



**OFFICE OF INSPECTOR GENERAL**

**LIMITED SCOPE AUDIT REPORT**

**ON SELECTED  
NEA GRANTS TO**

**Minnesota State Arts Board**

St. Paul, MN

**REPORT NO. LS-13-03**

**March 15, 2013**



**REPORT RELEASE RESTRICTION**

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# INTRODUCTION

## BACKGROUND

The Minnesota State Arts Board (MSAB), based in St. Paul, MN, is a state agency that stimulates and encourages the creation, performance, and appreciation of the arts in Minnesota. In 1903, the Minnesota State Legislature established the State Arts Society to "advance the interests of the fine arts, to develop the influence of art in education, and to foster the introduction of art in manufactures." In 1975, the agency's name was changed to MSAB.

## 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 Federal requirements. The objective of this limited scope audit by the National Endowment for the Arts (NEA) Office of Inspector of General (OIG) was to determine whether the:

- grantee fulfilled the financial and compliance requirements as set forth in the grant awards;
- total project costs claimed under the grants were reasonable, allocable, and allowable; and
- required match was met on NEA grant funds.

Our audit was conducted in accordance with the *Government Auditing Standards* (2011), 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, appropriate evidence to afford a reasonable basis for our findings and conclusions. We evaluated the recipient's compliance with the U.S. Office of Management and Budget (OMB) and NEA guidance. In addition, we evaluated the recipient's compliance with 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.

For the scope of this audit, we reviewed four of the six NEA grants in which funds had been drawn down and costs had been reported. The grants reviewed are as follows:

<b>Grant No.</b>	<b>Award Amount</b>	<b>Total Outlays</b>
08-3900-7001	\$ 30,000	\$ 30,000
08-6100-2017	775,900	11,117,975
09-6100-2019	822,300	25,417,479
09-6188-2101	316,200	316,200
<b>TOTAL</b>	<b>\$1,944,400</b>	<b>\$36,881,654</b>

## **PRIOR AUDIT COVERAGE**

During the past five years, NEA OIG has not issued any audit reports on MSAB. As of our site visit on August 6, 2012, the most recent issued independent auditor's report on MSAB was for the fiscal year ended June 30, 2011. The audit was conducted by the State of Minnesota, Office of the Legislative Auditor, an independent auditing agency with the State of Minnesota government, which issued an unqualified (clean) opinion. MSAB was subject to the audit requirements of OMB Circular A-133 because it is a part of the State of Minnesota. However, MSAB Federal programs were not selected as a major program and was not reviewed during the single audit.

## **RESULTS OF AUDIT**

Our limited scope audit determined that MSAB complied with the financial management system and recordkeeping requirements established by OMB and NEA for its Recovery Act Grant No. 09-6188-2101. However, we identified some areas for improvement to ensure MSAB complies with OMB and NEA grant requirements and improves its management of NEA awards. MSAB did not have written policies and procedures on suspension and debarment. MSAB also did not maintain documentation to support cost reported on its final Federal Financial Report (FFR) for its NEA Grant No. 08-6100-2017.

## **FINANCIAL MANAGEMENT**

### Suspension and Debarment

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

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."

MSAB officials stated that even though written policies and procedures for suspension and debarment are not in place, there are procedures that take place to ensure ineligible organizations or persons do not receive Federal funding. Subgrantee contracts include a self-certification stating that neither it nor its principals are debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from participation in covered transactions by any Federal department or agency. Without written policies and procedures for suspension and debarment, ineligible organizations or persons could receive Federal funding.

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

## **NEA GRANT No. 08-6100-2017**

### Record Retention

We determined that MSAB included unsupported travel costs on its final FFR. MSAB did not maintain proper documentation for one of the 15 cost transactions reviewed during our test work. We also determined that MSAB did not have written record retention policies and procedures in place.

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."

As a result of MSAB charging unsupported costs to the grant, we are questioning \$142.75. However, if the questioned costs were disallowed for this grant, the one-to-one matching requirement would still be met and no refund would be due to NEA.

We recommend that MSAB develop written policies and implement procedures to ensure that documentation is maintained for all cost transactions.

## **EXIT CONFERENCE**

We conducted a preliminary exit conference with a MSAB official on August 9, 2012. Subsequent to our test work, a telephone exit conference was held with MSAB officials on March 4, 2013. MSAB officials concurred with our findings and recommendations.

## **RECOMMENDATIONS**

We recommend that MSAB:

1. Develop written policies to ensure that contractors and recipients are not suspended or debarred from receiving Federal funds prior to the payment or award of Federal funds.
2. Develop written policies and implement procedures to ensure that documentation is maintained for all cost transactions.