



NATIONAL ENDOWMENT FOR THE ARTS

OFFICE OF INSPECTOR GENERAL

**LIMITED SCOPE AUDIT REPORT
ON SELECTED
NEA GRANTS TO**

Mid Atlantic Arts Foundation, Inc.
Baltimore, Maryland

REPORT NO. LS-15-02

May 6, 2015

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INTRODUCTION

BACKGROUND

Mid Atlantic Arts Foundation (MAAF) was established in 1979 to promote and support multi-state arts programming. MAAF develops partnerships and programs that reinforce artists' capacity to create and present work, advance access to and participation in the arts, and promote a more sustainable arts ecology.

MAAF services the states and territories of Delaware, the District of Columbia, Maryland, New Jersey, New York, Pennsylvania, the US Virgin Islands, Virginia, and West Virginia. Also, MAAF engages in national and international work focused on performing arts touring, jazz, and independent filmmakers.

OBJECTIVE, SCOPE AND METHODOLOGY

Limited scope audits involve a limited review of financial and non-financial information of grant recipients to ensure validity and accuracy of reported information, and compliance with state and Federal requirements. The objective of this 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; and
- The required match was met on National Endowment for the Arts (NEA) grant funds.

The objective of this limited scope audit was also 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 limited scope audit was conducted in accordance with U.S. Government Accountability Office (GAO) Government Auditing Standards (2011), as revised, issued by the Comptroller General of the United States, as applicable. 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. We reviewed MAAF's system of internal controls and judgmentally selected a sample of transactions for testing from each of the grants reviewed.

During the period under review, MAAF had five NEA grants and 18 NEA cooperative agreements that were open and/or closed within the last three years. For the scope of this limited scope audit, we reviewed two of the five NEA grants and one of the 18 NEA cooperative agreements in which NEA funds had been drawn down and costs had been reported. The following NEA grants and cooperative agreement were reviewed:

Grant/Cooperative Agreement No.	Original Award Amount	De-Obligated Amount	Adjusted Award Amount	Total Outlays Reported
10-6100-2019	\$1,729,000	\$ 0	\$1,729,000	\$3,458,000
11-6100-2035	1,671,284	4,424	1,666,860	3,333,720
DCA 2012-11	225,000	0	225,000	450,000
TOTAL	\$3,625,284	\$4,424	\$3,620,860	\$7,241,720

Grant No. 10-6100-2019 was a State & Regional grant, with one-to-one matching requirements. During our site visit, we were presented with a listing of expenditures that totaled \$3,857,670. The awards were to support the following partnership agreement activities: Regional Arts Planning, Regional Touring Program, and Folk Arts Partnership.

Grant No. 11-6100-2035 was a State & Regional grant, with one-to-one matching requirements. During our site visit, we were presented with a listing of expenditures that totaled \$3,909,820. The awards were to support the following partnership agreement activities: Regional Arts Planning, Regional Touring Program, and Folk Arts Partnership.

DCA 2012-11 was a cooperative agreement with a one-to-one matching requirement. During our site visit, we were presented with a listing of expenditures that totaled \$566,873. This agreement was to support MAAF's USArtists International (USAI) program, which provides grants to artists and arts organizations from the U.S. invited to participate in international festivals or other significant cultural events outside the U.S.

PRIOR AUDIT COVERAGE

During the past five years, we have not issued any audit reports on Federal grants awarded to MAAF. As of our site visit on March 9, 2015, the most recent issued independent auditor's report was for the year ended June 30, 2014. The audit was conducted by Halt, Buzas, and Powell, Ltd., an independent CPA firm, which issued an unmodified (clean) opinion. MAAF was subject to the audit requirements of OMB Circular A-133, which was also performed by Halt, Buzas, and Powell, Ltd.

RESULTS OF AUDIT

Our limited scope audit concluded that MAAF generally complied with the financial management system and recordkeeping requirements established by OMB and NEA. However, we identified some areas for improvement to ensure that MAAF complies with OMB and NEA grant requirements and improves its management of NEA awards. MAAF did not have written policies and procedures on suspension and debarment. MAAF included unallowable costs in its total outlays reported on its Federal Financial Report (FFR) for Grant No. 10-6100-2019. Also, MAAF included unsupported costs in its total outlays reported on its FFR for Grant Nos. 10-6100-2019 and 11-6100-2035.

Suspension & Debarment

MAAF has procedures in place to ensure that contractors or recipients are not debarred or suspended from receiving Federal assistance; however, MAAF does not have written policies. Without written policies in place, MAAF could have instances where suspension and debarment status is not determined for contractors and recipients prior to the award or payment 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.

2 CFR Part 180, OMB Guidelines to Agencies on Government-wide Debarment and Suspension (Non-procurement), Subpart C, Subsection 180.300, 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; 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 recommend MAAF develop written policies to ensure that contractors and recipients are not debarred or suspended from receiving Federal assistance prior to the award or payment of Federal funds.

Unallowable Costs

We determined that two of the 15 transactions reviewed for NEA Grant No. 10-6100-2019 were unallowable according to OMB cost principles for *Bad Debts and Donations and Contributions*¹. In one instance, MAAF claimed legal fees in the amount of \$852.86. In the second instance, MAAF claimed a holiday tip in the amount of \$20.

As a result of MAAF claiming unallowable costs, we are questioning \$872.86 in reported outlays. However, if the questioned costs were disallowed for this grant, the one-to-one matching requirement would still be met and no refund would be due to NEA.

MAAF's *Accounting Policies & Procedures Manual*, provides instructions for segregating unallowable from allowable costs, including directing the user to OMB cost principles and Federal award guidance. We recommend that MAAF adhere to its policies and procedures to ensure that only allowable costs are charged to NEA grants.

Unsupported Costs

We determined that one of the 15 transactions reviewed for NEA Grant No. 10-6100-2019 was unsupported. In this instance, travel expenses were reimbursed to an MAAF employee, however, adequate supporting documentation was not maintained. This transaction was in the amount of \$50. We also determined that one of the 15 transactions reviewed for NEA Grant No. 11-6100-2035 was unsupported. In this instance, travel expenses were claimed to the grant, however, adequate supporting documentation was not maintained. This transaction was in the amount of \$488.70. OMB guidance for retention requirements for records, states in part, that:

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 or, for Federal awards that are renewed quarterly or annually, from the date of the submission of the quarterly or annual financial report.

As a result of MAAF claiming unsupported costs, we will question \$50 for NEA Grant No. 10-6100-2019 and \$488.70 for NEA Grant No. 11-6100-2035. However, if the questioned costs were disallowed for these grants, the one-to-one matching requirement would still be met and no refund would be due to NEA.

¹ OMB guidance for the management of Federal awards for the scope of this audit were 2 *CFR Part 230 (Circular A-122)* and 2 *CFR Part 215 (Circular A-110)*. Effective December 26, 2014, the OMB Circulars which governed the management of Federal assistance awards were replaced with 2 *CFR 200 Uniform Guidance: Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. The guidance supersedes and streamlines OMB Circulars A-21, A-87, A-110, A-122, A-89, A-102, A-133 and A-50. The guidance can be found at http://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr200_main_02.tpl. Furthermore, NEA's *General Terms* for Fiscal Year 2015 awards will include new guidance, incorporating the Uniform Guidance's requirements.

MAAF's *Accounting Policies & Procedures Manual*, includes requirements for retaining records. We recommend that MAAF adhere to its policies and procedures to ensure that documentation is maintained for all cost transactions.

EXIT CONFERENCE

A preliminary exit conference was held with MAAF officials on March 13, 2015. Subsequent to our site visit, a telephone exit conference was also held with MAAF officials on May 6, 2015, to discuss the draft report. On May 6, 2015, MAAF submitted a written response concurring with the findings and recommendations.

RECOMMENDATIONS

We recommend that MAAF:

1. Develop written policies to ensure that contractors and recipients are not debarred or suspended from receiving Federal assistance prior to the award or payment of Federal funds.
2. Adhere to its policies and procedures to ensure that only allowable costs are charged to NEA grants.
3. Adhere to its policies and procedures to ensure that documentation is maintained for all cost transactions.