



OFFICE OF INSPECTOR GENERAL

Report No. OIG-22-03

**Arizona Commission on the Arts
Phoenix, Arizona**

April 27, 2022

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SUMMARY

We conducted a performance audit of three National Endowment for the Arts (NEA) awards issued to the Arizona Commission on the Arts (Commission) – Awards No. 17-6100-2062 (2017 award), 180989-61-18 (2018 award), and 1855979-61-19 (2019 award). Based on our review, we determined that the Commission generally met the financial and compliance requirements established in the award documents. However, we also determined the following areas require improvement. Specifically, the Commission:

1. Reported \$36,483 in costs incurred outside the award period on its FFRs - \$4,272 for the 2018 award and \$32,211 for the 2019 award;
2. Did not report a subaward that met the Federal Financial Accountability and Transparency Act reporting requirement; and
3. Did not verify potential contractors were eligible to participate in Federal awards.

Based on our review, we are questioning \$36,483 in reported costs. As a result, we determined the Commission did not meet the cost share/match requirement for the 2018 award, resulting in a potential refund due to the NEA totaling \$2,136. The report includes three recommendations to the Commission and two to the NEA to address these findings. The Commission concurred with these findings and recommendations.

INTRODUCTION

BACKGROUND

Established in 1966, the Arizona Commission on the Arts (Commission) is a state agency dedicated to creating opportunities for all Arizonans to participate in and experience the arts. The Commission achieves its mission by providing grants and other support that cultivate sustainable art communities and promote statewide access to arts and cultural activities. The Commission receives its funding from the State of Arizona and the National Endowment for the Arts (NEA). NEA funds are primarily used by the commission to pay personnel expenses and issue grants.

OBJECTIVE, 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 Commission's financial management system and recordkeeping comply with requirements established by the Office of Management and Budget (OMB) and the NEA;
- The Commission's total project costs reported under the awards were supported, reasonable, allocable, and allowable; and
- Required cost share/matching was met on the NEA awards.

We limited the scope of our audit to three awards closed during the period of October 1, 2018 to September 30, 2021 – Awards No. 17-6100-2062 (2017 award), 180989-61-18 (2018 award), and 1855979-61-19 (2019 award) (see table below). The awards were issued under the NEA Partnership program to support programs, services, and activities associated with the Commission’s NEA-approved strategic plan. All three awards initially required a one-to-one cost share match, and the 2017 and 2018 awards were amended to extend their final reporting deadlines to December 31 of 2018 and 2019, respectively. The 2019 award was amended once to add \$478,700 in non-matching Coronavirus Aid, Relief, and Economic Security (CARES) Act funds, extending the period of performance to June 20, 2022, and extending the reporting deadline to September 28, 2022. CARES Act funds were issued with special terms and conditions for recordkeeping and payment requests, though all other standard Partnership award management requirements applied. The Commission submitted its final reports on March 19, 2021, thereby closing out the award early.

Award No.	Award Period	Original Award Amount	CARES Act Amendment Amount	Final Award Amount	Reported Costs
2017	07/01/17 – 06/30/18	\$ 821,600		\$ 821,600	\$3,280,935
2018	07/01/18 – 06/30/19	830,800		830,800	1,661,600
2019	07/01/19 – 02/26/21	841,400	\$478,700	1,320,100	3,300,838
Totals		\$2,493,800	\$478,700	\$2,972,500	\$8,243,373

We conducted audit work to identify and test the operation and reliability of the Commission’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 Commission’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 Commission to design and implement control activities that achieve mission objectives and respond to risks. Monitoring principles require the Commission to monitor and evaluate the internal control system. Tests of these controls included audit work to verify the reliability of computer-processed data (CPD) provided by the Commission. 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 walkthroughs. 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 supporting documentation, and interviews with the Commission’s staff.

Finally, we conducted tests of subawards and transactions to determine the allowability of reported costs. We conducted risk assessments to determine subaward and cost 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 the 2017 and 2018 awards, and four subawards from the 2019 award for compliance testing with subaward

requirements. We also judgmentally selected 20 cost items from the 2017 and 2018 awards, and 30 cost items from the 2019 award for cost allowability testing. These items included payroll, credit card, procurement, and subaward costs. Finally, the 2019 award's additional test selections were made from reported CARES Act costs to determine whether the Commission followed the NEA's special CARES Act terms and conditions.

PRIOR AUDIT COVERAGE

During the past five years, NEA Office of Inspector General has not issued any audit reports on Federal awards to the Commission. However, the Commission was included in the State of Arizona Single Audit report. 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 Arizona Single Audit report was prepared by the Arizona Office of Auditor General, which issued an unmodified opinion on the financial statements on March 30, 2020. In its opinion, based on the audit and procedures performed, the schedule of expenditures of Federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole. The Commission was subject to the audit requirements of OMB Circular A-133 and 2 CFR 200, Subpart F (Audit Requirements).

RESULTS

COSTS INCURRED OUTSIDE OF THE AWARD PERIOD

The Commission reported \$36,483 of costs incurred outside the award period on its 2018 and 2019 award FFRs. We identified five subaward transactions totaling \$4,272 for the 2018 award, and one agency payroll transaction totaling \$32,211 for the 2019 award, that were deemed outside the award periods. As a result, we are questioning these costs.

Awards issued by the NEA are 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.
- ***General Terms, 5. Selected Definitions, Period of Performance states*:** The start and end date of the award. Only costs and activities incurred during this time can be charged to the award. NOTE: For Partnership awards, the period of performance for the Federal award must be sufficient to include the period of performance of any subawards made with NEA or cost share/matching funds, including any necessary time extensions and required closeout activities.

Commission officials stated that drastic changes within their subrecipients' operations caused them to misreport costs during the audit. Commission officials also stated that their payroll costs were mistakenly included in the expenditure reports due to their focus on properly reporting CARES Act funds.

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

potentially resulting in funds due to the NEA. To determine whether a refund was due, we reduced each award's total costs by its respective questioned costs amount. Without these costs, the Commission met the one-to-one cost share/match requirement for the 2019 award. However, the Commission did not meet the required cost share/match for the 2018 award, resulting in a \$2,136 potential refund due to the NEA.

We recommend the Commission document and implement internal controls that ensure reported costs are incurred within the award period.

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

We also recommend that the NEA review supporting documentation for the 2018 award's \$4,272 questioned costs and determine whether a refund is due.

Lastly, we recommend the NEA disallow the 2019 award's \$32,211 questioned outside costs.

FEDERAL FINANCIAL ACCOUNTABILITY & TRANSPARENCY ACT REPORTING PROCEDURES

The Federal Financial Accountability & Transparency Act (FFATA) established a reporting requirement for all subawards that include at least \$25,000 in Federal funds (\$30,000 as of October 1, 2020). During our review, we identified one subaward that met the FFATA requirement. However, the subaward was not present on the Federal accountability website at the time of our review. The Commission's subaward policies and procedures references the FFATA, but do not include procedures on how to meet the reporting requirements.

Awards issued by the NEA are subject to the following requirements:

- ***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.
- ***NEA Transparency Act and Sub-Granting Reporting Requirements, 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.

Commission officials stated they did not establish FFATA reporting procedures because it is standard internal practice to restrict Federal funds to agency payroll costs and small subawards. This practice is not documented, and there are no controls in place to ensure it is followed. We determined the lack of documented procedures and controls led to Commission employees diverging from standard practice and the subaward going unreported.

Prompt reporting of FFATA information is necessary for providing a complete picture of government spending to the public, and to prevent misinformed decision-making by concerned citizens or government entities.

We recommend the Commission document and implement procedures and controls to ensure FFATA reporting requirements are met.

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

DEBARMENT & SUSPENSION PROCEDURES

The Commission established policy and procedures for verifying subrecipients were not suspended or debarred from participating in Federal awards. However, it did not establish similar policy and procedures for potential contractors. As a result, we determined the Commission did not comply with Federal eligibility requirements pertaining to debarment and suspension for contractors.

Awards issued by the NEA are subject to the following requirements:

- **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. The regulations in 2 CFR part 180 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 another 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:
 - (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.
- ***General Terms, Appendix A, 3. Debarment and Suspension states in part:*** You must comply with requirements regarding debarment and suspension in Subpart C of 2 CFR part 180, as adopted by NEA in Title 2 CFR, Chapter 32, Part 3254.

The Commission did not realize contractors were left out of its debarment and suspension policies and procedures. We determined the Commission was not reviewing its procedures to ensure Federal eligibility requirements pertaining to debarment and suspension were met.

Because the Commission did not include contractors in its debarment and suspension procedures, it could have instances where debarred or suspended individuals or organizations receive Federal funds. We tested 12 contractors to determine eligibility and verified that all 12 were eligible to receive Federal funds.

We recommend the Commission document and implement internal controls that ensure Federal eligibility requirements pertaining to debarment and suspension are met for all required individuals and organizations.

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

RECOMMENDATION SUMMARY

We recommend the Commission:

1. Document and implement internal controls that ensure reported costs are incurred within the award period.
2. Document and implement procedures and controls to ensure FFATA reporting requirements are met.
3. Document and implement internal controls that ensure Federal eligibility requirements pertaining to debarment and suspension are met.

We recommend the NEA:

1. Review supporting documentation for the 2018 award's \$4,272 questioned outside costs and determine whether a refund is due.
2. Disallow the 2019 award's \$32,211 questioned outside costs.

BREAKDOWN OF AWARD COSTS

2017 Award

	Totals
Total Reported Costs	\$ 3,280,935
Less NEA Disbursement	<u>(821,600)</u>
Potential Allowable Cost Share/Match	2,459,335
Less Required Cost Share/Match*	<u>(821,600)</u>
Commission Cost Share/Match Exceeded	<u><u>1,637,735</u></u>

**This award has a one-to-one cost share/match requirement for every NEA dollar disbursed, therefore the Required Cost Share/Match is equal to the NEA Disbursement amount.*

2018 Award

	Totals
Total Reported Costs	\$ 1,661,600
Less Questioned Outside Costs	<u>(4,272)</u>
Potential Allowable Reported Costs	1,657,328
Less Commission Share of Costs*	<u>(828,664)</u>
NEA Share of Costs	828,664
Less NEA Disbursement	<u>(830,800)</u>
Potential Refund Due	<u><u>\$ (2,136)</u></u>

**This award has a one-to-one cost share/match requirement for every NEA dollar disbursed, but the Potential Allowable Reported Costs is less than the minimum one-to-one total of \$1,661,600. Therefore, the Commission's share of costs is half the Potential Allowable Reported Costs amount.*

2019 Award

	Totals
Total Reported Costs	\$ 3,300,838
Less Questioned Outside Costs	<u>(32,211)</u>
Potential Allowable Reported Costs	3,268,627
Less NEA Disbursement	<u>(1,320,100)</u>
Potential Allowable Cost Share/Match	1,948,527
Less Required Cost Share/Match*	<u>(841,400)</u>
Commission Cost Share/Match Exceeded	<u><u>\$ 1,107,127</u></u>

**This award has a one-to-one cost share/match requirement up to \$841,400, therefore the Required Cost Share/Match is equal to \$841,400.*

April 25, 2022

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 Friday, April 15, 2022. As requested, this letter constitutes the written response from our agency, the Arizona Commission on the Arts.

We concur with the three findings in the report and the included recommendations:

Costs Incurred Outside of the Award Period

As noted in the report, detrimental impacts of the COVID-19 pandemic on the operations of subrecipients made it difficult for some subrecipients to access their documents and for agency staff to review submissions at the time of the audit. The Arts Commission will review its current monitoring procedures and internal controls to ensure submitted costs meet all expenditure requirements.

Federal Financial Accountability & Transparency Act (FFATA) Reporting Procedures

The Arts Commission will document and implement policy and procedures to ensure FFATA reporting requirements are met should extenuating circumstances require a deviation from standard internal practices.

Debarment & Suspension Procedures

The Arts Commission has updated its procedures to assure that all contracts and letters of agreement include appropriate debarment and suspension language for verification of contractor eligibility.

The Arizona Commission on the Arts values the partnership with the National Endowment for the Arts (NEA) and looks forward to providing the corrective action plan and implementing best practices regarding stewardship of NEA funds.

Thank you to Rashaad Lee and Katie Weisner for their precise and patient work.

Sincerely,



Anne L'Ecuyer
Executive Director