

# 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 Massachusetts Cultural Council Boston, MA

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## SUMMARY

We conducted a performance audit of National Endowment for the Arts (Arts Endowment) awards issued to the Massachusetts Cultural Council (Council). Based on our review, we determined the Council generally met the financial and compliance requirements set forth in the award documents. However, the Council did not fully comply with Federal grants management requirements. For instance, the Council:

- Did not report actual costs on one of three Federal Financial Reports (FFR).
- Did not follow its FFR reporting policy.
- Included unsupported costs and costs incurred outside the award period on all three FFRs.
- Included unallowable fundraising, foreign travel, and entertainment costs on two of three FFRs.
- Included unallowable subawards on two of three FFRs.
- Did not follow Federal Financial Accountability and Transparency Act reporting requirements.
- Did not provide the required notification to all its Federal award participants.
- Did not submit its FFR and FDR reports by the reporting deadlines.

Thus, we are questioning \$3,014,242 in unsupported and unallowable costs, with a potential refund of \$60,000 due to the Arts Endowment. There are 16 recommendations to address the findings, ten to the Council and six to the Arts Endowment.

## INTRODUCTION

### AUDITEE BACKGROUND

The Massachusetts Cultural Council (Council) is a state agency that promotes excellence, inclusion, education, and diversity in the arts, humanities, and sciences to foster a rich cultural life for all Massachusetts residents and contributes to the vitality of its communities and economy. The Council pursues this mission through a wide range of grants, initiatives, and advocacy for artists, communities, organizations, and schools. The Council is supported by annual appropriations from the state Legislature, funds from the National Endowment for the Arts (Arts Endowment), and donations. It uses these funds to issue grants (subawards) to non-profit cultural organizations, schools, communities, and individual artists.

### OBJECTIVES, SCOPE, AND METHODOLOGY

Performance audits involve a limited review of financial and non-financial information of Arts Endowment award recipients to ensure validity and accuracy of reported information, and compliance with Federal requirements. The objectives of this audit were to determine whether the Council's financial management system and recordkeeping comply with the requirements established by the Office of Management and Budget and the Arts Endowment's *General Terms and Conditions for Partnership Agreements (General Terms)*; including whether:

- The Council fulfilled the financial and compliance requirements, including cost share/matching, set forth in the award; and
- Total project costs reported under the awards were reasonable, allocable, and allowable.

The performance audit was conducted in accordance with applicable U.S. Government Accountability Office *Government Auditing Standards (2011), as revised (Standards)*. The *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. Accordingly, we included such tests of records and other auditing procedures that were considered necessary under the circumstances. We reviewed the Council'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.

The performance audit of the Council covered the period of June 1, 2016 through May 31, 2019. The Council had three Arts Endowment awards that were closed during the audit scope period. All three awards were included in our audit scope. The following table provides relevant information from the three awards:

| <b>Award No.</b>             | <b>Award Period</b>          | <b>Award Amount</b> | <b>Total Reported Costs</b> |
|------------------------------|------------------------------|---------------------|-----------------------------|
| 15-6100-2023<br>(2015 award) | July 1, 2015 – June 30, 2016 | \$ 875,600          | \$11,961,047                |
| 16-6100-2037<br>(2016 award) | July 1, 2016 – June 30, 2017 | 915,900             | 12,200,682                  |
| 17-6100-2054<br>(2017 award) | July 1, 2017 – June 30, 2018 | 891,200             | 13,924,231                  |
| <b>Total</b>                 |                              | <b>\$2,682,700</b>  | <b>\$38,085,960</b>         |

All three awards were issued to support the Council's funding of arts programs and projects throughout the state. Approved award activities included issuing subawards to program applicants (subrecipients). Each award designated funding requirements for specific components: General Partnership, including the Poetry Out Loud program; Arts Education; Underserved Communities; and Folk Arts. The awards each had a one-to-one cost share/match requirement.

## **PRIOR AUDIT COVERAGE**

The Arts Endowment Office of Inspector General had not issued any audit reports on the Council in the past five years. As of our site visit on August 5, 2019, the Council's most recent issued audit report was the statewide annual Single Audit Report for fiscal year 2018. The Report on Schedule of Expenditures of Federal Awards, required by 2 CFR 200, Subpart F (Audit Requirements), stated that the state's Schedule of Federal Expenditures 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 related to the Council.

## AUDIT RESULTS

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

### OVERSTATED COSTS

During our review, we determined the Council overstated costs on the Federal Financial Report (FFR) for the 2017 award. The Council has written policy on what costs to include on its FFRs; however, it did not establish controls to ensure reported totals were accurate and supported by its accounting records. The 2017 award FFR reported \$13,924,231 in total costs, but the Council provided support for \$11,136,706 in total costs. The Council was not able to identify the source of the reported total, or provide support for the difference in costs. Therefore, we are questioning \$2,787,525 in overstated report costs.

Arts Endowment awards are subject to the following:

- **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 for the in 200.327 Financial Reporting and 200.328 Monitoring and Reporting Program Performance.
- **2 CFR 200.303 Internal Controls, (c) states:** The non-Federal entity must: Evaluate and monitor the non-Federal entity's compliance with statutes, regulations, and the terms and conditions of Federal awards.
- **General Terms, 9. Financial Management and Internal Controls, 9.1.a states:** Your financial management systems must meet standards described in sections 200.302(b)1 through (b)7, including: Accurate identification of Federal award data, financial results, and the ability to provide source documentation upon request.
- **Arts Endowment Instructions for Completing the FFR states:** Review your accounting and support documentation and report only actual, documented costs on the FFR.

Council officials stated staffing shortages likely caused them to deviate from their standard reporting procedures. We determined the Council did not have controls in place to ensure reported costs were accurate. Overstating FFR costs could lead to an audit conclusion that the Council did not meet minimum cost sharing/match requirements, potentially resulting in a refund due to the Arts Endowment. However, we determined that without these costs the Council still met the minimum cost share/match requirement (see Appendix A). Therefore, the Arts Endowment is not due a refund, and we are not requesting any additional documentation.

We recommend the Council document and implement procedures to ensure FFR costs are accurate. We recommend that the Arts Endowment disallow \$2,787,525 in overstated FFR costs for the 2017 award.

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

## FEDERAL FINANCIAL REPORTING PROCEDURES

The Council did not follow its documented procedures for completing FFRs. The Council established policy limiting FFR costs to annual costs from six of its granting programs. These six programs were subject to Council subawarding procedures designed to ensure compliance with Federal award requirements, including Federal funds notification and cost allowability. However, Council FFRs included costs from 18 of its granting programs. We determined the additional 12 programs were not subject to the Council's subawarding procedures.

Arts Endowment awards are subject to the following:

- **2 CFR 200.303 Internal Controls (a) states:** The non-Federal entity must: Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States, or the "Internal Control Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Council officials could not explain why they did not follow the written reporting policy, stating that it had been a long-standing practice to report all granting program costs. We determined the Council did not establish controls over its FFR reporting process. Deviating from written policies and procedures could result in an audit conclusion that the Council did not manage the awards in compliance with Federal statutes, regulations, and terms and conditions of the Federal award.

We recommend that the Council document and implement internal controls that ensure it adheres to its written FFR reporting policy.

## UNSUPPORTED COSTS

During our review of the 2015 reported award costs, we determined that four of 30 tested transactions included unsupported subrecipient costs. We were unable to determine the accuracy or allowability of the costs without supporting documentation. As a result, we are questioning \$8,203 in unsupported subrecipient costs for the 2015 award.

Arts Endowment awards are subject to the following:

- **2 CFR 200.403 Factors Affecting Allowability of Costs, (g) states:** Except where otherwise authorized by statute, costs must meet the following general criteria in order to be allowable under Federal awards: Be adequately documented.
- **General Terms, 18. Record Retention and Access, 18.1 states:** 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 (3) years from the date of submission of the final Federal Financial Report (FFR). Exceptions include if

litigation, claim, or audit is started before the expiration of the three-year period, or if we notify you in writing to extend the retention period.

Council officials stated these subawards were not intended for participation in the Federal award; therefore, the Council did not notify the subrecipient of Federal record retention requirements. Additionally, COVID-19 restrictions imposed by the State resulted in limited access to subrecipient files during portions of fieldwork.

Including unsupported costs on award FFRs could lead to an audit conclusion that the Council did not meet minimum cost sharing/matching requirements, potentially resulting in funds due to the Arts Endowment. We reduced the award's allowable expenditures by \$8,203 and determined that the Council still met the minimum cost share/match requirement (see Appendix A). Therefore, the Arts Endowment is not due a refund, and we are not requesting any additional documentation.

We recommend that the Council document and implement internal controls that ensure FFR costs are supported. We recommend the Arts Endowment disallow \$8,203 in unsupported subaward costs for the 2015 award.

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

## **COSTS INCURRED OUTSIDE THE AWARD PERIOD**

During our review of 2016 and 2017 award costs, we determined that seven of 70 transactions tested included subaward costs incurred outside the award period – four of 35 for the 2016 award and three of 35 for the 2017 award. As a result, we are questioning \$134,608 in subaward costs – \$73,263 for the 2016 award and \$61,345 for the 2017 award.

Arts Endowment awards are subject to the following:

- **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 awarding agency or pass-through entity.

Council officials stated these costs were not excluded from the FFRs because the Council does not do a detailed review of subaward costs to verify compliance with Federal cost allowability requirements. Instead, the Council established monitoring procedures that relied on the subrecipient's familiarity with Federal award requirements to self-ensure reported costs are allowable. The Council established these procedures as a result of its risk-based selection process during awarding. We noted that most of these costs would not have been included in the audit if the Council had followed its FFR reporting policy.

Including costs incurred outside the award period on award FFRs could lead to an audit conclusion that the Council did not meet minimum cost sharing/matching requirements,

potentially resulting in funds due to the Arts Endowment. We reduced each award's allowable expenditures by its questioned costs – \$73,263 for the 2016 award and \$61,345 for the 2017 award – and determined the Council still met each award's minimum cost share/match requirement (see Appendix A). Therefore, the Arts Endowment is not due a refund, and we are not requesting any additional documentation.

We recommend that the Council document and implement monitoring procedures that ensure reported subaward costs are incurred within the award period. We recommend that the Arts Endowment disallow \$134,608 in subaward costs incurred outside the award period – \$73,263 for the 2016 award and \$61,345 for the 2017 award.

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

### **UNALLOWABLE COSTS**

During our review, we identified \$3,906 in unallowable subrecipient costs – \$2,180 from two of 30 transactions for the 2015 award, and \$1,726 from one of 35 transactions for the 2017 award. For the 2015 award, we determined \$1,594 came from one transaction related to fundraising costs for a seasonal appeal. The remaining \$586 came from one transaction related to international travel for a round trip to Iceland. We determined neither transaction received prior written approval from the Arts Endowment. For the 2017 award, we determined \$1,726 came from one transaction related to entertainment costs for catering an after-hours retirement party. We determined this event featured a cash bar, and did not provide a programmatic purpose (e.g., arts education or community outreach).

Arts Endowment awards are subject to the following:

- **2 CFR 200.442 Fundraising and Investment Management Costs, (a) states:** Costs of organized fundraising, including financial campaigns, endowment drives, solicitation of gifts and bequests, and similar expenses incurred to raise capital or obtain contributions are unallowable. Fundraising costs for the purposes of meeting the Federal program objectives are allowable with prior written approval from the Federal awarding agency. Proposal costs are covered in 200.460 Proposal Costs.
- **General Terms, 14. Travel, 14.3 Foreign Travel states, in part:** Foreign travel is defined as any travel outside Canada, Mexico, the United States, and its territories and possessions. The Office of Grants Management must give written approval for all foreign travel not originally approved in your award before travel is undertaken.
- **General Terms, 13. Cost Principles, 13.3.b Entertainment states:** Costs of entertainment, including amusement and social activities such as receptions, parties, galas, dinners, etc., and any associated costs including catering, alcohol, planning, staffing, supplies, etc. are unallowable. However, specific costs that might otherwise be considered entertainment that have a programmatic purpose may be allowable if authorized either in the approved budget for the Federal award or with prior written approval of the Federal awarding agency.

Council officials stated these costs were not excluded from the FFR because the Council's monitoring procedures relied on the subrecipient's familiarity with Federal award requirements to self-ensure reported costs were allowable. We noted that the fundraising costs would not have been included in the audit if the Council had followed its FFR reporting policy.

Including unallowable costs on award FFRs could lead to an audit conclusion that the Council did not meet minimum cost sharing/match requirements, potentially resulting in a refund due to the Arts Endowment. We reduced the 2015 award's allowable costs by \$2,180 and the 2017 award's allowable costs by \$1,726, and determined the Council still meets the minimum cost share/match requirements for each award (see Appendix A). Therefore, the Arts Endowment is not due a refund, and we are not requesting any additional documentation.

We recommend the Council document and implement monitoring procedures that ensure only allowable costs are included on its FFRs. We recommend the Arts Endowment disallow \$3,906 in unallowable subrecipient costs – \$2,180 for the 2015 award and \$1,726 for the 2017 award.

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

## **UNALLOWABLE SUBAWARD COSTS**

During our review, we determined the Council reported unallowable subaward costs in the 2015 and 2017 award FFRs. All three awards included designated funds for the Traditional Arts. Designated funds must be applied to approved program costs. The Council's approved Traditional Arts costs included subaward and administrative costs. We determined only subaward costs were reported on award FFRs; therefore, no administrative costs were available to review for allowability.

The Traditional Arts program issued subawards under two methods – a Fellowship program offered on odd years, and an Apprenticeship program offered on even years. The 2016 award included \$40,000 in designated Traditional Arts funding, and its FFR reported \$50,000 in Apprenticeship subaward costs. We determined the Apprenticeship program met the Federal cost allowability requirements.

The 2015 and 2017 awards each included \$30,000 in designated Traditional Arts funding, and their individual FFRs reported \$40,000 each in Fellowship subaward costs. Fellowship subawards were one-time monetary awards to individual artists in recognition of their artistic excellence, authenticity, and significance to the traditional community. The subawards were based on the merits of the artist's prior body of work, were not contingent on the completion of a project or activity, and did not have final reporting requirements. We determined these subawards were honorifics; therefore, unallowable – \$40,000 each for the 2015 and 2017 awards.

Arts Endowment awards are subject to the following

- ***General Terms, 12. Cost Sharing or Matching Requirements, 12.1 states, in part:*** Funding amounts are for designated for program components (e.g., Poetry Out Loud, Arts in Underserved Communities, or Regional Touring). Designated funding must be used

for these activities; however, you are not required to match individual component amounts.

- **General Terms, 13.2 Selected Costs and Their Allowability Under Partnership Agreements, 13.2.f states:** Support to individual artists may be allowable if the award funds programs and activities and is not a one-time monetary recognition award. Awards to individuals should include presentations, training, research, and/or creation of an artwork, with tangible outcomes required by the subaward. This is considered a stipend to the artist for the work undertaken and completed.
  - i. Because neither the NEA Partnership Agreement funds nor the matching funds can support a fellowship solely as an honorific, costs for this type of award program must not be included in the Partnership Agreement budget.
- **General Terms, 20. Closeout, Adjustments, and Continuing Responsibilities, 20.2.b states:** The closeout of a Federal award does not affect any of the following: Your obligation to return any funds due as a result of later refunds, corrections, or other transactions, including final indirect cost rate adjustments.

Council officials stated they were not aware the Arts Endowment prohibited honorific awards to individual artists. Including unallowable costs in award FFRs could lead to an audit conclusion that designated funding requirements were not met, resulting in a potential Arts Endowment refund due. We reduced the 2015 and 2017 awards' reported Traditional Arts costs by \$40,000 each and determined there were no other reported Traditional Arts costs to support the designated funding received (see Appendix A). As a result, we determined the Council did not meet the designated funding requirements, and a potential refund of \$60,000 is due to the Arts Endowment – \$30,000 from each award.

We recommend the Council update its documented procedures to ensure honorific subawards are excluded from its FFRs. We also recommend the Council provide any additional support for Traditional Arts costs to the Arts Endowment for its review.

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

We recommend the Arts Endowment disallow \$80,000 in honorific subaward costs – \$40,000 each for the 2015 and 2017 awards. We also recommend the Arts Endowment review any additional support provided for Traditional Arts costs and determine allowability.

## **FEDERAL FINANCIAL ACCOUNTABILITY & TRANSPARENCY ACT REQUIREMENTS**

During our review, we determined the Council issued subawards that individually included at least \$25,000 in Federal award funds. None of these subawards were present on the Federal accountability website at the time of our review. We determined the Commonwealth of Massachusetts established policy and guidance on how to meet Federal Financial Accountability & Transparency Act (FFATA) reporting requirements, but the Council did not establish FFATA reporting procedures. Our review identified 108 total subawards that received Federal award funds. We determined that 31 of 108 awards received at least \$25,000 in Federal funds – 10 each from the 2015 and 2017 awards, and 11 from the 2016 award.

Arts Endowment awards are subject to the following:

- **General Terms, 23. Requirements for Subawards Made Under a Partnership Agreement, 23.11 FFATA Reporting states:** As required by the Federal Funding Accountability and Transparency Act (FFATA), you must report any subawards that include \$25,000 or more in Federal funds through the Federal Subrecipient Reporting System at [www.fsrs.gov](http://www.fsrs.gov).
- **Arts Endowment Transparency Act and Sub-Granting Reporting Requirements, states:**
  - **(4) How and Where is this Information Reported? states, in part:** Please note that only you can submit FSRS data; your sub-awardees do not report their own information.
  - **(6) What is the Deadline for Reporting This Information? states, in part:** You have until the end of the month plus one additional month after a subaward is obligated (again, this is the date that your agency/organization uses for the official award date, and can vary depending on your internal policies) to fulfill the reporting requirement. For example, if a subaward was made on August 15, 2016, you have until September 30, 2016 to report the subaward information.

Council officials stated they thought subrecipients were required to self-report FFATA data. Therefore, they did not establish procedures or report the subawards. Prompt reporting of FFATA information is necessary for providing a complete picture of government spending to the American public, and to prevent misinformed decision-making by concerned citizens or government entities.

We recommend the Council document and implement policy and procedures to ensure FFATA reporting requirements are met.

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

## **SUBRECIPIENTS NOT NOTIFIED OF FEDERAL REQUIREMENTS**

During our review, we determined the Council did not notify Traditional Arts subrecipients of their participation in a Federal award. The Council established documented procedures for issuing subawards in compliance with Federal award requirements, including notification. However, the Council did not follow these procedures when issuing Traditional Arts subawards. Rather, the Council followed its standard issuance procedures for state-funded grants.

Arts Endowment awards are subject to the following:

- **2 CFR 200.331 Requirements for Pass-Through Entities, (a) states, in part:** 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 notification. 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:

1. Federal award identification;
  2. 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;
  3. Any additional requirements that the pass-through entity imposes on the subrecipient in order for the pass-through entity to meet its own responsibility to the Federal awarding agency including identification of any required financial and performance reports;
  5. A requirement that the subrecipient permit the pass-through entity and auditors to have access to the subrecipient's records and financial statements as necessary for the pass-through entity to meet the requirements of this part.
- **General Terms, 8. Financial Management and Internal Controls, 8.2 states:** You must establish and maintain effective internal controls over your award and provide reasonable assurance that you are managing the award in compliance with Federal statutes, regulations, and the terms and conditions of the award. See recommended compliance documentation (200.303).

Council officials stated a timing issue caused the deviation, as Traditional Arts subawards are issued later than other subawards. Failure to notify subrecipients of their participation in a Federal award could result in improper subaward management.

We recommend the Council document and implement internal controls to ensure all subrecipients are notified of the Federal award requirements.

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

## LATE FINAL REPORTS

During our review, we determined the Council did not submit its final reports by the reporting deadlines. Each award's final reports were due on September 28 of their respective years. However, the Council submitted the reports on November 16, November 14, and October 16 of their respective years. The Council did not request or receive deadline extensions for any of these awards.

Arts Endowment awards are subject to the following:

- **2 CFR 200.343 Closeout, (a) states, in part:** 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 the terms and conditions of the Federal award.
- **General Terms, 16. Performance and Financial Reporting, states in part:**
  4. 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 and/or regularly submitted reports after the final report deadline may also affect eligibility for new awards.

5. In addition, failure to submit required final reports within 210 days after the period of performance end date will result in the withdrawal of any funds remaining on that award and closeout of the award.

Council officials stated the reports were submitted late because the deadlines were during its busy season, and deadline extensions were not requested because they did not realize that overdue final report could affect their eligibility for new awards. Additionally, the Arts Endowment could close the award and retain any unspent funds if final reports remain due 210 days after the performance period end date.

We recommend the Council document and implement procedures that ensure final reports are submitted on time.

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

### **RECOMMENDATION SUMMARY**

We recommend the Council:

1. Document and implement procedures to ensure its FFR report costs are accurate;
2. Document and implement internal controls that ensure it adheres to its written FFR reporting policy;
3. Document and implement internal controls that ensure FFR costs are supported;
4. Document and implement monitoring procedures that ensure reported subaward costs are incurred within the award period;
5. Document and implement monitoring procedures that ensure only allowable costs are included on its FFRs;
6. Update its documented procedures to ensure honorific subawards are excluded from its FFRs;
7. Provide any additional support for Traditional Arts costs to the Arts Endowment for its review;
8. Document and implement policy and procedures to ensure FFATA reporting requirements are met;
9. Document and implement internal controls to ensure all subrecipients are notified of the Federal award requirements;
10. Document and implement procedures that ensure final reports are submitted on time.

We recommend the Arts Endowment:

1. Disallow \$2,787,525 in overstated FFR costs for the 2017 award;
2. Disallow \$8,203 in unsupported subaward costs for the 2015 award;
3. Disallow \$134,608 in subaward costs incurred outside the award period – \$73,263 for the 2016 award and \$61,345 for the 2017 award;

4. Disallow \$3,906 in unallowable subrecipient costs – \$2,180 for the 2015 award and \$1,726 for the 2017 award
5. Disallow \$80,000 in honorific subaward costs – \$40,000 each for the 2015 and 2017 awards; and
6. Reviews any additional support provided for Traditional Arts costs and determine allowability.

## BREAKDOWN OF AWARD COSTS

| <i>Award No. 15-6100-2023</i>                     |              |
|---------------------------------------------------|--------------|
| Total Reported Costs                              | \$11,961,047 |
| Less Reported Traditional Arts Costs <sup>1</sup> | (40,000)     |
| Total Adjusted Reported Costs                     | 11,921,047   |
| Less Unallowable Costs                            |              |
| Fundraising                                       | (1,594)      |
| Less Questioned Costs                             |              |
| Foreign Travel                                    | (586)        |
| Unsupported                                       | (8,203)      |
| Potential Allowable Reported Costs                | 11,910,664   |
| Less Arts Endowment Disbursement <sup>1</sup>     | (845,600)    |
| Potential Allowable Cost Share/Match              | 11,065,064   |
| Less Required Cost Share/Match <sup>2</sup>       | (875,600)    |
| Council Cost Share/Match Exceeded                 | \$10,189,464 |

<sup>1</sup>Reported and disbursement costs are reduced by Traditional Arts funds (see table below).

<sup>2</sup>The match amount could be reduced \$30,000, depending on the Arts Endowment's decision on the potential refund of Traditional Arts funds.

| <i>Award No. 15-6100-2023 - Traditional Arts</i>  |            |
|---------------------------------------------------|------------|
| Total Reported Traditional Arts Costs             | \$ 40,000  |
| Less Unallowable Fellowship Costs                 | (40,000)   |
| Potential Allowable Reported Costs                | 0          |
| Less Arts Endowment Traditional Arts Disbursement | (30,000)   |
| Potential Refund Due                              | \$(30,000) |

| <i>Award No. 16-6100-2037</i>        |              |
|--------------------------------------|--------------|
| Total Reported Costs                 | \$12,200,682 |
| Less Questioned Costs                |              |
| Outside the Period                   | (73,263)     |
| Potential Allowable Reported Costs   | 12,127,419   |
| Less Arts Endowment Disbursement     | (915,900)    |
| Potential Allowable Cost Share/Match | 11,211,519   |
| Less Required Cost Share/Match       | (915,900)    |
| Council Cost Share/Match Exceeded    | \$10,295,619 |

## APPENDIX A

| <i>Award No. 17-6100-2054</i>                     |                           |
|---------------------------------------------------|---------------------------|
| Total Reported Costs                              | \$ 13,924,231             |
| Less Overstated Costs                             | (2,787,525)               |
| Less Reported Traditional Arts Costs <sup>1</sup> | <u>(40,000)</u>           |
| Adjusted Reported Costs                           | 11,096,706                |
| Less Unallowable Costs                            |                           |
| Entertainment                                     | (1,726)                   |
| Less Questioned Costs                             |                           |
| Outside the Period                                | <u>(61,345)</u>           |
| Potential Allowable Reported Costs                | 11,033,635                |
| Less Arts Endowment Disbursement <sup>1</sup>     | <u>(861,200)</u>          |
| Potential Allowable Cost Share/Match              | 10,172,435                |
| Less Required Cost Share/Match <sup>2</sup>       | <u>(891,200)</u>          |
| Council Cost Share/Match Exceeded                 | <u><u>\$9,281,235</u></u> |

<sup>1</sup>Reported and disbursement costs are reduced by Traditional Arts funds (see table below).

<sup>2</sup>The match amount could be reduced \$30,000, depending on the Arts Endowment's decision on the potential refund of Traditional Arts funds.

| <i>Award No. 17-6100-2054 - Traditional Arts</i>  |                          |
|---------------------------------------------------|--------------------------|
| Total Reported Traditional Arts Costs             | \$ 40,000                |
| Less Unallowable Fellowship Costs                 | <u>(40,000)</u>          |
| Potential Allowable Reported Costs                | 0                        |
| Less Arts Endowment Traditional Arts Disbursement | <u>(30,000)</u>          |
| Potential Refund Due                              | <u><u>\$(30,000)</u></u> |



*Power of culture*

March 15, 2021

**VIA EMAIL to [oig@arts.gov](mailto:oig@arts.gov)**

National Endowment for the Arts  
Office of the Inspector General

Re: Management Responses to Audit Report

Dear Inspector General:

In response to the draft performance audit report of Mass Cultural which we received on March 5, 2021, below please find the management responses to the report's findings.

### **MANAGEMENT RESPONSES**

1. Overstated Costs. The Council concurs in this finding. The Council made an error in the calculation of the match for the National Endowment for the Arts (NEA) 2017 award (covering the Council's FY 2018) to which it cannot trace and substantially overstated its costs. We note (as will be addressed below in response to Finding #2), this error tracks back to the Council's mistaken practice of reporting all of its grant activities as the match for the NEA rather than a much smaller number closer in size to the actual federal grant amount as would be appropriate. We note that even after removing the overstated costs, the Council was still reporting a match more than 10 times larger than required for the 2017 award. Since becoming aware of this issue, we have instituted a policy for double-checking calculation amounts on Federal Financial Reports (FFRs) and will require worksheets showing detailed calculation of match amounts. The Council's FFR submission in September 2019 reported an amount equal to the NEA grant amount. The Council will document and implement procedures to ensure FFR costs are accurate.
2. Federal Financial Reporting Procedures. The Council concurs in this finding. Furthermore, the Council points to this finding as the primary reason for Findings #1-5 and 9. Due to our longstanding practice and apparent confusion over what was to be reported in FFRs, the Council has routinely over the years

reported all of its spending as part of the “match requirement” on FFRs in contradiction to its own written policies. This resulted in making a great deal of Council activity subject to federal regulation and open to federal audit despite the fact that the Council had not intended to subject most of its grants and programs to federal rules. Following our meeting with the NEA Auditor in August 2019, the Council's FFR submission made in September 2019 reported an amount equal to the NEA grant amount. The Council will document and implement internal controls which will ensure that it adheres to its FFR reporting policy.

3. Unsupported Costs. The Council concurs in this finding. This issue resulted from the unnecessary inclusion of subawards in the FFR reporting (as detailed in Finding 2 above). Also as noted, access to documents which were requested by the auditor in 2020 during the height of COVID-19 restrictions made it difficult for some subrecipients to access their documents and for Council staff to review subrecipient's submissions. We believe that during non-pandemic times, Council staff could have worked with the subrecipients to produce the necessary supporting documentation meeting the federal requirements. The Council will document and implement internal controls which will ensure all reported FFR costs are supported.
4. Costs Incurred Outside the Award Period. The Council concurs in this finding. The Council refers to its answers for the previous findings and will document and implement monitoring procedures to ensure costs are incurred during the award period.
5. Unallowable Costs. The Council concurs in this finding. The Council refers to its answers for the previous findings and will document and implement monitoring procedures to ensure that only allowable costs are reported.
6. Unallowable Subaward Costs. The Council was surprised to learn that the audit stated that our Traditional Fellowships program were deemed honorifics and therefore an improper use of NEA funding. The Council concurs that it spent the 2015 and 2017 funds on the Traditional Fellowships program and since the auditor visit in 2019, the Council has not spent federal funds on this program. The Council used state monies which were not reported as federal match to fund Traditional Arts Fellowships in FY 2020. The Council however does believe it did incur sufficient allowable administrative costs related to Folk and Traditional Arts for the time periods of the 2015 and 2017 awards (as detailed in the budgets submitted in the applications for the 2015 and 2017 awards). The Council spent funds on allowable costs, such as salary, documentary field work, showcase events and supportive administrative costs, during the subject time periods. Therefore, the Council does not believe there will be a need to refund any amounts and will submit additional information for allowable costs to the NEA for these award years.

7. Federal Financial Accountability & Transparency Act Requirements. The Council concurs in this finding and will make all required FFATA reports in the future (and has done so since the issue was brought to our attention in summer 2019). The Council will document and implement policy and procedures to ensure FFATA reporting requirements are met.
8. Subrecipients Not Notified of Federal Requirements. The Council concurs in this finding and will ensure that all Traditional Arts subrecipients and other recipients of federal or matched funds are appropriately notified of their participation in a Federal Award. The Council will document and implement internal controls to ensure all federal funds subrecipients are notified of federal award requirements.
9. Late Final Reports. The Council concurs in this finding. The Council's data has often lagged behind the time necessary to complete final reports for the NEA (and this was compounded by the Council's error noted in Finding #2 of reporting its entire scope of activities rather than a limited match amount). Historically, the Council had filed its reports late for several years and had never been made aware or seen a problem related to the late filing of these reports. After this issue was raised by the Auditor in 2019, the Council's final report was filed on the due date in September 2019. The due dates for the September 2020 final reports have been extended due to the COVID-19 pandemic but we intend to file them on time later this summer. The Council will institute policies to ensure that either the final reports are filed in time or an extension has been requested and granted by the NEA.

If there are any questions, please do not hesitate to contact me or Mass Cultural Council's Deputy Director, David Slatery.

Sincerely,



Michael J. Bobbitt  
Executive Director

CC: Katie Wiesner, NEA OIG, [weisnerk@arts.gov](mailto:weisnerk@arts.gov)  
Nina Fialkow, Chair, Mass Cultural Council  
David Slatery, Deputy Director, Mass Cultural Council