



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

**Limited Scope Audit on Selected Awards to
Mid-America Arts Alliance**

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INTRODUCTION

BACKGROUND

In 1972, a group of civic leaders from four Midwestern states came together to envision an organization that ensured access to arts of excellence for people in the mid-America region. These leaders consolidated the human and financial resources available to achieve their objectives in the most efficient and cost-effective way. Out of their initial collaboration, Mid-America Arts Alliance (M-AAA) emerged and developed as the first regional arts organization in the country.

In partnership with the state art agencies of Arkansas, Kansas, Missouri, Nebraska, Oklahoma, and Texas, M-AAA's mission is to strengthen and support artists, cultural organizations, and communities throughout its region and beyond. M-AAA is especially committed to enriching the cultural life of historically underserved communities by striving to provide high quality, meaningful, and accessible arts and culture programs and services.

OBJECTIVES, SCOPE AND METHODOLOGY

We conducted a limited scope audit of M-AAA for the period July 1, 2015 to June 30, 2018. This type of audit involves a limited review of financial and nonfinancial information to ensure validity and accuracy of award recipients' reported information, and compliance with state and Federal requirements. The objectives of this audit were to determine whether:

- M-AAA financial management system and recordkeeping complies with the requirements established by the Office of Management and Budget (OMB) and NEA *General Terms and Conditions for Grants and Cooperative Agreements to Organizations (General Terms)*;
- M-AAA fulfilled the financial and compliance requirements, including cost share/matching, set forth in its NEA awards; 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 M-AAA'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.

We limited our review to three of five awards issued to M-AAA that had activity and required final reports during the audit scope period. Two of the awards reviewed, NEA Award Nos. 14-6100-2002 and 15-6100-2058, had required final Federal Financial Reports (FFR) submitted, and the third award, NEA Award No. 17-6100-7006, had no final reporting requirements. We excluded two awards (NEA Award Nos. 16-6100-2021 and 17-6100-2053) from review, which had final reports due after we began the audit. Following is a list of the three awards reviewed:

Award No.	Original Award Amount	Amendment Amount	De-obligated Amount	Adjusted Award Amount
14-6100-2002	\$1,185,200	\$72,500	\$10,585	\$1,247,115
15-6100-2058	1,188,400	15,000	0	1,203,400
17-6100-7006	8,000	0	0	8,000
TOTAL	\$2,381,600	\$87,500	\$10,585	\$2,458,515

NEA Award No. 14-6100-2002 was awarded to support partnership agreement activities, which consists of the following components: (1) Regional Arts Plan Priorities, (2) NEA Regional Touring Program, and (3) LEAD Conference. M-AAA received one non-monetary amendment to the award to extend the period from June 30, 2015 to September 30, 2015, and one monetary amendment of \$72,500 to increase the award. Note: The original award amount of \$1,185,200 has a one-to-one cost share/matching requirement and the additional \$72,500 does not have a cost share/matching requirement.

NEA Award No. 15-6100-2058 was awarded to support partnership agreement activities, which consists of the following components: (1) Regional Arts Plan Priorities, (2) NEA Regional Touring Program, (3) LEAD Conference, and (4) Video highlighting the region’s contributions to the arts and culture for the NEA 50th Anniversary. M-AAA received one monetary amendment of \$15,000 to increase the award. The original award amount of \$1,188,400 has a one-to-one cost share/matching requirement and the additional \$15,000 does not have a cost share/matching requirement.

NEA Award No 17-6100-7006 was awarded to support 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 sharing/matching requirement and did not have reporting requirements.

PRIOR AUDIT COVERAGE

During the past five years, the NEA Office of Inspector General (OIG) has not issued any audit reports on Federal awards to M-AAA. As of our site visit on August 20, 2018, the most recent issued audit report for M-AAA was for the fiscal year ended June 30, 2017. The audit was conducted by BKD, LLP. In its opinion, M-AAA’s financial statements present fairly, in all material respects, the financial position of M-AAA as of June 30, 2017.

AUDIT RESULTS

SUMMARY

Our limited scope audit concluded that M-AAA 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 M-AAA complies with OMB and NEA award requirements. The following are specific deficiencies requiring corrective action:

1. M-AAA did not report actual costs on its Federal Financial Report (FFR) for NEA Award Nos. 14-6100-2002 and 15-6100-2058.
2. M-AAA reported unsupported costs in its total outlays for NEA Award Nos. 14-6100-2002, 15-6100-2058, and 17-6100-7006.
3. M-AAA did not have written policies and procedures for the management of Federal awards.
4. M-AAA 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.
5. M-AAA did not have record retention policies and procedures that meet Federal award requirements.
6. M-AAA did not have written policies and procedures for subrecipient monitoring.

FINANCIAL MANAGEMENT

INACCURATE COSTS REPORTED

M-AAA did not report actual costs on its FFR for NEA Award Nos. 14-6100-2002 and 15-6100-2058. Based on our review of the FFRs and the expenditure details for the awards under review, we determined that M-AAA overstated and understated costs on its FFR. Specifically, for NEA Award No. 14-6100-2002, M-AAA understated award costs on its FFR in the amount of \$69,182. For NEA Award No. 15-6100-2058, M-AAA overstated award costs on its FFR in the amount of \$379,664. M-AAA was unable to reconcile costs claimed to the FFR to its financial management system.

Awards issued by NEA are subject to the following requirements:

- **2 CFR 200.302(b)(2). *Financial Management***, states: 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***, states: 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 are 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.

M-AAA did not have written policies and procedures in place to ensure actual costs were reported on its FFRs. M-AAA officials stated that cost share/match amounts claimed on the FFR were from the Final Descriptive Report and not from allowable costs recorded on the general ledger, which caused the variances. Without written policies and procedures, M-AAA cannot ensure the accuracy of the costs claimed or identify these errors.

Thus, we are questioning overstated costs in the total amount of \$379,664 for NEA Award No. 15-6100-2058. Although we are questioning costs for the award, the cost share/matching requirement would still be met and no refund would be due to the NEA (*See Appendix A*).

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

M-AAA concurs with this finding and recommendation (see Appendix B for M-AAA's response).

UNSUPPORTED COSTS

M-AAA did not maintain adequate documentation to support costs charged to NEA Award Nos. 14-6100-2002, 15-6100-2058, and 17-6100-7006. We were unable to determine allowability and reasonableness of cost for three of the 63 cost transactions reviewed. The following are instances of unsupported costs charged to NEA awards:

- Award No. 14-6100-2002. One of the 30 cost transactions reviewed was not supported. We are questioning \$287.87 in unsupported costs.
- Award No. 15-6100-2058. One of the 30 cost transactions reviewed was not supported. We are questioning \$7,500 in unsupported costs.
- Award No. 17-6100-7006. One of the three cost transactions reviewed was not supported. We are questioning \$497.02 in unsupported costs.

Awards issued by NEA are subject to the following requirements:

- **2 CFR 200.333. Retention Requirement for Records**, states, in part: Financial records, supporting documents, statistical records, and all other non-Federal entity records pertinent to a Federal award must be retained for a period of three years from the date of submission of the final expenditure report.
- **NEA General Terms. Record Retention**, states: Grantees 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, as applicable.

Including unsupported costs on the FFRs could result in the failure to meet the required cost share/matching amount, resulting in a potential refund due to NEA.

M-AAA did not have written policies and procedures in place to ensure that supporting documentation is maintained for a period of three years from the date of submission of the final expenditure report. Although we are questioning costs for the awards, the cost share/matching requirement would still be met and no refund would be due to the NEA for NEA Award Nos. 14-6100-2002 and 15-6100-2058. However, NEA Award No. 17-6100-7006 did not have a cost share/matching requirement and a potential refund of \$444 could be due to the Agency (*See Appendix A*).

Therefore, we recommend M-AAA establish written record retention policies and implement procedures that meet 2 CFR 200. We also recommend that NEA disallow \$497 in unsupported costs for NEA Award No. 17-6100-7006. Lastly, we recommend M-AAA refund NEA \$444 if NEA disallows \$497 for NEA Award No. 17-6100-7006.

M-AAA concurs with this finding and recommendation (see Appendix B for M-AAA's response).

INTERNAL CONTROLS

MANAGEMENT OF FEDERAL AWARDS

M-AAA did not have written policies and procedures for the management of Federal awards. Awards issued by NEA are subject to the following requirement:

- **2 CFR 200.302 (b). *Financial Management***, states, in part: 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 policies and procedures should include information 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, M-AAA could fail to manage awards according to Federal requirements.

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

M-AAA concurs with this finding and recommendation (see Appendix B for M-AAA's response).

SUSPENSION AND DEBARMENT

M-AAA 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 payment or award of Federal funds. Awards issued by NEA are subject to the following requirements:

- **Subpart C of 2 CFR Part 180.300. OMB Guidelines to Agencies on Government-wide Debarment and Suspension (Non-procurement)**, states, in part: Grantees 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.
- **NEA General Terms. Debarment and Suspension**, 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.

M-AAA has adequate procedures for suspension and debarment, but did not have written policies and procedures. Without written policies in place, M-AAA could have instances where suspension and debarment status is undetermined for contractors and award recipients that may receive or have already received an award or payment of Federal funds.

We recommended that M-AAA develop written policies and 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.

M-AAA concurs with this finding and recommendation (see Appendix B for M-AAA's response).

RECORD RETENTION

We determined that M-AAA's record retention policies do not meet Federal requirements. Awards issued by NEA are subject to the following requirements:

- **2 CFR 200.333. Retention Requirements for Records**, states: Financial records, supporting documents, statistical records, and all other non-federal entity records pertinent to a federal award must be retained for the period of three years from the date of submission of the final expenditure report.

M-AAA written policies do not specifically state that Federal award documents must be maintained for at least three years after the submission of the final report. Failure to establish record retention policies and procedures in accordance with federal guidelines could result in the destruction of pertinent award documents prior to the end of the federal retention period.

We recommend that M-AAA establish written record retention policies and implement procedures that meet 2 CFR 200.

M-AAA concurs with this finding and recommendation (see Appendix B for M-AAA's response).

SUBRECIPIENT MONITORING

M-AAA did not have written policies and procedures for subrecipient monitoring, but we determined that M-AAA follows a process that is adequate to monitor subrecipients.

- **2 CFR 200.331. Requirements for Pass-Through Entities**, states in part: All pass-through entities must:
 - d. Monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved. Pass-through entity monitoring of the subrecipient must include:
 1. Reviewing financial and performance reports required by the pass-through entity.
 2. Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the Federal award provided to the subrecipient from the pass-through entity detected through audits, on-site reviews, and other means.
 3. Issuing a management decision for audit findings pertaining to the Federal award provided to the subrecipient from the pass-through entity as required by 200.521 Management decision.

M-AAA officials stated that subrecipients are monitored, but there are no written policies in place. Without written policies and procedures in place, M-AAA could fail to properly monitor subrecipients. We recommend that M-AAA develop written policies and procedures for subrecipient monitoring in accordance with 2 CFR 200.

M-AAA concurs with this finding and recommendation (see Appendix B for M-AAA's response).

RECOMMENDATIONS

We recommend that M-AAA:

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. Establish written record retention policies and implement procedures that meet 2 CFR 200.
3. Refund NEA \$444 if NEA disallows \$497 for NEA Award No. 17-6100-7006.
4. Develop written policies and implement procedures for the management of Federal awards.
5. Develop written policies and 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.
6. Develop written policies and procedures for subrecipient monitoring in accordance with 2 CFR 200.

We recommend that the NEA:

1. Disallow \$497 in unsupported costs for NEA Award No. 17-6100-7006.

APPENDIX A

Breakdown of Award Calculations

Award No. 14-6100-2002

Total Reported Costs	\$ 3,435,323
- Less: Non-Match Portion	<u>(72,500)</u>
= Reported Costs (Subject to 1:1 Match)	3,362,823
- Less: Unsupported Costs	<u>(288)</u>
= Adjusted Allowable Reported Costs	3,362,535
- Less: M-AAA 1:1 Match	<u>(1,174,615)</u>
= Total NEA Share of Allowable Reported Costs	2,187,920
- Less: NEA Disbursement	<u>(1,247,115)</u>
= M-AAA Over Matched Amount	\$ 940,805

Award No. 15-6100-2058

Total Reported Costs	\$ 3,500,804
- Less: Non-Match Portion	<u>(15,000)</u>
= Reported Costs (Subject to 1:1 Match)	3,485,804
- Less: Unsupported Costs	<u>(7,500)</u>
- Less: Overstated FFR Costs	<u>(379,664)</u>
= Adjusted Allowable Reported Costs	3,098,640
- Less: M-AAA 1:1 Match	<u>(1,188,400)</u>
= Total NEA Share of Allowable Reported Costs	1,910,240
- Less: NEA Disbursement	<u>(1,188,400)</u>
= M-AAA Over Matched Amount	\$ 721,840

Award No. 17-6100-7006

Total Reported Costs	\$ 8,053
- Less: Unsupported Costs	<u>(497)</u>
= Adjusted Allowable Reported Costs	7,556
- Less: NEA Disbursement	<u>(8,000)</u>
= M-AAA Potential Refund	\$ (444)