



NATIONAL ENDOWMENT FOR THE ARTS

OFFICE OF INSPECTOR GENERAL

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

The National Assembly of State Arts Agencies
Washington, D.C.

REPORT NO. LS-16-02

February 29, 2016

REPORT RELEASE RESTRICTION

In accordance with Public Law 110-409, The Inspector General Reform Act of 2008, this report shall be posted on the National Endowment for the Arts (NEA) website not later than three (3) days after it is made publicly available with the approval of the NEA Office of Inspector General (OIG). Information contained in this report may be confidential. The restrictions of 18 USC 1905 should be considered before this information is released to the public. Furthermore, information contained in this report should not be used for purposes other than those intended without prior consultation with the NEA OIG regarding its applicability.

INTRODUCTION

BACKGROUND

The National Assembly of State Arts Agencies (NASAA) is a membership organization that unites, represents, and serves the nation's 50 states and 6 jurisdictional arts agencies. State arts agencies increase public access to the arts and work to ensure that every community in America enjoys the cultural, civic, economic, and educational benefits of the thriving arts sector. NASAA's mission is to represent state arts agencies' individual and collective interests, empower their work through knowledge, and advance the arts as an essential public benefit.

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. The objectives of this audit were 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; and
- The required match was met on National Endowment for the Arts (NEA) grant funds.

Additionally, we sought 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*). The limited scope audit was conducted in accordance with U.S. Government Accountability Office (GAO) Government Auditing Standards (2011), as revised, issued by the Comptroller General of the United States, as applicable. 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 NASAA's system of internal controls and judgmentally selected a sample of transactions for testing from each of the grants reviewed.

During the period under review, 10/01/12 through 09/30/15, NASAA had four NEA grants and 15 NEA cooperative agreements that were open and/or closed. For the scope of this limited scope audit, we reviewed two NEA grants and two NEA cooperative agreements in which NEA funds had been drawn down and costs had been reported. The following NEA grants and cooperative agreement were reviewed:

| Grant/Cooperative Agreement No. | Original Award Amount | De-Obligated Amount | Adjusted Award Amount | Total Outlays Reported |
|--|------------------------------|----------------------------|------------------------------|-------------------------------|
| 12-6100-2048 | \$ 792,455 | \$ 0 | \$ 792,455 | \$1,537,455 |
| 13-6100-2013 | 774,170 | 0 | 774,170 | 1,497,170 |
| DCA 2011-20 | 228,235 | 708 | 227,527 | 227,527 |
| DCA 2013-08 | 344,110 | 0 | 344,110 | 344,110 |
| TOTAL | \$2,138,970 | \$708 | \$2,138,262 | \$3,606,262 |

Grant No. 12-6100-2048 was a State & Regional grant, requiring one-to-one matching, with the exception of \$47,455 for State Arts Agencies dues transferred from NEA to NASAA. During our site visit, we were presented with a listing of expenditures and in-kind costs totaling \$1,567,377. The award was to support national leadership services in the area of educational and technical assistance, development of new partnerships, and advanced information services.

Grant No. 13-6100-2013 was a State & Regional grant, requiring one-to-one matching, with the exception of \$51,470 for State Arts Agencies dues transferred from NEA to NASAA. During our site visit, we were presented with a listing of expenditures and in-kind costs totaling \$1,541,471. The award was to support national leadership services in the area of educational and technical assistance, public awareness, development of new partnerships, and professional development for the state arts agency field.

Cooperative Agreement No. DCA 2011-20 was a cooperative agreement with no matching requirement. During our site visit, we were presented with a listing of expenditures totaling \$227,527. This agreement was awarded for the continued provision of information services related to state arts agency and regional arts organization grant making data.

Cooperative Agreement No. DCA 2013-08 was a cooperative agreement with no matching requirement. During our site visit, we were presented with a listing of expenditures totaling \$344,110. This agreement was awarded for the National Arts and Humanities Youth Program Awards (NAHYP). NAHYP is a President's Committee on the Arts and Humanities, initiative in partnership with NEA, the National Endowment for the Humanities, and the Institute of Museum and Library Services. NAHYP honors out-of-school arts and humanities programs that celebrate the creativity of America's young people, particularly those from underserved communities.

PRIOR AUDIT COVERAGE

During the past five years, we have not issued any audit reports on Federal grants awarded to NASAA. NASAA was subject to the audit requirements of OMB Circular A-133. As of our site visit on December 8, 2015, the most recent independent auditor's report was issued with an unmodified (clean) opinion for the year ended September 30, 2014 by Gelman, Rosenberg, and Freedman CPAs. That audit, performed in compliance of the OMB Circular A-133 requirements determined that NASAA complied with all material aspects. However, we reviewed related documents that revealed that NASAA had previous management comments and recommendations pertaining to travel reimbursements, suspension & debarment, and funds held in a trust fund. All three of these management comments were verified as resolved by the independent auditors prior to our audit.

RESULTS OF AUDIT

Our limited scope audit concluded that NASAA 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 NASAA complies with OMB and NEA grant requirements and improve its management of NEA awards. The following are specific deficiencies requiring corrective action:

- NASAA did not have written policies and procedures on suspension and debarment.
- NASAA did not have updated policies and procedures for the management of Federal awards.
- NASAA did not properly document in-kind transactions.
- NASAA included unallowable costs in its total outlays reported on its Federal Financial Report (FFR).

Suspension & Debarment

NASAA has procedures in place to ensure that contractors or recipients are not debarred or suspended from receiving Federal assistance; however, NASAA does not have written policies. Without written policies in place, NASAA could have instances where suspension and debarment status is undetermined for contractors and recipients prior to the award or payment of Federal funds.

2 CFR §200.213. Suspension and debarment, states:

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* 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.

2 CFR §180.300, 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 EPLS; 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 recommend that NASAA develop written policies 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.

Management of Federal Awards

NASAA maintains written policies and procedures for the management of Federal awards; however, these policies and procedures should be updated. NASAA's written policies for the management of Federal awards referenced outdated guidelines and regulations.

Prior to 12/26/14, OMB's Uniform Administrative Requirements for Grants and Agreements for Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations, Subpart C of 2 CFR §215.21, states in part, 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.

Subsequent to 12/26/14, 2 CFR §200.302. Financial management, states in part, the financial management system of each non-Federal entity must provide for the following:

Written procedures to implement the requirements of 200.305 Payment. 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.

NASAA officials did not update its written policies and procedures for the management of Federal awards because they believed it was sufficient to use the NEA's Financial Management Guide, NEA's How to Manage Your Award, and OMB Circulars as its written guidelines. Without updated written policies in place, NASAA could rely on outdated and/or improper procedures.

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*, NEA's Financial Management Guide for Non-profit Organizations, and the Uniform Guidance.

We recommend that NASAA update and implement its written manual/handbook containing policies and procedures relating specifically to managing Federal awards. Additionally, ensure that key management staff and those assigned with operational responsibilities are familiar with the revisions.

In-Kind Documentation

We determined that five of the five in-kind transactions reviewed for NEA Grant No. 12-6100-2048, and five of the five in-kind transactions reviewed for NEA Grant No. 13-6100-2013 were not properly documented. Therefore, we could not determine whether the transactions were allowable.

NEA *General Terms* states, "You must maintain financial records, supporting documents (such as cancelled checks, invoices, contracts, travel reports, donor letters, in-kind contribution reports, and personnel activity reports), statistical records, and all other records pertinent to an award according to the provisions outlined in OMB Circular A-110 (2 CFR §215), Section 53, or the "Common Rule," Section 1157.42, as applicable. Generally, the retention period is three years from the date the final FFR is filed."

2 CFR §200.306. Cost sharing or matching, states in part:

- b. For all Federal awards, any shared costs or matching funds and all contributions, including cash and third party in-kind contributions, must be accepted as part of the non-Federal entity's cost sharing or matching when such contributions meet all of the following criteria:**
- 1. Are verifiable from the non-Federal entity's records;**
 - 2. Are not included as contributions for any other Federal award;**
 - 3. Are necessary and reasonable for accomplishment of project or program objectives;**
 - 4. Are allowable under Subpart E – Cost Principles of this part;**
 - 5. Are not paid by the Federal Government under another Federal award, except where the Federal statute authorizing a program specifically provides that Federal funds made available for such program can be applied to matching or cost sharing requirements of other Federal programs;**
 - 6. Are provided for in the approved budget when required by the Federal awarding agency; and**
 - 7. Conform to other provisions of this part, as applicable.**
- j. For third-party in-kind contributions, the fair market value of goods and services must be documented and to the extent feasible supported by the same methods used internally by the non-Federal entity.**

NASAA claimed in-kind costs to each grant review, however, proper documentation was not maintained for the transactions reviewed. NASAA claimed state employees' personnel and travel expenses as in-kind costs to each grant review. We could not determine whether these state employees' personnel and travel expenses were paid by the state. Also, we could not determine whether these state employees were claiming in-kind personnel costs outside of their normal work schedule. We were unable to determine the validity of these in-kind transactions without additional documentation from the states.

In-kind costs could not be sufficiently verified to attest that the grantee was in full compliance with the in-kind requirements of the grants. Due to a lack of documentation, we could not determine whether the selected in-kind transactions were allowable. As a result, we are questioning \$12,707 for NEA Grant No. 12-6100-2048, and \$23,847.31 for NEA Grant No. 13-6100-2013. If these questioned costs were disallowed for both grants, the matching requirement would still be met and no refund would be due to NEA. However, if documentation is similarly not available or sufficient for the remaining in-kind payments of state employees, beyond our limited scope, we would question the entire amount of claimed in-kind payments associated with state employees, and the grantee's overall compliance with the matching requirement.

We recommend that NASAA review 2 CFR §200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, to gain an understanding of the proper in-kind costs that can be charged to the grant. We also recommend that NASAA obtain and maintain proper documentation for all in-kind costs in accordance with 2 CFR §200.

Unallowable Costs

We determined that one of the ten cost transactions reviewed for NEA Grant No. 13-6100-2013, and one of the ten cost transactions reviewed for NEA Cooperative Agreement No. DCA 2013-08 were unallowable. In both instances, NASAA claimed alcoholic beverages expenses.

OMB Circular A-122, Attachment B, Part 3. Alcoholic beverages, states:

Costs of alcoholic beverages are unallowable.

According to NASAA officials, this instance of unallowable costs, although atypical for NASAA, was due to an unfortunate oversight. As a result, we are questioning \$2,072.65 for NEA Grant No. 13-6100-2013. However, if the questioned costs were disallowed for this grant, the matching requirement would still be met and no refund would be due to NEA. We are also questioning \$515.33 for NEA Cooperative Agreement No. DCA 2013-08, which could result in a potential refund to NEA.

We recommend that NASAA adhere to its policies and procedures to ensure that only allowable costs are charged to NEA grants. We also recommend that NASAA submit a refund payment to NEA in the amount of \$515.33 for unallowable costs claimed to NEA Cooperative Agreement No. DCA 2013-08.

EXIT CONFERENCE

A preliminary exit conference was held with NASAA officials on December 10, 2015. Subsequent to our site visit, a final exit conference was also held with NASAA officials on February 5, 2016, to discuss the draft report. NASAA submitted a written response concurring with the findings and recommendations.

RECOMMENDATIONS

We recommend that NASAA:

1. Develop written policies 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.
2. Update and implement its written manual/handbook containing policies and procedures relating specifically to managing Federal awards. Additionally, ensure that key management staff and those assigned with operational responsibilities are familiar with the revisions.
3. Review 2 CFR §200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, to gain an understanding of the proper in-kind costs that can be charged to the grant.
4. Obtain and maintain proper documentation for all in-kind costs in accordance with 2 CFR §200.
5. Adhere to its policies and procedures to ensure that only allowable costs are charged to NEA grants.
6. Submit a refund payment to NEA in the amount of \$515.33 for unallowable costs claimed to NEA Cooperative Agreement No. DCA 2013-08.