



OFFICE OF INSPECTOR GENERAL

LIMITED SCOPE AUDIT REPORT

**ON SELECTED
NEA GRANTS TO**

Arts Midwest

Minneapolis, MN

REPORT NO. LS-13-01

January 11, 2013



REPORT RELEASE RESTRICTION

In accordance with Public Law 110-409, The Inspector General Act of 2008, this report shall be posted on the National Endowment for the Arts (NEA) website not later than three (3) days after it is made publicly available with the approval of the NEA Office of Inspector General. Information contained in this report may be confidential. The restrictions of 18 USC 1905 should be considered before this information is released to the public. Furthermore, information contained in this report should not be used for purposes other than those intended without prior consultation with the NEA Office of Inspector General regarding its applicability.

INTRODUCTION

BACKGROUND

Arts Midwest (AMW) is a non-profit regional arts organization, based in Minneapolis, MN. AMW promotes creativity, nurtures cultural leadership, and engages people in meaningful arts experiences, bringing vitality to Midwest communities and enriching people's lives. AMW serves audiences, arts organizations, and artists throughout the nine states of Illinois, Indiana, Iowa, Michigan, Minnesota, North Dakota, Ohio, South Dakota, Wisconsin, and beyond.

OBJECTIVE, SCOPE, AND METHODOLOGY

Limited scope audits involve a limited scope review of financial and non-financial information of grant recipients to ensure validity and accuracy of reported information, and compliance with Federal requirements. The objective of this limited scope audit by the National Endowment for the Arts (NEA) Office of Inspector of General (OIG) was to determine whether the:

- grantee fulfilled the financial and compliance requirements as set forth in the grant awards;
- total project costs claimed under the grants were reasonable, allocable, and allowable; and
- required match was met on NEA grant funds.

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, appropriate evidence to afford a reasonable basis for our findings and conclusions. We evaluated the recipient's compliance with the U.S. Office of Management and Budget (OMB) and NEA guidance. In addition, we evaluated the recipient's compliance with OMB and NEA guidance for the management of the American Reinvestment and Recovery Act of 2009 (Recovery Act) funding.

The Recovery Act provided \$50 million to the NEA to be distributed in direct grants to fund arts projects and activities which preserve jobs in the nonprofit arts sector threatened by declines in philanthropic and other support during the current economic downturn. Consistent with the language in the Act, eligible projects are generally limited to salary support and fees for artists or contracted personnel.

During the period under review, AMW had six grants and 16 cooperative agreements. We reviewed three of the six grants in which funds had been drawn down and costs had been reported. We also reviewed two of the 16 cooperative agreements.

The grants and cooperative agreements we reviewed were as follows:

Grant/Cooperative Agreement No.	Original Award Amount	De-Obligated Amount	Adjusted Award Amount
08-6100-2054	\$ 1,465,800		\$ 1,465,800
09-6100-2007	1,559,490		1,559,490
09-6188-2093	542,000		542,000
2007-21	9,272,217	\$344,434	8,927,783
2010-01	1,525,000	36,344	1,488,656
TOTAL	\$14,364,507	\$380,778	\$13,983,729

PRIOR AUDIT COVERAGE

During the past five years, the NEA OIG has not issued any audit reports on Federal grants and/or cooperative agreements awarded to AMW. As of our site visit during the week of July 31, 2012, the most recent issued independent auditor's report on AMW was for the fiscal year ended June 30, 2011. The audit was conducted by Schechter Dokken Kanter Andrews and Selcer Ltd., an independent CPA firm, which issued an unqualified (clean) opinion. The independent CPA firm also performed the A-133 audit and determined that AMW was in compliance with applicable federal regulations.

RESULTS OF AUDIT

Our limited scope audit concluded that AMW did not comply with requirements established by OMB and NEA for its Recovery Act funds awarded under Grant No. 09-6188-2093. AMW included costs incurred outside of the grant period in its total outlays reported on its final Federal Financial Report (FFR).

Our limited scope audit also concluded that AMW did not comply with requirements established by OMB and NEA for its NEA Grant No. 08-6100-2054. AMW included unallowable costs in its total outlays reported on its final FFR. Details are presented in the narrative below.

FINANCIAL MANAGEMENT

RECOVERY ACT AWARD No. 09-6188-2093

Costs Incurred Outside of the Grant Period

AMW included personnel costs incurred outside of the grant period. We reviewed two personnel costs transactions for salaries and related fringe benefits charged to the grant for the month of June 2010. We determined that an employee's salary costs for that month was overstated due to the employee receiving a retroactive salary increase. This employee was given an increase for the months of September 2008 through June 2010.

However, the grant period began April 1, 2009. Therefore, personnel costs from September 2008 to March 2009 are outside of the grant period.

NEA's *Instructions for Completing the Financial Status Report and General Terms and Conditions for Grants and Cooperative Agreements to Organizations*, states:

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

As a result of AMW charging costs that incurred outside of the grant period, we are questioning \$1,385 in salaries and \$106 in related fringe benefits for a total of \$1,491. However, AMW provided additional documentation for personnel costs that were not previously charged to the grant. As a result, the questioned costs and potential refund were eliminated.¹

NEA GRANT No. 08-6100-2054

Unallowable Costs

AMW included costs for alcoholic beverages which is unallowable in accordance with OMB Circular A-122, Attachment B, Part 3. As a result of AMW charging unallowable costs to the grant, we are disallowing \$1,730 of alcoholic beverages and applicable gratuity.

We recommend that AMW develop written policies and implement procedures to ensure that only allowable and accurate costs charged to the project are reported on its FFR. The policy should also require that employees who prepare FFRs are familiar with OMB cost principles.

AMW also charged unallowable foreign travel costs to the grant without prior approval.

OMB Circular A-122, Attachment B, Part 51.e. Foreign Travel, states:

Direct charges for foreign travel costs are allowable only when the travel received prior approval of the awarding agency. Each separate foreign trip must receive such approval. For purposes of this provision, "foreign travel" includes any travel outside Canada, Mexico, the United States, and any United States territories and possessions. However, the term "foreign travel" for a non-profit organization located in a foreign country means travel outside that country.

As a result of AMW charging unallowable foreign travel costs to the grant, we are disallowing \$13,137.

¹ The Recovery grants did not have matching requirements; therefore, AMW only reported costs up to the award amount although there were additional personnel costs used for Recovery Act activities.

We recommend that AMW develop written policies and implement procedures to ensure that written approval is obtained from NEA for all foreign travel not identified in its application or revised budget before travel is undertaken.

If all of the above costs, for alcohol and foreign travel, were disallowed for this grant, the matching requirement would still be met and no refund would be due to NEA. Details below:

Total Costs Claimed	\$3,128,396
Less: Unallowable Alcohol Beverages	(1,730)
Less: Unallowable Foreign Travel	<u>(13,137)</u>
Total Allowable Costs	\$3,113,529
NEA Share	<u>1,465,800</u>
Allowable Matching Costs	\$1,647,729
AMW Matching Requirement	<u>1,465,800</u>
Amount in Excess of the Matching Requirement	<u>\$ 181,929</u>

EXIT CONFERENCE

An exit conference was held with AMW officials on January 7, 2013. AMW officials concurred with our findings and recommendations.

RECOMMENDATIONS

We recommend that AMW:

1. Develop written policies and implement procedures to ensure that only allowable and accurate costs charged to the project are reported on its FFR. The policy should also require that employees who prepare FFRs are familiar with OMB cost principles.
2. Develop written policies and implement procedures to ensure that written approval is obtained from NEA for all foreign travel not identified in its application or revised budget before travel is undertaken.