



**NATIONAL ENDOWMENT FOR THE ARTS  
OFFICE OF INSPECTOR GENERAL**

**Limited Scope Audit on Selected Awards to  
Education Commission of the States  
Denver, Colorado**

**Report No. LS-19-06**

**August 28, 2019**

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# INTRODUCTION

## **BACKGROUND**

Education Commission of the States (ECS) was established in 1967 and is based in Denver, Colorado. ECS's policy is to encourage and promote local and state initiatives in the development, maintenance, improvement and administration of education systems and institutions. Part of ECS's purpose is to provide a clearinghouse of information on matters relating to education problems and how they are being met in different places throughout the nation, and to facilitate the improvement of state and local education systems.

## **OBJECTIVES, SCOPE AND METHODOLOGY**

We conducted a limited scope audit of ECS for the period of December 1, 2015 to October 31, 2018. This type of audit involves a limited review of financial and nonfinancial information to ensure validity and accuracy of award recipients' reported information, and compliance with state and Federal requirements. The objectives of this audit were to determine whether:

- ECS's financial management system and recordkeeping complies with the requirements established by the Office of Management and Budget (OMB) and National Endowment for the Arts (NEA) *General Terms & Conditions for Grants and Cooperative Agreements to Organizations (General Terms)*;
- ECS fulfilled the financial and compliance requirements, including cost share/matching, set forth in NEA awards; and
- Total project costs reported under the awards were reasonable, allocable, and allowable; including cost share/matching set forth in its NEA awards.

The limited scope audit was conducted in accordance with applicable U.S. Government Accountability Office *Government Auditing Standards (2011), as revised (Standards)*. The *Standards* require that we obtain sufficient, competent, and relevant evidence to afford a reasonable basis for our findings and conclusions. Accordingly, we included such tests of records and other auditing procedures considered necessary under the circumstances. We reviewed ECS's system of internal controls and conducted a risk assessment to determine the areas with moderate to high risk, and the level of transaction testing necessary to provide a reasonable basis for our findings and conclusions.

ECS had four NEA awards that were opened and/or closed during the audit scope period. For this audit, we reviewed two awards that were closed within the audit scope period. We excluded two awards (NEA Award Nos. DCA 2017-09 and DCA 2017-18) from the audit, which had Federal Financial Reports (FFRs) due after we began the audit. The following table lists the two awards reviewed:

<b>NEA Award No.</b>	<b>Award Period</b>	<b>Award Amount</b>	<b>Total Reported Costs</b>
DCA 2016-07	12/01/15 - 10/31/16	\$ 525,000	\$ 656,250
DCA 2016-19	10/01/16 - 09/30/17	700,000	921,934
<b>TOTAL</b>		<b>\$1,225,000</b>	<b>\$1,578,184</b>

The two NEA Cooperative Agreements were arts education awards to support the work of the Arts Education Partnership (AEP). NEA partnered with the U.S. Department of Education in which ECS served as the cooperator for the AEP. Furthermore, ECS administered the AEP in support of its mission, to implement the 2020 action agenda designed to ensure equitable access to high quality arts learning opportunities for students. Each award required a 25% cost share/matching. For NEA Award No. DCA 2016-07, ECS received an amendment extending the award period from September 30, 2016 to October 31, 2016.

### **PRIOR AUDIT COVERAGE**

During the past five years, NEA Office of Inspector General has not issued any audit reports on Federal awards to ECS. As of our site visit beginning January 14, 2019, the most recent issued audit report of ECS was for the fiscal year ended December 31, 2017. The audit was performed by Kundinger, Corder & Engle, P.C., which issued an unmodified audit opinion. In its opinion, ECS financial statements present fairly, in all material respects, the financial position of ECS as of December 31, 2017. No significant findings were determined. ECS was not subject to the audit requirements of OMB Circular A-133 and 2 CFR 200, Subpart F (Audit Requirements).

## **AUDIT RESULTS**

### **SUMMARY**

Based on our limited scope audit, we concluded that ECS generally did not fully comply with financial management system and recordkeeping requirements established by OMB and NEA. We identified areas requiring improvement. A summary of our findings is as follows:

1. ECS reported unallowable costs on its FFRs.
2. ECS did not report actual costs on its FFRs.
3. ECS reported costs outside of the award period.
4. ECS did not submit its required FFR and Final Descriptive Report (FDR) on time.
5. ECS did not comply with Federal requirements related to record retention.
6. ECS did not have the required Section 504 Self-Evaluation on file.
7. ECS did not have debarment and suspension policies and procedures.
8. ECS did not have policies and procedures for the management of Federal awards.

# FINANCIAL MANAGEMENT

## FEDERAL FINANCIAL REPORTING

ECS reported unallowable costs and misstated costs on its FFRs for NEA Award Nos. DCA 2016-07 and 2016-19. ECS also reported costs outside the award period on its FFR for NEA Award No. DCA 2016-19. Specific details of these deficiencies are presented below.

### *UNALLOWABLE COSTS*

During the review, we identified alcohol and bartender costs reported on the FFR for NEA Award Nos. DCA 2016-07 and 2016-19, totaling \$14.50 and \$428.08, respectively.

Awards issued by NEA are subject to the following requirements:

- **2 CFR 200.423. *Alcoholic Beverages:*** Costs of alcoholic beverages are unallowable.
- **2 CFR 200.302 (b)(7). *Financial Management:*** The financial management system of each non-Federal entity must provide written procedures for determining the allowability of costs in accordance with Subpart E – Cost Principles of this part and the terms and conditions of the Federal award.

ECS did not have policies and procedures in place to ensure only allowable costs were charged to NEA awards. Reporting unallowable costs could result in failure to meet the required cost share/matching amounts, resulting in a potential refund to NEA. Thus, we are questioning unallowable costs for NEA Award Nos. DCA 2016-07 (\$14.50) and 2016-19 (\$428.08) which could result in a potential refund for NEA Award No. DCA 2016-19. ECS would still meet the 25% cost share/matching requirement if unallowable costs were disallowed for NEA Award No. DCA 2016-07 (*See Appendix A*).

Subsequent to the review, ECS submitted policies and procedures to ensure only allowable, reasonable and allocable costs are reported on the FFR. Based on our review, we determined that the policies and procedures included steps to determine if costs are allowable, reasonable and allocable in accordance with 2 CFR 200.

We recommend that NEA disallow unallowable alcohol and bartender costs totaling \$443.

**Grantee's Response:** ECS concurs with this finding. (*See Appendix B*)

### *ACTUAL COSTS NOT REPORTED*

Based on our review of the FFRs and general ledgers, we determined that ECS did not report actual costs on its FFRs. Specifically, for NEA Award No. DCA 2016-07, ECS understated costs on its FFR by \$38,476 and for NEA Award No. DCA 2016-19, ECS overstated costs on its FFR by \$85,598.

Awards issued by NEA are subject to the following requirements:

- **2 CFR 200.302(b)(2). *Financial Management*:** The financial management system for Federal award recipients must provide accurate, current, and complete disclosure of the financial results of each Federal award in accordance with reporting requirements established in 2 CFR 200.327.
- ***NEA Instructions for Completing the Federal Financial Report*** states, in part, that award recipients must report actual expenditures that are assigned to the approved NEA project, based on supporting documentation such as invoices, contracts, receipts, checks, transaction reports, and bank statements. Recipients must review accounting and supporting documentation and report only actual, documented costs on the FFR.

ECS officials stated that they were not aware that the expenditure report had to agree with the costs reported on the FFR. Failure to report actual costs could result in the required cost share/match not being met, resulting in a potential refund due to NEA. Thus, for NEA Award No. DCA 2016-19, we are questioning overstated costs totaling \$85,598, which could result in a potential refund (*See Appendix A*).

We recommend that ECS establish written policies and implement procedures to ensure actual costs are reported on its FFRs for all current and future awards. We also recommend that ECS provide any additional supporting documentation for the \$85,598 in questioned costs to NEA for review.

We recommend NEA review any additional supporting documentation for the overstated costs totaling \$85,598 and determine allowability. We also recommend that NEA determine if any refund is due.

**Grantee's Response:** ECS concurs with this finding and recommendations. (*See Appendix B*)

### *COSTS OUTSIDE THE AWARD PERIOD*

ECS had two instances of costs incurred outside the award period (October 1, 2016 – September 30, 2017) on its FFR for NEA Award No. DCA 2016-19. ECS incurred consultant costs during the period of May 23 – September 30, 2016 in the amount of \$17,500. ECS also charged rent costs to the award for November 2017 in the amount of \$1,127.

Awards issued by NEA are subject to the following requirements:

- **2 CFR 200.309. *Period of Performance*,** states in part: A non-Federal entity may charge to the Federal award only allowable costs incurred during the period of performance (except as described in 200.461 Publication and printing costs).

ECS did not have policies and procedures to ensure that only costs incurred within the award period were reported on its FFR. Costs reported outside the award period could result in failure to meet the required cost share/matching amount, resulting in a potential refund to NEA. Thus,

we are questioning costs reported outside of the period of performance totaling \$18,627, which could result in a potential refund due to the NEA (*See Appendix A*).

We recommend that ECS develop written policies and implement procedures to ensure only costs incurred during the award period are reported on the final reports. We also recommend that ECS provide any additional documentation for costs reported outside the award period totaling \$18,627.

We recommend that NEA review any additional supporting documentation for costs outside the award period totaling \$18,627 and determine allowability. We also recommend that NEA determine if any refund is due.

**Grantee's Response:** ECS concurs with this finding and recommendations. (*See Appendix B*)

## INTERNAL CONTROLS

### SUBMISSION OF FINAL REPORTS

ECS did not submit the required FFR and FDR on time for NEA Award No. DCA 2016-07. The FFR and FDR for NEA Award No. DCA 2016-07 was due on February 1, 2017; however, NEA did not receive the reports from ECS until February 16, 2017. Therefore, the required reports were 15 days late.

Awards issued by NEA are subject to the following requirements:

- **2 CFR 200.343a. *Closeout***, states: The non-Federal entity must submit, no later than 90 calendar days after the end date of the period of performance, all financial, performance, and other reports as required by or the terms and conditions of the Federal award. The Federal awarding agency or pass-through entity may approve extensions when requested by the non-Federal entity.
- **NEA *General Terms. Final Reports 16.4***, states: Failure to submit the required final reports for any award(s) renders you ineligible to receive funding for five (5) years following the final report due date of the award(s) or until the delinquent final reports are submitted, whichever occurs first. Acceptability of final reports may also affect eligibility for new awards.

ECS officials stated the final reports were untimely because program staff was late in completing the FDR and delayed submission of the FFR to submit both reports together. Failure to submit final reports (FFR and FDR) on time without requesting an extension could result in ineligibility to receive funding for five years following the final report due date of the award(s) or until the delinquent final reports are submitted, whichever occurs first.

We recommend that ECS develop written policies and implement procedures to ensure that final reports are filed on time.



**Grantee's Response:** ECS concurs with this finding and recommendation. (See Appendix B)

## **RECORD RETENTION POLICY**

ECS did not comply with Federal record retention requirements. Based on our review of ECS's Document Retention and Destruction Policy, we determined that it does not specifically state Federal award documents must be maintained for at least three years after the submission of the final reports.

Awards issued by NEA are subject to the following requirement:

- **2 CFR 200.333. *Retention Requirements for Records*** states, in part: 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.

ECS did not document record retention policies and procedures in accordance with 2 CFR 200.333. Failure to establish record retention policies and procedures in accordance with Federal guidelines could result in the destruction of pertinent award documents prior to the end of the Federal retention period.

We recommend ECS establish written policies and implement procedures for record retention in accordance with 2 CFR 200 Uniform Guidance and NEA General Terms.

**Grantee's Response:** ECS concurs with this finding and recommendation. (See Appendix B)

## **SECTION 504 SELF-EVALUATION**

ECS did not have the Section 504 Self-Evaluation on file as required by NEA General Terms. As noted in the *General Terms*, "A Section 504 Self-Evaluation must be on file at your organization." A Section 504 Self-Evaluation Workbook, which can be completed online, is available at [www.arts.gov/about/504Workbook.html](http://www.arts.gov/about/504Workbook.html).

Section 504 of the Rehabilitation Act of 1973, as amended, provides that individuals with disabilities have the same opportunities in employment, the same opportunities to enter and move around in facilities, the same opportunities to communicate and the same opportunities to participate in programs and activities as non-disabled people. It does not require that every part of every facility or program be accessible.

ECS was not aware of the Section 504 Self-Evaluation requirement. Without a completed Section 504 Self-Evaluation on file, ECS could be excluding individuals with disabilities from programs and activities.

We recommend that ECS complete a 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 the Audit Follow-up Official.

**Grantee's Response:** ECS concurs with this finding and recommendation. (*See Appendix B*)

## **DEBARMENT AND SUSPENSION**

ECS did not have debarment and suspension policies and procedures. ECS provided its Procurement Policy for contracts; however, the policies only addressed procedures for contracts equal to or exceeding \$25,000. The policies did not include debarment and suspension procedures for all individuals or companies ECS could potentially conduct business with.

Awards issued by NEA are subject to the following requirements:

- **Subpart C of 2 CFR Part 180.300. *OMB Guidelines to Agencies on Government-wide Debarment and Suspension (Non-procurement)*** states, in part: Awardees must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:
  - (a) Checking SAM.gov; 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.
- **NEA *General Terms. Debarment and Suspension*:** 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.

Because ECS did not have written debarment and suspension policies and procedures, it could have instances where debarred or suspended individuals or organizations receive Federal funds.

Subsequent to the review, ECS submitted debarment and suspension policies and procedures in accordance with 2 CFR Part 180.300. Therefore, no additional documentation is required.

**Grantee's Response:** ECS concurs with this finding. (*See Appendix B*)

## **MANAGEMENT OF FEDERAL AWARDS**

ECS did not have policies and procedures for the management of Federal awards. Based on our review of ECS's Accounting Policies and Procedures Manual, it did not include: detailed procedures for determining the allowability of costs in accordance with publications such as NEA *General Terms* and the *Uniform Guidance*; and policies and procedures for documenting Federal awards in its financial system. ECS's manual only provides a general overview of grants management in the *Grants and Contracts* section.

Awards issued by NEA are subject to the following requirements:

- **2 CFR 200.302 (a). *Financial Management*** states, in part: Non-Federal entity’s financial management systems, including records documenting compliance with Federal statutes, regulations, and the terms and conditions of the Federal award, must be sufficient to permit the preparation of reports required by general and program-specific terms and conditions; and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award.
- **2 CFR 200.302 (b). *Financial Management*** states, in part: The financial management system of each non-Federal entity must provide for the following:
  - (1) Identification, in its accounts, of all Federal awards received and expended and the Federal programs under which they were received. Federal program and Federal award identification must include, as applicable, the Catalog of Federal Domestic Assistance title and number, Federal award identification number and year, name of the Federal agency, and name of the pass through entity, if any.
  - (2) Accurate, current, and complete disclosure of the financial results of each Federal award or program in accordance with the reporting requirements set forth in §§ 200.327 Financial reporting and 200.328 Monitoring and reporting program performance. If a Federal awarding agency requires reporting on an accrual basis from a recipient that maintains its records on other than an accrual basis, the recipient must not be required to establish an accrual accounting system. This recipient may develop accrual data for its reports on the basis of an analysis of the documentation on hand. Similarly, a pass-through entity must not require a sub-recipient to establish an accrual accounting system and must allow the sub-recipient to develop accrual data for its reports on the basis of an analysis of the documentation on hand.
  - (3) Records that identify adequately the source and application of funds for federally-funded activities. These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation.
  - (4) Effective control over, and accountability for, all funds, property, and other assets. The non-Federal entity must adequately safeguard all assets and assure that they are used solely for authorized purposes. See § 200.303 Internal controls.
  - (5) Comparison of expenditures with budget amounts for each Federal award.
  - (6) Written procedures to implement the requirements of § 200.305 Payment.
  - (7) Written procedures for determining the allowability of costs in accordance with Subpart E – Cost Principles of this part and the terms and conditions of the Federal award.

Subsequent to the review, ECS submitted policies and procedures for allowable, reasonable and allocable costs. Based on our review, ECS’s policies and procedures addressed costs allowability; however, it did not include procedures for documenting Federal awards in its financial management system. Therefore, we recommend that ECS develop written policies and implement procedures for the management of Federal awards.

**Grantee’s Response:** ECS concurs with this finding and recommendation. (*See Appendix B*)

## RECOMMENDATIONS

We recommend that ECS:

1. Establish written policies and implement procedures to ensure actual costs are reported on its FFRs for all current and future awards.
2. Provide any additional supporting documentation for the \$85,598 in questioned costs to NEA for review.
3. Develop written policies and implement procedures to ensure only costs incurred during the award period are reported on the final reports.
4. Provide any additional documentation for costs reported outside the award period totaling \$18,627.
5. Develop written policies and implement procedures to ensure that final reports are filed on time.
6. Establish written policies and implement procedures for record retention in accordance with 2 CFR 200 Uniform Guidance and NEA General Terms.
7. Complete a 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 the Audit Follow-up Official.
8. Develop written policies and implement procedures for the management of Federal awards.

We recommend that NEA:

1. Disallow unallowable alcohol and bartender costs totaling \$443.
2. Review any additional supporting documentation for overstated costs totaling \$85,598 and determine allowability. We also recommend that NEA determine if any refund is due.
3. Review any additional supporting documentation for costs outside the award period totaling \$18,627 and determine allowability. We also recommend that NEA determine if any refund is due.

## APPENDIX A

### Education Commission of the States Breakdown of Award Calculations

#### *Award No. DCA 2016-07*

Total Reported Costs	\$ 656,250
Add: Understated Costs	<u>38,476</u>
Adjusted Costs Reported	\$ 694,726
Adjusted Costs Reported	\$ 694,726
Less: Unallowable Costs	<u>(15)</u>
Adjusted Allowable Costs Reported	694,711
Less: NEA Award Disbursement	<u>(525,000)</u>
ECS Cost Share/Match	\$ 169,711
ECS Cost Share/Match	\$ 169,711
Less: NEA 25% Cost Share/Match Requirement	<u>(131,250)</u>
ECS Overmatched	<u>\$ 38,461</u>

#### *Award No. DCA 2016-19*

Total Reported Costs	\$ 921,934
Less: Questioned Costs	
Overstated Costs	(85,598)
Unallowable Costs	(428)
Costs Outside the Award Period	<u>(18,627)</u>
ECS Adjusted Allowable Reported Costs	817,281
Less: NEA Award Disbursement	<u>(700,000)</u>
ECS Costs Share/Match <sup>1</sup>	\$ 117,281
NEA Disbursement	(700,000)
NEA Adjusted Share of the Cost <sup>2</sup>	<u>653,825</u>
ECS Potential Refund	<u>\$ (46,175)</u>

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<sup>1</sup> ECS did not meet the required 25% cost share/match requirement of \$175,000.

<sup>2</sup> Adjusted Allowable Reported Cost of \$817,281 divided by 1.25 to determine NEA adjusted share of the cost is \$653,825 and ECS required 25% cost share/match of NEA adjusted share of the cost is \$163,456, resulting in a potential refund of \$46,175.



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**Jeremy Anderson**



## APPENDIX B

Dear Mr. Stith,

Please see below for our written response to each finding and recommendation per the Draft Report Transmittal dated August 6, 2019.

### Finding

ECS reported unallowable costs on its FFRs.

### Recommendation

N/A

### Management's Response

We concur with the auditors' comments. Subsequent to the review, ECS submitted policies and procedures to ensure only allowable, reasonable and allocable costs are reported on the FFR.

### Finding

ECS did not report actual costs on its FFRs.

### Recommendation

Establish written policies and implement procedures to ensure actual costs are reported on its FFRs for all current and future awards.

Provide any additional supporting documentation for the \$85,598 in questioned costs to NEA for review.

### Management's Response

We concur with the auditors' comments. ECS is updating the policies and implementing procedures to ensure actual costs are reported on its FFRs for all current and future awards. We will follow up with NEA to provide the supporting documentation.

### Finding

ECS reported costs outside of the award period.

### Recommendation

Develop written policies and implement procedures to ensure only costs incurred during the award period are reported on the final reports.

### Management's Response

We concur with the auditors' comments. ECS is updating the policies and implementing procedures to ensure only costs incurred during the award period are reported on the final reports.



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**Jeremy Anderson**



### Finding

ECS did not submit its required FFR and Final Descriptive Report (FDR) on time.

### Recommendation

Develop written policies and implement procedures to ensure that final reports are filed on time.

### Management's Response

We concur with the auditors' comments. ECS is updating the policies and implementing procedures to ensure that final reports are filed on time.

### Finding

ECS did not comply with Federal requirements related to record retention.

### Recommendation

Establish written policies and implement procedures for record retention in accordance with 2 CFR 200 Uniform Guidance and NEA General Terms.

### Management's Response

We concur with the auditors' comments. ECS is updating the policies and implementing procedures to ensure that record retention in accordance with 2 CFR 200 Uniform Guidance and NEA General Terms.

### Finding

ECS did not have the required Section 504 Self-Evaluation on file.

### Recommendation

Complete a 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 the Audit Follow-up Official.

### Management's Response

We concur with the auditors' comments. ECS will follow up and submit the evaluation to the Audit Follow-up Official.



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**Jeremy Anderson**

**Finding**

ECS did not have debarment and suspension policies and procedures.

**Recommendation**

N/A

**Management's Response**

We concur with the auditors' comments. Subsequent to the review, ECS submitted debarment and suspension policies and procedures in accordance with 2 CFR Part 180.300.

**Finding**

ECS did not have policies and procedures for the management of Federal awards.

**Recommendation**

Develop written policies and implement procedures for the management of Federal awards.

**Management's Response**

We concur with the auditors' comments. ECS is updating the policies and implementing procedures to include the management of Federal awards.

**Jeremy Anderson, CEO**

8/20/2019

**Date**

