



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

**LIMITED SCOPE AUDIT REPORT
ON SELECTED
NEA GRANTS TO**

ILLINOIS ARTS COUNCIL
Chicago, IL

REPORT NO. LS-12-01

April 4, 2012

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INTRODUCTION

BACKGROUND

The Illinois Arts Council (Council) was created as a state agency by the Illinois General Assembly in 1965. The Council's mission is to build "a strong, creative, and connected Illinois through the engagement of all Illinoisans in the pursuit of, participation in, and enjoyment of the arts." The agency is governed by up to twenty-one private citizens chosen for their demonstrated commitment to the arts and appointed by the Governor to serve in a voluntary capacity to develop the state's public arts policy and foster quality culturally diverse programs. Resources to support the Illinois Arts Council are provided by the Governor, General Assembly of Illinois, and the National Endowment for the Arts.

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. In addition, we evaluated the recipient's compliance with the U.S. Office of Management and Budget (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 the 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 current economic downturn. Consistent with the language in the Act, eligible projects are generally limited to salary support and fees for artists or contracted personnel. Forty percent of such funds were distributed to State arts agencies and regional arts organizations and 60 percent of the funds were competitively awarded to nonprofit organizations that met the eligibility criteria established for this program. For organizations eligible to subgrant, such as State

arts agencies, funds could also be used to cover the cost of implementing the subgranting program.

During the period under review, the Council had five NEA grants active with awards totaling \$4,050,825. However, due to time constraints our audit was limited to three grants in which NEA funds had been drawn down and costs had been reported: Grant No. 09-6100-2054 in the amount of \$934,500, Grant No. 08-6100-2020 in the amount of \$857,800 and the Recovery Act Award Grant No. 09-6188-2090 in the amount of \$361,600.

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 the Illinois Arts Council. However, the Council was included in the State of Illinois' (State) OMB Circular A-133 audit for the year ended June 30, 2009. The State's financial statements were audited by McGladrey & Pullen, LLC, an independent public accounting firm. The independent audit resulted in an unqualified (clean) opinion on the financial statements. There were no findings indicated in the State's A-133 audit report that were applicable to the Council.

"The Auditor General is required by the Illinois State Auditing Act to conduct, as is appropriate to the agency's operations, a financial audit and/or compliance examination of every State agency at least once every two years." The Council's biennial examination was performed by Robert J. Ripp & Associates, Frankfort, Illinois as Special Assistant Auditors for the Auditor General, State of Illinois.

The auditors did not identify any deficiencies in internal control over compliance that were considered to be material. However, three instances of noncompliance were disclosed:

- 09-01 The Illinois Arts Council did not draft or adopt formal agency rules, including rules relating to grant procedures.
- 09-02 The Council had Council Members whose terms had expired and the total number of Council Members was less than required by statute
- 09-03 The Council paid for services from the incorrect fiscal year appropriation.

We requested the status of corrective actions to address the three findings:

- Finding number 09-01, we were informed that the Council had not formalized its policies. However, the Council is working with its current auditors, McGreal & Company, PC and the Illinois Auditor General's Office to resolve this finding. The Council has drafted internal organizational rules and grant procedures.

The lack of formal policies and procedures could impact the Council's ability to effectively manage Federal awards; therefore, we will include this finding in our recommendations.

- Finding number 09-02, we were informed that all expired terms had been re-appointed and all vacancies have been filled with new appointments by the Governor. These members serve in a voluntary capacity for 4-year terms.

We verified that the Council has 21 Council members as required; therefore have no further recommendations.

- Finding number 09-03, we were informed the Council strictly adheres to the State Finance Act which requires appropriated funds be used in the fiscal year in which the service was rendered. Since the audit report, there have been no new findings of contractual service payments being made from the incorrect fiscal year appropriations.

This finding appeared to be an isolated case and our review of grant transactions did not identify any payments or transactions outside the award period, therefore we have no further recommendations.

RESULTS OF AUDIT

The Council's financial management system is administered in conjunction with the State of Illinois. Our audit concluded that the Council complied with the financial management system and recordkeeping requirements established by OMB and NEA for its Recovery Act funds under Grant No. 09-6188-2090. The Council did not charge salary expenses to this grant; therefore, personnel activity reports were not required.

The Council's financial management system adequately tracks other NEA awards and monitors the activities and expenditures of subrecipients. However, we found that internal controls could be strengthened and we identified instances of noncompliance with NEA and OMB requirements. The Council did not maintain personnel activity reports, did not maintain adequate documentation to support amounts used for Federal reporting and did not have a formal manual/handbook, which contains policies and procedures relating specifically to managing Federal awards.

RECOVERY ACT AWARD

The Council received \$361,600 in American Recovery and Reinvestment Act funds from the NEA. The Council's Recovery Act grant was used to provide 19 awards, totaling \$358,600, to support projects and activities that preserve jobs in the arts. The remaining \$3,000 was used for administration of the subgranting program. The Council did not charge salary expenditures to this award. Our review determined the Council complied with the financial management system and recordkeeping requirements established by OMB and NEA, such as maintaining subrecipients listing, submitting quarterly reports

timely and separately identifying Recovery Act funds in its financial management system.

INTERNAL CONTROLS

Personnel Activity Reports

The Council did not maintain personnel activity (time and effort) reports for its NEA partnership grants. At the time of the award, personnel activity reports were required for all employees whose salaries and fringe benefits are charged, in whole or in part, to either the award or the matching funds if the award is \$50,000 or more. This requirement is mandated by OMB and is detailed in NEA's *General Terms*. A sample personnel activity report is also provided in the *General Terms*, which states in part:

For every employee whose salary is charged to an NEA grant, as a whole or in part, to either the award or the matching funds if the award is \$50,000 or greater, personnel activity reports must be maintained to account for all compensated time including time spent on other activities. Reports must be prepared at least monthly and must coincide with one or more pay periods.

As a result of not maintaining personnel activity reports, we are questioning salaries and fringe benefits in the amount of \$3,116,576 for the two partnership grants reviewed. However, if all of the questioned costs were disallowed under each of the grants, the matching requirements would still be met and no refund would be due to the NEA (see Appendix I).

Questioned Salaries

09-6100-2054 -	\$1,360,967
08-6100-2020 -	<u>\$1,755,609</u>
Total	<u>\$3,116,576</u>

We recommend the Council 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.

Supporting Documentation

The Council extracts financial reports from the Illinois State financial management system to determine total outlays for Federal financial reporting. During our review, the Council was unable to provide the actual reports used for the grants reviewed. Therefore, the report totals extracted during our site visit were different from the Federal Financial Reports (FFR) and Final Descriptive Reports (FDR) submitted for the two partnership grants review. The discrepancies could be due to adjustments, timing or the parameters used to extract the data. To ensure accurate reporting of grant costs, an organization is required to maintain worksheets and/or separate accounts in the ledger or subsidiary ledger for each grant.

We recommend the Council develop and implement written policies and procedures to ensure that documentation, such as reports from its financial system, is maintained to support amounts used for Federal reporting to ensure accurate and consistent reporting.

Financial Reports

During our review, we found that the Council's Federal Financial Reports (FFR) and payment requests submitted to NEA were improperly completed. The Council reported only the required one-to-one matching amount and not actual costs. The Requests for Payment incorrectly included amounts identified as "advances."

We recommended the Council review the instructions for completing both the Requests for Advance and/or Reimbursements and the FFR to ensure that forms are accurate and completed properly.

Subsequent to our on-site review, the Council submitted its Federal Financial Report, which was properly completed. Therefore, we consider this finding implemented and no further action is necessary.

We recommend the Council develop and implement policies and procedures to ensure that FFRs and Requests for Advance and/or Reimbursements are accurate and completed properly. Those procedures should ensure that employees who prepare the reports are familiar with instructions for completing the forms.

Formal Policies and Procedures for the Management of Federal Awards

The Council did not have formal policies and procedures in place for grant management. We were provided two draft documents; however, neither had been approved by the Board or state officials. Our review determined that the policies lacked sufficient information on Federal requirements. In particular, it did not refer to OMB Circulars A-102 and A-87 (2 CFR 225) or NEA guidelines which provides guidance on cost requirements and a determination of allowable or unallowable costs. We also found that the FY 2009 examination recommended that the Council "draft organizational rules and grant procedures, then contact the Joint Committee on Administrative Rules for assistance with the formal adoption process..."

While the Council does follow the Illinois State Accounting Policies & Procedures, we believe that the Council's internal controls would be further strengthened if the Council formalized many of the Federal policies and procedures, and guidance available on grants and accounting matters. This manual/handbook could contain publications such as the *General Terms and Conditions for Grants*, the *Financial Management Guide for State & Local Governments*, the *OMB Circulars* and other publications on Federal requirements. It could also include procedures for maintaining personnel activity reports and preparation of final reports including maintaining supporting documentation.

We recommend that the Council develop a formal manual/handbook, which contains policies and procedures relating specifically to managing Federal awards.

EXIT CONFERENCE

An exit conference was held with Council officials on December 1, 2011. Subsequent to our site visit, a telephone exit conference was held with the Council officials on Wednesday, March 28, 2012. The Council officials concurred with our findings and recommendations.

RECOMMENDATIONS

We recommend that the Illinois State Arts Council:

1. Develop and implement written policies and 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.
2. Develop and implement written policies and procedures to ensure that documentation, such as reports from its financial system, is maintained to support amounts used for Federal reporting.
3. Develop and implement policies and procedures to ensure that FFRs and Requests for Advance and/or Reimbursements are accurate and completed properly. Those procedures should ensure that employees who prepare the reports are familiar with instructions for completing the forms.
4. Develop and implement a written manual/handbook containing policies and procedures relating specifically to managing Federal awards.

APPENDIX I

ILLINOIS ARTS COUNCIL

Grant Number 09-6100-2054

Total Outlays	\$ 8,648,942
Less: Questioned Salary Expenses	<u>(1,360,967)</u>
Adjusted Total Outlays	7,287,975
NEA Share	<u>(934,500)</u>
Subtotal	6,353,475
Illinois Arts Council Matching Requirement	<u>(934,500)</u>
Amount in Excess of the Matching Requirements	<u>\$ 5,418,975</u>

Grant Number 08-6100-2020

Total Outlays	\$15,286,287
Less: Questioned Salary Expenses	<u>(1,755,609)</u>
Adjusted Total Outlays	13,530,678
NEA Share	<u>(857,800)</u>
Subtotal	12,672,878
Illinois Arts Council Matching Requirement	<u>(857,800)</u>
Amount in Excess of the Matching Requirements	<u>\$11,815,078</u>