or otherwise excluded from or ineligible for participation in Federal assistance programs or activities.*
- **NEA General Terms:** *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.*
- **2 CFR 180.300:** *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 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.*

CAC officials were not aware of the requirements for suspension and debarment review. Without written policies in place, CAC could have instances where suspension and debarment status is undetermined for contractors and award recipients prior to the award or payment of Federal funds.

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

CAC concurs with this finding and recommendation (see CAC's response at Appendix B).

Management of Federal Awards

CAC did not have written policies and procedures for the management of Federal awards. 2 CFR 200.302. *Financial Management*, b. states, in part, that the financial management system of each non-Federal entity must provide for the following:

6. **Written procedures to implement the requirements of 200.305 Payment.**
7. **Written procedures for determining the allowability of costs in accordance with Subpart E – Cost Principles of this part and the terms and conditions of the Federal award.**

The handbook/manual should include policies and procedures for documenting Federal awards, accounting for program income and expenses, record retention, and ensuring that debarred or suspended recipients or contractors do not receive Federal assistance. It should also incorporate or reference publications such as *NEA General Terms* and the *Uniform Guidance*. Without written policies in place, CAC could rely on improper procedures.

We recommend that CAC develop written policies and implement procedures for the management of Federal awards.

CAC concurs with this finding and recommendation (see CAC's response at Appendix B).

Section 504 Self-Evaluation

CAC did not have the Section 504 Self-Evaluation on file as required by NEA *General Terms*. 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 that no otherwise qualified individual with a disability in the United States shall, solely by reason of his/her disability, be excluded from participation in, be denied benefits of, or be subject to discrimination under any program or activity receiving Federal financial assistance.

We recommend that CAC 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.

CAC concurs/non-concurs with this finding and recommendation (see CAC's response at Appendix B).

RECOMMENDATIONS

We recommend that CAC:

1. Establish written review policies and implement procedures that allow for accurate, current, and complete disclosure of financial results in accordance with reporting requirements.
2. Adhere to its policies and procedures to ensure supporting documentation for expenditures charged to NEA grants is maintained for a period of at least three years after submission of the final report.
3. Develop written policies and implement procedures to ensure that final reports are submitted timely.
4. Develop written policies and implement procedures to ensure that contractors and recipients are not currently debarred or suspended from receiving Federal assistance prior to the award or payment of Federal funds.
5. Develop written policies and implement procedures for the management of Federal awards.

6. 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.

Breakdown of Award Calculations

Grant No. 14-6100-2036

Total Reported Costs	\$ 6,157,679
Questioned Costs: Overstated FFR	(1,400)
Questioned Costs: Unsupported Costs	<u>(202,693)</u>
Allowable Reported Costs	5,953,586
NEA Share of Allowable Reported Costs	<u>(1,081,400)</u>
CAC Costs	4,872,186
Cost Share/Matching Requirement	<u>(1,081,400)</u>
CAC Exceeding Cost Share/Matching Requirement	\$ 3,790,786



Edmund G. Brown Jr., Governor

Advancing California through the Arts and Creativity

Anne Bown-Crawford, Executive Director

March 29, 2018

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

Subject: National Endowment for the Arts, Office of Inspector General's Draft Limited Scope Audit Report on Selected NEA Awards to the California Arts Council, Report No. LS-18-01

Dear Mr. Stith,

Please see our responses to each finding and recommendation.

Finding: CAC overstated grant expenditures reported on NEA Grant No. 14-6100-2036 FFR submitted to NEA.

Recommendation: Establish written review policies and implement procedures that allow for accurate, current, and complete disclosure of financial results in accordance with reporting requirements.

CAC Response: Concur

Finding: CAC did not adhere to Federal requirements when reporting costs to NEA Grant No. 14-6100-2036. This resulted in unsupported costs included on the FFR.

Recommendation: Adhere to its policies and procedures to ensure supporting documentation for expenditures charged to NEA grants is maintained for a period of at least three years after submission of the final report.

CAC Response: Concur

Finding: CAC did not submit final reports for NEA Grant Nos. 15-6100-2005 and 16-6100--2046.

Recommendation: Develop written policies and implement procedures to ensure that final reports are submitted timely.

CAC Response: Concur

Finding: CAC 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 award or payment of Federal funds.

Recommendation: Develop written policies and implement procedures to ensure that contractors and recipients are not currently debarred or suspended from receiving Federal assistance prior to the award or payment of Federal funds.

CAC Response: Concur

Finding: CAC did not have written policies and procedures in place for the management of Federal awards.

Recommendation: Develop written policies and implement procedures for the management of Federal awards.

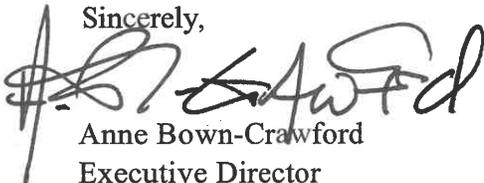
CAC Response: Concur

Finding: CAC did not have a Section 504 Self-Evaluation on file as required by NEA *General Terms*. **Recommendation:** 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.

CAC Response: Concur

Please let me know if there is other information that you require. You can email Ayanna Kiburi, Deputy Director at Ayanna.Kiburi@arts.ca.gov or call her at (916) 322-6376.

Sincerely,



Anne Bown-Crawford
Executive Director

CC: Ayanna Kiburi, MPH, CAC Deputy Director
Debra Waltman, CAC Director of Administrative Services
Nashormeh Lindo, CAC Council Chair