

# NATIONAL ENDOWMENT for the ARTS

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## NATIONAL ENDOWMENT FOR THE ARTS OFFICE OF INSPECTOR GENERAL

### Performance Audit Report on Selected Awards to Tennessee Arts Commission Nashville, TN

Report No. OIG-20-03

April 23, 2020

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## SUMMARY

Based on our performance audit, we concluded that the Tennessee Arts Commission (Commission) generally complied with financial management system and recordkeeping requirements established by the Office of Management and Budget (OMB) and the National Endowment for the Arts (Arts Endowment). However, we identified some areas requiring improvement. A summary of our findings is as follows.

The Commission:

- Did not report actual costs on its award Federal Financial Reports (FFRs);
- Included costs incurred outside the award period on FFRs; and
- Did not verify that vendors were eligible to receive Federal funds.

## INTRODUCTION

### **AUDITEE BACKGROUND**

The Commission is a state agency dedicated to cultivating the arts for the benefit of all Tennesseans and their communities. Established in 1967, the Commission was given the mandate to stimulate and encourage the presentation of visual, literary, music, and performing arts; and to encourage public interest in the state's cultural heritage. Major sources of funding include annual appropriations from the State Legislature, grants from the Arts Endowment, and revenue from specialty license plates. These funds are primarily used to issue grants to non-profits, local government entities, and individuals.

### **OBJECTIVES AND SCOPE, AND METHODOLOGY**

We conducted this performance audit in accordance with generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of this audit were to determine whether:

- The Commission complied with the award management requirements established by OMB and the Arts Endowment's *General Terms and Conditions for Partnership Agreements (General Terms)*;
- The Commission fulfilled the financial and performance requirements set forth 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 awards issued or closed during the period of September 1, 2016 through August 31, 2019. Review of the Commission's internal controls was limited to

those relevant to the audit objectives. As a result, we are not stating an opinion on the effectiveness and efficiency of the Commission’s overall internal control system.

The Commission received four awards within the audit scope period. For this audit, we reviewed the three awards that were closed within the audit scope period (see table below). All three awards were Partnership grants issued to support activities stated in the Arts Endowment-approved state plan. Activities include subawards, salaries, and the Poetry Out Loud program. The awards had a one-to-one cost share/match, with the exception of 16-6100-2007. That award included \$6,000 in non-matching funds for the Creativity Connects Roundtables program. There were no amendments or de-obligations.

<b>Award No.</b>	<b>Award Period</b>	<b>Award Amount</b>	<b>Reported Costs</b>	<b>Audit Scope Costs</b>
16-6100-2007	July 1, 2016 – June 30, 2017	\$ 799,900	\$1,599,800	\$1,987,572
17-6100-2009	July 1, 2017 – June 30, 2018	781,900	1,563,800	1,975,112
1809838-61-18	July 1, 2018 – June 30, 2019	790,000	1,580,000	1,975,481
<b>Total</b>		<b>\$2,371,800</b>	<b>\$4,743,600</b>	<b>\$5,938,165</b>

We identified two significant internal control components that were relevant to our audit objectives; control activities and monitoring. Control activity principles require the Commission to design and implement control activities that achieve mission objectives and respond to risks. Monitoring principles require the Commission to establish and operate activities to monitor and evaluate the internal control system, addressing deficiencies on a timely basis. We conducted audit work to identify significant controls within the Commission’s internal control system, then tested their operation and reliability. These tests included audit work to verify the reliability of computer-processed data provided by the Commission. We determined the data obtained and used for the purposes of this audit was reliable.

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

Finally, we conducted tests of subawards and transactions to determine the allowability of reported costs. More specifically, we conducted risk assessments to determine the methods for selecting subawards and transactions for testing, and levels of testing necessary to support findings and conclusions. Based on the risk assessment results, we judgmentally selected four subawards from each award for compliance testing with subaward requirements. We also judgmentally selected 25 cost items from each award for transaction testing, to include subaward costs, procurement costs, and credit card costs.

**PRIOR AUDIT COVERAGE**

The Arts Endowment Office of Inspector General (OIG) had not issued any audit reports on the Commission in the past five years. However, the Commission is included in the state’s annual Single Audit reports. As of our site visit on December 9, 2019, the most recent audit report was issued by the Comptroller’s Division of State Audit on March 27, 2019. The Commission was

not selected for review as a major program, though included in the State's Schedule of Expenditures of Federal Awards. The auditors found that the Schedule was fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The auditors identified one material weakness in internal controls over financial reporting, but we determined it did not affect the Commission.

## AUDIT RESULTS

### ACTUAL COSTS NOT REPORTED

During our audit, we determined the Commission did not report actual costs on its FFRs for all awards under review. Instead, the Commission reported costs necessary to meet the one-to-one cost share/match requirements. As a result, the Commission understated program costs on its FFRs for all three awards reviewed: \$387,772 for Award No. 16-6100-2007; \$411,312 for Award No. 17-6100-2009; and \$395,481 for Award No. 1809838-61-18.

Arts Endowment awards are subject to the following requirements:

- **2 CFR 200.302 *Financial Management (b)(2) 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*.
- **Arts Endowment Instructions for Completing the Federal Financial Report, 10j. *Recipient Share of Expenditures states, in part:*** Enter your share of the final project costs, (also known as the “match”), based on actual expenditures.
- **Arts Endowment 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.

The Tennessee Department of Finance and Administration established documented statewide policy over Federal grant accounting to ensure consistency and accuracy in reporting of the financial activity of Federal programs. The Commission established documented procedures over financial reporting to ensure the information is supported. However, we determined that neither the established policy nor procedures addressed reporting total actual, allowable costs. Additionally, Commission officials stated the Arts Endowment had previously instructed them to report one-to-one cost share/matches on award FFRs.

Additional written policies and procedures would help the Commission ensure accurate, current and complete costs are reported on the FFR. For this audit, we included the understated costs in our scope (see Appendix A).

We recommend the Commission update its documented financial reporting procedures to require actual and allowable costs to be reported on FFRs.

*The Commission concurs with this finding and recommendation (see Appendix B).*

## **COSTS OUTSIDE THE AWARD PERIOD**

During our audit, we determined the Commission included a total of \$15,646 in costs incurred outside the award periods on its FFRs for all awards under review. As a result, we determined the following costs are unallowable: \$5,000 for Award No. 16-6100-2007; \$10,246 for Award No. 17-6100-2009, and \$400 for Award No. 1809838-61-18.

The awards were subject to the following requirements:

- **2 CFR 200.309 Period of Performance states:** 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*) and any costs incurred before the Federal awarding agency or pass-through entity made the Federal award that were authorized by the Federal awarding agency or pass-through entity.
- **Arts Endowment Instructions for Completing the Federal Financial Report, Section 10 states, in part:**
  - All costs, including those paid for with cost share/matching funds, must be incurred within the period of performance, though you have 90 days to liquidate expenses after the period of performance ends.
  - All project expenditures must meet Federal requirements even if paid with your own funds (cost share/match). As such, exclude all unallowable expenditures from the FFR.

The Commission used a risk-based method for determining when to conduct detailed reviews of financial reports, and conducted limited reviews of low-risk subrecipients' final financial reports. The subrecipients who reported the unallowable costs were considered low-risk, and the Commission did not detect the errors during its limited reviews. Reporting unallowable costs on the FFR could result in a refund due to the Arts Endowment. To determine if a refund was due, we reduced each award's total costs by their respective unallowable amounts (see Appendix A). We determined that without these costs the Commission still exceeds the 1:1 cost share/match requirement for each award.

We recommend that the Commission establish and implement written procedures that ensure reported subaward costs are incurred within the award period.

*The Commission concurs with this finding and recommendation (see Appendix B).*

We recommend that the Arts Endowment disallow \$15,646 in costs incurred outside the award periods: \$5,000 for Award No. 16-6100-2007; \$10,246 for Award No. 17-6100-2009; and \$400 for Award No. 1809838-61-18.

## **DEBARMENT AND SUSPENSION**

During our audit, we determined the Commission did not verify the eligibility of all of the potential recipients of Federal funds. The Commission established and implemented procedures to verify the eligibility of potential subaward recipients. However, we determined the Commission did not establish or implement similar procedures for potential vendors.

The awards were subject to the following requirements:

- **2 CFR 180.300 *What must I do before I enter into a covered transaction with another person on the next lower tier?*** 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
  - a. Checking SAM exclusions; or
  - b. Collecting a certification from that person; or
  - c. Adding a clause or condition to the covered transaction with that person.
- **Arts Endowment *General Terms. Appendix A.3. Debarment and Suspension:*** You must comply with requirements regarding debarment and suspension in Subpart C of 2 CFR 180, as adopted by the Arts Endowment in 2 CFR 32.3254.

Commission officials stated they considered it more likely than not that vendors were eligible, based on staff's working knowledge of vendor backgrounds and the small, local nature of the businesses. As a result, the Commission did not establish procedures for verifying potential vendors were eligible to receive Federal funds. Without written policies and procedures in place, the Commission could have instances where suspension and debarment status are undetermined prior to the award or payment of Federal funds. To determine the impact of this finding, we tested the eligibility of 12 vendors, which accounted for \$26,142 in reported costs. Based on our review, we determined all 12 vendors were eligible to receive Federal funds.

Notwithstanding the results of this test, we recommend the Commission update its documented procedures to verify eligibility of all potential recipients of Federal funds.

*The Commission concurs with this finding and recommendation (see Appendix B).*

## **RECOMMENDATIONS**

We recommend the Commission:

1. Update its documented financial reporting procedures to ensure actual and allowable costs are reported on the FFR.
2. Establish and implement written procedures that ensure reported subaward costs are incurred within the award period.
3. Update its documented procedures to verify eligibility of all potential recipients of Federal funds.



We recommend the Arts Endowment:

1. Disallow \$15,646 in costs incurred outside the award periods; \$5,000 for Award No. 16-6100-2007; \$10,246 for Award No. 17-6100-2009, and \$400 for Award No. 1809838-61-18.

**BREAKDOWN OF AWARD CALCULATIONS**

<i>Arts Endowment Award No. 16-6100-2007</i>	
Total Reported Costs	\$ 1,599,800
Add Understated Costs	<u>387,772</u>
Adjusted Costs	\$ 1,987,572
Less Questioned Costs	
Outside Award Period	<u>(5,000)</u>
Potential Allowable Adjusted Costs	\$ 1,982,572
Less Arts Endowment Disbursement	<u>(799,900)</u>
Potential Allowable Cost Share/Match	1,182,672
Less Required Cost Share/Match	<u>(793,900)</u>
Commission Cost Share/Match Exceeded	<u>\$ 388,772</u>

<i>Arts Endowment Award No. 17-6100-2009</i>	
Total Reported Costs	\$ 1,563,800
Add Understated Costs	<u>411,312</u>
Adjusted Costs	\$ 1,975,112
Less Questioned Costs	
Outside the Period	<u>(10,246)</u>
Potential Allowable Adjusted Costs	\$ 1,964,866
Less Arts Endowment Disbursement	<u>(781,900)</u>
Potential Allowable Cost Share/Match	1,182,966
Less Required Cost Share/Match	<u>(781,900)</u>
Commission Cost Share/Match Exceeded	<u>\$ 401,066</u>

<i>Arts Endowment Award No. 1809838-61-18</i>	
Total Reported Costs	\$ 1,580,000
Add Understated Costs	<u>395,481</u>
Adjusted Costs	\$ 1,975,481
Less Questioned Costs	
Outside the Period	<u>(400)</u>
Potential Adjusted Allowable Costs	\$ 1,975,081
Less Arts Endowment Disbursement	<u>(790,000)</u>
Potential Allowable Cost Share/Match	1,185,081
Less Required Cost Share/Match	<u>(790,000)</u>
Commission Cost Share/Match Exceeded	<u>\$ 395,081</u>



STATE OF TENNESSEE  
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April 20, 2020

Ron Stith, Inspector General  
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 Washington, D.C. 20506

Dear Mr. Stith:

The Tennessee Arts Commission is committed to public accountability. We thank your department and your staff for a thorough audit process and the opportunity to test and improve our fiscal management practices. Below, please find our responses to your team's findings and recommendations:

1. **Complete Actual Costs Not Reported.** *We determined that the Tennessee Arts Commission did not report complete costs on its FFRs for all awards under review.*

NEA IG Recommendation: Update documented financial reporting procedures to ensure actual and allowable costs are reported on the FFR.

TN Response: Concur. The Tennessee Arts Commission has updated its financial reporting procedures to report actual and allowable costs beyond the 1-1 match requirement on the FFR.

2. **Costs Outside the Award Period.** *We determined that the Commission included a total of \$15,646 in costs incurred outside the award periods on its FFRs for all awards under review.*

NEA IG Recommendation: Establish and implement written procedures that ensure reported subaward costs are incurred within the award period.

TN Response: Concur. The Tennessee Arts Commission has updated written procedures to prevent approval of reimbursement of subaward expenditures outside the grant period. Updates address steps to prevent approval of subaward expenditures incurred in the first month of a grant period that are at risk of being for services provided before the start of the grant period. Effectiveness of implementation will be assessed through the subrecipient monitoring process.

**3. Debarment and Suspension.** *We determined that the Commission did not verify the eligibility of all of the potential recipients of federal funds.*

NEA IG Recommendation: Update documented procedures to verify eligibility of all potential recipients of Federal funds.

TN Response: Concur. The agency has updated its procedures to assure that Purchase Orders terms and conditions include appropriate debarment and suspension language for verification of vendor eligibility.

We appreciate the guidance and recommendations of your work and look forward to the next steps.

Sincerely,

A handwritten signature in blue ink, appearing to read "Anne B. Pope". The signature is fluid and cursive, with a long, sweeping tail on the final letter.

Anne B. Pope  
Executive Director

Xc: Joe Kilgore, TN Arts Commission Chair  
Jennifer Wolfe, TN Arts Commission Audit Chair