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**Limited Scope Audit Report on Selected Awards to
The John F. Kennedy Center for the Performing Arts**

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INTRODUCTION

BACKGROUND

The John F. Kennedy Center for the Performing Arts (Kennedy Center), located in Washington, D.C., is the nation's performing arts center, and is mandated by Congress to be a leader in national performing arts education policy and programs. Performance programs include theatre productions, concerts, ballets, operas, festivals, and special events. Education programming includes developing and presenting original and innovative performing arts and educational programs for children, youth, families, adults, and educators designed specifically to foster an appreciation and understanding of the performing arts. The Kennedy Center's mission is to increase opportunities for all people to participate in and understand the arts. To fulfill that mission, it strives to commission, produce, and present performances reflecting the highest standards of excellence and diversity, and to make those performances accessible to the broadest possible audience through arts education.

OBJECTIVES, SCOPE AND METHODOLOGY

We conducted a limited scope audit of the Kennedy Center for the period of January 1, 2014 through December 31, 2016. Limited scope audits involve a limited review of financial and non-financial 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:

- The Kennedy Center'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)*;
- The Kennedy Center fulfilled the financial and compliance requirements as set forth in NEA grants and cooperative agreements (awards);
- The total project costs reported under the awards were reasonable, allocable, and allowable; and
- The required match was met on NEA awards.

The limited scope audit was conducted in accordance with applicable U.S. Government Accountability Office (GAO) *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 the Kennedy Center'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 awards issued to the Kennedy Center which had activity during the audit scope period. During the period under review, January 1, 2014 through December 31, 2016, the Kennedy Center had seven NEA awards. We judgmentally selected the following grants and cooperative agreements for review:

Grant/Cooperative Agreement No.	Original Award Amount	Adjusted Award Amount	Total Costs Reported
14-5400-7059	\$ 65,000	\$ 65,000	\$1,411,850
15-5100-7052	100,000	100,000	231,332
DCA 2015-12	300,000	300,000	354,681
DCA 2015-15	250,000	640,000	N/A
16-3100-7145	70,000	70,000	740,159
DCA 2016-20	2,900,000	2,900,000	N/A
TOTAL	\$3,685,000	\$4,075,000	\$2,738,022

NEA Grant #14-5400-7059 was a Presenting and Multidisciplinary award which required one-to-one matching. The grant was awarded to support the Kennedy Center’s “ONE MIC: Hip-Hop Culture Worldwide” Festival, a three week event primarily held at the Kennedy Center.

NEA Grant #15-5100-7052 was an Arts Education award which required one-to-one matching. The grant was awarded to support the Kennedy Center’s expansion of the Any Given Child project to six new school systems. Any Given Child is a collective impact project that maintains and develops arts education opportunities for elementary and middle schools nationwide.

NEA Cooperative Agreement #DCA 2015-12 was an award that did not require matching. The agreement was awarded for the Kennedy Center’s facilitation, coordination, and production of the NEA’s 2016 Jazz Masters Awards Ceremony and Concert, and associated activities.

NEA Cooperative Agreement #DCA 2015-15 is an award which requires one-to-one matching. Turnaround Arts is an arts education program launched by the President’s Committee on the Arts and the Humanities to address common persistent problems found in high-poverty, chronically underperforming schools. The agreement was transferred to the Kennedy Center in June 2016 for management of the Turnaround Arts program, to include the expansion of an early childhood development component.

NEA Grant #16-3100-7145 was a Music award which required one-to-one matching. The grant was awarded to support the JASON+ concert series curated by Jason Moran, Kennedy Center’s Artistic Director for Jazz.

NEA Cooperative Agreement #DCA 2016-20 is an award which does not have a specific match level. However, the Kennedy Center agreed to provide additional, allowable resources necessary to carry out the award successfully. The agreement was awarded to support the Kennedy Center’s management and expansion of the full Turnaround Arts program for five additional years (2016-2021).

PRIOR AUDIT COVERAGE

The Kennedy Center was subject to the audit requirements of OMB Circular A-133 (Single Audit) and 2 CFR 200 (Uniform Guidance). During the past five years we have not issued any audit reports on Federal grants awarded to the Kennedy Center. As of our site visit on May 15, 2017, the most recent independent Single Audit report was issued by BDO USA, LLP with an unmodified (clean) opinion for the year ended October 2, 2016. That audit determined that the Kennedy Center complied with all material aspects of 2 CFR 200. A review of the two prior annual Single Audits also showed unmodified opinions.

AUDIT RESULTS

SUMMARY

Our limited scope audit concluded that the Kennedy Center 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 the Kennedy Center complies with OMB and NEA grant requirements. The following are specific deficiencies requiring corrective action:

1. The Kennedy Center's Federal Financial Report (FFR) review process did not allow for accurate, current, and complete disclosure of financial results in accordance with reporting requirements. This resulted in unsupported costs included on the FFR to the NEA for Award #14-5400-7059.
2. The Kennedy Center did not adhere to federal requirements when reporting costs to NEA awards. This resulted in unallowable costs included on FFRs for Awards #DCA 2015-12, #14-5400-7059, and #15-5100-7052.

FEDERAL FINANCIAL REPORT REVIEW PROCESS

The Kennedy Center does not have an adequate review process for verifying costs reported on FFRs. Of the four closed awards under review, we determined that two awards had cost discrepancies between the FFRs and supporting documentation which were identifiable prior to submission of the FFRs.

Awards issued by the 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.*
- **2 CFR 200.327. Financial Reporting:** *Federal awarding agencies must collect financial information via the Federal Financial Report at a frequency required by agency award terms and conditions.*

- *NEA Instructions for Completing the Federal Financial Report states that award recipients must report actual expenditures assigned to the approved project, based on supporting documentation such as invoices, contracts, receipts, checks, transaction reports, and bank statements. Recipients must review accounting and support documentation and report on actual, documented costs on the FFR.*

Per our review of the discrepancies, we identified \$239 in underreported costs for Award #16-3100-7145 and \$9,270 in unsupported costs reported for Award #14-5400-7059. Thus, we will question Award #14-5400-7059 costs of \$9,270. However, if these questioned costs were disallowed for Award #14-5400-7059 the matching requirement would still be met and no refund would be due to the NEA (see our cost calculations on Appendix A).

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

The Kennedy Center concurs with this finding and recommendation (see the Kennedy Center's response on Appendix B).

UNALLOWABLE COSTS REPORTED

The Kennedy Center did not adhere to federal requirements when reporting costs to NEA awards, resulting in unallowable costs included on FFRs. Per 2 CFR 200.403, in order for costs to be allowable they must be necessary and reasonable for the performance of the award, be allocable under these provisions, and conform to limitations or exclusions set forth in these principles or the award documents.

Travel Costs:

During our review, we determined that the Kennedy Center included unallowable travel costs on the FFR for Award #DCA 2015-12. The Kennedy Center was approved to purchase international coach seats for an honoree; however, they purchased first class seats. Per award documentation, the cost difference between coach and first class seats is unallowable. Additionally, we determined during our review that the Kennedy Center included unallowable international travel costs on the FFR for Award #14-5400-7059. This award's approved budget allowed for domestic travel costs only, and no additional approval for international travel was obtained.

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

- **2 CFR 200.474. Travel Costs: (e)(1)** *Airfare costs in excess of the basic least expensive unrestricted accommodations class offered by commercial airlines (i.e., coach seats) are unallowable except when such accommodations are unreasonable or result in additional cost that would offset transportation savings.*
- **NEA General Terms and Conditions: (8)(a)** *The NEA must give written approval for all foreign travel not identified in the award application or revised budget before travel is undertaken.*

During our review, we identified \$126,090 in travel costs reported to the two awards. The Kennedy Center provided support for \$70,535 of travel costs, and elected not to provide support for the remaining \$55,555. Because no support was provided, we were unable to test the costs to determine whether they were allowable. We reviewed the \$70,535 where support was provided and identified \$35,703 in unallowable international travel costs and \$34,832 in allowable travel costs. As a result, we are questioning \$91,258 (\$55,555 untested plus \$35,703 unallowable) in travel costs (see the table below).

A	B	C	D	E	F
Award	Identified Travel Costs	Tested Travel Costs (\$70,535)		Untested Travel Costs (B-C-D)	Questioned Costs (C+E)
		Unallowable	Allowable		
14-5400-7059	\$ 105,876	\$ 33,834	\$ 28,152	\$ 43,890	\$ 77,724
DCA 2015-12	20,214	1,869	6,680	11,665	13,534
Totals	\$ 126,090	\$ 35,703	\$ 34,832	\$ 55,555	\$ 91,258

If these questioned costs were disallowed for both grants the matching requirement would still be met and no refund would be due to NEA (see our cost calculations on Appendix A).

Ticket Costs:

During our review of Award #15-5100-7052, we determined that the Kennedy Center provided attendees of an arts education conference with complimentary tickets to an after-hours musical. The musical was at the Kennedy Center, though not in association with the conference funded by the award. These costs were classified in the financial system as “Marketing, Sales, and Promotion” and included in costs reported on the FFR.

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

- **2 CFR 200.467. Selling and Marketing Costs:** *Costs of selling and marketing any products or services of the awardee (unless allowed under 200.421 Advertising and Public Relations) are unallowable, except as direct costs, with prior approval by the awarding agency when necessary for the performance of the award.*
- **2 CFR 200.421. Advertising and Public Relations:**
 - *The term advertising costs means the cost of advertising media and corollary administrative costs. Advertising media include magazines, newspapers, radio and television, direct mail, exhibits, electronic or computer transmittals, and the like.*
 - *Unallowable advertising and public relations costs include all advertising and public relations costs not specified; costs of meetings, conventions, convocations, or other events related to other activities of the awardee; costs of promotional items and memorabilia, including models, gifts, and souvenirs; and costs designed solely to promote the awardee.*

We determined that complimentary ticket costs for attendance to an unassociated musical are unallowable according to 2 CFR 200. We identified \$3,185 in unallowable ticket purchases in FY 2015 and 2016, which we are questioning. However, if these questioned costs are disallowed

the matching requirement would still be met and no refund would be due to NEA (see our cost calculations on Appendix A).

We recommend that the Kennedy Center establish written policies and implement procedures to ensure that unallowable costs are not included in the reported costs under NEA awards.

The Kennedy Center concurs with this finding and recommendation (see the Kennedy Center's response on Appendix B).

RECOMMENDATIONS

We recommend that the Kennedy Center:

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 policies and implement procedures to ensure that unallowable costs are not included in the reported costs under NEA awards.

Breakdown of Award Calculations

Grant No. 14-5400-7059 – ONE MIC International Hip Hop Festival

Total Reported Costs	\$1,411,850
- Questioned Costs: Financial Reporting	(9,270)
- Questioned Costs: Unallowable	<u>(77,724)</u>
= Allowable Reported Costs	1,324,856
- NEA Share of Allowable Reported Costs	<u>(65,000)</u>
= Kennedy Center Costs	1,259,856
- Match Requirement	<u>(65,000)</u>
= Kennedy Center Costs Exceeding Match Requirement	\$1,194,856

Grant No. 15-5100-7052 – Any Given Child

Total Reported Costs	\$ 231,332
- Questioned Costs: Unallowable	<u>(3,185)</u>
= Allowable Reported Costs	228,147
- NEA Share of Allowable Reported Costs	<u>(100,000)</u>
= Kennedy Center Costs	128,147
- Match Requirement	<u>(100,000)</u>
= Kennedy Center Costs Exceeding Match Requirement	\$ 28,147

DCA 2015-12 – Jazz Masters 2016

Total Reported Costs	\$ 354,681
- Questioned Costs: Unallowable	<u>(13,534)</u>
= Allowable Reported Costs	341,147
- NEA Share of Allowable Reported Costs	<u>(300,000)</u>
= Kennedy Center Costs	41,147
- Match Requirement	<u>(0)</u>
= Kennedy Center Costs Exceeding Match Requirement	\$ 41,147

Grant No. 16-3100-7145 – JASON+ Concert Series

Total Reported Costs	\$740,159
+ Underreported Costs	<u>239</u>
= Allowable Reported Costs	740,398
- NEA Share of Allowable Reported Costs	<u>(70,000)</u>
= Kennedy Center Costs	670,398
- Match Requirement	<u>(70,000)</u>
= Kennedy Center Costs Exceeding Match Requirement	\$600,398

September 11, 2017

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

Dear Mr. Stith:

On behalf of the John F. Kennedy Center for the Performing Arts (the Center), I would like to thank you for the work you and your staff has done in performing a limited scope audit of the Center. We found our interaction with your staff to be productive and informative.

The following comments represent the Center's responses to the draft report presenting the results of the limited scope audit performed by the National Endowment of the Arts Office of Inspector General (NEA OIG).

Finding 1: The Kennedy Center's Federal Financial Report (FFR) review process did not allow for accurate, current, and complete disclosure of financial results in accordance with reporting requirements. This resulted in unsupported costs included on the FFR to the NEA for Award #14-5400-7059.

The Center concurs with this finding. The Center notes that the \$9,270 of unsupported cost share that was noted by the NEA OIG was a result of a transposition error made when the total expenses were being compiled for purposes of the FFR. The Center also notes that no funds are due back to the NEA as the cost share pool for this grant exceeded the required amount by \$1,194,856.

Finding 2: The Kennedy Center did not adhere to federal requirements when reporting costs for NEA awards. This resulted in unallowable costs included in FFRs for Awards #DCA 2015-12, #14-5400-7059, and #15-5100-7052.

The Center concurs with this finding. The Center does not concur that the \$3,185 of ticket costs questioned by the NEA OIG for award #15-5100-7052 were for a show that was unrelated to the program. The conference that is attended by participants in the Any Given Child program that this award supported aims to help site representatives learn about and understand quality arts so that they have a strong foundation to aid in the development of arts education programs at their home site. This includes providing examples of quality art, achieved, in part, by attendance of a show. The Center also notes that no funds are due back to the NEA as the cost share pool for this grant exceeded the required amount by \$28,147.

Recommendation 1: Establish written review policies and implement procedures that allow for accurate, current, and complete disclosure of financial results in accordance with reporting requirements.

The Center concurs with this recommendation.

Recommendation 2: Establish written policies and implement procedures to ensure that unallowable costs are not included in reported costs under NEA awards.

The Center concurs with this recommendation.

Thank you once again for your thoughtful review of the Center's programs and NEA's continued support of the Arts. As noted during the audit, the Center continues to maintain the highest standards and controls over its federal expenditures. Of the \$535,000 in federal funds awarded, no funds were required to be returned. Additionally, the Center continues to substantially exceed its cost sharing requirements to the NEA as noted by the audit. Accordingly, the Center provided \$2,203,022 in cost share toward its \$535,000 requirement; an excess of \$1,968,022. As such, after adjustments for the findings noted above are considered, the Center continues to maintain excess cost share of \$1,864,548.

Thank you once again for your consideration and continued support.

Sincerely,

A handwritten signature in black ink that reads "Lynne Pratt". The signature is written in a cursive style with a large initial "L" and "P".

Lynne Pratt
CFO