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Limited Scope Audit on Selected Awards to New Jersey State Council on the Arts Trenton, New Jersey

Report No. OIG-20-02

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SUMMARY

Based on our limited scope audit, we concluded that the New Jersey State Council on the Arts (NJSCA) did not fully comply with financial management system and recordkeeping requirements established by the U.S. Office of Management and Budget (OMB) and the National Endowment for the Arts (Arts Endowment). We identified the following areas requiring improvement. NJSCA:

1. Did not report actual costs on its Federal Financial Reports (FFRs).
2. Reported unallowable subawards and alcohol costs on its FFRs.
3. Reported costs outside of the award period on its FFRs.
4. Did not submit its revised FFR on time.
5. Did not have debarment and suspension policies and procedures.
6. Did not have policies and procedures for the management of Federal awards.

INTRODUCTION

OBJECTIVES, SCOPE AND METHODOLOGY

We conducted a limited scope audit of NJSCA for the period of June 1, 2016 to May 31, 2019. This type of audit involves a limited review of financial and nonfinancial information to ensure validity and accuracy of award recipients' reported information and compliance with State and Federal requirements. The objectives of this audit were to determine whether:

- NJSCA's financial management system and recordkeeping complies with the requirements established by OMB and Arts Endowment *General Terms & Conditions for Grants Partnership Agreements (General Terms)*;
- NJSCA fulfilled the financial and compliance requirements, including cost share/matching, set forth in Arts Endowment awards; and
- Total project costs reported under the awards were reasonable, allocable, and allowable; including cost share/matching set forth in its Arts Endowment awards.

The limited scope audit was conducted in accordance with applicable U.S. Government Accountability Office *Government Auditing Standards (2011), as revised (Standards)*. The *Standards* require that we obtain sufficient, competent, and relevant evidence to afford a reasonable basis for our findings and conclusions. Accordingly, we included such tests of records and other auditing procedures considered necessary under the circumstances. We reviewed NJSCA'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.

NJSCA had four Arts Endowment awards, one that was opened and three that were closed during the audit scope period. For this audit, we reviewed the three awards that were closed within the audit scope period. We excluded the award that was opened because the FFR was due after we began the audit. The following table lists the three awards reviewed:

Arts Endowment Award No.	Award Period	Award Amount	Total Reported Costs
15-6100-2032	07/01/15 – 06/30/16	\$ 835,800	\$2,191,390
16-6100-2030	07/01/16 – 06/30/17	872,100	2,171,190
17-6100-2034	07/01/17 – 06/30/18	865,400	2,135,800
TOTAL		\$2,573,300	\$6,498,380

Arts Endowment award No. 15-6100-2032 was a State & Regional award which required a one-to-one cost share/match. The award was to support partnership agreement activities consisting of: General Partnership (including Poetry Out Loud), Arts Education and Underserved Communities.

Arts Endowment award No. 16-6100-2030 was a State & Regional award which required a one-to-one cost share/match. The award included \$6,000 for Arts Endowment Creativity Connects Roundtables that was not subject to cost share/matching. The award was to support partnership agreement activities consisting of: General Partnership (including Poetry Out Loud), Arts Education, Underserved Communities and Arts Endowment Creativity Connects Roundtables.

Arts Endowment award No. 17-6100-2034 was a State & Regional award which required a one-to-one cost share/match. The award was to support partnership agreement activities consisting of: General Partnership (including Poetry Out Loud), Arts Education, Underserved Communities and Folk Arts Partnership.

BACKGROUND

Created in 1966, NJSCA is a division of the New Jersey Department of State. NJSCA designs and carries out a program of financial and technical support services for New Jersey artists and nonprofit organizations. NJSCA has programs in arts education, artists' services, community arts development, folk arts, cultural facilities development, community cultural planning and arts marketing. NJSCA's mission is to support, encourage, and foster public interest in the arts; enlarge public and private resources devoted to the arts; promote freedom of expression in the arts; and facilitate the inclusion of art in New Jersey.

PRIOR AUDIT COVERAGE

During the past five years, the Arts Endowment Office of the Inspector General (OIG) has not issued any audit reports on Federal awards to NJSCA. As of our site visit on July 29, 2019, the most recent issued audit report was for the fiscal year ended June 30, 2018. The audit report was performed by CliftonLarsonAllen, LLP. In its opinion, the Schedule of Expenditures of Federal Awards was presented fairly, in all material respects, for the year ended June 30, 2018. NJSCA was subject to the audit requirements of OMB Circular A-133 and 2 CFR 200, Subpart F (Audit Requirements).

AUDIT RESULTS

FEDERAL FINANCIAL REPORTING

NJSCA did not report actual costs on its FFRs for all Arts Endowment awards selected for review. NJSCA reported unallowable subaward and alcohol costs on its FFRs for Arts Endowment award Nos. 16-6100-2030 and 17-6100-2034. On the FFRs for these two awards, NJSCA also reported costs outside the award period. Details of these findings are presented below.

ACTUAL COSTS NOT REPORTED

Based on our audit of the FFRs and general ledgers, we determined that NJSCA did not report actual costs on its FFRs. Specifically, Arts Endowment award No. 15-6100-2032 was understated by \$21,728; Arts Endowment award No. 16-6100-2030 was understated by \$215,880; and Arts Endowment award No. 17-6100-2034 was understated by \$264,672.

Awards issued by Arts Endowment are subject to the following requirements:

- **2 CFR 200.302(b)(2). *Financial Management*:** 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:*** Award recipients must report actual expenditures that are assigned to the approved Arts Endowment project, based on supporting documentation such as invoices, contracts, receipts, checks, transaction reports, and bank statements. Recipients must review accounting and supporting 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 NEA award funds in box 10e must equal the total actual, allowable expenditures.

NJSCA did not have policies and procedures for reporting actual costs. According to NJSCA officials, the FFRs submitted did not include all the transfers and reimbursements which caused a greater amount of costs in the general ledgers. Without written policies and procedures, NJSCA cannot ensure the accuracy of the costs claimed. We included the understated costs in our transaction testing.

We recommend that NJSCA establish written policies and implement procedures to ensure actual costs are reported on its FFRs.

NJSCA concurs with this finding and recommendation. (*See Appendix B*)

SUBAWARD COSTS

During the audit, we found six instances of unallowable subaward costs totaling \$262,500 charged to Arts Endowment awards: \$179,000 for award No. 16-6100-2030 and \$83,500 for award No. 17-6100-2034. We determined that while the subawards were initiated during the last month of the Arts Endowment award period, the subawards ended six months outside of the Arts Endowment award period. Furthermore, NJSCA did not request an extension to complete subaward activities for these Arts Endowment awards.

Awards issued by the Arts Endowment are subject to the following requirements:

- ***Arts Endowment General Terms. Requirements for Subawards made under a Partnership Agreement 23.13. Closeout:*** All subawards made with Federal or matching funds must be closed out (including submission and approval of all subrecipient final reports and disbursement of all Federal and matching funds) prior to closing out your Federal award. If you extend a subaward to allow a subrecipient more time to complete the activities for which the subaward was made, the period of performance for the prime award must also be extended accordingly. However, subawards that encounter significant delays should (unless required to meet the cost share/match) be removed from the scope of the NEA.

NJSCA's subaward policies did not include the aforementioned closeout procedures. NJSCA officials were not aware that the subawards had to be completed during the Arts Endowment award period. Reporting subawards that are not closed during the award period could result in a refund due to the Arts Endowment. Thus, we are questioning subaward costs totaling \$262,500. 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 NJSCA still exceeds the one-to-one cost share/match requirement for each award.

We recommend NJSCA update its policies and implement procedures to ensure subawards are closed prior to the closing of the Federal award.

We also recommend that the Arts Endowment disallow unallowable subaward costs totaling \$179,000 for award No. 16-6100-2030 and \$83,500 for award No. 17-6100-2034.

NJSCA concurs with this finding and recommendation. (*See Appendix B*)

ALCOHOL COSTS

We identified \$31 of unallowable alcohol costs included in a travel reimbursement that was charged to Arts Endowment award No. 17-6100-2034. Awards issued by the Arts Endowment are subject to the following requirements:

- ***2 CFR 200.423. Alcoholic Beverages:*** Costs of alcoholic beverages are unallowable.

NJSCA did not adhere to its State of New Jersey Travel Regulations (20-04-OMB). According to NJSCA officials, costs related to Arts Endowment awards are routinely monitored; however, the alcohol costs were overlooked. Reporting unallowable costs on the FFR could result in a refund due to the Arts Endowment. Thus, we are questioning \$31 of unallowable alcohol costs. 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 NJSCA still exceeds the one-to-one cost share/matching requirement for each Arts Endowment award.

We recommend that NJSCA adhere to its policies and procedures to ensure only allowable travel costs are charged to Arts Endowment awards.

We also recommend that the Arts Endowment disallow unallowable alcohol costs totaling \$31 for Arts Endowment award No. 17-6100-2034.

NJSCA concurs with this finding and recommendation. (*See Appendix B*)

COSTS OUTSIDE THE AWARD PERIOD

During the audit, we determined that NJSCA included \$67,511 in costs incurred outside the award periods on its FFRs for Arts Endowment award Nos. 16-6100-2030 and 17-6100-2034. See the following instances below:

- Arts Endowment award No. 16-6100-2030 - We identified two instances of consultant costs that were incurred outside of the award period and reported on the FFR. As a result, we are questioning costs in the amount of \$17,227.
- Arts Endowment award No. 17-6100-2034 - We identified six instances of payroll costs incurred outside of the award period and reported on the FFR. Subsequent to the reporting period, NJSCA noticed the payroll errors and made the adjustment by transferring the costs to FY19 in its financial records. As a result, we are questioning costs in the amount of \$50,284.

Awards issued by the Arts Endowment are subject to the following requirements:

- **2 CFR 200.309. *Period of Performance, states in part:*** 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).

NJSCA did not have policies and procedures to ensure that only costs incurred within the award period were reported on its FFR. Reporting costs incurred outside the award period on the FFR could result in a refund due to the Arts Endowment. Thus, we are questioning \$67,511 in costs incurred outside of the award period. 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 NJSCA still exceeds the one-to-one cost share/match requirement for each award.

We recommend that NJSCA develop written policies and implement procedures to ensure only costs incurred during the award period are reported on its FFRs

We also recommend that the Arts Endowment disallow costs outside the award period totaling \$17,227 for award No. 16-6100-2030 and \$50,284 for award No. 17-6100-2034.

NJSCA concurs with this finding and recommendation. (*See Appendix B*)

INTERNAL CONTROLS

SUBMISSION OF FINAL REPORTS

NJSCA did not submit its revised FFR on time for Arts Endowment award No. 16-6100-2030. NJSCA submitted the original FFR timely, on September 28, 2017; however, on December 13, 2017, NJSCA requested an extension to file a revised FFR to pay additional administration costs incurred during the period of performance. The Arts Endowment approved the extension to file a revised FFR with a new due date of March 31, 2018. However, NJSCA did not submit its revised FFR until June 13, 2018.

Awards issued by the Arts Endowment are subject to the following requirements:

- **2 CFR 200.343a. Closeout:** 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 or the terms and conditions of the Federal award. The Federal awarding agency or pass-through entity may approve extensions when requested by the non-Federal entity.
- **Arts Endowment General Terms. Final Reports 16.4:** 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 may also affect eligibility for new awards.

NJSCA did not have policies and procedures for submitting Federal reports on time. Per NJSCA officials, the delay of the FFR submission was due to staff turnover. Untimely submission of final reports could result in NJSCA being ineligible to receive funding for five years following the final report due date of the award(s) or until the delinquent final reports are submitted, whichever occurs first.

We recommend that NJSCA develop written policies and implement procedures to ensure that final reports are filed on time.

NJSCA concurs with this finding and recommendation. (*See Appendix B*)

DEBARMENT AND SUSPENSION

NJSCA did not have policies and procedures in place to ensure contractors and award recipients were not debarred or suspended from receiving Federal funds.

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. Debarment and Suspension:*** You must comply with requirements regarding debarment and suspension in Subpart C of 2 CFR part 180, as adopted by Arts Endowment in Title 2 CFR, Chapter 32, Part 3254.

NJSCA officials stated that compliance with debarment and suspension requirements for sub-recipients is monitored and verified by NJSCA Operations staff; however, NJSCA does not verify that individuals or contractors are not excluded or disqualified. Without written debarment and suspension policies and procedures, NJSCA could allow debarred or suspended individuals or organizations to receive Federal funds.

We recommend that NJSCA develop written policies and implement procedures to ensure that contractors and recipients are not debarred or suspended from receiving Federal assistance prior to the payment or award of Federal funds.

NJSCA concurs with this finding and recommendation. (*See Appendix B*)

MANAGEMENT OF FEDERAL AWARDS

NJSCA did not have policies and procedures for the management of Federal awards. Based on our review, we determined that NJSCA adheres to the New Jersey Department of State Division of Administration accounting policies and the New Jersey Office of Management and Budget Circular Letters; however, the documentation does not address a process for managing Federal awards.

Awards issued by the Arts Endowment are subject to the following requirements:

- **2 CFR 200.302 (a). *Financial Management*** states: Each state must expend and account for the Federal award in accordance with state laws and procedures for expending and accounting for the state's own funds. In addition, the state's and the other non-Federal entity's financial management systems, including records documenting compliance with Federal statutes, regulations, and the terms and conditions of the Federal award, must be

sufficient to permit the preparation of reports required by general and program-specific terms and conditions; and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award.

- **2 CFR 200.302 (b). *Financial Management*** states, in part: The financial management system of each non-Federal entity must provide for the following:
 - (1) Identification, in its accounts, of all Federal awards received and expended and the Federal programs under which they were received. Federal program and Federal award identification must include, as applicable, the Catalog of Federal Domestic Assistance title and number, Federal award identification number and year, name of the Federal agency, and name of the pass-through entity, if any.
 - (2) 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. If a Federal awarding agency requires reporting on an accrual basis from a recipient that maintains its records on other than an accrual basis, the recipient must not be required to establish an accrual accounting system. This recipient may develop accrual data for its reports on the basis of an analysis of the documentation on hand. Similarly, a pass-through entity must not require a sub-recipient to establish an accrual accounting system and must allow the sub-recipient to develop accrual data for its reports on the basis of an analysis of the documentation on hand.
 - (3) Records that identify adequately the source and application of funds for federally-funded activities. These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation.
 - (4) Effective control over, and accountability for, all funds, property, and other assets. The non-Federal entity must adequately safeguard all assets and assure that they are used solely for authorized purposes. See § 200.303 Internal controls.
 - (5) Comparison of expenditures with budget amounts for each Federal award.
 - (6) Written procedures to implement the requirements of § 200.305 Payment.
 - (7) Written procedures for determining the allowability of costs in accordance with Subpart E – Cost Principles of this part and the terms and conditions of the Federal award.

NJSCA relied on state regulations instead of documenting internal policies and procedures for the management of Federal awards. Without written policies in place, NJSCA could fail to implement Federal award requirements. Thus, we recommend that NJSCA develop written policies and implement procedures for the management of Federal awards.

NJSCA concurs with this finding and recommendation. (*See Appendix B*)

RECOMMENDATIONS

We recommend that NJSCA:

1. Establish written policies and implement procedures to ensure actual costs are reported on its FFRs.
2. Update its policies and implement procedures to ensure subawards are closed prior to the closing of the Federal award.
3. Adhere to its policies and procedures to ensure only allowable travel costs are charged to Arts Endowment awards.
4. Develop written policies and implement procedures to ensure only costs incurred during the award period are reported on the final reports.
5. Develop written policies and implement procedures to ensure that final reports are filed on time.
6. Develop written policies and implement procedures to ensure that contractors and recipients are not debarred or suspended from receiving Federal assistance prior to the payment or award of Federal funds.
7. Develop written policies and implement procedures for the management of Federal awards.

We recommend that the Arts Endowment:

1. Disallow unallowable subaward costs totaling \$179,000 for award No. 16-6100-2030 and \$83,500 for award No. 17-6100-2034.
2. Disallow unallowable alcohol costs totaling \$31 for Arts Endowment award No. 17-6100-2034.
3. Disallow costs outside the award period totaling \$17,227 for award No. 16-6100-2030 and \$50,284 for award No. 17-6100-2034.

APPENDIX A

New Jersey State Council on the Arts Breakdown of Award Calculations

Award No. 15-6100-2032

Total Reported Costs	\$ 2,191,390
Add: Understated Costs	<u>21,728</u>
Adjusted Costs Reported	\$ 2,213,118
Adjusted Costs Reported	\$ 2,213,118
Less: Arts Endowment Award Disbursement	<u>(835,800)</u>
NJSCA Cost Share/Match	\$ 1,377,318
Less: Arts Endowment Required Cost Share/Match	<u>(835,800)</u>
NJSCA Overmatched	\$ <u>541,518</u>

Award No. 16-6100-2030

Total Reported Costs	\$ 2,171,190
Add: Understated Costs	<u>215,880</u>
Adjusted Costs Reported	\$ 2,387,070
Adjusted Costs Reported	\$ 2,387,070
Less: Subaward Costs	(179,000)
Less: Costs Outside the Award Period	<u>(17,227)</u>
NJSCA Adjusted Allowable Reported Costs	2,190,843
Less: Arts Endowment Award Disbursement	<u>(872,100)</u>
NJSCA Cost Share/Match	\$ 1,318,743
Less: Arts Endowment Required Cost Share/Match ¹	<u>(866,100)</u>
NJSCA Overmatched	\$ <u>452,643</u>

Award No. 17-6100-2034

Total Reported Costs	\$ 2,135,800
Add: Understated Costs	<u>264,672</u>
Adjusted Costs Reported	\$ 2,400,472
Adjusted Costs Reported	\$ 2,400,472
Less: Subawards Costs	(83,500)
Less: Costs Outside the Award Period	(50,284)
Less: Unallowable/Alcohol Costs	<u>(31)</u>
NJSCA Adjusted Allowable Reported Costs	2,266,657
Less: Arts Endowment Award Disbursement	<u>(865,400)</u>
NJSCA Cost Share/Match	\$ 1,401,257
Less: Arts Endowment Required Cost Share/Match	<u>(865,400)</u>
NJSCA Overmatched	\$ <u>535,857</u>

¹ Total does not include \$6,000 Creativity Connects Roundtables, not subject to cost share/match.



APPENDIX B

State of New Jersey

DEPARTMENT OF STATE
NEW JERSEY COUNCIL ON THE ARTS
P. O. BOX 306
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April 20, 2020

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

RE: Limited Scope Audit Report No. OIG-20-0X

Dear Mr. Stith:

The New Jersey State Council on the Arts strives to model best practices for the management and administration of all funds with which it is entrusted. We will continue to work to comply with all requirements of the National Endowment for the Arts, and thank you and your team for your guidance during this process.

The New Jersey State Council on the Arts concurs with the findings as issued in the report and will implement associated recommendation(s) as described. Please feel free to contact me with questions or for additional information. We look forward to our continued work together.

Sincerely,

A handwritten signature in cursive script that reads "Allison Tratner".

Allison Tratner, Executive Director
New Jersey State Council on the Arts

Cc: Jasaan "Jay" Boone, Chief of Staff, Office of the Secretary of State, NJ Department of State
Michael Greco, Deputy Executive Director, Division of Administration, NJ Department of State
Elizabeth Mattson, Chair, NJ State Council on the Arts