



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

**Limited Scope Audit on Selected Awards to  
South Arts, Inc.  
Atlanta, Georgia**

**Report No. LS-19-04**

**March 22, 2019**

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# INTRODUCTION

## BACKGROUND

South Arts was founded in 1975 to advance southern vitality through the arts. South Arts works in partnership with the state arts agencies of Alabama, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, and Tennessee. South Arts' goals are to: support artists in the South; connect artists with resources that will increase opportunities for success; advance impactful arts-based programs; communicate and empower the arts in the south; and secure and deploy resources dedicated to the mission.

## OBJECTIVES, SCOPE AND METHODOLOGY

We conducted a limited scope audit of South Arts for the period of 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:

- South Arts' 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 Partnership Agreements (General Terms)*;
- South Arts fulfilled the financial and compliance requirements, including cost share/matching, set forth in NEA awards; and
- Total project costs reported under the awards were reasonable, allocable, and allowable; including cost share/matching set forth in its 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 South Arts' 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 South Arts which had activity during the audit scope period. During this period, South Arts had seven awards open and/or closed. For the scope of this audit, we judgmentally selected and reviewed three of the seven awards in which NEA funds had been drawn down and costs had been reported. 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>
15-6100-2061	7/1/2015 – 5/31/2017	\$1,420,230	\$2,829,065
15-5600-7001	7/1/2015 – 7/31/2017	100,000	203,289
16-6100-2060	7/1/2016 – 12/31/2017	1,445,000	3,204,287
<b>TOTAL</b>		<b>\$2,965,230</b>	<b>\$6,236,641</b>

NEA Award No. 15-6100-2061 was a State & Regional award which required a one-to-one cost share/matching. South Arts received two amendments that increased the award by \$22,730. These amendments were not subject to cost share/matching. South Arts also received two additional amendments to extend the period of performance. The award was to support Partnership agreement activities such as: Regional Arts Plan Priorities, Regional Arts Touring Program, Leadership Exchange in Arts and Disability Conference, the NEA 50<sup>th</sup> anniversary video production, and the support services meeting entitled *Readiness and Resiliency: Advancing a Collaborative and National Strategy for the Arts in Times of Emergencies*.

NEA Award No. 15-5600-7001 was an International award which required a one-to-one cost share/matching. The award was to support a program to showcase performers of American traditional and jazz music to international arts presenters in established and emerging markets from Europe, Africa and Asia.

NEA Award No. 16-6100-2060 was a State & Regional award which required a one-to-one cost share/matching. The award included \$6,000 that was not subject to cost share/matching. South Arts received an amendment to extend the period of performance. The award was to support Partnership agreement activities such as: Regional Plan priorities, the NEA Regional Touring Program, Folk Partnership, Accessibility Professional Development, and Creative Connects Roundtables.

## **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 South Arts. As of our site visit on September 10, 2018, the most recent issued audit report of South Arts was for the fiscal year ended June 30, 2017. The audit was conducted by Mauldin & Jenkins, LLC. In its opinion, South Arts' financial statements present fairly, in all material respects, the financial position of South Arts. South Arts was subject to the audit requirements of OMB Circular A-133 and 2 CFR 200, Subpart F (Audit Requirements) in which no significant audit findings were found.

## **AUDIT RESULTS**

### **SUMMARY**

Our limited scope audit concluded that South Arts generally did not comply with the financial management system and recordkeeping requirements established by the OMB and NEA. While performance requirements were generally satisfied, we identified multiple financial management and internal control areas requiring improvement to ensure that South Arts complies with OMB and NEA award requirements as follows:

1. South Arts reported unallowable costs on its Federal Financial Reports (FFRs) for two NEA Awards.
2. South Arts reported duplicate costs on its FFR for one NEA award.
3. South Arts did not report actual costs on its FFRs for two NEA awards.
4. South Arts did not maintain adequate documentation to support costs charged to three NEA awards.
5. South Arts did not maintain current debarment and suspension policies and procedures.
6. South Arts did not comply with Federal requirements related to record retention.
7. South Arts did not have policies and procedures for the management of Federal awards.

## **FINANCIAL MANAGEMENT**

### **FEDERAL FINANCIAL REPORTING**

South Arts reported unallowable costs on its FFRs for NEA Award Nos. 15-6100-2061 and 16-6100-2060. South Arts also reported duplicate costs on its FFR for NEA Award No. 15-5600-7001. Lastly, South Arts did not report actual costs on its FFRs for NEA Award Nos. 15-6100-2061 and 16-6100-2060. Specific details of these deficiencies are presented below.

#### *UNALLOWABLE COSTS*

During the review, we identified alcohol and bartender costs reported on the FFR for NEA Award Nos. 15-6100-2061 and 16-6100-2060 totaling \$3,883.80, and \$6,549.13.

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 200.302 (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.

South Arts did not have policies and procedures in place to ensure only allowable costs were charged to NEA awards. Reporting unallowable costs 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 costs totaling \$10,433. (*See Appendix A*)

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

We also recommend that the NEA disallow unallowable alcohol and bartender costs totaling \$10,433.

**Grantee's Response:** South Arts concurs with this finding and recommendation. *(See Appendix B)*

### *DUPLICATE COSTS REPORTED*

South Arts reported duplicate costs on its FFR for NEA award No. 15-5600-7001. Specifically, South Arts charged hotel and food costs to the NEA portion of the award, totaling \$8,206.87. Based on our review of the supporting documentation, we determined that South Arts duplicated costs by charging the same food (\$2,172.55) and hotel (\$6,034.32) costs separately to the cost share/matching portion of the award, totaling \$8,206.87.

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

- **2 CFR 200.302 Financial Management , states in part:**
  - **(a).** 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.
  - **(b).** The financial management system of each non-Federal entity must provide for the following:
    - (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.
    - (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.

South Arts did not have policies and procedures in place for monitoring Federal awards to ensure costs reported to the NEA were accurate. Reporting duplicate costs could result in failure to meet

the required cost share/matching amount, resulting in a potential refund to the NEA. Thus, we are questioning duplicate costs totaling \$8,207. (*See Appendix A*)

We recommend South Arts develop policies and implement procedures for monitoring Federal awards to ensure accurate costs are reported.

We also recommend the NEA disallow duplicate costs totaling \$8,207.

**Grantee's Response:** South Arts concurs with this finding and recommendation. (*See Appendix B*)

### *ACTUAL COSTS NOT REPORTED*

Based on our review of the FFRs and general ledgers, we determined that South Arts did not report actual costs on some of its FFRs. Specifically, for NEA Award No. 15-6100-2061, South Arts understated costs on its FFR by \$158,806 and for NEA Award No. 16-6100-2060, South Arts overstated costs on its FFR by \$221,487.

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.
- ***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.

South Arts did not have written policies and procedures to ensure actual costs were reported on its FFRs. Failure to report actual costs 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. 16-6100-2060 we are questioning overstated costs totaling \$221,487. (*See Appendix A*).

We recommend that South Arts establish written policies and implement procedures to ensure actual costs are reported on its FFRs. We also recommend that South Arts provide any additional supporting documentation for the \$221,487 in questioned costs to the NEA for review.

We recommend the NEA request and review any additional supporting documentation for the overstated costs totaling \$221,487 and determine allowability.

**Grantee's Response:** South Arts concurs with this finding and recommendation. (*See Appendix B*)

## **UNSUPPORTED COSTS**

South Arts did not maintain adequate documentation to support costs charged to NEA Award Nos. 15-6100-2061, 15-5600-7001, and 16-6100-2060. South Arts failed to provide 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 for the following instances:

**Award No. 15-6100-2061.** We found six instances of unsupported partnership fees, administrative overhead, salary, and consultant costs totaling \$93,612, which we are questioning. (*See Appendix A*)

**Award No. 15-5600-7001.** We found seven instances of unsupported consultant costs, salary, and travel costs totaling \$15,210, which we are questioning. Without additional documentation, a potential refund could be due to the NEA. (*See Appendix A*)

**Award No. 16-6100-2060.** We found six instances of unsupported partnership fees, administrative overhead, salary, and consultant costs totaling \$96,289, which we are questioning. Without additional documentation, a potential refund could be due to the NEA. (*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.
- **2 CFR 200.430(i)(1)(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.
- **NEA *General Terms. Record Retention*** states: Grantees must maintain financial records, supporting documents, statistical records, and all other records pertinent to an award according to the provisions outlined in 2 CFR 200.333, as applicable.

South Arts officials indicated that they were unable to explain why unsupported costs were included on the FFRs due to staff turnover. Including unsupported costs on the FFRs could result in the failure to meet the required cost share/matching amount, leading to a potential refund due to the NEA. Thus, we are questioning unsupported costs totaling \$205,111.

We recommend South Arts establish written policies and implement procedures for record retention in accordance with 2 CFR 200 Uniform Guidance and NEA *General Terms*. We also recommend that South Arts provide any additional supporting documentation for the \$205,111 in questioned costs to the NEA for review.

We recommend the NEA request and review any additional supporting documentation for the unsupported costs totaling \$205,111 and determine allowability.

**Grantee's Response:** South Arts is disputing this finding. South Arts stated they need additional information regarding the exact samples that are being referenced so they can appropriately audit and follow-up on each instance.

15-6100-2061: six instances totaling \$93,612  
15-5600-7001: seven instances totaling \$15,210  
16-6100-2060: six instances totaling \$96,289

South Arts requested additional details pertaining to this audit finding. South Arts staff will then need additional time to audit the records. (*See Appendix B*)

**Auditors' Comments:** South Arts was notified of this finding in a preliminary findings memo on September 28, 2018. The notification included the samples selected that resulted in questioned costs. As of March 22, 2019, South Arts has not provided any additional documentation to support questioned costs. Therefore, this finding remains unchanged.

## INTERNAL CONTROLS

### DEBARMENT AND SUSPENSION

South Arts did not maintain current debarment and suspension policies and procedures. Based on our review of South Arts' debarment and suspension policies and procedures, we determined that it referenced outdated guidance. Specifically, South Arts debarment and suspension policies and procedures referenced General Services Administration's "List of Parties Excluded from Federal Procurement of Non-Procurement Programs"; however, the excluded parties list was replaced by Sam.gov in Fiscal Year 2013.

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.

Per South Arts officials, applicants must agree to the Assurance of Compliance and Regulations statement in the application; however, the statement does not address debarment and suspension. South Arts also stated that they do not cross check applicants on any government site for debarment and suspension. Without updated debarment and suspension policies and procedures,

South Arts could have instances where debarred or suspended individuals or companies receive Federal funds.

We recommend that South Arts update its policies and implement procedures for debarment and suspension in accordance with current procurement regulations at Subpart C of 2 CFR Part 180.300.

**Grantee's Response:** South Arts concurs with this finding and recommendation. (*See Appendix B*)

## **RECORD RETENTION POLICY**

South Arts did not comply with Federal record retention requirements. Based on our review of South Arts record retention policies and procedures, we determined that it does not specifically state that Federal award documents must be maintained for at least three years after the submission of the final reports.

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

- **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.

South Arts officials were not aware of the requirement above. 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 South Arts establish written policies and implement procedures for record retention in accordance with 2 CFR 200 Uniform Guidance and NEA *General Terms*.

**Grantee's Response:** South Arts concurs with this finding and recommendation. (*See Appendix B*)

## **MANAGEMENT OF FEDERAL AWARDS**

South Arts did not have policies and procedures for the management of Federal awards. Based on our review of *South Arts Financial Policies and Procedures*, we determined that it did not include procedures for determining the allowability of costs in accordance with publications such as NEA General Terms and the Uniform Guidance; and policies and procedures for documenting Federal awards in its financial system. 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, South Arts could fail to implement award requirements or rely on improper procedures as indicated in the findings discussed above. We recommend that South Arts develop written policies and implement procedures for the management of Federal awards.

**Grantee's Response:** South Arts concurs with this finding and recommendation. (*See Appendix B*)

## RECOMMENDATIONS

We recommend that South Arts:

1. Develop written policies and implement procedures to ensure only allowable costs are charged to NEA awards.
2. Develop policies and implement procedures for monitoring Federal awards to ensure accurate costs are reported.
3. Establish written policies and implement procedures to ensure actual costs are reported on its FFRs. We also recommend that South Arts provide any additional supporting documentation for the \$221,487 in questioned costs to the NEA for review.
4. Establish written policies and implement procedures for record retention in accordance with 2 CFR 200 Uniform Guidance and NEA General Terms. We also recommend that South Arts provide any additional supporting documentation for the \$205,111 in questioned costs to the NEA for review.
5. Update its debarment and suspension policies and procedures in accordance with current procurement regulations such as Subpart C of 2 CFR Part 180.300.
6. Establish written policies and implement procedures for record retention in accordance with 2 CFR 200 Uniform Guidance and NEA General Terms.
7. Develop written policies and implement procedures for the management of Federal awards.

We recommend that the NEA:

1. Disallow unallowable alcohol and bartender costs totaling \$10,433.
2. Disallow duplicate costs totaling \$8,207.
3. Request and review any additional supporting documentation for the overstated costs totaling \$221,487 and determine allowability.
4. Request and review any additional supporting documentation of questioned costs totaling \$205,111 and determine allowability.

## APPENDIX A

### South Arts

#### Breakdown of Award Calculations

##### *Award No. 15-6100-2061 – State & Regional*

Total Reported Costs	\$2,829,065
- Add: Understated FFR Costs	<u>158,806</u>
= Adjusted Costs Reported	2,987,871
Adjusted Costs Reported	2,987,871
-Less: Non-Matching Portion	<u>(22,730)</u>
= Allowable Reported Costs	2,965,141
Allowable Reported Costs	2,965,141
- Less: Unallowable Costs	(3,884)
- Less: Unsupported Costs	<u>(93,612)</u>
= Adjusted Allowable Reported Costs	2,867,645
- Less: NEA Disbursement	(1,397,500)
- Less: South Arts Cost Share/Match	<u>(1,397,500)</u>
= South Arts Overmatched	<u>\$ 72,645</u>
= NEA Disbursement	(1,420,230)
- Less: South Arts' Matching Portion	1,397,500
- Less: South Arts' Non-matching Portion	<u>22,730</u>
= Potential Refund	<u>0</u>

##### *Award No. 15-5600-7001 – International*

Total Reported Costs	\$ 203,289
- Less: Duplicate Costs	(8,207)
- Less: Unsupported Costs	<u>(15,210)</u>
= Adjusted Allowable Reported Costs	179,872
- Less: NEA Adjusted Allowable Costs	<u>(89,936)</u>
= South Arts Adjusted Share of Costs	89,936
= NEA Disbursement	(100,000)
- Less: South Arts' Adjusted Allowable Costs	<u>89,936</u>
= Potential Refund	<u>\$ (10,064)</u>

*Award No. 16-6100-2060 – State & Regional*

Total Reported Costs	\$ 3,204,287
- Less: Overstated FFR Costs	<u>(221,487)</u>
= Adjusted Cost Reported	2,982,800
Adjusted Costs Reported	2,982,800
- Less: Non-Matching Portion	<u>(6,000)</u>
= Allowable Reported Costs	2,976,800
Allowable Reported Costs	2,976,800
- Less: Unallowable Costs	(6,549)
- Less: Unsupported Costs	<u>(96,289)</u>
= Adjusted Allowable Reported Costs	2,873,962
- Less: NEA Adjusted Allowable Costs	<u>(1,436,981)</u>
= South Arts Adjusted Share of Costs	1,436,981
= NEA Disbursement	(1,439,000)
- Less: South Arts' Adjusted Allowable Costs	<u>1,436,981</u>
= Potential Refund	<u>\$ (2,019)</u>



**To:** National Endowment for the Arts  
Office of the Inspector General

**From:** Michael Bosarge  
Director of Finance & Operations

**Date:** February 28, 2019

**Subject:** Response to NEA audit report LS-19-XX

## **FINANCIAL MANAGEMENT**

### **Federal Financial Reporting**

#### **Unallowable Costs**

South Arts confirms there were 2 instances relating to our annual PAE Conference where alcohol related costs were inadvertently included in the SA match portion for grants 15-61-2061 and 16-6100-2060 totaling \$10,433.00.

We have added additional tracking procedures to prevent this from happening moving forward, which started with our PAE Conference that was held in October of 2018. Based on South Art's Match Reports, we still would have made the match without these allocated expenses.

#### **Duplicate Costs Reported**

This pertains to grant #15-5600-7001, which was an International award that South Arts referred to as the Performing Arts Discovery: American Sounds (PADAS) program.

Upon further audit and review from South Arts accounting staff, we conclude that we agree with this finding and that \$8,206.87 expense incurred October 2016 was inadvertently reported in the NEA portion and the South Arts match portion of the award.

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### **Actual Costs Not Reported**

Upon further audit and review from South Arts accounting staff, we conclude that we agree that the amounts listed on the final signed FFR for grants 15-6100-2061 and 16-6100-2060 and the grant matching reports that we provided to the NEA auditor did not contain the same exact amount for the match expenses from SA.

However, in both instances South Arts did provide enough match expenses on the reports to match above the one-to-one match with the NEA funds.

Here is the analysis for each grant:

#### **15-6100-2061:**

NEA Award: \$1,420,230 (\$15,000 non-matching for NEA 50<sup>th</sup> Anniversary Video project)

SA Match: \$1,567,641 (total from audit report provided)

FFR: understated by \$158,806

#### **16-6100-2060:**

NEA Award: \$1,445,000 (\$6,000 non-matching for Creativity Connects Roundtables)

SA Match: \$1,529,800 (total from audit report provided)

FFR: overstated by \$221,487

We are also auditing locally funded match sources that may have been included on the FDR but not in the match reports provided at the time of the onsite audit, this would apply to the \$221,487 discrepancy with grant #16-6100-2060

### **Unsupported Costs**

This finding is being disputed by South Arts. We need additional information regarding the exact samples that are being referenced in this section so we can appropriately audit and follow-up on each instance.

15-6100-2061: six instances totaling \$93,612

15-5600-7001: seven instances totaling \$15,210

16-6100-2060: six instances totaling \$96,289

Please provide additional details pertaining to this audit finding. Once received, SA staff will need additional time to audit the records.

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## **INTERNAL CONTROLS**

### **Debarment and Suspension**

South Arts agrees with this finding and we are in the process of updating our policies & procedures manual to include verbiage on this and have met with grant managers to put procedures in place moving forward.

### **Record Retention Policy**

South Arts agrees with this finding and we are in the process of updating our policies & procedures manual to include specific verbiage to be compliant with 2 CFR 200 Uniform Guidance and NEA General Terms.

### **Management of Federal Awards**

South Arts agrees that we need to add additional verbiage to our policies & procedures manual on management of federal awards. We have sections that pertain to grant agreements (pages 6-9) and purchasing with federal funds (page 15 & 16).

We will be adding a section to this document focusing on guidelines for managing federal awards specific to NEA guidelines posted online via their web-portal for state and regional organizations.

### **South Arts Planned Action Items on Audit Findings**

South Arts is in the process of updating our policies and procedures manual and we are adding an entire section relating to the management of federal awards. This will include pre-qualification protocols for grant recipients such as debarment and suspension policies and document retention policies specific to 2 CFR 200.333 Retention Requirements for Records.

We will complete the required documentation updates to our policy and procedures manual by May 15, 2019 and hold a staff training session by June 30, 2019 to review the updated policies and procedures. We will also hold an in-depth training session with staff involved in any aspect of management of federal grants and sub-grant awards involving NEA funds or matching grant funds from South Arts.

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