



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

**Performance Audit Report on Selected Awards to
Florida Department of State, Division of Cultural Affairs**

Report No. OIG-22-01

October 26, 2021

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SUMMARY

We conducted a performance audit of two National Endowment for the Arts (NEA) Partnership awards issued to the Florida Department of State, Division of Cultural Affairs (Division). Based on our review, we determined the Division generally met the financial and compliance requirements in the award documents. However, we determined the following areas require improvement. The Division:

- Overstated \$34,339 in costs on the 2017 award's Federal Financial Report (FFR) and understated \$453,574 in costs on the 2018 award's FFR.
- Did not establish documented procedures for determining the Federal allowability of costs reported on its FFRs.
- Did not notify all subrecipients of Federal subaward management requirements.
- Did not verify all potential vendors or subrecipients were eligible to participate in Federal programs and activities.

We believe the evidence obtained during the audit provides a reasonable basis for our findings and conclusions based on our audit objectives. We questioned \$34,339 in overstated costs on the 2017 award's FFR. There are five recommendations to address the audit findings -- four to the Division and one to the NEA.

INTRODUCTION

AUDITEE BACKGROUND

The Florida Department of State, Division of Cultural Affairs (Division) is a state agency dedicated to advancing, supporting, and promoting arts and culture to strengthen the economy and quality of life for all Floridians. The Division achieves its mission by maintaining a State art collection and funding grants and programs that promote excellence and encourage access to cultural opportunities. The Division is supported by annual appropriations from the State Legislature, funds from the National Endowment for the Arts (NEA), and private donations. These funds are primarily used to maintain the State art collection, pay personnel expenses, and issue grants.

OBJECTIVES, SCOPE, AND METHODOLOGY

We conducted this performance audit in accordance with generally accepted government auditing standards. Those 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. The objectives of this audit were to determine whether:

- The Division's financial management system and recordkeeping comply with requirements established by the Office of Management and Budget (OMB) and the NEA;

- The Division fulfilled the financial and compliance requirements in the award documents, including any required cost share/matching; and
- Reported award costs were reasonable, allocable, and allowable.

We limited the scope of our audit to two awards (see table below) closed during the period of April 1, 2018 through March 31, 2021. Both awards were Partnership grants issued to support activities in the NEA-approved state plan. Approved activities included issuing subawards, running general operations, and managing the Poetry Out Loud program. Both awards required a one-to-one cost share match, though Award No. 17-6100-2013 (2017 award) was amended to provide \$158,760 in non-matching funds for subawards to cultural nonprofits impacted by Hurricane Irma.

During our review, we determined that Award No. 1809844-61-18 (2018 award) reported costs were understated by \$453,574 (see more information in the Audit Results section). We included the understated costs in our review (see table below).

Award No.	Award Period	Original Award Amount	Final Award Amount	Reported Costs	Audit Scope Costs
17-6100-2013	07/01/17 – 09/30/18	\$793,800	\$952,560	\$1,905,120	\$1,905,120
1809844-61-18	07/01/18 – 09/30/19	806,220	806,220	1,612,440	2,066,014
Total		\$1,600,020	\$1,758,780	\$3,517,560	\$3,971,134

We conducted audit work to identify and test the operation and reliability of the Division’s significant internal controls relevant to the audit objectives. As a result, we are not stating an opinion on the effectiveness and efficiency of the Division’s overall internal control system. We identified two significant internal control components that were relevant to our audit objectives - control activities and monitoring. Control activity principles require the Division to design and implement control activities that achieve mission objectives and respond to risks. Monitoring principles require the Division to establish and operate activities to monitor and evaluate the internal control system, addressing deficiencies on a timely basis. Tests of these controls included audit work to verify the reliability of computer-processed data (CPD) provided by the Division. Due to restrictions caused by the COVID-19 pandemic, tests of controls over CPD to ensure data reliability were conducted through virtual meetings and screen-sharing walk-throughs. We determined the data obtained and used for the purposes of this audit was reliable.

Additionally, we conducted reviews of the Division’s financial procedures and performance outcomes to determine compliance with award requirements. This audit work included reviews of procedures and supporting documentation, and interviews with Division staff.

Finally, we conducted tests of subawards and transactions to determine the allowability of reported costs. We conducted risk assessments to determine subaward and costs transaction selection methods, and the testing levels necessary to support findings and conclusions. Based on the risk assessment results, we judgmentally selected three subawards from each award for

compliance testing with subaward requirements. We also judgmentally selected 25 cost items from the 2017 award and 22 cost items from the 2018 award for cost allowability testing. These items included payroll, credit card, procurement, and subaward costs.

PRIOR AUDIT COVERAGE

The NEA Office of Inspector General (OIG) had not issued any audit reports on the Division in the past five years. On June 12, 2020 the Florida Department of State OIG issued a report on the Division's management of a grant for the period of July 1, 2017 through June 1, 2019. This report found issues with the Division's grant management and payment processes. We considered this information when planning our audit procedures.

The Division was also included in the state's annual Single Audit reports. As of our review, the most recent Single Audit report was issued by the State of Florida Auditor General on March 30, 2021, for fiscal year (FY) ending June 30, 2020. The Division was included in the report's Schedule of Expenditures of Federal Awards (SEFA), though not selected for review as a major program. The report stated that the SEFA was fairly stated, in all material respects, in relation to the basic financial statements as a whole. Additionally, the auditors did not identify any major weaknesses or significant deficiencies in statewide operations that impacted the Division.

AUDIT RESULTS

The following sections present a detailed discussion of the audit findings.

INACCURATE FEDERAL FINANCIAL REPORTS

During our review, we identified \$34,339 in overstated costs on the 2017 award's FFR, and \$453,574 in understated costs on the 2018 award's FFR. The Division completed the 2017 and 2018 award FFRs by verifying annual expenditures exceeded the award amounts, and then recording a one-to-one cost share/match on the reports instead of actual costs incurred under the awards. We determined this process resulted in inaccurate reports. We also determined the overstated costs were unsupported, and included the understated costs in our review.

NEA awards are subject to the following

- **2 CFR 200.302 *Financial Management (b)(2) (v.2019) states, in part:*** The financial management system of each non-Federal entity must provide for the following: 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*.
- **NEA *Instructions for Completing the Federal Financial Report* states, in part:** We understand that the project budget was your best estimate at the time of submission, however, for the FFR you *must* report actual expenditures that you assigned to the approved NEA project, based on supporting documentation such as invoices, contracts, receipts, checks, transaction reports, and bank statements. Review your accounting and supporting documentation and report on actual, documented costs on the FFR.

- **NEA Handbook *How To Manage Your Award*, 6.2.b *Additional Reporting Tips* states, in part:** The amount you show on your FFR in box 10j (recipient cost share) plus the NEA award funds in box 10e must equal the total actual, allowable expenditures.

Division officials stated they were following prior NEA guidance on how to complete award FFRs and did not realize the guidance had changed.

The Division's FFR reporting procedures resulted in \$34,339 in unsupported 2017 award costs. Including unsupported costs on award FFRs could lead to an audit conclusion that the Division did not meet minimum cost sharing/matching requirements, potentially resulting in funds due back to the NEA. We reduced the 2017 award's allowable expenditures by the unsupported costs and determined the Division still met the minimum cost share/match requirements because the 2017 award included \$158,750 in non-matching funds (see Appendix A).

We recommend the Division update its procedures and controls to ensure FFR costs represent actual expenditures supported by its financial management system.

We recommend the NEA disallow \$34,339 in unsupported FFR costs for the 2017 award.

The Division concurs with this finding and recommendation (see Appendix B)

COST ALLOWABILITY PROCEDURES

During our review, we determined the Division followed documented procedures for determining cost allowability based on the State of Florida's established cost requirements. However, these requirements did not fully address the cost requirements established in 2 CFR 200, *Subpart E - Cost Principles*, and the NEA's *General Terms & Conditions for Partnership Agreements (General Terms)*, Section 13. *Cost Principles*. We determined the Division did not establish additional procedures for determining whether costs reported on its FFRs met Federal allowability requirements.

NEA awards are subject to the following

- **2 CFR 200.302 *Financial Management*, (b)7 (v. 2019) states:** The financial management system of each non-Federal entity must provide for the following: 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.
- **NEA *General Terms 13. Cost Principles*, 13.1(b) states in part:** The allowability of costs for work performed under your NEA award, including costs incurred under subawards made with Federal or matching funds, is determined in accordance with the NEA Partnership program guidelines and General Terms and the Uniform Guidance Subpart E – Cost Principles. All costs included in the approved project budget or reported on payment requests and financial reports for the award, whether supported with Federal or required cost share/matching funds or any voluntary cost share, must be: Allocable and in conformance with these cost principles.

Division officials stated they did not establish separate cost allowability procedures for NEA award costs because they thought the State of Florida's cost allowability requirements were sufficient. Without documented procedures for determining whether costs comply with Federal award requirements, the Division could report unallowable costs on award FFRs.

We recommend the Division document and implement procedures and controls that ensure costs reported on award FFRs comply with the cost principles established in 2 CFR 200, *Subpart E - Cost Principles (v. 2019)*, and the *General Terms*, Section 13. *Cost Principles*.

The Division concurs with this finding and recommendation (see Appendix B)

SUBRECIPIENT NOTIFICATION

During our review, we identified 185 subrecipients that did not receive notification of Federal award management requirements - 18 from the 2017 award, and 167 from the 2018 award. We determined the Division established procedures and controls to ensure subawards made with NEA funds included notification of Federal award management requirements. However, the Division did not apply these procedures and controls to subawards charged to the NEA award but made exclusively with State funds.

NEA awards are subject to the following

- **2 CFR 200.331 Requirements for Pass-Through Entities (a)2 (v. 2019) states:** All pass-through entities must ensure that every subaward is clearly identified to the subrecipient as a subaward and includes the following information at the time of the subaward and if any of these data elements change, include the changes in subsequent subaward modification. When some of this information is not available, the pass-through entity must provide the best information available to describe the Federal award and subaward. Required information includes: All requirements imposed by the pass-through entity on the subrecipient so that the Federal award is used in accordance with Federal statutes, regulations, and the terms and conditions of the Federal award.
- **NEA General Terms, 23. Requirements for Subawards Made Under a Partnership Agreement, 23.14 states:** You must provide subrecipients with requirements for acknowledging the NEA and State support. Crediting language should specify the supported program/activity being supported by the Partnership award, and subrecipients should be instructed to remove NEA credit from all materials at the completion of their respective grant periods.
- **NEA General Terms, 24. Flow-through of National Policy and Other Legal Requirements to Subrecipients states:** The Federal requirements associated with the NEA award also “flow down” to the subrecipients of Federal funds or funds that are used to meet the required cost share/match. Therefore, in addition to informing the subrecipient that they are receiving a Federal subaward, or one that is being used to match a Federal grant, you must provide them with information regarding the National Policy Requirements that are applicable to all Federal awards. These include requirements that prohibit discrimination, ensure accessibility of all facilities and programs funded with Federal monies, provide for the protection of environmental and historic resources, and more.

Division officials stated they did not realize the notification procedures applied to subawards made exclusively with State funds. Without notification of Federal subaward requirements, subrecipients could mismanage their subawards.

We recommend the Division document and implement procedures and controls that ensure all subawards charged to NEA awards include notification of subaward management requirements.

The Division concurs with this finding and recommendation (see Appendix B)

SUSPENSION AND DEBARMENT

We determined the Division did not verify eligibility for 66 vendors and 185 subrecipients across both awards. The Division established procedures to ensure potential recipients of subawards made with NEA award funds were not suspended or debarred, and were eligible to participate in Federal programs and activities. However, it did not establish similar procedures for potential vendors or recipients of subawards made with State funds.

NEA awards are subject to the following

- **2 CFR 200.213 *Suspension and Debarment (v. 2019)* states:** Non-Federal entities are subject to the non-procurement debarment and suspension regulations implementing Executive Orders 12549 and 12689, 2 CFR part 180. These regulations restrict awards, subawards, and contracts with certain parties that are debarred, suspended, or otherwise excluded from or ineligible for participation in Federal assistance programs or activities.
- **2 CFR 180.300 *What must I do before I enter into a covered transaction with a person at the next lower tier?* states:** When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:
 - i. Checking SAM exclusions;
 - ii. Collecting a certification from that person; or
 - iii. Adding a clause or condition to the covered transaction with that person.

Division officials did not realize the debarment and suspension requirements applied to procurements or State-funded subawards. Therefore, they did not establish procedures or controls to ensure compliance. Without procedures and controls in place to verify eligibility, suspended or debarred entities could participate in Federal programs and activities.

We recommend the Division document and implement procedures and controls that ensure all potential vendors and subrecipients are eligible to participate in NEA award programs and activities.

The Division concurs with this finding and recommendation (see Appendix B)

RECOMMENDATION SUMMARY

We recommend the Division:

1. Update its procedures and controls to ensure FFR costs represent actual expenditures supported by its financial management system.
2. Document and implement procedures and controls that ensure costs reported on award FFRs comply with the cost principles established in 2 CFR 200, *Subpart E - Cost Principles (v. 2019)*, and the *General Terms*, Section 13. *Cost Principles*.
3. Document and implement procedures and controls that ensure all subawards charged to NEA awards include notification of subaward management requirements.
4. Document and implement procedures and controls that ensure all potential vendors and subrecipients are eligible to participate in NEA award programs and activities.

We recommend the NEA disallow \$34,339 in unsupported FFR costs for the 2017 award.

BREAKDOWN OF AWARD COSTS

<i>Award No. 17-6100-2013</i>	
Total Reported Costs	\$1,905,120
Less Overstated Costs	(34,339)
Potential Allowable Reported Costs	<u>1,870,781</u>
Less NEA Disbursement	<u>(952,560)</u>
Potential Allowable Cost Share/Match	918,221
Less Required Cost Share/Match ¹	<u>(793,800)</u>
Division Cost Share/Match Exceeded	<u><u>\$124,421</u></u>

¹Required Cost Share/Match is equal to the NEA Disbursement amount less \$158,760 in non-matching funds.

<i>Award No. 1809844-61-18</i>	
Total Reported Costs	\$1,612,440
Add Understated Costs	453,574
Potential Allowable Reported Costs	<u>2,066,014</u>
Less NEA Disbursement	<u>(806,220)</u>
Potential Allowable Cost Share/Match	1,259,794
Less Required Cost Share/Match ²	<u>(806,220)</u>
Division Cost Share/Match Exceeded	<u><u>\$453,574</u></u>

²Required Cost Share/Match is equal to the NEA Disbursement amount.



FLORIDA DEPARTMENT *of* STATE

RON DESANTIS
Governor

LAUREL M. LEE
Secretary of State

October 21, 2021

Ron Stith, Inspector General
National Endowment for the Arts
400 7th St SW
Washington, DC 20506

Dear Mr. Stith,

Thank you for your transmittal letter and draft audit report dated October 13, 2021. As requested, this letter constitutes our written response. We recognize and concur with the four findings in the report and the included recommendations.

The Department of State, Division of Arts and Culture values the partnership with the National Endowment for the Arts and looks forward to providing the corrective action plan and implementing best practices regarding stewardship of NEA funds.

The Division of Arts and Culture has updated its financial reporting procedures to report actual and allowable costs beyond the 1-1 match requirement on the Federal Financial Report (FFR).

The Division is establishing documented procedures for determining Federal allowability of costs reported on its FFRs.

The Division is updating all subrecipient contract language to include Federal subaward management requirements through the State of Florida's rule promulgation process.

The Division has updated its procedures to assure that all potential vendors and subrecipients contracts include appropriate debarment and suspension language for verification of vendor eligibility.

Thanks to Katie Weisner and her team for their hard, precise, and patient work.

Sincerely,

A handwritten signature in blue ink, appearing to read "Sandy Shaughnessy".

Sandy Shaughnessy
Director