



**MEMORANDUM**

**Memo No. 15-06**

**DATE:** June 4, 2015  
**TO:** Winona H. Varnon, Audit Followup Official  
**FROM:** Tonie Jones, Inspector General  
**SUBJECT:** Request that Craft & Folk Art Museum be Removed from the Cost Reimbursement Method of Payment

On March 25, 2015, Craft & Folk Art Museum (Museum) requested to be removed from the cost reimbursement method of payment. The Museum submitted the following documents:

- Audited financial statements for the years ended June 30, 2014 and 2013,(clean opinion; current ratio, 1:6),
- Unaudited financials,
- Organizational budget,
- Organizational chart, and
- Board of Directors meeting minutes.

We evaluated the documentation, reviewed NEA grant files and interviewed appropriate NEA grant staff. Our evaluation concluded that although it appears the Museum's financial condition is adequate, the Museum has not sufficiently improved its management of Federal awards. Our review of the grant files and prior documentation submissions noted the following deficiencies:

- Unallowable costs were included in reported total outlays (e.g., costs outside the award period, alcohol, food and staffing relating to receptions).
- Lack of adequate supporting documentation (e.g., checks or evidence of payment, explanation of service or product purchase).
- Costs were not properly allocated.
- Personnel activity reports were not concurrent with the pay periods and did not include signatures from employee or supervisor, as required.

As a result, we recommend the Museum remain on the cost reimbursement method of payment for at least one year or the next award period, whichever is longer. At that time, the Museum should be re-evaluated for reinstatement to the regular method of payment. If the Museum has not demonstrated an adequate financial system to manage Federal awards, eligibility for future funding should be reconsidered.

