



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

**Limited Scope Audit on Selected Awards to  
Mainstreet Uptown Butte, Inc.  
Butte, Montana**

**Report No. LS-19-01**

**October 18, 2018**

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# INTRODUCTION

## BACKGROUND

Mainstreet Uptown Butte (MSUB) is a non-profit organization incorporated in June 1999. MSUB works to rejuvenate the traditional central business district of Butte, Montana. MSUB also works to visually enhance Uptown Butte, promotes Uptown businesses and attractions, encourages rich and diverse performing and visual arts, preserves Uptown's historic resources, and strives to work with organizations with similar goals.

## OBJECTIVES, SCOPE AND METHODOLOGY

Limited scope audits involve 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 MSUB's financial management system and recordkeeping complies with the requirements established by the Office of Management and Budget (OMB) and National Endowment for the Arts (NEA) *General Terms and Conditions for Grants and Cooperative Agreements to Organizations (General Terms)*, including whether:

- MSUB fulfilled the financial and compliance requirements as set forth in NEA awards;
- project costs reported under the awards were reasonable, allocable, and allowable; and
- the required cost share/match was met on NEA awards.

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 considered necessary under the circumstances. We reviewed MSUB'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.

Prior to initiating the audit, we conducted a review of NEA Award No. 13-4292-7077 to MSUB. Based on the results, we expanded the audit scope to include two additional awards to MSUB for the period of June 1, 2015 to March 31, 2018. Findings and recommendations from the review of all three NEA awards are included in this audit report. The following is a summary of information regarding the awards we reviewed:

<b>Award No.</b>	<b>Award Period</b>	<b>Award Amount</b>	<b>Total Costs Reported</b>
13-4292-7077	9/1/2013 – 8/31/2014	\$150,000	\$ 300,000
15-5500-7088	6/1/2015 – 8/31/2015	25,000	650,000
17-5500-7052	6/1/2017 – 9/30/2017	30,000	659,000
<b>TOTAL</b>		<b>\$205,000</b>	<b>\$1,609,000</b>

NEA Award No. 13-4292-7077 was a Design award which required a one-to-one cost share/matching. The award was to support cultural asset mapping, community planning to develop artist live/work spaces, and artist residencies.

NEA Award No. 15-5500-7088 was a Folk & Traditional Arts award which required a one-to-one cost share/matching. The award was to support the 2015 Montana Folk Festival.

NEA Award No. 17-5500-7052 was a Folk & Traditional Arts award which required a one-to-one cost share/matching. The award was to support the 2017 Montana Folk Festival.

## **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 MSUB. Also, MSUB has not had a financial statement audit completed by an independent CPA firm, and were not subject to the audit requirements of OMB Circular A-133 and 2 CFR 200, Subpart F (Audit Requirements).

## **AUDIT RESULTS**

### **SUMMARY**

Our limited scope audit concluded that MSUB generally complied with the financial management system and recordkeeping requirements established by OMB and NEA. However, we identified some areas requiring improvement, as follows:

1. MSUB reported unallowable costs in its total outlays for two NEA Awards.
2. MSUB did not report accurate costs in its financial management system for one NEA Award.
3. MSUB did not report actual costs on its Federal Financial Reports (FFR) for three awards.
4. MSUB did not maintain adequate documentation to support costs charged to three awards.
5. MSUB reported costs outside the period of performance for one NEA Award.
6. MSUB did not separately identify costs by award in its financial management system.

7. MSUB did not submit the required FFR and the Final Descriptive Report (FDR) within 90 days from the end of the period of performance for one award.
8. MSUB 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.
9. MSUB did not have written policies and procedures for managing Federal awards.

## **FINANCIAL MANAGEMENT**

### **FEDERAL FINANCIAL REPORTING**

MSUB reported unallowable costs for NEA Award Nos. 15-5500-7088 and 17-5500-7052, and inaccurate costs for NEA Award No. 13-4292-7077 on its FFRs. MSUB also did not report actual costs on its FFRs for NEA Award Nos. 13-4292-7077, 15-5500-7088, and 17-5500-7052. Specific details of these deficiencies are presented below.

#### *UNALLOWABLE COSTS*

During the review, we identified alcohol and entertainment costs reported on the FFR for NEA Award No. 15-5500-7088 totaling \$14,034. In addition, we found two instances of alcohol costs totaling \$13,273 reported on the FFR for NEA Award No. 17-5500-7052.

Awards issued by the 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*,** states, in part: Costs of entertainment, including amusement, diversion, and social activities and any associated costs are unallowable.
- **2 CFR 200.302 (b)(7). *Financial Management*:** The financial management system of each non-Federal entity must provide 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.

MSUB did not have policies and procedures to ensure that only allowable costs were charged to the NEA award. Including unallowable costs on the FFRs could result in failure to meet the required cost share/matching amounts, resulting in a potential refund to the NEA. Thus, we are questioning unallowable alcohol and entertainment costs totaling \$27,307. (*See Appendix A*)

#### *INACCURATE COSTS REPORTED*

During the review, we determined that MSUB did not record accurate costs in its financial management system. Specifically, we found two instances of in-kind costs totaling \$51,000 for NEA Award No. 13-4292-7077. We reviewed the supporting documentation and determined that MSUB overstated in-kind costs by \$69.

Awards issued by the NEA are subject to the following requirements:

- **OMB Circular A-110, 215.20 Subpart C<sup>1</sup>** states, in part: Federal fund recipients are required to maintain an adequate financial system which will provide effective control over and accountability for all funds, property and other assets.
- **2 CFR 200.302(b)(2). *Financial Management*:** 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.

MSUB does not have policies and procedures in place to ensure accurate costs are charged to NEA awards. Inaccurate costs charged to the award could result in questioned costs and a potential refund due to the NEA. Thus, we are questioning inaccurate costs reported totaling \$69.

We recommend MSUB develop written policies and implement procedures to ensure only allowable and accurate costs are charged to NEA awards.

We also recommend that the NEA disallow the \$27,376 of unallowable alcohol, entertainment and in-kind costs.

*MSUB concur with these findings and the recommendation (see Appendix B for MSUB's response).*

### ***ACTUAL COSTS NOT REPORTED***

Based on our review of the FFRs and general ledgers, we determined that MSUB did not report actual costs on its FFRs. Specifically, for NEA Award No. 13-4292-7077, MSUB understated costs on its FFR totaling \$103,802. For NEA Award No. 15-5500-7088, MSUB overstated costs on its FFR totaling \$17,657. Lastly, for NEA Award No. 17-5500-7052, MSUB understated costs on its FFR totaling \$24,099.

Awards issued by the NEA are subject to the following requirements:

- **2 CFR 200.302(b)(2). *Financial Management*:** 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*:** Unless otherwise approved by OMB, the Federal awarding agency may solicit only the standard, OMB-approved government-wide data

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<sup>1</sup> Effective December 26, 2014, the OMB Circulars which governed the management of Federal assistance awards will be replaced with 2 CFR 200 *Uniform Guidance: Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. The guidance supersedes and streamlines OMB Circulars A-21, A-87, A-110, A-122, A-89, A-102, A-133 and A-50. The guidance can be found at [http://www.ecfr.gov/cgi-bin/textidx?tpl=/ecfrbrowse/Title02/2cfr200\\_main\\_02.tpl](http://www.ecfr.gov/cgi-bin/textidx?tpl=/ecfrbrowse/Title02/2cfr200_main_02.tpl). Furthermore, NEA's General Terms for Fiscal Year 2015 awards will include new guidance, incorporating 2 CFR 200.

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.

MSUB did not have policies and procedures in place to ensure actual costs were reported on its FFRs. Failure to report actual costs on its FFRs could result in the required cost share/match not being met, resulting in a potential refund due to the NEA. Thus, for NEA Award No. 15-5500-7088 we are questioning overstated costs totaling \$17,657. (*See Appendix A*).

We recommend that MSUB establish written policies and implement procedures to ensure actual costs are reported on its FFRs. We also recommend that MSUB provide any additional supporting documentation for the \$17,657 in questioned costs to the NEA for review.

We recommend the NEA review documentation supporting the \$17,657 in questioned costs and determine allowability.

*MSUB concurs with this finding and recommendations (see Appendix B for MSUB's response).*

## **UNSUPPORTED COSTS**

MSUB did not maintain adequate documentation to support costs charged to NEA Award Nos. 13-4292-7077, 15-5500-7088, and 17-5500-7052. MSUB provided checks and credit card statements for costs; however, they did not provide the supporting documentation such as invoices, contracts, receipts and/or salary and wage documentation to fully support award costs. Therefore, we were unable to determine the allowability and reasonableness of costs. The following are instances of unsupported costs charged to the awards:

**Award No. 13-4292-7707.** We found ten instances of unsupported in-kind, salary, supplies and artists costs totaling \$93,201, which we are questioning. Without additional documentation, a potential refund could be due to the NEA. (*See Appendix A*)

**Award No. 15-5500-7088.** We found four instances of unsupported marketing, supplies and artist costs totaling \$2,394, which we are questioning. (*See Appendix A*)

**Award No. 17-5500-7052.** We found seven instances of unsupported salary, rent, survey, food, and artist costs totaling \$13,701, which we are questioning. (*See Appendix A*)

Awards issued by the NEA are subject to the following requirements:

- **2 CFR 200.333. *Retention Requirements 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***: 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.
- **2 CFR 200.430(8)(i)(v). *Compensation-Personal Services*** states, in part: Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. The records must comply with your organization's internal controls and established accounting policies.

MSUB did not have 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. 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 the NEA.

We recommend MSUB develop policies and implement procedures for record retention in accordance with 2 CFR 200 Uniform Guidance and NEA General Terms. We also recommend that MSUB provide any additional supporting documentation for the \$109,296 in questioned costs to the NEA for review.

We recommend the NEA review any supporting documentation for the questioned costs and determine allowability.

*MSUB does not concur with this finding but concur with the recommendations (see Appendix B for MSUB's response).*

## **PERIOD OF PERFORMANCE**

MSUB reported nine transactions outside of the period of performance for NEA Award No. 17-5500-7052 totaling \$24,480.

Awards issued by the NEA are subject to the following requirement:

- **2 CFR 200.309. *Period of Performance***, states in part: A non-Federal entity may charge to the Federal award only allowable costs incurred during the period of performance (except as described in §200.461 Publication and printing costs).

MSUB did not have policies and procedures in place to ensure that only costs incurred within the period of performance were reported in its total outlays. Costs reported outside the award period could result in failure to meet the required cost share/matching amount, resulting in a potential refund to the NEA. Thus, we are questioning costs reported outside of the period of performance totaling \$24,480. (*See Appendix A*).

We recommend that MSUB establish written policies and implement procedures to ensure only costs incurred during the period of performance are reported on the final reports. We also recommend that MSUB provide any additional supporting documentation for the \$24,480 in questioned costs to the NEA for review.

We recommend that the NEA review any additional supporting documentation for the questioned costs and determine allowability.

*MSUB concurs with this finding and recommendations (see Appendix B for MSUB's response).*

## **COSTS NOT SEPARATELY IDENTIFIED**

Based on our review of the expenditure reports, MSUB did not separately identify costs by the specific award in its financial management system.

Awards issued by the NEA are subject to the following requirements:

- **2 CFR 200.302 (b)(1). *Financial Management*:** The financial management system of each non-Federal entity must provide identification, in its accounts, of all Federal awards received and expended and the Federal programs under which they were received. Federal program and Federal award identification must include, as applicable, the Catalog of Federal Domestic Assistance title and number, Federal award identification number and year, name of the Federal agency, and name of the pass through entity, if any.
- **The NEA *General Terms*:** There can be no overlapping project costs between Federal awards. Therefore, separate accounting records must be maintained for each award.

MSUB did not have policies and procedures requiring that it separately account for the source and application of Federal awards. Failure to separately identify costs could result in a potential refund due to the NEA.

We recommend that MSUB develop written policies and implement procedures that ensure each Federal award and associated expenses are separately identifiable in its financial system.

*MSUB concurs with this finding and recommendation (see Appendix B for MSUB's response).*

## **INTERNAL CONTROLS**

### **SUBMISSION OF FINAL REPORTS**

MSUB did not submit the required FFR and FDR within 90 days from the end of the period of performance. Specifically, the FFR and FDR for NEA Award No. 15-5500-7088 were due on November 29, 2015; however, the NEA did not receive the reports until January 16, 2016.

Awards issued by the NEA are subject to the following requirements:

- **2 CFR 200.343(a). Closeout:** The awardee must submit, no later than 90 days after the end of the period of performance, all financial, performance, and other reports as required by the terms and conditions of the Federal award.
- **NEA General Terms. Final Reports:** Awardees must submit a FDR and FFR no later than 90 days after the end of the period of performance. Failure to submit the required final reports for any award(s) renders you ineligible to receive National Endowment for the Arts funding for five (5) years following the final report due date of the award(s) or until the delinquent final reports are submitted, whichever occurs first.

MSUB did not have policies and procedures to ensure that final reports are submitted to the NEA no later than 90 days from the end of the period of performance. Failure to submit final reports (FFR and FDR) on time could result in future award applications being rejected. Therefore, we recommend MSUB develop written policies and implement procedures to ensure that final reports are submitted on time.

*MSUB concurs with this finding and recommendation (see Appendix B for MSUB's response).*

## **DEBARMENT AND SUSPENSION**

MSUB 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 the 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: Awardees must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:
  - (a) Checking SAM.gov; 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
- **NEA General Terms. Debarment and Suspension:** 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.

Without written policies in place, MSUB could have instances where debarred or suspended individuals or companies inappropriately receive Federal funds.

We recommend that MSUB develop written policies and implement 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.

*MSUB concurs with this finding and recommendation (see Appendix B for MSUB's response).*

## **MANAGEMENT OF FEDERAL AWARDS**

As discussed in the previous findings, MSUB did not establish written policies and procedures for the management of Federal awards. The policies and procedures should include:

- **2 CFR 200.302 (a). *Financial Management*** states, in part: Non-Federal entity's financial management systems, including records documenting compliance with Federal statutes, regulations, and the terms and conditions of the Federal award, must be sufficient to permit the preparation of reports required by general and program-specific terms and conditions; and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award.
- **2 CFR 200.302 (b). *Financial Management*** states, in part: The financial management system of each non-Federal entity must provide for the following:
  - (1) Identification, in its accounts, of all Federal awards received and expended and the Federal programs under which they were received. Federal program and Federal award identification must include, as applicable, the Catalog of Federal Domestic Assistance title and number, Federal award identification number and year, name of the Federal agency, and name of the pass through entity, if any.
  - (2) Accurate, current, and complete disclosure of the financial results of each Federal award or program in accordance with the reporting requirements set forth in §§ 200.327 Financial reporting and 200.328 Monitoring and reporting program performance. If a Federal awarding agency requires reporting on an accrual basis from a recipient that maintains its records on other than an accrual basis, the recipient must not be required to establish an accrual accounting system. This recipient may develop accrual data for its reports on the basis of an analysis of the documentation on hand. Similarly, a pass-through entity must not require a sub-recipient to establish an accrual accounting system and must allow the sub-recipient to develop accrual data for its reports on the basis of an analysis of the documentation on hand.
  - (3) Records that identify adequately the source and application of funds for federally-funded activities. These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation.
  - (4) Effective control over, and accountability for, all funds, property, and other assets. The non-Federal entity must adequately safeguard all assets and assure that they are used solely for authorized purposes. See § 200.303 Internal controls.
  - (5) Comparison of expenditures with budget amounts for each Federal award.
  - (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.

Without written policies in place, MSUB could fail to implement award requirements or rely on improper procedures as indicated in the findings discussed above. We recommend that MSUB develop written policies and implement procedures for the management of Federal awards.

*MSUB concurs with this finding and recommendation (see Appendix B for MSUB's response).*

## **RECOMMENDATIONS**

We recommend that MSUB:

1. Develop policies and implement procedures to ensure only allowable and accurate costs are charged to NEA awards.
2. Establish written policies and implement procedures to ensure actual costs are reported on its FFRs. We also recommend that MSUB provide any additional supporting documentation for the \$17,657 in questioned costs to the NEA for review.
3. Develop policies and implement procedures for record retention in accordance with 2 CFR 200 Uniform Guidance and the NEA General Terms. We also recommend that MSUB provide any additional supporting documentation for the \$109,296 in questioned costs to the NEA for review.
4. Establish written policies and implement procedures to ensure only costs incurred during the period of performance are reported on the final reports. We also recommend that MSUB provide any additional supporting documentation for the \$24,480 in questioned costs to the NEA for review.
5. Develop written policies and implement procedures that ensure each Federal award and associated expenses are separately identifiable in its financial system.
6. Develop written policies and implement procedures to ensure that final reports are submitted on time.
7. Develop written policies and implement 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.
8. Develop written policies and implement procedures for the management of Federal awards.

We recommend that the NEA:

1. Disallow unallowable alcohol, entertainment and in-kind costs totaling \$27,376.
2. Review supporting documentation of questioned costs totaling \$151,433 to determine allowability and if a refund is due.

## APPENDIX A

### Breakdown of Award Calculations

#### *Grant No. 13-4292-7077 – Butte Artworks*

Total Reported Costs	\$ 300,000
- Less: Unsupported Costs	(93,201)
- Less: Inaccurate Reported Costs	<u>(69)</u>
= Adjusted Allowable Reported Costs	206,730
- Less: NEA Share of Adjusted Allowable Reported Costs	<u>(103,365)</u>
= Total MSUB 1:1 Match	103,365
= NEA Disbursement	150,000
- Less: NEA Share of Adjusted Allowable Reported Costs	<u>(103,365)</u>
= <b><i>MSUB Potential Refund</i></b>	<b><u><u>\$ (46,635)</u></u></b>

#### *Grant No. 15-5500-7088 – 2015 Montana Folk Festival*

Total Reported Costs	\$ 650,000
- Less: Overstated FFR Cost	<u>(17,657)</u>
Adjusted Costs Reported	632,343
Adjusted Costs Reported	632,343
- Less: Unallowable Costs	(14,034)
- Less: Unsupported Costs	<u>(2,394)</u>
= Adjusted Allowable Reported Costs	615,915
- Less: NEA Disbursement	(25,000)
- Less: MSUB 1:1 Match	<u>(25,000)</u>
= <b><i>MSUB Overmatch</i></b>	<b><u><u>\$ 565,915</u></u></b>

#### *Grant No. 17-5500-7052 – 2017 Montana Folk Festival*

Total Reported Costs	\$ 659,000
- Less: Unallowable Costs	(13,273)
- Less: Unsupported Costs	(13,701)
- Less: Costs Outside the Award Period	<u>(24,480)</u>
= Adjusted Allowable Reported Costs	607,546
- Less: NEA Disbursement	(30,000)
- Less: MSUB 1:1 Match	<u>(30,000)</u>
= <b><i>MSUB Overmatch</i></b>	<b><u><u>\$ 547,546</u></u></b>



October 11, 2018

Ron Stith, Inspector General  
National Endowment for the Arts  
400 7th St. SW  
Washington, DC 20506

Dear Mr. Stith,

We are in receipt of and have carefully reviewed the draft report of the results of the limited scope audit of our organization, Mainstreet Uptown Butte.

Thank you for the opportunity to respond to the desk audit of our accounting practices and the nine findings and eight recommendations.

A year into this review process, we have learned a great deal about NEA rules that will be useful in correcting any incongruities with future federal grant projects.

Our misunderstandings of some requirements may be reflected in questioned costs or match costs in this audit, and we know we can provide additional documentation of the bulk of these items. We welcome this opportunity to submit additional appropriate documentation of costs or match costs reported in this desk audit, and will request guidance or technical assistance from NEA to determine the preferred format for documenting match and other costs to ensure their adequacy for audit purposes.

We will apply ourselves to take corrective actions for the findings presented and described to us. Most are a result of our mistaken idea that it would be a good practice to show large matches for NEA federal grants we have received. In addition, with only one paid staffer and part-time accounting support that suffered from staff changes during the timeframe of this audit, we have concerns that our responses may reflect our inexperience with NEA and misunderstanding of requests from the auditor.

#### Summary Audit Results

**1. MSUB reported unallowable costs to its total outlays for two NEA awards.**

This finding relates to the implication that we have used NEA grant funds to purchase alcohol, which is not the case. We are fully aware of restrictions on the use of federal funds to purchase alcohol. However, our audit reporting made the mistake of including **total** project expenses of the two festival budgets **as match**. We use separate funds



earned on site from selling beer and wine during the event to festival attendees to pay for the alcohol we sell as a fundraiser. We inadvertently included on-site funds that are used for alcohol purchases as part of the overall match but they are distinctly separate from direct funding from the NEA. Alcohol is sold on the site as a fundraiser and is paid for by *on-site sales*, not by any direct NEA or other federal funds. Our accounting assistance did not make this distinction clear in our audit reporting.

**Technically, however, since we claimed the balance of the project budget as the match in error, we concur that this amount should be deducted from the matching funds.**

***Corrective action*** -- MSUB will develop policies and procedures to ensure only allowable and accurate costs are reported as match to future NEA awards. We will exclude alcohol purchases from any match claims in future grant award reporting.

**2. MSUB did not report actual costs in its financial management system for one NEA Award.**

**While we concur that our cash-based fiscal management system does not accurately reflect our expenses, MSUB stands ready to supply requested supporting documentation for \$17,657 from 2015, or recommend that matching funds be reduced by this amount, if appropriate.**

For a variety of reasons, when we look back over five years there are inconsistencies in our financial records, largely due to accounting staff changes. We are a small non-profit organization without the benefit of a full-time accounting staff and this problem has been exacerbated over time by the loss of institutional memory due to retirements, medical problems and staff turnover of the shared staff of the nonprofits we collaborate with. QuickBooks record keeping for financial management didn't match the requirements of class coding expected by the auditor.

***Corrective action*** -- MSUB will include having professional accounting staff with knowledge of federal reporting and tracking rules before accepting any future NEA awards. Our QuickBooks class codes will be defined to match reporting requirements expected by the NEA.

**3. MSUB did not report actual costs on its Federal Financial Reports (FFR) for three awards.**



Errors in cost reporting stem from a misunderstanding of the time period to report costs during this audit process, as well as lack of class coding that defined costs by funding sources.

**While we concur that our FFRs were inaccurate, the reports were filed in good faith with the best knowledge available to program staff at the time. The MSUB staffer may have misunderstood the documentation requirements requested by the auditor, and the organization does have documentation for \$109,296 in questioned amounts available. Due to the fact that this is the organization's first audit experience with a federal agency, requests for information may not have been answered adequately due to this misunderstanding. We urge NEA to allow this more detailed documentation to be submitted.**

***Corrective action*** -- Any future FFR will be completed with the assistance and concurrence of professional accounting staff to avoid any inaccuracies.

***4. MSUB did not maintain adequate documentation to support costs charged to three awards.***

**We do not concur with this finding because MSUB *does* have documentation of costs, but has apparently misunderstood requests from the auditor.** While financial documentation could be better organized, especially for one grant project that was completed almost four years ago, it is available, although details were not be apparent in QuickBooks files. We urge NEA to allow this documentation to be submitted to document our costs charged to these awards or match reported.

Costs shown outside the grant period from the over-reporting of match can be removed from the reported match.

***Corrective action*** -- We will take steps to adequately document any expenses associated with grant awards, especially for matching funds, in any future NEA grant projects.

***5. MSUB reported costs outside the period of performance for one NEA Award.***

The NEA period of performance period was much shorter than the project period, and this caused a misunderstanding on our part. Again in our zeal to overmatch the NEA awards, we reported *matching* expenses that were beyond the grant period of June to August or September. *The actual direct NEA grant funds were expensed during the grant period as required.* **While we concur that matching costs were reported**



**outside the period of performance**, the folk festivals are year-long projects that require expenditures from July through the following June.

**Corrective action** -- *We intend to establish policies and procedures to ensure only costs incurred during the period of performance are reported on the final reports. This will also apply to costs shown as required match.*

**6. MSUB did not separately identify costs by award in its financial management system.**

**We concur that our financial management system can be improved.** MSUB established a separate bank account for the projects receiving NEA funding, but did not have the experience or knowledge to establish related class codes in its QuickBooks system to allow auditors to identify costs by award in the financial management system. This error will be corrected in any future accounting of federal awards.

**Corrective action** -- *We intend to take steps through our accounting procedures, to develop written policies and implement procedures to ensure that each Federal award and associated expenses are separately identifiable in our financial system.*

**7. MSUB did not submit the required FFR and the Final Descriptive Report (FDR) within 90 days from the end of the period of performance for one award.**

**We concur that the FFR for the award was filed late. The one-person staff of the non-profit was hit with a catastrophic health event that caused time loss, and we were unaware that we could ask for a time extension to file the report.** When the staffer returned to work, the report was completed as soon as he could physically produce it.

**Corrective action** -- *We intend to develop written policies and implement procedures to ensure that final reports are submitted on time in any future NEA grant either by program staff or a designated report preparer on the accounting staff.*

**8. MSUB 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.**

**We concur that we have work to do to bring all of our policies and procedures into compliance with federal reporting requirements**, including our debarment screening. Performers and other artists were assumed to be screened through other



processes such as VISA applications or contracts to perform elsewhere and this was an oversight in our due diligence to bring quality traditional performers to grace our stages.

**Corrective action** -- *We have developed written policies and will implement procedures to ensure that contractors and recipients are checked for debarment or suspension from receiving Federal assistance before payment or award of Federal funds.*

**9. MSUB did not have written policies and procedures for managing Federal awards.**

**We concur that our written policies and procedures need improvement to insure compliance with federal reporting requirements.** Because federal funds are not a large part of our annual budget, this element was overlooked under the false understanding that our policies and procedures were adequate.

**Corrective action** -- *MSUB pledges to develop written policies and procedures specifically geared to manage future Federal awards.*

**RECOMMENDATIONS**

**1. Develop policies and implement procedures to ensure only allowable and accurate costs are charged to NEA awards.**

*MSUB concurs and will develop policies and implement procedures to ensure that allowable and accurate costs are charged to NEA awards.*

**2. Establish written policies and implement procedures to ensure actual costs are reported on its FFRs. We also recommend that MSUB provide any additional supporting documentation for the \$17,657 in questioned costs to the NEA for review.**

*MSUB concurs and will carefully establish and implement policies that ensure actual costs are reported in the financial management system, and resulting FFRs. MSUB will provide additional supporting documentation for the questioned costs for the NEA to review.*

**3. Develop policies and implement procedures for record retention in accordance with 2 CFR 200 Uniform Guidance and the NEA General Terms. We also recommend that MSUB provide any additional supporting documentation for the \$109,296 in questioned costs to the NEA for review.**



*MSUB concurs and will develop and implement procedures for record retention in accordance with 2CFR 200 Uniform Guidance and the NEA General Terms. MSUB will also provide all more detailed supporting documentation for questioned costs for the NEA to review.*

**4. Establish written policies and implement procedures to ensure only costs incurred during the period of performance are reported on the final reports. We also recommend that MSUB provide any additional supporting documentation for the \$24,480 in questioned costs to the NEA for review.**

*MSUB concurs and will establish and implement policies and procedures to ensure that only costs incurred during the period of performance are reported on final reports to the NEA. MSUB will also provide supporting documentation for questioned costs for the NEA to review.*

**5. Develop written policies and implement procedures that ensure each Federal award and associated expenses are separately identifiable in its financial system.**

*MSUB concurs and is developing and implementing policies and procedures to ensure that each federal award and associated expenses are separately identifiable in our financial management system.*

**6. Develop written policies and implement procedures to ensure that final reports are submitted on time.**

*MSUB concurs and will develop and implement written policies and procedures to ensure that final reports are submitted on time. In the case of emergency, MSUB will request a time extension to file final reports.*

**7. Develop written policies and implement 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.**

*MSUB concurs and is developing written policies and implement procedures to ensure that a standard procedure for checking debarment of vendors receiving federal funds prior to payment.*

**8. Develop written policies and implement procedures for the management of Federal awards.**



*MSUB **concurs** and is developing written policies and procedures for management of federal awards, and will focus on this area in the coming months to ensure future compliance.*