



NATIONAL ENDOWMENT FOR THE ARTS
OFFICE OF INSPECTOR GENERAL
LIMITED SCOPE AUDIT REPORT

**ON SELECTED
NEA GRANTS TO**

Mississippi Arts Commission
Jackson, Mississippi

REPORT NO. LS-16-01, Rev. 1

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INTRODUCTION

BACKGROUND

The Mississippi Arts Commission (MAC) was established in 1968 by the Mississippi Legislature as the state's official grants-making and service agency for the arts. MAC is funded in part by the state but also receives substantial funding from the National Endowment for the Arts (NEA). With these funds, MAC provides financial support in the form of grants for eligible arts programs and for the work of individual artists.

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 limited scope 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;
- The required match was met on NEA grant funds.

In addition, the objective of this audit is 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)*. Our audit was conducted in accordance with the *Government Auditing Standards* (2011), issued by the Comptroller General of the United States. 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 MAC's system of internal control and judgmentally selected a sample of transactions for testing from each of the grants reviewed.

During the period under review, MAC had six NEA grants opened and/or closed within the last three years, with awards totaling \$4,790,900. We judgmentally selected and reviewed two of the six grants in which NEA funds had been drawn down and costs had been reported.

The two grants reviewed were as follows:

Grant Number	Original Award Amount	Total Outlays
09-6100-2055	838,900	2,169,361
10-6100-2039	911,800	2,141,245
Total	\$1,750,700	\$4,310,606

Grant Nos. 09-6100-2055 and 10-6100-2039 were State & Regional grants with a one-to-one matching requirement. The awards were to support the following partnership agreement activities: State Arts Plan, Arts Education, Arts in Underserved Communities, and Folk Arts Infrastructure. The Arts Education component required funds to be matched at least equal to the amount awarded for that component.

PRIOR AUDIT COVERAGE

During the past five years, NEA Office of Inspector General (OIG) has not issued any audit reports on Federal grants awarded to MAC. MAC's financial management system is administered in conjunction with the State of Mississippi. As of our site visit on May 12, 2015, the most recent issued independent auditor's report on the State of Mississippi was for the year ended June 30, 2014. The audit was performed by the State of Mississippi, Office of the State Auditor, which issued an unmodified opinion. The audit was conducted in accordance with the Single Audit Act Amendments of 1996, the provisions of the OMB Circular A-133 (OMB A-133), *Audits of States, Local Governments, and Non-Profit Organizations*, and the State of Mississippi's audit requirements.

MAC was not selected for review during the single audit because it is not considered a major program¹. However, the auditors identified some noncompliance deficiencies with Federal grant requirements, such as subrecipient monitoring and reporting, which could have an impact on the management of NEA awards.

¹ Federally assisted programs for which the program activity were greater than \$22,645,720 are considered major programs.

RESULTS OF AUDIT

Our audit concluded that MAC requested and received multiple extensions resulting in the mismanagement of NEA funds. MAC 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. MAC also did not have a Section 504 self-evaluation on file.

MISMANAGEMENT OF NEA FUNDS

MAC requested and received extensions for multiple awards to expend *obligated* funds. However, we identified instances of unobligated funds allocated to subawards issued outside of the period of performance.

NEA *General Terms* states in part,

All project activities and the commitment of project funds must take place within the period of support set out in your award document.

The following instances of noncompliance resulted in the mismanagement of NEA funds:

Grant No. 09-6100-2055

MAC requested three extensions which extended the end date of the grant from June 30, 2010 to December 31, 2012. MAC's request stated that as of June 14, 2010, approximately \$505,941 of this grant was *obligated* but unspent. However, we identified an expense, in the amount of \$3,221.40, which was incurred after the NEA award period of performance.

On July 2, 2012, MAC entered into a contract to provide for a one-year operating grant in an amount not to exceed \$12,300. The period of performance was July 1, 2012 to June 30, 2013. The award was to be made in two payments of \$6,150.

The selected expense of \$3,221.40, dated August 22, 2012, was included in the first payment of \$6,150. Our review of the supporting documentation revealed that funds for this payment were also allocated from two other NEA grants, \$2,881.08 was charged to Grant No. 10-6100-2039 and \$47.52 was charged to Grant No. 11-6100-2019.

As a result, we are questioning all costs reported outside of the original end date of the period of performance in the amount of \$513,375. We recommend MAC provide documentation for funds obligated within the period of performance (July 1, 2009 – June 30, 2010). Without additional documentation, a potential refund could be due to the NEA in the amount of \$10,907. (*See Appendix I*)

Grant No. 10-6100-2039

MAC requested two extensions which extended the end date of the grant from June 30, 2011 to December 31, 2012. MAC's request stated that as of March 31, 2011, approximately \$724,671 of this grant was *obligated* but unspent. However, we identified two expenses, which were incurred after the NEA award period of performance.

- 1) On July 1, 2011, MAC entered into a grant contract to provide funding for an Artist Fellowship award in the amount of \$3,900. The grant required all funding activities be completed by May 15, 2012. Payment was made on September 1, 2011.
- 2) On July 1, 2011, MAC entered into another contract to provide a two-year operating grant in an amount not to exceed \$27,800. The award was to be made in two payments of \$13,900. The selected transaction was for the first payment of \$13,900 was made on September 2, 2011.

As a result, we are questioning all costs related to Grant No. 10-6100-2039 that were outside of the original end date of the period of performance in the amount of \$704,900. We recommend MAC provide documentation for funds obligated within the period of performance (July 1, 2010 - June 30, 2011). Without additional documentation, a potential refund could be due to the NEA in the amount of \$193,627. (*See Appendix D*)

Requesting multiple extensions could result in commingling, fraud or misuse of Federal funds. Therefore, we also recommend MAC develop written policies and implement procedures to more accurately assess budgeted costs and the time needed to complete projects. The policies should ensure Federal funds are used to support activities related to the approved state or regional arts plan of the fiscal year for which the award has been made.

Recommendation to NEA

We recommend that NEA require MAC to provide support for all extension requests. The specific support requirements should be determined by NEA's Grants and Contracts Office. If MAC is unable to provide support, NEA should request a refund or de-obligate remaining funds.

PERSONNEL ACTIVITY REPORTS

MAC did not maintain personnel activity (time and effort) reports for NEA Grant Nos. 09-6100-2055 and 10-6100-2039. At the time of the awards, personnel activity reports were required for all employees whose salaries and fringe benefits were charged, in whole or in part, to either the award or the matching funds if the award was \$50,000 or more. Therefore, we questioned salary and fringe benefit costs charged to the awards in the amount of \$620,397 and \$687,182. However, MAC provided adequate documentation to support salary costs charged to the grants. As a result, no additional documentation is required.

As of December 26, 2014, OMB guidance no longer requires the maintenance of personnel activity reports. Salary and wage expenses must be based on records that accurately reflect the work performed. The records must be supported by a system of internal controls which provide reasonable assurance that the charges are accurate, allowable, properly allocated and reflect the total activity for which the employee is compensated².

SUSPENSION & DEBARMENT

MAC did not have written policies or procedures in place to ensure that contractors or award recipients are not debarred or suspended from receiving Federal assistance. Without written policies in place, MAC could have instances where suspension and debarment status is not determined for contractors and recipients prior to the award or payment of Federal funds. The *Mississippi Department of Finance & Administration, Internal Controls, Sub-Section 30.60.50*, require state agencies to establish a policy regarding Federal debarment compliance. Therefore, we recommend that MAC develop written policies and implement procedures, in accordance with its state policy, to ensure that contractors and recipients are not debarred or suspended from receiving Federal assistance prior to the award or payment of Federal funds.

SECTION 504 SELF-EVALUATION

MAC did not have the Section 504 self-evaluation on file as required by NEA General Terms. However, subsequent to the site visit, MAC completed the Section 504 self-evaluation on May 14, 2015. As noted in NEA's *General Terms*, the evaluation should be reviewed for each award to ensure that it is current, the organization is still in compliance, and the activity supported by the Arts Endowment is in compliance.

² Effective December 26, 2014, the OMB Circulars which governed the management of Federal assistance awards will be 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 2 CFR 200.

MANAGEMENT OF FEDERAL AWARDS

MAC did not have an approved manual/handbook with policies and procedures for the management of Federal awards. However, we were informed that MAC is in the process of drafting policies and procedures for grants management. Without adequate guidance for the management of Federal awards, potential improper costs determinations could occur. *OMB Uniform Guidance* requires written policies and procedures for the management of Federal awards.

We recommend MAC develop and implement an approved written manual/handbook for the management of Federal awards. The handbook/manual could include policies and procedures for: assessing budget costs and time needed to complete projects, managing and documenting Federal awards, and ensuring that debarred or suspended contractors or recipients do not receive Federal assistance. It could also incorporate electronic publications such as the NEA *General Terms & Conditions for Partnership Agreements*, NEA OIG *Financial Management Guide*, and 2 CFR Part 200 (Uniform Guidance). The manual/handbooks should be easily accessible for all staff, and be updated as necessary.

EXIT CONFERENCE

A preliminary exit conference was held with MAC officials on May 15, 2015. Subsequent to our site visit, a telephone exit conference was held with MAC officials on November 2, 2015. MAC officials requested review of questioned costs documentation prior to concurrence.

RECOMMENDATIONS

We recommend that MAC:

1. Provide documentation for funds obligated within the period of performance (July 1, 2009 - June 30, 2010) for Grant No. 09-6100-2055. Without additional documentation, a potential refund could be due to the NEA in the amount of \$10,907.
2. Provide documentation for funds obligated within the period of performance (July 1, 2010 - June 30, 2011) for Grant No. 10-6100-2039. Without additional documentation, a potential refund could be due to the NEA in the amount of \$193,627.
3. Develop written policies and implement procedures to more accurately assess budgeted costs and the time needed to complete projects. The policies should ensure Federal funds are used to support activities related to the approved state arts plan of the fiscal year for which the award has been made.
4. Develop written policies and implement procedures, in accordance with its state policy, to ensure that contractors and award recipients are not debarred or suspended from receiving Federal assistance prior to the award or payment of Federal funds.
5. Develop and implement an approved written manual/handbook for the management of Federal awards.

We recommend that NEA:

1. Require MAC to provide support for all extension requests. The specific support requirements should be determined by NEA's Grants and Contracts Office. If MAC is unable to provide support, NEA should request a refund or de-obligate remaining funds.

APPENDIX I

**Mississippi Arts Commission
Calculation of Potential Refund**

Grant No. 09-6100-2055

Total Outlays	\$2,169,361
Less: Funds Expended Outside of Grant Period	<u>(513,375)</u>
Adjusted Total Outlays	1,655,986
Less: MAC 1:1 match	<u>(827,993)</u>
Total NEA Share of Allowable Costs	827,993
NEA Disbursement	838,900
Less: NEA Share of Allowable Costs	<u>(827,993)</u>
Potential Refund	<u>\$ 10,907</u>

Grant No. 10-6100-2039

Total Outlays	\$2,141,245
Less: Funds Expended Outside of Grant Period	<u>(704,900)</u>
Adjusted Total Outlays	1,436,345
Less: MAC 1:1 match ³	<u>(718,173)</u>
Total NEA Share of Allowable Costs	718,173
NEA Disbursement	911,800
Less: NEA Share of Allowable Costs	<u>(718,173)</u>
Potential Refund	<u>\$ 193,627</u>

³ MAC's one to one matching total is rounded up to the nearest dollar.