



FLORIDA
DEPARTMENT OF STATE

OFFICE OF INSPECTOR GENERAL

AUDIT REPORT

NO. 2010-003

**Audit of the Division of Cultural Affairs
- American Recovery and Reinvestment Act Funding**

Date: June 30, 2010

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EXECUTIVE SUMMARY

The Office of Inspector General conducted an audit of the Department of State, Division of Cultural Affairs (Division), American Recovery and Reinvestment Act (ARRA) Funding for the period January 1, 2009 through December 30, 2009 and related documentation through February 2010. The audit was designed to review the recipient application and selection process to ensure compliance with Federal and State requirements as well as evaluating the Division's internal controls to ensure compliance.

The American Recovery and Reinvestment Act of 2009, commonly known as the federal stimulus bill, was signed into law on February 17, 2009. This bill was initiated to create and save jobs and promote economic recovery and growth. On April 29, 2009 the Florida Department of State, Division of Cultural Affairs was awarded a one-time grant in the amount of \$393,700 through the American Recovery and Reinvestment Act by the National Endowment for the Arts. The Division was responsible for administering the ARRA funding grants.

The findings in this report revealed a breakdown in internal controls due to a lack of written procedures.

Synopsis of Findings:

- **The Division of Cultural Affairs has insufficient controls in place to properly manage the process of ARRA funding application review and grant selection. Although the Division has created written procedures for grant application panelists to follow, the Division has not created written procedures regarding the application review and for selection of the actual grantees after panel meetings.**
- **Our office has determined that the Division of Cultural Affairs's grant application review process and grant recipient selection process were generally in accordance with available federal and state guidelines. However, while the Division is generally compliant with these guidelines, there are opportunities to improve regarding one of the eligibility requirements. During our review, it was determined that one of the eligibility requirements for a grant applicant was that the organization's grant application proposal should be for salary support, full or partial, for one or more positions that are critical to their artistic mission. Division staff indicated during interviews that the Division did not have a specific procedure to document verification by Division staff that the organization's grant application proposal was for salary support for one or more positions related to their artistic mission. The subjective determination of how critical the position was to the organization's artistic mission was addressed in the application scoring by an independent panel.**
- **A minor deficiency was observed with respect to the Division of Cultural Affairs selection of the grant recipients at the conclusion of the panel scoring. Review of the panel scoring summary and applicants selected to receive funding revealed that Division provided grant funds to 6 of the 7 Florida regions although their submitted methodology indicated all 7 regions would be granted funds.**

BACKGROUND

The Division of Cultural Affairs (Division) is responsible for administering cultural grants affecting all 67 counties within the state of Florida. The Division promotes the arts and culture as essential to quality of life for all Floridians. The Division funds programs of artistic and cultural excellence, diversity, and education that impact the economy of local communities and statewide regions. The Division promotes the knowledge of Florida's past and present cultures through the collections, exhibitions, preservation, and interpretation at the Museum of Florida History. Areas within the Division include Grants Development and Review, Grants Support and Management, the Museum of Florida History, and the Web/IT office.

The American Recovery and Reinvestment Act (ARRA) of 2009, commonly known as the federal stimulus bill, was signed into law on February 17, 2009. This bill was initiated to create and save jobs and promote economic recovery and growth. On April 29, 2009 the Florida Department of State (Department), Division of Cultural Affairs was awarded a one-time grant in the amount of \$393,700 through the American Recovery and Reinvestment Act by the National Endowment for the Arts. The purpose of this grant was to support art projects and activities which preserve jobs in the nonprofit arts sector threatened by declines in philanthropic and other monetary support during the current economic downturn. The Division was responsible for administering the ARRA funds provided to the Department from the National Endowment for the Arts by awarding grants to qualified organizations.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of this audit was to review the recipient application and selection process to ensure compliance with Federal and State requirements as well as evaluate the Division of Cultural Affairs (Division) internal controls to ensure compliance. The scope of this audit was all relevant records, transaction and documentation for the period January 1, 2009 through December 30, 2009 and related documentation through February 2010.

Audit Testing addressed the following issues or concerns:

- Does the Division have appropriate internal controls to ensure compliance during the application and selection process for American Recovery and Reinvestment Act grantees?
- Is the Division complying with all-applicable statutes, rules, policies, and procedures governing (both Federal and State) the application and selection process?
- Was there an appropriate methodology used for choosing grant sub-recipients?

The audit was conducted in accordance with *The International Standards for the Professional Practice of Internal Auditing* published by the Institute of Internal Auditors. We reviewed Federal and State guidelines regarding American Recovery and Reinvestment Act grant funding and available Division documentation regarding the grant application and selection process. During the audit, an understanding of the internal control structure for the grant application and selection process was obtained by administering a questionnaire and interviewing Division staff.

AUDIT AUTHORITY

Section 20.055, Florida Statutes, requires that the Office of Inspector General shall “conduct, supervise, or coordinate other activities carried out or financed by the state agency for the purpose of promoting economy and efficiency in the administration of, or preventing and detecting fraud and abuse in, its programs and operations.”

The audit was conducted by Joseph W. Gilboy, Director of Auditing, and Ary Miller, Audit Evaluation and Review Analyst, under the supervision of Kirby J. Mole, Inspector General.

FINDINGS AND RECOMMENDATIONS

Audit Finding #1:

The Division of Cultural Affairs (Division) has insufficient controls in place to properly manage the process of American Recovery and Reinvestment Act (ARRA) funding application review and grant selection. Although the Division has created written procedures for grant application panelists to follow, the Division has not created written procedures regarding the application review and for selection of the actual grantees after panel meetings.

Criteria:

According to Standard 2130 of The Institute of Internal Auditors “International Standards for the Professional Practice of Internal Auditing,” the internal audit activity must assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement. The existence of formal written policies and procedures serve as a means in which managers can control functions within an enterprise, such as the Division’s grant application review and selection process.

Furthermore, Sawyer’s Internal Auditing 5th Edition, The Practice of Modern Internal Auditing, Sawyer states that, “Some of the operational means by which managers can control functions within an enterprise are: Organization, Policies, Procedures, Personnel, Accounting, Budgeting, and Reporting.”

Sawyer’s provides the following definition, “A policy is any stated principle that requires, guides, or restricts action. Policies should follow certain principles:

- Policies should be clearly stated in writing, systematically organized into handbooks, manuals, or other publications, and properly approved.
- Policies should be systematically communicated to all officials and appropriate employees of the organization.
- Policies must conform with applicable laws and regulations, and they should be consistent with objectives and general policies prescribed at higher levels.

- Policies should be designed to promote the conduct of authorized activities in an effective, efficient, and economical manner and to provide a satisfactory degree of assurance that the resources of the enterprise are suitably safeguarded.
- Policies should be periodically reviewed, and should be revised when circumstances change.”

Sawyer’s also provides the following definition, “Procedures are means employed to carry out activities in conformity with prescribed policies. The same principles applicable to policies are also applicable to procedures. In addition:

- To reduce the possibility of fraud and error, procedures should be so coordinated that one employee’s work is automatically checked by another who is independently performing separate prescribed duties. In determining the extent to which automatic internal checks should be built into the system of control, such factors as degree of risk, cost of preventive procedures, availability of personnel, operational impact, and feasibility should be considered.
- For non-mechanical operations, prescribed procedures should not be so detailed as to stifle the use of judgment.
- To promote maximum efficiency and economy, prescribed procedures should be simple and as inexpensive as possible.
- Procedures should not be overlapping, conflicting, or duplicative.
- Procedures should be periodically reviewed and improved as necessary.”

Condition Revealed During Audit:

A staff analysis sheet was used by Division personnel to document application review. This sheet consisted of a checklist which was completed to indicate grant applicant eligibility. The checklist by itself is not sufficient to fully provide an audit trail regarding the review process. Also, the checklist does not include all the eligibility requirements set forth by the National Endowment for the Arts and the Division. The checklist does not include reviewing the organizations’ grant application to determine if the proposal is for salary support, full or partial, for one or more positions that are critical to their artistic mission. Lastly, Division personnel did not follow the instructions for completion of their checklist/staff analysis. The directions require Division staff to respond with Yes or No on the checklist but all checklists reviewed had check marks next to the eligibility requirements. Division staff indicated this check was meant to indicate compliance with the requirement.

The Division also did not create written procedures documenting the process of choosing the grant recipients once the panel meetings were complete.

Division personnel indicated the processes of grant application review and grant selection were completed such as other Division grant funding but complete detailed written procedures did not exist at the time that the ARRA funding was processed.

Conclusion:

The lack of written procedures within the Division weakens internal controls and increases the risk of inconsistency with respect to the grant application review and recipient selection process. The existence of formal written procedures that encompass all elements of the grant application review and recipient selection process would further serve to provide guidance to all parties involved as to the exact nature of their duties and responsibilities.

A quality assurance review by Division management, which included testing a sample of applications reviewed for eligibility, would have also provided an additional measure to ensure consistency in the application review process.

Recommendations:

The Division of Cultural Affairs should:

1. Develop and periodically update written procedures regarding the grant application and selection process for all types of grants. In the future, if the Division receives special funding for grants, such as the ARRA funding received from the National Endowment for the Arts, specific procedures should be developed that include any special requirements or processes other than the Divisions standard requirements or processes. The developed procedures should contain sufficient detail to provide adequate assurances to management that processes are being conducted in a consistent manner and allow post-audit functions.
2. Ensure that Division staff completes process documentation, such as the staff analysis, according to instructions.
3. Initiate a quality assurance program that periodically tests the grant application review and selection processes performed by the Division to ensure of all necessary elements have been completed and compliance with the adopted policy and procedure.

Audit Finding #2:

- **Our office has determined that the Division of Cultural Affairs (Division) grant application review process and grant recipient selection process were generally in accordance with available federal and state guidelines. However, while the Division is generally compliant with these guidelines, there are opportunities to improve regarding one of the eligibility requirements. During our review, it was determined that one of the eligibility requirements for a grant applicant was that the organization's grant application proposal should be for salary support, full or partial, for one or more positions that are critical to their artistic mission. Division staff indicated during interviews that the Division did not have a specific procedure to document verification by Division staff that the organization's grant application proposal was for salary support for one or more positions related to their artistic mission. The subjective determination of how critical the position was to the organizations artistic mission was addressed in the application scoring by an independent panel.**

Criteria:

There were not any Florida Statutes, Florida Administrative Code, or Division Policies specifically related to eligibility requirements for the National Endowment for the Arts (NEA) American Recovery and Reinvestment Act (ARRA) grants funding application and selection process. The Division of provided the following guidelines regarding eligibility of ARRA grant applicants:

- Organization was awarded a grant from the Division in the last 4 years.
- Organization in compliance with the Division rules for grant recipients.

There were not any specific Federal guidelines regarding the NEA ARRA grants funding application and selection process. The NEA did provide the following guidelines regarding eligibility of ARRA grant applicants:

- The organization's grant application proposal should be for salary support, full or partial, for one or more positions that are critical to their artistic mission.
- Designated tax-exempt organization per section 501(c)(3) or 501(c)(4) of Internal Revenue Code.
- Incorporated or authorized as a not-for-profit corporation, in good standing, pursuant to Chapter 617, Florida Statutes.

There were not any specific Federal or NEA guidelines regarding the selection of the actual grant recipients after eliminating non-eligible applicants from the population. The State also did not provide any specific guidelines regarding the selection of the actual grant recipients after eliminating non-eligible applicants from the population. The Division did provide special instructions to the panelists regarding the scoring of grant applicants after eliminating non-eligible applicants and held panel meetings that covered all eligible applicants. The Division also provided a methodology in the application they submitted to the NEA that included providing funding to all regions of the State. Division staff indicated during interview that these regions were identified using federal enterprise zones and grantee should be selected from each if a qualified applicant exists.

Condition Revealed During Audit:

Our office determined that the Division application review process complied with Federal or NEA requirements regarding the eligibility of applicants to receive ARRA funds for 2 of the 3 requirements specified. Division staff indicated during the interview that the Division did not have a specific procedure to ensure the organization's grant application proposal was for salary support, full or partial, for one or more positions related to the artistic mission. Division staff indicated this eligibility requirement was the responsibility of the panelists during their review.

Our office determined that the Division application review process complied with State or Division requirements regarding the eligibility of applicants to receive ARRA funds for both (2) requirements specified.

Our office has determined that the indicated grant recipient selection process complied with available Federal (NEA) and State (Division) guidelines

Conclusion:

The Division did not have a specific procedure to determine and document one of the main eligibility requirements for an organization to receive ARRA grant funding. Furthermore, this requirement was not specifically documented in the Division's staff analysis sheet. Even though this requirement may have been met by the application, without a written procedure performed by the Division or documented to verify this requirement, the confidence that this requirement has been met is reduced.

Recommendation:

The Division of Cultural Affairs should:

1. Ensure that in the future Division staff document review and document all grant eligibility requirements are met by applicants prior to panel meeting or scoring. The Division application review process should include a review of the entire grant application by Division staff since this review may also uncover conflicts of interest between the applicant and Department of State employees.

Audit Finding #3:

A minor deficiency was observed with respect to the Division of Cultural Affairs (Division) selection of the grant recipients at the conclusion of the panel scoring. Review of the panel scoring summary and applicants selected to receive funding revealed that Division provided grant funds to 6 of the 7 Florida regions although their submitted methodology indicated all 7 regions would be granted funds.

Criteria:

Since there were no Federal or State guidelines regarding the grant recipient selection process, the only methodology to test and whether selection was logical and followed the method provided by the Division in their application to receive the American Recovery and Reinvestment Act (ARRA) funding from the National Endowment for the Arts (NEA). This methodology indicated that the Division would provide grant funding to all regions of the State.

Condition Revealed During Audit:

Review of the panel scoring summary and applicants selected revealed that the Division provided grant funds to 6 of the 7 Florida regions with the 16 grants awarded. Division staff explained that the one region not provided funds directly by Division, the Southwest region, was provided funds through the Southern Arts Federation (SAF) and the Division determined the two grant award recipients for SAF. However, technically these awards were from SAF and they received their NEA funding independently from the Division. In the end, only 6 of the 7 regions received grant funds directly from the Division when there was an available grant recipient from the 7th region.

Conclusion:

The methodology submitted by the Division of Cultural Affairs for this funding to the National Endowment for the Arts for disbursement of American Recovery and Reinvestment Act funds was not followed completely. Organizations in every region of the State were chosen by the Division to receive ARRA funding; however, one region did not directly receive the funding from the Division but from another arts organization. Although a minor deficiency, issues such as this could lead to additional examination of future applications submitted by the Division of Cultural Affairs to the National Endowment for the Arts.

Recommendation:

The Division of Cultural Affairs should:

1. Ensure that in the future, specific methodologies provided to an organization as part of an application to receive funding, are followed by Division staff.

MEMORANDUM * FLORIDA DEPARTMENT OF STATE

TO: Joe Gilboy, Director of Auditing,
Office of Inspector General

FROM: Sandy Shaughnessy, Director
Division of Cultural Affairs

DATE: June 29, 2010

SUBJECT: Audit No. 2010-003
Audit of the Division of Cultural Affairs
American Recovery and Reinvestment Act Funding (ARRA)

In reference to the audit of the American Recovery and Reinvestment Act Funding (Audit No. 2010-003) conducted by your office, I am responding to the findings and recommendations in your memo dated June 24, 2010 as required by Section 20.005, Florida Statutes.

Finding 1 – Written Procedures

The Division of Cultural Affairs (DCA) has insufficient controls in place to properly manage the process of ARRA funding application review and grant selection.

Response:

The Division agrees. Written comprehensive review procedures for executing the program were not in place due to the urgency of getting the program up and running and the funds disbursed. The Division followed the National Endowment for the Arts (NEA) model for awarding ARRA funds in developing the Florida Arts and Recovery Program. The NEA model, coupled with our own panel process, instilled confidence that the Division's re-granting program would be transparent, non-controversial, inclusive and provide an equitable statewide distribution of limited funding.

Corrective Action: Updated written procedures for statutory grant programs are in the process of being developed and will incorporate the recommendations of the auditor to provide step by step procedures for the review of grant applications, monitoring throughout the grant period, and reviewing interim and final reports. Analysis forms will be updated to require the appropriate response by DCA staff. A Procedural Desk Reference is estimated to be completed within the next 3 months. Division staff will be trained in the use of this new Reference. This procedures manual will also be applicable for any future special funding programs not established in statute.

A quality assurance process for both statutory and non-statutory grant programs requires random file review and deadlines for completion of tasks. This process will be

conducted by the Division Director and the program managers' direct supervisor and has already been put in place.

Finding 2 – Compliance with Federal and State Guidelines

The grant application review process and grant recipient selection process were generally in accordance with available federal and state guidelines but the process could be improved by requiring all eligibility issues to be reviewed by the DCA staff and not panelists.

Response: The Division agrees that they did not provide documentation of staff verification that applicants' grant proposals were for "*salary support, full or partial for one or more positions*". The DCA staff determined that the eligibility issue, i.e., *is it critical to the applicant's artistic mission*, was subjective and should go to the panelists for evaluation.

We would point out that Division rules (Florida Administrative Code) for statutory grant programs identify all eligibility issues for staff review.

Corrective Action: The Division will adopt this recommendation for future special funding opportunities which are not in statute and rule.

For statutory grant programs, DCA staff will be re-trained to review the eligibility issues as identified in Rule and document appropriately each eligibility criteria for the program to which the applicant has applied before it is submitted for panel review and scoring. The staff review shall also include a review of the entire grant application to ensure that no conflicts of interest between applicants and Department employees are evident.

Finding 3 – Application Review and Grant Selection Process

The selection of the grant recipients at the conclusion of the panel scoring revealed a minor deficiency in that the Division did not fully follow their methodology in providing Division funding to all 7 Florida regions.

Response: The auditor is correct in identifying this oversight by the Division in following the expressed methodology for awarding the ARRA funds. The National Endowment for the Arts (NEA) awarded ARRA funds to South Arts (formerly Southern Arts Federation and a regional NEA partner) for re-granting to organizations within their region. South Arts asked the Division to administer the panel and awarding process for the portion of their ARRA dollars allotted to Florida organizations. In doing so, the Division did not separate South Arts funding from Division funding when awarding the funds to the previously identified 7 districts of Florida and inadvertently awarded Division dollars to fund grantees in 6 of the 7 districts and then used South Arts dollars to fund the 7th district. It was an oversight made in the effort to efficiently and expediently disburse the funding as we had been encouraged to do by the federal agency.

(This deficiency relates only to this special program and is not characteristic of the Division's regular grant programs. Funding methodology is spelled out in statute and rules.)

Corrective Action: In the future, methodologies for special one time programs will be written. After panel recommendations are completed, senior management will review the funding distribution methodology to ensure that the prescribed process was followed as written prior to awarding. Final review and approval by the Division Director will be required as the final step. This corrective action is in effect immediately.