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Limited Scope Audit Report on Selected Awards to New England Foundation for the Arts Boston, MA

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INTRODUCTION

AGENCY BACKGROUND

The New England Foundation for the Arts (NEFA) is a regional art organization (RAO) founded in Boston, MA in 1976 to strengthen the national arts infrastructure by cultivating the arts on a regional level. RAOs were created by state arts leaders in partnership with the National Endowment for the Arts (NEA) and the private sector in order to transcend state boundaries and support arts programs on a regional basis. NEFA's mission is to invest in artists and communities and foster equitable access to the arts. It achieves this through regional, national, and international programs created to support artists and communities via grants and other opportunities in dance, music, theater, and public art. NEFA operates with financial support from Federal agencies, New England state arts agencies, foundations, corporations, and individual donors.

OBJECTIVES, SCOPE, AND METHODOLOGY

We conducted a limited scope audit of NEFA for the period of October 1, 2015 through September 30, 2018. This type of audit involves a limited review of financial and non-financial information of NEA award recipients to ensure validity and accuracy of reported information, and compliance with Federal requirements. The objectives of this audit were to determine whether:

- NEFA's financial management system and recordkeeping comply with the requirements established by the Office of Management and Budget (OMB) and NEA's *General Terms and Conditions for Partnership Agreements (General Terms)*;
- NEFA fulfilled the financial and compliance requirements, including cost share/matching, set forth in the award; and
- Total project costs reported under the awards were reasonable, allocable, and allowable.

The limited scope audit was conducted in accordance with applicable U.S. Government Accountability Office *Government Auditing Standards (2011), as revised (Standards)*. The *Standards* require that we obtain sufficient, competent, and relevant evidence to afford a reasonable basis for our findings and conclusions. Accordingly, we included such tests of records and other auditing procedures that were considered necessary under the circumstances. We reviewed NEFA's system of internal controls and conducted a risk assessment to determine the areas with moderate to high risk, and the level of transaction testing necessary to provide a reasonable basis for our findings and conclusions.

NEFA had seven NEA awards that were open and/or closed during the audit scope period. For this audit, we reviewed four awards that were closed within the audit scope period. We excluded three awards (NEA Award Nos. 16-6100-2056, 17-6100-2060, and 1809885-61-18) from review, which had Federal Financial Reports (FFRs) due after we began the audit. The following table lists the four awards reviewed:

NEA Award No.	Original Award Amount	Amendment Amount	De-obligated Amount	Adjusted Award Amount	Total Reported Costs
13-6100-2053	\$1,015,000	\$ 0	\$ 0	\$1,015,000	\$2,030,000
14-6100-2004	1,045,800	72,500	10,000	1,108,300	2,216,600
15-6100-2060	1,027,700	15,000	12,962	1,029,738	2,072,707
17-6100-7003	7,000	0	0	7,000	7,000
TOTAL	\$3,095,500	\$87,500	\$22,962	\$3,160,038	\$6,326,307

NEA Award No. 13-6100-2053 was awarded to support Partnership Agreement activities, including operational costs, travel and program costs, and subawards. NEFA received two amendments extending the award period from June 30, 2014 to December 31, 2015. This award was subjected to a one-to-one cost share/match.

NEA Award No. 14-6100-2004 was awarded to support Partnership Agreement activities, including operational costs, travel and program costs, and subawards. NEFA received a monetary amendment of \$72,500 to provide financial aid to state arts agencies and NEFA in updating information management systems to meet NEA’s new reporting requirements. NEFA received a second amendment extending the award period from June 30, 2015 to December 31, 2016. The original award was subjected to a one-to-one cost share/match and the additional \$72,500 did not have a cost share/match requirement.

NEA Award No. 15-6100-2060 was awarded to support Partnership Agreement activities, including operational costs, travel and program costs, and subawards. NEFA received an amendment of \$15,000 to fund production of a NEFA video for NEA’s 50th anniversary. NEFA received two additional amendments extending the award period from June 30, 2016 to December 31, 2017. A third amendment was issued extending the final reporting deadline to September 30, 2018. The original award was subjected to a one-to-one cost share/match and the additional \$15,000 did not have a cost share/match requirement.

NEA Award No. 17-6100-7003 was issued to provide travel subsidies for participants attending “The Future of Arts and Creativity in America” convening at the John F. Kennedy Center for the Performing Arts. This award did not have a cost share/match and was not subject to final reporting requirements.

PRIOR AUDIT COVERAGE

NEA Office of Inspector General had not issued any audit reports on NEFA in the past five years. As of our site visit on December 3, 2018, NEFA’s most recent issued audit report was the financial statement audit for fiscal years (FY) ended May 31, 2016 and 2017. The report found that the statements presented fairly, in all material respects, NEFA’s financial position for FY 2016 and FY 2017. The audit was conducted in accordance with generally accepted accounting principles, including Single Audit requirements. NEA awards were selected for review as a major program in FY 2016 but not FY 2017. There were no material weaknesses, significant deficiencies, or questioned costs reported in this audit.

AUDIT RESULTS

SUMMARY

Based on our limited scope audit, we concluded that NEFA generally complied with financial management system and recordkeeping requirements established by OMB and NEA. However, we identified some areas requiring improvement. A summary of our findings is as follows:

- NEFA included unallowable costs on its FFR for NEA Award No. 14-6100-2004.
- NEFA could not support all of the costs for NEA Award No. 17-6100-7003.
- NEFA did not report actual costs on its FFRs for NEA Award Nos. 13-6100-2053, 14-6100-2004, and 15-6100-2060.
- NEFA did not establish procurement policies and procedures that meet Federal procurement requirements.

The following sections present a more detailed discussion of the findings.

UNALLOWABLE COSTS

NEFA included \$881 in unallowable costs on its FFR for NEA Award No. 14-6100-2004. Partnership awards issued by NEA are subject to the following requirements:

- **2 CFR 200.423 *Alcoholic Beverages*:** Costs of alcoholic beverages are unallowable.
- **2 CFR 200.438 *Entertainment Costs*:** Costs of entertainment, including amusement, diversion, and social activities and any associated costs are unallowable, except where specific costs that might otherwise be considered entertainment have a programmatic purpose and are authorized either in the approved budget for the Federal award or with prior written approval of the Federal awarding agency.
- **NEA *Instructions for Completing the Federal Financial Report*:** All project expenditures must meet Federal requirements even if paid with your own funds (cost share/match). As such, exclude all unallowable expenditures from the FFR.

During our review, we identified one transaction that included alcohol and entertainment costs. The purchase was made using a corporate credit card. NEFA's procedures for recording credit card purchases did not include identifying unallowable costs. NEFA officials stated that its Finance Department had a complete change in staff over a period of 18 months. New staff did not have time to review existing procedures and establish a procurement process that met Federal standards. Based on our review, we have determined this cost to be unallowable. Including unallowable costs on FFRs could result in failure to meet the required cost share/match amount, resulting in a potential refund due back to NEA. Based on the unallowable costs, we reduced the allowable expenditures by \$881. However, NEFA would still meet the one-to-one cost share/match requirement without this costs; therefore, we are not requesting any further documentation and no refund would be due to NEA (see Appendix A).

We recommend that NEFA update and implement written policies and procedures that ensure unallowable costs are excluded from credit card purchases.

NEFA concurs with the finding and recommendation (see Appendix B).

We recommend that NEA disallow \$881 in unallowable award costs for NEA Award No. 14-6100-2004.

UNSUPPORTED COSTS

NEFA could not support \$3,029 in costs for NEA Award No. 17-6100-7003. This award was subject to NEA and Federal award requirements, including the following:

- **NEA General Terms, Section 13. Cost Principles, 13.1(g) states in part:** All costs included in the approved project budget or reported on payment requests and financial reports for the award, whether supported with Federal or required matching funds or any volunteer cost share, must be: adequately documented.
- **2 CFR 200.434. Closeout (d) states in part:** The non-Federal entity must promptly refund any balances of unobligated cash that the Federal awarding agency or pass-through entity paid in advance or paid and that are not authorized to be retained by the non-Federal entity for use in other projects.

NEFA requested and received \$7,000 in award funds for incurred and estimated costs. During our review, NEFA provided support for \$3,971 in costs. NEFA officials stated the final payment request was prepared by a temporary contractor, and included estimated expenses planned for later in the year. However, the new Finance Department employees were unaware of the plans; therefore, the estimated expenses were not incurred. New employees did not identify this discrepancy because the award appeared to be completed by the temporary contractors. Based on our review, we are questioning \$3,029 in unsupported costs. Failure to provide documentation for unsupported costs could result in funds due back to NEA (see Appendix A).

We recommend that NEFA establish and implement written policies and procedures that ensure costs are incurred for funds received. We also recommend that NEFA provide to NEA any additional supporting documentation for the questioned unsupported costs of \$3,029 for NEA Award No. 17-6100-7003. Without additional documentation, a potential refund in the amount of \$3,029 could be due to NEA.

NEFA concurs with the finding and recommendations (see Appendix B).

We recommend that NEA review the requested additional supporting documentation of \$3,029 for NEA Award No. 17-6100-7003 and determine whether to disallow the costs. We also recommend that NEA determine if any refund is due.

INACCURATE COSTS REPORTED

NEFA did not report actual costs on its FFRs for NEA Award Nos. 13-6100-2053, 14-6100-2004, and 15-6100-2060. Awards issued by 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.
- **NEA *General Terms. 9 Financial Management (2 CFR 200.302) and Internal Controls 9.1*:** Your financial management systems must meet standards described in sections 200.302(b)(1) through (b)(7), including: (a) accurate identification of Federal award data, financial results, and the ability to provide source documentation upon request.
- **NEA *Instructions for Completing the Federal Financial Report*:** Review your accounting and support documentation and report only actual, documented costs on the FFR.

NEFA's financial records did not reconcile to its FFRs, and NEFA was unable to provide records identifying which costs were used to complete the FFRs. We determined that NEA Award No. 13-6100-2053 was understated by \$344, NEA Award No. 14-6100-2004 was understated by \$8, and NEA Award No. 15-6100-2060 was understated by \$18,429. NEFA officials advised us that the reports were prepared by previous employees who did not document report preparation. Also, NEFA did not have written policies and procedures for reporting financial results of NEA awards. Without written policies and procedures, NEFA cannot ensure accuracy of the reports.

We recommend that NEFA establish and implement written policies and procedures that ensure actual costs are reported on its FFRs.

NEFA concurs with the finding and recommendation (see Appendix B).

IMPROPER PROCUREMENT PROCEDURES

NEFA did not establish procurement policies and procedures that met Federal procurement requirements. Awards issued by NEA are subject to the following requirements:

- **2 CFR 200.318 *General Procurement Standards*:**
 - (a) The non-Federal entity must use its own documented procurement procedures which reflect applicable State, local, and tribal laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this part.
 - (i) The non-Federal entity must maintain records sufficient to detail the history of procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.
- **2CFR 200.319 *Competition (c), in part*:** The non-Federal entity must have written procedures for procurement transactions.

- **2 CFR 200.320 Methods of procurement to be followed:** The non-Federal entity must use one of the following methods of procurement.
 - **(a) in part:** Procurement by micro-purchase.
 - **(b) in part:** Procurement by small purchase procedures.
 - **(c) in part:** Procurement by sealed bids (formal advertising).
 - **(d) in part:** Procurement by competitive proposals.
 - **(f) in part:** Procurement by noncompetitive proposals.

NEFA does not have documented policies or established procedures for procurement. Employees make purchases for goods and services as needed based on supervisory approval. As a result, NEFA does not have records justifying contract selection, pricing, or method of procurement required by Federal regulations. NEFA officials stated that its Finance Department had a complete change in staff over a period of 18 months. New staff did not have time to review existing procedures and establish a procurement process that met Federal standards. Failure to establish procurement policies and procedures could result in improperly procuring goods and services under a Federal award.

We recommend that NEFA establish and implement written policies and procedures that meet Federal procurement requirements.

NEFA concurs with the finding and recommendation (see Appendix B).

RECOMMENDATIONS

We recommend that NEFA:

1. Update and implement written policies and procedures that ensure unallowable costs are excluded from credit card purchases;
2. Establish and implement written policies and procedures that ensure costs are incurred for funds received;
3. Provide to NEA any additional supporting documentation for the questioned unsupported costs of \$3,029 for NEA Award No. 17-6100-7003. Without additional documentation, a potential refund in the amount of \$3,029 could be due to NEA;
4. Establish and implement written policies and procedures that ensure actual costs are reported on its FFRs; and
5. Establish and implement written policies and procedures that meet Federal procurement requirements.

We recommend that NEA:

1. Disallow \$881 in unallowable award costs for NEA Award No. 14-6100-2004; and
2. Review the requested additional supporting documentation of \$3,029 for NEA Award No. 17-6100-7003 and determine whether to disallow the costs; and
3. Determine if any refund is due.

BREAKDOWN OF AWARD CALCULATIONS*NEA Award No. 14-6100-2004*

Total Reported Costs	\$ 2,216,600
Add Understated FFR Costs	8
Less Non-Match Amendment Costs	<u>(62,500)</u>
Adjusted Reported Costs	\$ 2,154,108
Less Unallowable Costs	
Alcohol and Entertainment	<u>(881)</u>
Adjusted Allowable Reported Costs	<u>\$ 2,153,227</u>
Adjusted Allowable Reported Costs	\$ 2,153,227
Less NEA Share of Costs*	<u>(1,045,800)</u>
NEFA Cost Share/Match	<u>\$ 1,107,427</u>
<i>*NEA share is the award amount less the non-matching amendment</i>	
NEFA Cost Share/Match	\$ 1,107,427
NEFA Non-Match Amendment Costs	62,500
Less NEA Disbursement	<u>(1,108,300)</u>
NEFA Cost Share/Match Exceeded	<u>\$ 61,627</u>

NEA Award No. 17-6100-7003

Total Cost	\$ 3,971
Less NEA Disbursement	<u>(7,000)</u>
Potential Refund Identified	<u>\$ (3,029)</u>



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5/31/19

Ron Stith
Inspector General
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Washington, D.C. 020506

Dear Mr. Stith,

The New England Foundation for the Arts (NEFA) has always tried to incorporate best practices and sound management in our fiscal operations. We thank your department and your staff for a thorough audit process, which provided a great opportunity for our staff to improve our fiscal management practices.

Below, please find our responses to your team's findings and recommendations:

Unallowable Costs

NEA Audit Finding: NEFA included \$881 in unallowable costs on its FFR for NEA Award No. 14-6100-2004.

NEA Recommendation: We recommend that NEFA update and implement written policies and procedures that ensure unallowable costs are excluded from credit card purchases.

NEFA Response: We concur with the finding and the recommendation. We will update our policies and procedures by September 1, 2019 and we'll train all staff on the policies and procedures by no later than October 1, 2019.

Unsupported Costs

NEA Audit Finding: NEFA could not support \$3,029 in costs for NEA Award No. 17-6100-7003.

NEA Recommendation: We recommend that NEFA establish and implement written policies and procedures that ensure costs are incurred for federal funds received. We also recommend that NEFA

provide to NEA any additional supporting documentation for the questioned unsupported costs of \$3,029 for NEA Award No. 17-6100-7003.

NEFA Response: We concur with the finding and the recommendation. We will update our policies and procedures by September 1, 2019, train all staff on the policies and procedures by October 1, 2019 and we will either identify additional supporting documentation for the federal funds received or refund the amount by September 1, 2019.

Inaccurate Costs Reported

NEA Audit Finding: NEFA did not report actual costs on its FFRs for NEA Award No. 13-6100-2053, 14-6100-2004, and 15-6100-2060.

NEA Recommendation: We recommend that NEFA establish and implement written policies and procedures that ensure actual costs are reported on its FFRs.

NEFA Response: We concur with the finding and the recommendation. We will update our policies and procedures by September 1, 2019 and train all staff on the policies and procedures by October 1, 2019.

Improper Procurement Procedures

NEA Audit Finding: NEFA did not establish procurement policies and procedures that met Federal procurement requirements.

NEA Recommendation: We recommend that NEFA establish and implement written policies and procedures that meet Federal procurement requirements.

NEFA Response: We concur with the finding and the recommendation. We will update our policies and procedures by September 1, 2019 and train all staff on the policies and procedures by October 1, 2019.

We appreciate the guidance and recommendations of your work and we look forward to the next steps in the process.

Sincerely,



Cathy Edwards
Executive Director