



NATIONAL ENDOWMENT FOR THE ARTS

OFFICE OF INSPECTOR GENERAL

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

**District of Columbia Commission
on the Arts and Humanities
Washington, D.C.**

REPORT NO. LS-13-04

September 23, 2013



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INTRODUCTION

BACKGROUND

Since 1968, the District of Columbia Commission on the Arts and Humanities (DCCAH) has developed programs and initiatives that support local artists, arts organizations, and arts activities for the benefit of the city. DCCAH functions simultaneously as a state and local arts agency, and the sole source of public funding for the arts in the District of Columbia (D.C.). DCCAH's mission is to provide grants, programs and education activities that encourage diverse artistic expressions and learning opportunities so that all D.C. residents and visitors can experience the culture of the city.

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 NEA, Federal and state 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 National Endowment for the Arts (NEA) grant funds.

Our audit was conducted in accordance with the *Government Auditing Standards* (2011) (Standards), issued by the Comptroller General of the United States. The Standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. Accordingly, we included such tests of records and other auditing procedures that were considered necessary under the circumstances. We reviewed DCCAH's system of internal controls and judgmentally selected a sample of transactions for testing from each of the grants reviewed. In addition, we evaluated the recipient's compliance with the U.S. Office of Management and Budget (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 NEA to be distributed in direct grants to fund arts projects and activities. The Recovery Act also preserved jobs in the nonprofit arts sector threatened by declines in philanthropic and other support during the economic downturn. Consistent with the language in the Act, eligible projects were generally limited to salary support and fees for artists or contracted personnel. Forty percent of such funds were distributed to State arts agencies and regional arts organizations, and 60 percent of the funds were competitively awarded to nonprofit organizations that met the eligibility criteria established for this program. For organizations eligible to subgrant,

such as State arts agencies, funds could also be used to cover the cost of implementing the subgranting program.

For the scope of this audit, we reviewed five of the six NEA grants in which funds had been drawn down and costs had been reported. The grants reviewed are as follows:

Grant No.	Original Award Amount	Adjusted Award Amount	Total Outlays
09-6188-2108 (Recovery Act)	290,000	290,000	290,000
09-6100-2048	755,400	755,369	1,510,738
10-6100-2060	816,200	816,200	1,632,400
10-4229-7090	25,000	25,000	50,000
11-6100-2058	744,500	744,500	1,829,866
Total	\$2,631,100	\$2,631,069	\$5,313,004

PRIOR AUDIT COVERAGE

During the past five years, the NEA Office of Inspector General (OIG) has not issued any audit reports on Federal grants awarded to DCCAH. DCCAH's financial management system is administered in conjunction with the Government of the District of Columbia (D.C. Government). As of our site visit, the most recent independent auditor's report on D.C. Government was issued January 28, 2013 for the year ended September 30, 2012. The financial statements were audited by KPMG, an independent certified public accounting firm, which resulted in an unqualified opinion (clean).

D.C. Government is subject to the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. An OMB Circular A-133 audit is performed to provide assurance to the Federal government as to the management and use of Federal awards by recipients such as states, cities, universities, and non-profit organizations. KPMG conducted the A-133 audit for the year ended September 30, 2011. Although, DCCAH Federal programs were not selected as a major program¹ and were not reviewed, the auditors identified several noncompliance deficiencies with Federal grant requirements that could impact the management of NEA awards. Some of the deficiencies noted were maintaining documentation to support payroll costs and amounts reported on the Federal Financial Report (FFR); and inadequate subrecipient monitoring.

¹ The dollar threshold used to distinguish between Type A and Type B Programs was \$10,192,867 for Federal Awards for the year ended September 30, 2011.

RESULTS OF AUDIT

Our limited scope audit determined that DCCAH complied with the financial management system and recordkeeping requirements established by OMB and NEA for its Recovery Act grant.

Our review of other NEA awards determined that although DCCAH has a financial management system in place to adequately track awards and monitor the activities of subrecipients, internal controls could be strengthened. We identified instances of noncompliance with NEA, OMB and D.C. Government's Federal grant management requirements. Specifically, DCCAH did not maintain adequate documentation to support revenue and expenditure costs charged to the awards and did not have a current Section 504 self-evaluation on file.

INTERNAL CONTROLS

DOCUMENTATION OF FEDERAL AWARDS

DCCAH did not maintain revenue documentation and could not adequately support subrecipient costs charged to Grant No. 09-6100-2048. DCCAH did not maintain salary costs charged to Grant No. 10-4229-7090 and did not maintain adequate subrecipient documentation for Grant Nos. 10-6100-2060 and 11-6100-2058.

According to NEA *General Terms and Conditions (General Terms)* recipients 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."

D.C. Government's grant management policy, *D.C. Citywide Grants Manual and Sourcebook*, Section 10, Award Documentation Requirement, also states:

"The Agency shall establish the official records of awarded grants or subgrants. The Agency shall incorporate into its award files and retain the records of all awarded applications and subsequent reports for the period required by Federal and District guidelines for grant records."

DCCAH should adhere to the policies and procedures for document maintenance established by NEA and D.C. Government. Although the state or local government accounting office may be handling the fiscal transactions, state arts agencies should maintain documentation to support Federal awards. Details of the findings are presented below.

Grant No. 09-6100-2048

DCCAH was awarded a partnership grant in the amount of \$755,400, with a one-to-one matching requirement, which supported multiple subrecipients. Subsequent to the award, the grant was adjusted to \$755,369. DCCAH reported total outlays in the amount of \$1,510,738 on its FFR. Award recipients are required to separately identify NEA funds and maintain supporting documentation. Our review of this award determined that DCCAH did not maintain adequate documentation to support revenue and expenditures.

Revenue Documentation

DCCAH was unable to provide documentation to support receipt of NEA funds (revenue). Therefore, we were unable to determine whether revenue was separately identifiable for this award. However, our review of the other four Federal awards determined that revenue was separately identified in DCCAH's financial management system. We considered this an isolated incident and will not request any further documentation.

Expenditure Documentation

DCCAH was unable to provide documentation to support an award for a subrecipient in the amount of \$38,000. Therefore, we are questioning \$38,000, which reduces the total allowable costs to \$1,472,738.

We recommend that DCCAH provide documentation to support the subrecipient award in the amount of \$38,000. Without additional documentation, a potential refund of \$19,000 could be due to NEA. (See Appendix I)

Grant No. 10-4229-7090

Salary Documentation

DCCAH received a \$25,000 Mayors' Institute on City Design award, with a one-to-one matching requirement. The award is identified as "MSTUDY" in DCCAH's financial management system. The MSTUDY project was coordinated by DCCAH and the D.C. Office of Planning.

DCCAH provided documentation to support \$50,000 in costs that agreed with the total outlays reported by DCCAH on its FFR. Our review determined that the consulting costs, in the amount of \$40,000, was adequately supported. However, we could not determine the percentage of salary that was allocated to the MSTUDY project. Therefore, we are questioning \$10,000 in salary costs, which reduces the allowable costs to \$40,000.

We recommend that DCCAH provide documentation to support the salary costs charged to the grant in the amount of \$10,000 and develop written policies and implement procedures for tracking the salary costs charged to Federal awards. Without additional documentation, a potential refund of \$5,000 could be due to NEA. (See Appendix I)

Grant Nos. 10-6100-2060 & 11-6100-2058

Subrecipient Documentation

DCCAH did not provide copies of subrecipient's requests for payment in the amount of \$4,300.91 under Grant No. 10-6100-2060 and \$10,625 under Grant No. 11-6100-2058.

Although DCCAH did not provide copies of requests for payment, we determined that costs were reasonable and adequately supported based on additional documentation provided. Therefore, no further action is required.

SECTION 504 SELF-EVALUATION

DCCAH maintained the required Section 504 self-evaluation; however, the evaluation was not updated based on DCCAH's new office location. 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 will be in compliance.

We recommend DCCAH complete, and/or update as necessary, the Section 504 self-evaluation to ensure compliance with the Rehabilitation Act of 1973, as amended. A copy of the self-evaluation should be submitted to NEA OIG. NEA OIG will provide a copy to NEA's Office of Civil Rights/EEO.

EXIT CONFERENCE

A preliminary exit conference was held with DCCAH officials on May 2, 2013. Subsequent to our site visit, a telephone exit conference was also held with DCCAH officials on September 3, 2013 to discuss the draft report. DCCAH officials concurred with our findings and recommendations.

RECOMMENDATIONS

We recommend that DCCAH:

1. Provide documentation for Grant No. 09-6100-2048 to support costs in the amount of \$38,000. Without additional documentation, a potential refund of \$19,000 is due to the NEA.

2. Provide documentation for Grant No. 10-4229-7090 to support salary costs in the amount of \$10,000. Without additional documentation, a potential refund of \$5,000 is due to the NEA.
3. Develop written policies and implement procedures for tracking the salary cost charged to Federal awards.
4. Complete, and/or update as necessary, the Section 504 self-evaluation to ensure compliance with the Rehabilitation Act of 1973, as amended. A copy of the self-evaluation should be submitted to NEA OIG. NEA OIG will provide a copy to NEA's Office of Civil Rights/EEO.

APPENDIX I

**District of Columbia Commission on the Arts and Humanities
Calculation of Potential Refund**

Grant No. 09-6100-2048

Total Reported Outlays	\$1,510,738
Less: Questioned Subrecipient Costs	<u>(38,000)</u>
Total Allowable Costs	1,472,738
NEA Disbursed Grant Amount	755,369
Less: NEA Share of Allowable Costs	<u>(736,369)</u>
Potential Refund	<u>\$19,000</u>

Grant No. 10-4229-7090

Total Reported Outlays	\$50,000
Less: Questioned Salary Costs	<u>(10,000)</u>
Total Allowable Costs	40,000
NEA Disbursed Grant Amount	25,000
Less: NEA Share of Allowable Costs	<u>(20,000)</u>
Potential Refund	<u>\$5,000</u>