



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

**Performance Audit Report on Selected Awards to
Kansas Department of Commerce
Topeka, Kansas**

Report No. OIG-21-02

July 14, 2021

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SUMMARY

We conducted a performance audit of a National Endowment for the Arts (Arts Endowment) award issued to the Kansas Department of Commerce (KDC). Based on our review, we determined KDC generally met the financial and compliance requirements set forth in the award documents. However, we identified the following areas requiring improvement. For instance, KDC:

1. Did not report actual costs on its Federal Financial Report (FFR);
2. Did not document its methodology for recording and reporting payroll costs for Arts Endowment awards; and
3. Did not have written policies and procedures in place to ensure that contractors are not debarred or suspended prior to the award of Federal funds.

Thus, we are questioning overstated costs totaling \$950. We have made two recommendations for KDC to improve these areas, and one recommendation to the Arts Endowment regarding the questioned costs.

INTRODUCTION

BACKGROUND

Kansas Department of Commerce (KDC) strives to improve the Kansas economy through the creation of jobs and retention of jobs and capital investments, as well as improving quality of life in Kansas communities. The Kansas Creative Arts Industries Commission (KCAIC) was created to replace two former arts Commissions that were founded to support and sustain the development of arts and cultural resources in Kansas. KCAIC is a program in KDC that focuses on leveraging the creative arts to benefit the Kansas economy. KCAIC's mission is to promote, support, and develop the creative arts in Kansas through partnership, innovation, job growth and entrepreneurship.

OBJECTIVE, SCOPE, AND METHODOLOGY

Performance audits involve a limited review of financial and non-financial information of the National Endowment for the Arts (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 KDC's financial management system and recordkeeping comply with the requirements established by the Office of Management and Budget (OMB) and the Arts Endowment's *General Terms and Conditions for Partnership Agreements (General Terms)*; including whether:

- KDC 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 (2018)*, 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. Accordingly, we included such tests of records and other auditing procedures that were considered necessary under the circumstances. We reviewed internal controls relevant to the above objectives, but not KDC’s overall system of internal control. As a result, we will not express an opinion on the efficiency and operating effectiveness of KDC’s system of internal control. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit.

The performance audit of KDC covered the period of June 1, 2017 to May 31, 2020. We reviewed the Arts Endowment’s award records and determined that KDC received four awards during the review period. Our audit was limited to one award for which KDC had drawn down and submitted an FFR of funds during the reporting period -- award No. 16-6100-2066 (see table below).

Award No.	Award Period	Original Award Amount	De-obligated Amount	Adjusted Award Amount	Total Reported Costs
16-6100-2066	07/01/2016 - 12/31/2018	\$637,600	\$29,953	\$607,647	\$1,193,682
Total		\$637,600	\$29,953	\$607,647	\$1,193,682

This State & Regional award was provided to KDC for Partnership Agreement activities consisting of: State Arts Plan (Poetry Out Loud), Arts Education, and Underserved Communities. The original award description included a one-to-one cost share/matching requirement. KDC received an extension due to a six-month delay of programs to obtain the qualifying state matching funds. However, KDC was only able to secure 89.7% state matching funds, and the Arts Endowment reduced the cost share/matching requirement to 89.7%.

We identified two significant internal control components that were relevant to our audit objectives; control activities and monitoring. Control activity principles require KDC to design and implement control activities that achieve mission objectives and respond to risks. Monitoring principles require KDC to establish and operate activities to monitor and evaluate the internal control system to address deficiencies on a timely basis. We conducted audit work to identify significant controls within KDC’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 KDC. We determined the data obtained and used for the purposes of this audit was reliable.

Additionally, we conducted reviews of KDC financial procedures and performance outcomes to determine compliance with award requirements. This audit work included reviews of procedures and support documents, and interviews with KDC 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 cost 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 the award for compliance testing with subaward requirements. We also judgmentally selected 40 cost items from the award for transaction testing, to include subaward costs and procurement costs.

PRIOR AUDIT COVERAGE

The Arts Endowment Office of Inspector General has not issued any audit reports on Federal awards to the KDC. As of the planning phase of this audit, the most recent issued audit report was for the fiscal year ended June 30, 2019. The State of Kansas, Comprehensive Annual Financial Report (CAFR) was prepared by the Department of Administration, Office of Accounts and Reports. The CAFR included the State's Financial Statement audit, performed by CliftonLarsonAllen LLP. In its opinion, the financial statements were presented fairly, in all material respects, for the year ended June 30, 2019. KDC was subject to the audit requirements of 2 CFR 200, Subpart F (Audit Requirements).

RESULTS

ACTUAL COSTS NOT REPORTED

KDC did not report actual costs on its FFR for the Arts Endowment award. According to the FFR, KDC reported \$1,193,682 in total project costs. Based on our review of KDC's expenditure report of total costs, we determined that the reported Federal share agrees with the FFR, totaling \$607,647. The cost share/matching portion of the expenditure report totaled \$586,035; however, we identified costs within the cost share/matching total that were inaccurately calculated. Specifically, KDC included estimated costs designated to commerce resources/payroll allocations totaling \$243,368. We requested a detailed expenditure listing of the commerce resources/payroll allocations, and KDC provided \$242,418 in costs. Therefore, we determined that KDC overstated the cost share/matching portion of the Arts Endowment award in the amount of \$950. Awards issued by the Arts Endowment are subject to the following requirements:

- **2 CFR 200.302(b)(2). Financial Management states, in part:** 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.
- **Arts Endowment Instructions for Completing the Federal Financial Report states, in part:** For the FFR you must report actual expenditures that you assigned to the approved Arts Endowment project, based on supporting documents such as invoices, contracts, receipts, checks, transaction reports, and bank statements. Review your accounting and support documentation and report only actual, documented costs on the FFR.
- **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 Arts Endowment award funds in box 10e must equal the total actual, allowable expenditures.

According to KDC officials, they used an estimated amount based on the information available and provided by the fiscal staff at that time. KDC policies and procedures did not include procedures for reporting actual costs on its FFR. Thus, we are questioning overstated costs in the amount of \$950. Not reporting actual costs could result in not meeting the required cost share/matching amount, leading to a potential refund due to the Arts Endowment. To determine if a refund was due, we reduced the award's total costs by its respective overstated costs amount.

We determined that without these costs, KDC still met the required cost share/match; therefore, no refund is due to the Arts Endowment (See Appendix A).

We recommend that KDC update its policies and procedures to ensure actual costs are reported on its FFR.

We recommend the Arts Endowment disallow \$950 in overstated costs.

KDC concurs with this finding and recommendation (see Appendix B).

PAYROLL PROCEDURES NOT DOCUMENTED

KDC did not document its methodology for recording and reporting allocated payroll costs for the Arts Endowment award. We reviewed KDC's policies and procedures for grants management that addressed cost allowability, record retention, financial reporting, and payment procedures; however, they did not include procedures for recording and reporting allocated payroll costs. Awards issued by the Arts Endowment are subject to the following requirements:

- **2 CFR 200.430. Compensation-Personal Services. Standards for Documentation of Personnel Expense (i)(1)(i):** Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated.
- **General Terms. 18.2. Standards for Documentation of Personnel Expenses states:** Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. The records must comply with your organization's internal controls and established accounting policies. Records must support these costs for both the Federal funds and cost share or matching requirements. We may require personnel activity reports or equivalent documentation if necessary.
- **2 CFR 200.303. Internal Controls:** The non-Federal entity must:
 - a. 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).
 - b. Comply with Federal statutes, regulations, and the terms and conditions of the Federal awards.
 - c. Evaluate and monitor the non-Federal entity's compliance with statutes, regulations and the terms and conditions of Federal awards.
 - d. Take prompt action when instances of noncompliance are identified including noncompliance identified in audit findings.
 - e. Take reasonable measures to safeguard protected personally identifiable information and other information the Federal awarding agency or pass-through entity designates as sensitive or the non-Federal entity considers sensitive

consistent with applicable Federal, state, local, and tribal laws regarding privacy and obligations of confidentiality.

KDC was not aware that payroll procedures were required and relied on the state of Kansas to perform payroll procedures. Without written payroll procedures, KDC could include unallowable personnel expenditures on the FFR. We recommend KDC document the methodology for recording and reporting allocated payroll costs for Arts Endowment awards in its policies and procedures.

KDC concurs with this finding and recommendation (see Appendix B).

DEBARMENT & SUSPENSION

KDC does not have written policies and procedures in place to ensure that contractors are not debarred or suspended prior to the award of Federal funds. According to KDC officials, debarment and suspension language is documented in its contracts requiring individuals and entities to self-certify prior to doing business. We reviewed contract documentation of subrecipients and contractors and determined that debarment and suspension language was included for subrecipients. However, debarment and suspension language was not included for contractors. Awards issued by the Arts Endowment 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.
- **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.

KDC was not aware that the debarment and suspension requirement was applicable to contractors. Without written debarment and suspension policies and procedures in place, KDC could have instances of debarred or suspended individuals or organizations receiving Federal funds.

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

RECOMMENDATION SUMMARY

We recommend KDC:

1. Update its policies and procedures to ensure actual costs are reported on its FFR.
2. Document the methodology for recording and reporting allocated payroll costs for Arts Endowment awards in its policies and procedures.

We recommend the Arts Endowment disallow \$950 in overstated costs.

BREAKDOWN OF COSTS

Award No. 16-6100-2066

Total Reported Costs	\$1,193,682
Overstated Questioned Costs	(950)
Adjusted Allowable Costs	<u>1,192,732</u>
Less Arts Endowment Disbursement	<u>(607,647)</u>
Potential Allowable Cost Share/Match	585,085
Less Required Cost Share/Match ¹	<u>(545,159)</u>
KDC Cost Share/Match Exceeded	<u>\$39,926</u>

¹ The one-to-one cost share/matching requirement was reduced by the Arts Endowment to 89.7%.

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David C. Toland, Secretary

Laura Kelly, Governor

July 7, 2021

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

Dear Mr. Stith,

The Kansas Department of Commerce concurs with the findings included in the Performance Audit Report. The report set forth below presents Commerce's written corrective action plan for each recommendation from the Office of the Inspector General.

Kansas Department of Commerce
Performance Audit Report on Selected Awards
Corrective Action Plan

Recommendation 1 – Actual Costs Not Reported

Response: Commerce will update its policies and procedures to ensure actual costs are reported on its FFR.

Recommendation 2 – Payroll Procedures for Arts Endowment Awards Not Documented

Response: Commerce will update its policies and procedures to properly document the methodology for recording and reporting allocated payroll costs for Arts Endowment awards.

Finding 3 – Debarment and Suspension

Response: Commerce has updated its procedures and contracts to ensure contractors are not debarred or suspended prior to award of federal funds

Corrective Action plan

Personnel Responsible: Director of KCAIC – Peter Jasso; Chief Fiscal Officer – Sherry Rentfro;
Deputy Chief Consul – Jordan Bickford

Anticipated Completion Date: August 1, 2021

If you have any questions, please contact Peter Jasso at Peter.Jasso@ks.gov or 785.296.2178

Sincerely,

A handwritten signature in black ink, appearing to read "Peter Jasso".

Peter Jasso
Director – Kansas Creative Arts Industries Commission
Kansas Department of Commerce