



**OFFICE OF INSPECTOR GENERAL**  
**FINANCIAL MANAGEMENT SYSTEM &**  
**COMPLIANCE EVALUATION**

**ON SELECTED**  
**NEA GRANTS TO**

**State Education Agency**  
**Directors of Arts Education**

Dover, Delaware

**REPORT NO. SCE-14-05**

**July 16, 2014**

**REPORT RELEASE RESTRICTION**

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# INTRODUCTION

## BACKGROUND

State Education Agency Directors of Arts Education (SEADAE) was incorporated in 2005 and granted non-profit status in 2006 to develop a nationwide infrastructure of arts education peers in State Departments of Education. SEADAE's membership is open to those persons designated by State Departments of Education as responsible for overseeing arts education policy (Dance, Music, Theatre and Visual Arts) within their state. SEADAE's mission is to support the professional effectiveness of individual members and provide a collective voice for leadership on issues affecting arts education.

## OBJECTIVE AND SCOPE

The objective of this financial management system and compliance evaluation by the National Endowment for the Arts (NEA) Office of Inspector General (OIG) was to determine whether the organization's financial management system and recordkeeping complies with the requirements established by the Office of Management and Budget (OMB) and NEA's *General Terms and Conditions for Grants and Cooperative Agreements to Organizations (General Terms)*.

The review was conducted in accordance with the Council of the Inspectors General on Integrity and Efficiency *Quality Standards for Inspections and Evaluations*, as applicable. Accordingly, we included such tests of records and other procedures that were considered necessary under the circumstances. The Standards require that we obtain sufficient, competent and relevant evidence to support a reasonable basis for our findings and conclusions.

During the period under review, SEADAE had seven NEA grants opened or closed within the last three years, with awards totaling \$305,000. We judgmentally selected and reviewed two of the seven grants in which NEA funds had been drawn down and costs had been reported.

The two grants reviewed were as follows:

<b>Grant No.</b>	<b>Original Award Amount</b>	<b>Total Outlays</b>
10-5100-8257	\$75,000	\$210,120
11-5100-8233	50,000	265,264
<b>Total</b>	<b>\$125,000</b>	<b>\$475,384</b>

Grant No. 10-5100-8257 was an Arts Education grant in the amount of \$75,000, with a one-to-one matching requirement. The award was to support *Channeling the Change* program.

Grant No. 11-5100-8233 was an Arts Education grant in the amount of \$50,000, with a one-to-one matching requirement. The award was to support professional development which included leadership conferences and webinars.

## **PRIOR AUDIT COVERAGE**

During the past five years, NEA OIG has not issued an evaluation or audit report on Federal grants awarded to SEADAE. SEADAE officials informed us that the organization has never had a financial statement audit performed; however, the organization submits the Internal Revenue Service (IRS) Form 990. The 2012 IRS Form 990 was prepared by AZ Business Consulting (an independent accountant). SEADAE was not subject to the audit requirements of OMB Circular A-133.

## **RESULTS OF EVALUATION**

Our evaluation concluded that SEADAE did not comply with the financial management system requirements established by OMB and NEA for Federal awards. SEADAE did not report accurate costs on its Federal Financial Report (FFR) or maintain adequate supporting documentation for in-kind costs. SEADAE did not maintain written policies and procedures to ensure that contracts are adequately monitored. SEADAE did not have written policies and procedures in place for the management of Federal awards and to ensure that debarred or suspended contractors or recipients did not receive Federal assistance.

## **FINANCIAL MANAGEMENT**

### **IN-KIND (THIRD-PARTY) COSTS**

SEADAE is a network of 43 State Departments of Education employees who are assigned to manage arts education policies and practices for their state. SEADAE does not have a physical location or permanent staff. The Executive Board and the members provide in-kind support and expertise through their respective State Departments of Education for the majority of SEADAE-related activities.

#### **Grant No. 10-5100-8257**

SEADAE did not report actual in-kind costs in its total outlays. SEADAE claimed \$210,120 on its FFR and provided a expenditure listing in the amount of \$222,552, which included \$131,469 of in-kind costs.

We determined that \$108,150 of the in-kind costs charged to the grant were based on an average hourly rate of \$70. We were informed by SEADAE officials that the \$70 is based on the average salaries of SEADAE members and levels of experience. Using the average salary is an acceptable method for estimating project budget costs; however, this is an inappropriate method of reporting project costs. SEADAE did not use the donor's regular rate of pay to determine the value of in-kind services.

OMB's *Uniform Administrative Requirements for Grants and Agreements for Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, Subpart C of 2 CFR Part 215.23 states in part,

**When an employer other than the recipient furnishes the services of an employee, these services shall be valued at the employee's regular rate of pay (plus and amount of fringe benefits that are reasonable, allowable, and allocable, but exclusive of overhead costs), provided these services are in the same skill in which the employee is normally paid.**

SEADAE also included inaccurate costs charged for in-kind services in its total outlays. SEADAE has a contract for project management services to assist in managing its online and in-person professional development activities.

SEADAE claimed \$23,319 (647.75 hours) of in-kind services provided by the contracted project manager. The project manager's invoice for December 2011 indicated a total of 870.25 hours charged for the year, which included 270.25 hours of in-kind services. The invoice had a hand-written notation and approval/acceptance by a SEADAE official indicating that an additional 377.50 hours should be included in the in-kind costs, resulting in duplicate costs charged to the award. Therefore, we are questioning 377.50 hours of in-kind costs charged to the award for project management services in the amount of \$13,590.

As a result of not reporting actual and accurate costs, we are questioning a total of \$121,740 (\$108,150 and \$13,590) reported as in-kind costs. We recommend SEADAE provide documentation to support the actual salary rate of SEADAE members such as check stubs, W2 forms, or payroll ledgers, along with supporting documentation for the additional 377.50 hours of in-kind costs reported for the project manager. Without additional documentation, a potential refund in the amount of \$24,594 could be due to NEA. (*See Appendix I*)

### **Grant No. 11-5100-8233**

SEADAE did not report actual in-kind costs in its total outlays. SEADAE reported total outlays in the amount of \$265,264 on its FFR. SEADAE provided an expenditure listing in the amount of \$282,423, which included \$190,475 of in-kind costs.

We determined that \$165,200 of the in-kind costs charged to the grant were based on an average hourly rate of \$70, as indicated above (see Grant No. 10-5100-8257). As a result of not using the donor's regular rate of pay to determine the value of in-kind services, we are questioning \$165,200 in reported costs. Although we are questioning in-kind salary costs, SEADAE's total costs for the award exceeds the matching requirement. Therefore, we are not requiring any additional documentation to support costs for this grant. (*See Appendix I*)

We recommend SEADAE develop written policies and implement procedures to ensure that actual and accurate costs for in-kind services are reported as required by OMB and NEA.

## **DOCUMENT MAINTENANCE**

SEADAE did not maintain adequate supporting documentation for in-kind costs provided by SEADAE members. SEADAE provided documentation to support the reported in-kind costs for the grants reviewed. The documentation provided for both grants were dated for March 5-7, 2014. The grant period ended December 30, 2011, for Grant No. 10-5100-8257 and December 31, 2012, for Grant No. 11-5100-8233, which was subsequent to the final report submissions.

NEA *General Terms*, Section 16. Record Retention, states:

**You must maintain financial records, supporting documents (such as cancelled checks, invoices, contracts, travel reports, donor letters, in-kind contribution reports, and personnel activity reports), statistical records, and all other records pertinent to an award according to the provisions outlined in OMB Circular A-110 (2 CFR 215), Section 53, or the "Common Rule," Section 1157.42, as applicable. Generally, the retention period is three years from the date the final FFR is filed.**

For Grant No. 11-5100-8233, SEADAE reported \$7,000 of in-kind technology costs in its total outlays. SEADAE provided the Statement of Work (SOW) and an email to support in-kind costs. The SOW was not signed or dated by an authorizing SEADAE official. According to 2 CFR Part 215. 23, all contributions, including third party in-kind, must be verifiable from the recipient's records. As a result, we are questioning in-kind costs in the amount of \$7,000. Although we are questioning in-kind technology costs, SEADAE's total costs for the award exceeds the matching requirement. Therefore, we are not requiring any additional documentation to support costs for this grant. (*See Appendix D*)

We recommend that SEADAE develop written policies and implement procedures to ensure in-kind contributions are adequately documented. The documentation should be prepared and maintained as part of the accounting records to support reported outlays.

## **CONTRACT MONITORING**

SEADAE does not have permanent staff and relies on volunteers and contractors for the day-to-day operations and management of NEA awards and projects. NEA grant management is provided by the Treasurer, which could change every two years. During the review, we inquired as to who provided contract monitoring and oversight, specifically those which involve technology - the core of NEA projects. We were informed that contract monitoring was provided by the contracted project manager; however, contract monitoring was not indicated in the project manager's contract.

Contracting for professional services is allowable under the *Cost Principles for Non-Profit Organizations*, 2 CFR Part 230, Appendix B Para. 37 (a), however, the contract

should include elements such as description of services to be provided, estimate of time required and rate of compensation to ensure that the agreement is adequate. In addition, Subpart C of 2 CFR Part 215.47, states in part:

**A system for contract administration shall be maintained to ensure contractor conformance with the terms, conditions and specifications of the contract and to ensure adequate and timely follow up of all purchases. Recipients shall evaluate contractor performance and document, as appropriate, whether contractors have met the terms, conditions and specifications of the contract.**

We recommend that SEADAE develop written policies and implement procedures to ensure that contractors are adequately monitored. The policies should include the assignment of responsibilities. If oversight is provided by a contractor, the responsibility should be included in the contract. The policies should ensure that contracts include all of the relevant provisions in accordance with Subpart C of 2 CFR Part 215.48 and Appendix A to Part 215.

## **SUSPENSION AND DEBARMENT**

SEADAE did not have 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.

NEA *General Terms* states:

**You must comply with requirements regarding debarment and suspension in Subpart C of 2 CFR part 180, as adopted by the Arts Endowment in Title 2 CFR, Chapter 32, Part 3254.**

Subpart C of 2 CFR Part 180.300, *OMB Guidelines to Agencies on Governmentwide Debarment and Suspension (Nonprocurement)*, states, in part:

**You must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:**

- (a) Checking the EPLS<sup>1</sup>; 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**

We recommended that SEADAE 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.

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<sup>1</sup> Now part of the System for Awards Management (SAM).

## MANAGEMENT OF FEDERAL AWARDS

SEADAE did not have a written manual/handbook with formal policies and procedures for the management of Federal awards.

The handbook/manual could include policies and procedures for documenting Federal awards, accounting for program income and expenses, contract management and ensuring that debarred or suspended contractors or recipients do not receive Federal assistance. It could also incorporate publications such as the NEA General Terms, NEA's Financial Management Guide for Non-profit Organizations, and the cost principles of relevant OMB guidance.

NEA *General Terms*, Section 18, Procurement Standards, states:

**OMB Circular A-110 (2 CFR 215), Section 40, and the "Common Rule," Section 1157.30, as applicable, establish standards for procurement. You must have standards to ensure that materials and services acquired under Federal awards are obtained in an effective manner and in compliance with the provisions of applicable Federal statutes and Executive orders.**

**Written procedures should include, among other things, determining economical approaches, providing for competition, dealing with conflict of interest, efforts to use minority, women-owned and small businesses, and maintaining records sufficient to detail the procurement process. In addition, you should have written procedures to ensure that contractors or recipients are not debarred or suspended prior to the payment or award of Federal funds (2 CFR part 180 Subpart C).**

We recommend that SEADAE develop and implement a written manual/handbook containing policies and procedures relating specifically to managing Federal awards.

## EXIT CONFERENCE

A telephone exit conference was held with SEADAE officials on July 16, 2014. SEADAE officials concurred with our findings and recommendations and agreed to implement corrective actions.

## RECOMMENDATIONS

We recommend that SEADAE:

1. Provide documentation for Grant No. 10-5100-8257 to support the actual salary rate of SEADAE members such as check stubs, W2 forms, or payroll ledgers, along with supporting documentation for the additional 377.50 hours of in-kind costs reported for the project manager. Without documentation, a potential refund of \$24,594 is due to the NEA.

2. Develop written policies and implement procedures to ensure that actual and accurate costs for in-kind services are reported as required by OMB and NEA.
3. Develop written policies and implement procedures to ensure in-kind contributions are adequately documented. The documentation should be prepared and maintained as part of the accounting records to support reported outlays.
4. Develop written policies and implement procedures to ensure that contractors are adequately monitored. The policies should include the assignment of responsibilities. If oversight is provided by a contractor, the responsibility should be included in the contract. The policies should ensure that contracts include all of the relevant provisions in accordance with Subpart C of 2 CFR Part 215.48 and Appendix A to Part 215.
5. 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.
6. Develop and implement a written manual/handbook containing policies and procedures relating specifically to managing Federal awards.

**APPENDIX I**

**State Education Agency Directors of Arts Education  
Calculation of Potential Refund**

**Grant No. 10-5100-8257**

Total Outlays	\$222,552
Less: Questioned In-Kind Costs	<u>(121,740)</u>
Adjusted Total Outlays	100,812
Less: NEA Share of Allowable Costs	<u>(50,406)</u>
	50,406
Less: SEADAE Required Match	<u>(50,406)</u>
Overmatch	<u>\$ 0</u>
NEA Disbursement	75,000
Less: NEA Share of Allowable Costs	<u>(50,406)</u>
Potential Refund	<u>\$24,594</u>

**Grant No. 11-5100-8233**

Total Outlays	\$282,423
Less: Questioned In-Kind Costs	<u>(172,200)</u>
Adjusted Total Outlays	110,223
Less: NEA Share of Allowable Costs	<u>(50,000)</u>
	60,223
Less: SEADAE Required Match	<u>(50,000)</u>
Overmatch	<u>\$10,223</u>
NEA Disbursement	50,000
Less: NEA Share of Allowable Costs	<u>(50,000)</u>
Potential Refund	<u>\$ 0</u>