



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

LIMITED SCOPE AUDIT REPORT

**ON SELECTED
NEA GRANTS TO**

**PENNSYLVANIA COUNCIL ON THE ARTS
Harrisburg, PA**

REPORT NO. LS-09-01

April 3, 2009

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INTRODUCTION

BACKGROUND

The Pennsylvania Council on the Arts (PCA) is a state agency in the Office of the Governor, created by legislative act of the Pennsylvania General Assembly in 1966 with its headquarters located in Harrisburg. The PCA's mission is to foster the excellence, diversity, and vitality of the arts in Pennsylvania. The PCA accomplishes its mission through a combination of grants to the arts; partnerships and initiatives, technical assistance to partners and applicants and serving as a resource for arts-related information.

OBJECTIVE AND SCOPE

The objective of this limited scope audit was 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;
- The required match was met on NEA grant funds; and
- The objectives for which the grants were awarded were actually accomplished.

Our audit was conducted in accordance with the "Government Auditing Standards," 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, competent, and relevant evidence to afford a reasonable basis for our findings and conclusions.

During the period under review, the PCA had nine National Endowment for the Arts (NEA) grants active with awards totaling \$4,088,800 (see Appendix A). Our audit was limited to three grants in which NEA funds had been drawn down and costs had been reported. The NEA is the federal oversight agency for the PCA.

PRIOR AUDIT COVERAGE

During the past five years, the NEA Office of Inspector General (OIG) has not issued any audit reports on Federal grants awarded to the PCA. However, the PCA was included in the State of Pennsylvania's OMB Circular A-133 audit for year ended June 30, 2007. There were no findings indicated in the State's A-133 audit report that were applicable to the PCA. The State's financial statements were jointly audited by the Department of the Auditor General and Ernst & Young, LLP, an independent public accounting firm, for the year ended June 30, 2007. The independent audit resulted in an unqualified (clean) opinion on the financial statements.

RESULTS OF AUDIT

Our audit concluded that the PCA fulfilled the financial and matching requirements and met the objectives for which the grants were awarded. PCA's financial management system is administered in conjunction with the Commonwealth of Pennsylvania's Office of the Budget/Central Services Comptroller. The review of the documentation provided, indicated that the PCA adequately tracked grant costs. However, we found that the PCA did not maintain adequate documentation on subrecipients and inaccurately reported expenses on its Final Descriptive Report (FDR). In addition, we found that the PCA did not have a completed Section 504 self-evaluation on file and did not consistently submit final report packages timely.

FINANCIAL REPORTING

As indicated above, the PCA's financial management system, adequately accounted for grant costs reported on the final Financial Status Report (FSR). During our review of the financial documentation provided by the Office of Administrative Services, we were able to reconcile grant costs and determine that those costs were reasonable, allocable and allowable. However, our review of costs reported by the PCA's subrecipients and then reported on the FDR found the following deficiencies:

1. *The Statistical Section - Totals Page could not be reconciled.* Several sections of the report could not be reconciled. For example, the FDR for Grant No. 06-6100-2026 noted "Other NEA" costs, Part A as \$379,712, which did not equal Part B Columns 2 through 6, which was listed as \$292,412. Also, Part B Column 1-5 "total expenses" was reported as \$691,200 instead of the grant amount of \$788,500, as required.
2. *The Statistical Section – Detail had duplicate and incomplete financial data.* In some cases, duplicate financial data (expenses, income and in-kind) was listed for subrecipients, which received more than one award. In other cases, no financial data was reported. Therefore, expenses for subrecipients were both over and under reported on the FDR. We also found that the PCA, in some cases, reported subrecipient's financial data from the previous fiscal year.

The NEA's General Terms and Conditions for Grants and Cooperative Agreements to Organizations (General Terms) refers to the *Financial Management Guide for State & Local Governments*, which states the following:

Recipients must have accounting structures that provide accurate and complete information about all financial transactions related to each Federally-supported project.

The PCA staff explained that the duplicate and incomplete data may be the result of inaccurate data retrieved from the electronic file that PCA uses to collect data from the subrecipients. In addition, they stated that the instructions for completing the FDR are unclear. The staff also explained that, in some cases, the recipient data was reported from the previous year's grant because of timing issues. Subrecipients may not have submitted their current financial data by the time the NEA final reports are due. During our site visit, the Grants and Fiscal Officer, was working with the NEA state and regional specialist to correct the FDR. PCA should implement procedures to ensure reports are reviewed for accuracy and completeness before submitting to the NEA.

FINAL REPORT PACKAGES

The PCA was late in submitting its FSRs and FDRs for the following selected grants:

Grant No. 06-6100-2026 FDR Due: 11/29/07 Received: 02/08/08
Grant No. 06-5500-7122 FDR Due: 03/30/08 Received: 03/05/09
Grant No. 06-4557-7058 FSR Due: 09/28/06 Received: 11/01/06
Grant No. 05-6100-2018 FDR Due: 03/31/07 Received: 07/12/07

The NEA's *General Terms* states:

A Final Report package including the Final Descriptive Report (FDR), the Financial Status Report (FSR), and any required work products(s) must be submitted no later than 90 days after the project period end date.

The PCA needs to ensure that final report packages are accurate and submitted timely.

RECORDS RETENTION

During our review, we found that the PCA did not adequately maintain subrecipients' documentation. Some subrecipients' files lacked pertinent documentation such as applications, final reports and financial data. In some files, we found duplicate forms or documentation from other grants, which had been misfiled. As noted in the NEA's *General Terms*:

All grantees and cooperators are expected to maintain a state of "audit readiness" (i.e., to have records pertinent to the financial and programmatic aspects of an award readily accessible for audit...)

You must keep subgrantees' report submissions on file for three years from the date you submit your Financial Status Report to the NEA.

The PCA needs to ensure that subrecipients' documentation is complete and maintained for a period of three years from the date of its FSR submission to the NEA.

SECTION 504 SELF-EVALUATION

The PCA did not have the required Section 504 self-evaluation on file. As noted in NEA's *General Terms*, "A Section 504 self-evaluation must be on file at your organization." A *Section 504 Self-Evaluation Workbook*, which can be completed online, is available at www.arts.gov/about/504Workbook.html.

Section 504 of the Rehabilitation Act of 1973, as amended, provides for equal opportunity to enter facilities and participate in programs and activities. It does not require that every part of every facility or program be accessible. The important considerations are that individuals with disabilities have the same opportunities in employment, the same opportunities to enter and move around in facilities, the same opportunities to communicate and the same opportunities to participate in programs and activities as non-disabled people.

Further, it is important to offer employment, programs, and services in settings that are integrated rather than to segregate individuals with disabilities with special programs.

We recommended that the PCA conduct a Section 504 self-evaluation. The PCA did complete and submit a Section 504 self-evaluation prior to the issuance of this report. Therefore, no further action on this finding is necessary.

EXIT CONFERENCE

An exit conference was held with the PCA's Deputy Executive Director and the Grants & Fiscal Officer on November 21, 2008. Subsequent to our site visit, a telephone exit conference was held with the Executive Director on December 11, 2008. PCA officials concurred with our findings and recommendations.

RECOMMENDATIONS

We recommend that the PCA:

1. Implement procedures to ensure that the FDRs are accurate and properly completed. Those procedures should ensure that the employees, who prepare the FDRs, are familiar with the NEA reporting requirements.
2. Implement procedures to ensure that the Final Report packages are submitted within the required 90 days after the period of support end date.
3. Implement procedures to ensure that PCA maintains a state of audit readiness, including maintaining subrecipients' documentation for a period of three years from the date of its FSR submission to the NEA.
4. Implement procedures to ensure that subrecipient data reported on the FDRs, retrieved electronically or in hard copy format, is accurate and current.

PENNSYLVANIA ARTS COUNCIL
SCHEDULE OF GRANTS SELECTED FOR AUDIT

<u>Grant Amount</u>	<u>Grant Number</u>	<u>Grant Period</u>	<u>Reported Costs</u>	<u>Project Description</u>
\$788,500	06-6100-2026*	07/01/06 – 08/31/07	\$ 5,416,588	Purpose was to support partnership agreement activities.
\$25,000	06-5500-7122*	07/01/06 - 12/31/07	\$ 100,000	Purpose was to support continuation of folk arts support centers.
\$8,000	06-4557-7058*	09/01/05 - 06/30/06	\$ 20,000	Purpose was to support state participation in Poetry Out Loud National Recitation Contest and State level finals.
\$731,000	05-6100-2018*	07/01/05 - 02/31/06	\$ **	Purpose was to support partnership agreement activities.
\$35,000	05-5500-7111	01/01/06 - 06/30/07	\$ **	Purpose was to support regional folk arts support centers.
\$759,700	04-6100-2011	07/01/04 - 12/31/05	\$ **	Purpose was to support partnership agreement activities.
\$30,000	04-5500-3079	09/01/04 - 12/31/05	\$ **	Purpose was to support regional folk arts support centers.
\$916,600	08-6100-2001	07/01/08 - 12/31/09	\$ ***	Purpose was to support partnership agreement activities.
\$794,700	07-6100-2012	07/01/07 - 12/31/08	\$ ***	Purpose was to support partnership agreement activities.

Awards for the nine grants totaled \$4,088,800.

* The final reports for these grants were submitted after the required 90-day deadline.

** These grants were not reviewed due to time limitations.

*** These grants were not selected for audit since no costs were reported under the two grants.