

# NATIONAL ENDOWMENT for the ARTS



## OFFICE OF INSPECTOR GENERAL

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Performance Audit of the  
Michigan Arts and Culture Council  
Lansing, MI

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**National Endowment for the Arts  
Office of Inspector General**

**Performance Audit of the Michigan Arts and Culture Council  
(OIG-25-02)**

**EXECUTIVE SUMMARY**

We conducted a performance audit of the Michigan Arts and Culture Council (Council) for the period of October 1, 2020 through September 30, 2023. During this audit scope period, the National Endowment for the Arts (Arts Endowment) closed three Council awards totaling \$3,893,321 in Arts Endowment funds, and \$30,613,360 in total reported costs. One award included \$502,400 in additional funding from the Coronavirus Aid, Relief, and Economic Security Act, and another included \$892,400 in additional funding from the American Rescue Plan Act.

Based on our review, we determined the Council met program requirements for each award and generally complied with award criteria. However, we identified opportunities for improvement in the Council's subawarding and award management procedures and controls, and issues with select subrecipient costs. These findings resulted in \$12,487,474 in questioned and unallowable costs. However, we determined even if these costs were disallowed there would be no refund due to the Arts Endowment because the Council's remaining reported cost share would still exceed the minimum required cost share/match for each award.

We provided 12 recommendations to address the report findings – five to the Council and seven to the Arts Endowment. We believe these recommendations, if implemented, will help ensure the Council meets Federal and Arts Endowment requirements and better manages its awards.

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## INTRODUCTION

The following sections provide background on the National Endowment for the Arts (Arts Endowment), Office of Inspector General (OIG), and Michigan Arts and Culture Council (Council); a summary of this audit's objectives, scope, and methodology; and a summary of our review of prior Council audits.

## BACKGROUND

**Arts Endowment:** Established by Congress in 1965, the Arts Endowment is an independent Federal agency and the largest Federal funder of the arts and arts education in communities nationwide. The agency annually awards an average of over 2,300 grants and cooperative agreements exceeding \$117 million, funding the arts in all 50 states and six U.S. jurisdictions, including rural and urban areas, and reaching civilian and military populations. Arts Endowment awards usually require a one-to-one cost share/match, which means awardees need to report at least two dollars of allowable costs or third-party contributions for every one dollar received from the Arts Endowment.

By law, 40 percent of the Arts Endowment's grant-making dollars are awarded to the nation's 56 state and jurisdictional arts agencies (SAAs) and the six regional arts organizations (RAOs). These funds are administered through Partnership Agreements with the SAAs and RAOs – an investment that catalyzes arts projects in thousands of communities across the country. Partnership Agreements provide funds to SAAs to address arts and cultural priorities identified at the state level, while providing funds to RAOs to support touring and other activities based on the needs of the region. Through these agreements, the Arts Endowment supports the creation and implementation of statewide and region-wide plans that reflect the priorities of the state's or region's citizens, whose views are solicited by each SAA/RAO through public hearings. Taken together, the work of the Arts Endowment, SAAs, and RAOs align national leadership with local impact.

Partnership awards are subject to regulations established by the Office of Management and Budget (OMB) in the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (2 CFR 200), and specific terms and conditions established by the Arts Endowment in award documents.

In March 2020, Congress appropriated \$75 million to the Arts Endowment through the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) to preserve jobs and help support organizations forced to close operations due to the spread of COVID-19. 40 percent of the funds were dedicated to state and regional arts agencies. In April 2020, the Arts Endowment announced the distribution of the required 40 percent to state and regional arts for their granting programs.

In March 2021, Congress appropriated \$135 million to the Arts Endowment through the American Rescue Plan (ARP), 40 percent of which were dedicated to state and regional arts agencies. In April 2021, the Arts Endowment announced the distribution of the required 40

percent to state, jurisdictional, and regional arts organizations for sub-granting through their respective programs.

**Arts Endowment OIG:** The Inspector General Act of 1978, as amended (IG Act) in 1988 established the Arts Endowment OIG. The IG Act was further amended in 2008 by Public Law 110-409, “The Inspector General Reform Act of 2008”, to enhance the independence of the IGs. These statutory guarantees of OIG independence are designed to ensure the objectivity of OIG work and to safeguard against efforts to compromise that objectivity or hinder OIG operations.

The stated purpose of the IG Act is to create independent and objective units within each agency to combat waste, fraud, and abuse in the programs and operations of that agency. The Arts Endowment OIG does this by independently investigating reports of waste, fraud, and mismanagement involving Arts Endowment funds; and conducting audits of agency programs, operations, and award recipients. Our audits are conducted in accordance with US Government Accountability Office’s *Generally Accepted Government Auditing Standards* (GAGAS).

We primarily conduct independent performance audits of Arts Endowment award recipients to determine whether agency funds were used for its intended purpose and whether the auditees complied with established laws, regulations, and agency-specific guidance on the administration and management of its funds. We report the results of our work to the auditee, Arts Endowment, National Council for the Arts, and Congress; and post the report on our website for public access.

**The Council:** Established in 1966 to maintain and nurture Michigan’s cultural and artistic riches, is a state arts agency that operates under the umbrella of the Michigan Economic Development Corporation. The Council’s mission is to guide the distribution of resources to ensure Michigan communities thrive from the civic, economic, and educational benefits of arts and culture. It achieves its mission by issuing grants to arts and culture organizations, cities and municipalities, and other non-profit organizations.

The Council receives its funding from state appropriations and Arts Endowment Partnership awards. In its fiscal year (FY) 2023, the Council received \$12,791,525 from the state and the Arts Endowment, which it used to issue 605 grants, totaling \$12,762,190, across 73 of Michigan’s 83 counties. Its largest granting program during the audit period was the Operational Support (OS) program, which provided operational support to arts and culture organizations. The bulk of costs reviewed in this audit (86%) were related to the OS program.

The Council received additional Arts Endowment CARES and ARP funding through amendments to its Partnership awards. The Council created the Emergency Relief Funds grant program to quickly distribute the Arts Endowment CARES funds, then distributed ARP funds through amendments to its existing FY 2022 OS grants. Further discussion regarding these funds is provided in the Audit Scope section below.

## AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

**Audit Objectives:** The objectives of this audit were to determine whether:

- The Council’s financial management system and recordkeeping complied with requirements established by OMB and the Arts Endowment;
- The Council fulfilled the financial and compliance requirements in the award documents, including any required cost share/matching; and
- The Council’s reported award costs were reasonable, allocable, and allowable.

**Audit Scope:** We limited our audit scope to three Arts Endowment awards closed within the audit scope period of October 1, 2020 through September 30, 2023 – Award 1855946-61-19 (2019 Award), Award 1863314-61-20 (2020 Award), and Award 1886864-61-21 (2021 Award). All three awards were issued under Arts Endowment’s Partnership program to support programs, services, and activities associated with the Council’s Arts Endowment-approved strategic plan. The Council limited its 2019 Award’s Partnership activities to issuing subawards through its grant programs (subawarding), while the 2020 and 2021 Awards’ Partnership activities included subawarding and salary, travel, and program costs for its new folk and traditional arts initiative.

The Arts Endowment amended the 2019 Award to add \$502,400 in CARES Act funds, which did not have a cost share/match requirement. The Arts Endowment amended the 2020 Award to add \$892,400 in ARP funds, which also did not have a cost share/match requirement. The Council received Arts Endowment approval to distribute both programs’ funds through subawards. Finally, the Arts Endowment amended the 2021 Award to de-obligate \$4,834 in unspent Partnership funds that the Council was not able to disburse during the award’s period of performance (award period). The following table provides a breakdown of Arts Endowment award actions.

***Table 1: Partnership Award Financial Actions***

Action	2019 Award	2020 Award	2021 Award	Totals
Partnership Funds Awarded	\$783,680	\$844,950	\$874,725	\$2,503,355
CARES Act funds awarded	502,400	-	-	502,400
ARP Act funds awarded	-	892,400	-	892,400
Partnership funds de-obligated	-		(4,834)	(4,834)
Total Arts Endowment Funds Awarded and Disbursed	\$1,286,080	\$1,737,350	\$869,891	\$3,893,321
Cost Share/Match Required	\$783,680	\$844,950	\$869,891	\$2,498,521

The Arts Endowment also amended all three awards to extend their periods of performance and final reporting deadlines. This caused the 2019 Award’s performance period to overlap both the

2020 and 2021 Awards, and the 2020 Award's performance period to overlap the 2021 Award. The table below provides a breakdown of the extensions.

**Table 2: Award Extension Dates**

	<b>2019 Award</b>	<b>2020 Award</b>	<b>2021 Award</b>
Initial Period of Performance	October 1, 2019 – September 30, 2020	October 1, 2020 – September 30, 2021	October 1, 2021 – September 30, 2022
Amended Period of Performance	October 1, 2019 – September 30, 2022	October 1, 2019 – September 30, 2022	N/A
Initial Reporting Deadline	December 29, 2020	December 29, 2021	January 28, 2023
Amended Reporting Deadline	December 29, 2022	April 30, 2023	April 30, 2023

All three awards were subject to the Arts Endowment's General Terms and Conditions for Partnership Awards and required a one-to-one cost share/match for Partnership-related funds. The table below provides a breakdown of the Council's reported costs for each award. We further limited our audit scope to the Council's award management processes, and procedures and controls relevant to these reported costs, which we determined only included subaward costs. Therefore, our final audit scope was limited to the Council's processes, Arts Endowment award management, subaward issuance, subaward monitoring, disbursements, and financial reporting for the 2019, 2020, and 2021 Awards.

**Table 3: Federal Financial Report Costs**

	<b>2019 Award</b>	<b>2020 Award</b>	<b>2021 Award</b>
Federal (Arts Endowment) share of expenditures	\$1,286,080	\$1,737,3500	\$869,891
Recipient (Council) share of expenditures	\$10,214,793	\$10,662,749	\$5,842,497
<b>Total Reported Costs</b>	<b>\$11,500,873</b>	<b>\$12,400,099</b>	<b>\$6,712,388</b>

Finally, in accordance with GAGAS, we conducted a review to determine whether internal controls were significant to audit objectives. We identified three significant internal control components that were relevant to the audit objectives – control environment, control activities, and monitoring activities. As a result, we limited our review of the Council's internal controls to those related to Federal award management, data protection, program monitoring, and reporting. Due to this scope limitation, we did not provide an opinion on the Council's overall internal control structure.

**Audit Methodologies:** To accomplish the first audit objective, we designed and conducted reviews of the Council's compliance with Federal requirements and award terms and conditions. Audit procedures included reviews of documented procedures, interviews with Council staff, tests of compliance, and independent verification of information where necessary and available.

To accomplish the second audit objective, we designed and conducted reviews of the Council's performance outcomes and reported costs, and determined the potential financial impact of audit

cost findings. Audit procedures included reviews of internal Council documents and financial reports, publicly available information, interviews with Council staff, and calculations of questioned costs against reported costs.

To accomplish the third audit objective, we designed and conducted tests of subawards and subrecipient transactions. Audit procedures included risk assessments to determine test selection methods and levels of testing necessary to support findings and conclusions. Auditor's judgment was used to select individual test items based on risk and other factors. As a result, findings and conclusions based on tested items cannot be projected onto the total population.

We conducted this performance audit in accordance with GAGAS. Those 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.

Specifically, we relied on Federal or publicly available information as a primary source when available, observational evidence where applicable, and auditee documentation as necessary. We limited our reliance on testimonial evidence as much as possible, with its primary use as explanations for cause or undocumented procedures or controls. When testimonial evidence was provided, we obtained non-testimonial evidence verifying its reliability when available. Additionally, we reviewed the Council's relevant manual and automated processes and identified significant controls for review and testing to determine implementation and effectiveness. Audit procedures included verifying the reliability of computer-processed data provided by the Council. Based on our review, we determined the data obtained and used for the purposes of this audit was reliable.

Finally, we conducted an overall assessment of audit evidence and verified evidence used throughout the audit was reliable, credible, and valid; and we were able to obtain sufficient, appropriate evidence to address audit objectives.

#### **PRIOR AUDITS**

Neither the Arts Endowment OIG nor any other Federal OIG has audited the Council within the past five years. However, we determined the Council was included in the annual Financial Audit Report (FAR) of the Michigan Strategic Fund (MSF). The MSF is a discretely presented component unit of the financial reporting entity of the State of Michigan, and includes both the Council and its parent agency, the Michigan Economic Development Corporation. Additionally, the Council is included in the annual State of Michigan Single Audit Report (SAR) as part of the Schedule of Expenditures of Federal Awards but not as a major Federal program. As of the planning phase of this audit, the most recent FAR and SAR were released in February and June 2023, respectively, and covered the fiscal year (FY) ended September 30, 2022.

The State of Michigan's Office of the Auditor General (OAG) conducted both audits for FY 2022. We considered the information within these reports while planning our audit, but did not rely on the auditors' work or conclusions when conducting audit procedures.



**FY 2022 FAR Review:** MSF's financial statements included information on governmental activities, major funds, and discretely presented component units (component units). Component units are non-governmental entities that MSF holds a majority equity interest in, but then are reported separately from MSF in the government-wide financial statements to emphasize that they are legally separate from the government. MSF had nine component units in its financial statements. We determined the Council is reported under MSF's governmental activities.

OAG auditors issued an unmodified opinion on MSF's FY 2022 governmental activities and major funds. However, OAG auditors issued a disclaimer of opinion on the aggregate component units. Specifically, the auditors did not express an opinion on the financial statements of the aggregate discretely presented component units because they were not able to obtain sufficient appropriate evidence to provide a basis for an audit opinion. The audit engagement did not include separately auditing the component units' individual financial statements, and eight of the nine units were not audited by other auditors. This disclaimer did not affect our audit as it was specific to the component units.

**FY 2022 SAR Review:** Single audits expand on financial statement audits to consider internal control over financial reporting and Federal program compliance, determine compliance with requirements material to the financial statements, and assess compliance with direct and material requirements of major Federal programs. The FY 2022 SAR was based on the State's basic financial statements, which included the financial statements of the State's governmental activities, business-type activities, aggregate component units, each major fund, and aggregate remaining fund information, and the related notes to those financial.

The SAR included a Report on the Schedule of Expenditures of Federal Awards, where the auditors found that the schedule of expenditures of federal awards was fairly stated, in all material respects, in relation to the basic financial statements as a whole. The SAR also included a list of internal control and compliance findings related to Federal awards. We reviewed these findings to determine whether any indicated a potential statewide risk that could have affected the Council during our audit period. For example, if there was a general control finding related to the statewide accounting system also used by the Council then we would want to consider its impact during planning procedures. Our review identified one finding related to the Federal Funding Accountability and Transparency Act, where subawards were not reported as required. We followed up on this risk during planning and testing procedures and determined the Council was not affected.

## AUDIT RESULTS

We determined the Council generally complied with award criteria and program requirements. Additionally, we determined the Council established and maintained effective controls over computer processed data and systems access. However, we identified opportunities for improvement in its award management and subawarding procedures and controls. Additionally, we identified subrecipient costs that did not meet cost allowability requirements.

## AWARD MANAGEMENT

Federal award requirements address many areas of internal operations, but some only become relevant when included in approved award activities and reported costs. For example, Federal document retention requirements apply at all times, while payroll requirements only apply when payroll costs are approved award activities and included in final reports. During the audit, we identified the types of costs reported on final reports and approved award budgets, identified the relevant award management requirements, and reviewed the Council's related processes and procedures for compliance with requirements. Though we determined the Council generally complied with the relevant award management requirements, we identified one issue related to Federal financial reporting.

***Finding 1 – Federal Financial Reporting:*** The Council misreported costs on all three Federal Financial Reports (FFRs) reviewed.

Arts Endowment General Terms and Conditions for Partnership Awards (General Terms), for awards issued after October 1, 2020, requires award recipients to submit FFRs within 120 days of the award's period of performance end date (General Terms 16(E)). These FFRs provide a final accounting of actual costs incurred by the recipient and applied to the award, whether funded by the Arts Endowment or claimed as cost share/match. All costs reported on FFRs must meet cost allowability principles established in Federal award regulations. According to the General Terms, state arts agencies' cost share must come from state-paid costs, not subrecipient cost shares (General Terms 12.1 and 12.5). Additionally, both the General Terms and Federal regulations state that costs reported on one award's FFR cannot also be reported on another award's FFR (General Terms 13.A, 2 CFR 200.306 & .403).

Council officials stated that the process for completing FFRs for the awards under review was to report subaward costs based on reports from its grants management software. The Operations Manager would pull a report of select grant programs from that fiscal year then complete the FFR using the report's Arts Endowment and state payment totals. There was no secondary review prior to Arts Endowment submission.

***Subrecipient Cost Share:*** The Council reported \$10,214,793 in subrecipient cost share as its own cost share on the 2019 Award's FFR. Council officials stated the misreporting was likely caused by looking at the wrong internal report column. We reviewed the grants management report used to prepare the 2019 Award FFR and determined the state-paid share totaled \$4,320,365. The Council was able to provide a cost report from its state accounting system that supported the

state-paid amount. As a result, we included the state-paid costs in the audit scope and excluded the remaining \$5,894,428 in unallowable subrecipient cost share.

*Duplicate Costs:* The 2020 Award was amended to include \$892,400 in ARP funds. During the amendment process, the Council informed the Arts Endowment that it planned to distribute the ARP funds to recipients of its FY2022 Operational Support (OS) subawards. Per Council officials, this was because the OS program's allowable costs and activities aligned with the ARP program's allowable cost and activities. The FY2022 OS grants already contained 2021 Award funds; therefore, adding the ARP funds to those grants resulted in the OS subawards including funds from both the 2020 and 2021 awards. As a result, the Council should have only included the \$892,400 OS ARP subaward costs on the 2020 Award FFR, and only non-ARP OS subaward costs on the 2021 Award FFR. However, we determined the Council did not do so, instead they reported FY2022 OS costs on both awards' FFRs.

Additionally, the Council failed to exclude \$32,000 in subaward costs associated with its FY2022 Folk Arts program from the grants report pulled for 2020 Award. As a result, we identified \$6,566,008 in duplicate costs across the 2020 and 2021 award FFRs - \$5,673,608 of unallowable duplicate costs from the Council's FY2022 OS and Folk Arts programs; and \$892,400 of unallowable duplicate costs from the Council's FY2022 OS ARP amendments.

Council officials stated they likely failed to separate out the costs because the reports were completed and submitted during the busiest part of their fiscal year. We determined the misreported subrecipient cost share and duplicate costs were due to the Council's lack of documented FFR procedures, and lack of controls to ensure procedures were followed.

In total, we identified \$12,460,436 in duplicate or misreported costs across all three awards. Duplicate costs and misreported subrecipient costs are unallowable, and reporting unallowable costs could result in a potential refund due to the Arts Endowment. However, we calculated the impact of all potential questioned and unallowable report costs and determined the Council still exceeded the cost share minimum for all three awards (see Appendix B).

Council Recommendation 1: We recommend the Council document and implement FFR reporting procedures that adhere to cost allowability restrictions prohibiting state agencies from reporting subrecipient cost share as its own cost share (General Terms #13), or reporting the same costs across multiple awards (2 CFR 200.403).

Council Recommendation 2: We recommend the Council establish controls over its FFR reporting procedures that ensure the procedures are followed and report costs are allowable.

Arts Endowment Recommendation 1: We recommend the Arts Endowment disallow \$5,894,428 of unallowable subrecipient cost share from the 2019 Award.

Arts Endowment Recommendation 2: We recommend the Arts Endowment disallow \$6,566,008 of duplicate costs - \$5,673,608 from the 2020 Award and \$892,400 from the 2021 Award.

*MACC concurs with this finding and recommendations (see Appendix D).*

### **SUBRECIPIENT COSTS**

Arts Endowment financial reporting guidance limits allowable FFR costs to each Arts Endowment award's approved activities and performance period (FFR Reporting Instructions). For example, if an award was issued to support subawarding activities and programs, then reported costs must be limited to subaward costs incurred within the award's performance period. When a state agency includes subaward costs on its FFRs, whether as a part of the Federal or recipient share, Federal and award cost allowability principles also apply to those subrecipient costs.

During the audit we tested 94 subrecipient transactions across all three awards, totaling \$366,063, and determined 87 transactions, totaling \$344,521, met the cost allowability requirements. We identified allowability issues with the remaining seven transactions, totaling \$21,542. Though we are questioning these costs, we did not find an overall issue with the Council's subaward monitoring procedures or internal controls given the limited number of incidents resulting from a risk-based selection process.

***Finding 2 – Unsupported Subrecipient Costs:*** Two subrecipients were unable to provide sufficient documentation to support three transactions.

Arts Endowment General Terms states that any cost reported on FFRs must, among other things, be adequately documented for reporting and auditing purposes (General Terms 13.A). Arts Endowment FFR instructions provide further guidance on supporting documentation. Also, Federal regulations state that a cost must be adequately documented in order to be allowable under Federal awards (2 CFR 200.403).

During our test of subrecipient costs (cost testing) we identified three unsupported transactions, totaling \$16,175. One 2019 Award subrecipient was unable to provide documentation supporting a \$500 transaction, while one 2021 Award subrecipient was unable to provide proof of payment for two transactions totaling \$15,675. We could not determine cost allowability without the missing documents.

For the 2019 Award cost, the subrecipient attempted to comply but the documentation was not properly archived. The cost was incurred at the start of the COVID-19 pandemic, and since then the subrecipient experienced significant changes in staffing and operations. We determined this was reasonable, and as the only unsupported cost out of the 32 tested for that award, did not reflect the Council's subrecipient monitoring procedures and controls.

For the 2021 Award costs, the subrecipient did not reply to multiple follow-up requests for documentation. We verified the subrecipient did not have any active grants or applications with the Arts Endowment, then referred the matter to Council officials to handle as they deemed appropriate. We also determined this isolated incident of an uncooperative subrecipient did not reflect the Council's subaward monitoring procedures and controls.

We identified \$16,175 in unsupported subrecipient costs across the 2019 and 2021 awards. Unsupported costs are unallowable, and reporting unallowable costs could result in a potential refund due to the Arts Endowment. However, we calculated the impact of all potential questioned and unallowable report costs and determined the Council still exceeded the cost share minimum for all three awards (see Appendix B).

Arts Endowment Recommendation 3: We recommend the Arts Endowment disallow \$16,175 in unsupported costs - \$500 from the 2019 Award and \$15,675 from the 2021 Award.

*MACC concurs with this finding and recommendation (see Appendix D).*

**Finding 3 – Unallowable Subrecipient Costs:** One subrecipient used Poetry Out Loud funds to pay unallowable entertainment and cash prize costs.

Poetry Out Loud (POL) is a national high school poetry competition created by the Arts Endowment and Poetry Foundation and implemented in partnership with state arts agencies. All three Partnership awards included designated funding for the statewide program, and the Council contracted with a subrecipient to implement and manage its statewide POL program. We determined the subrecipient properly managed the program's activity requirements but noted improper cost allocations for both the 2020 and 2021 Awards.

The Arts Endowment issued specific guidance on how to grow, manage, and report on program results, which included specific limitations and instructions on reportable costs. These instructions state that all POL awards (cash prizes) are paid directly by the Poetry Foundation, and neither POL Partnership funds nor state cost share may be used to pay additional cash or merchandise prizes. The instructions also state that no Arts Endowment award funds, or state matching funds, may be used to pay for reception costs, in accordance with 2 CFR 200 Subpart E (2 CFR 200.438).

*Cash Prizes:* During cost testing we determined the subrecipient used Arts Endowment funds to provide cash prizes to state winners. We identified one \$500 cost transaction that was claimed to the 2020 Award to pay a cash prize to the state champion. We expanded testing and identified \$3,600 in cash prize costs paid with 2020 Award POL funds, and \$1,250 in cash prize costs paid with 2021 Award POL funds. We also determined the 2019 Award's reported POL costs did not include cash prizes. This is reasonable as the Award's competition was scheduled for March 2020 and canceled due to the pandemic.

The 2020 Award's program had three award categories – poetry recitation, original poetry, and artwork. The subrecipient issued cash prizes to the winners and three runners up from each poetry category, and a cash prize to the artwork winner. The 2021 Award's program only had the poetry recitation award category, and the subrecipient issued cash prizes to the winner and three runners up.

*Entertainment Costs:* Also, during cost testing we determined the subrecipient used 2021 Award funds to host a reception for attendants of the statewide competition. We identified one transaction that used 2021 Award funds to cover \$1,210 in catering costs for a pre-event reception for the FY2022 Poetry Out Loud state championship attendants. We expanded our review and determined the subrecipient also allocated \$1,146 in reception-related facility costs to the 2021 Award. We determined the subrecipient did not use 2019 or 2020 Award funds to host a reception. This is reasonable as the 2019 Award's competition was canceled due to the pandemic, and the 2020 Award's competition was held online.

In CY2020 the subrecipient had a new POL program manager, and the new manager was not fully familiar with Arts Endowment POL cost restrictions. The Council's POL program manager noted the changeover but did not adapt monitoring procedures to address any concerns. We determined this contributed to the cause of the finding.

We identified \$7,206 in cash prize and reception costs across the 2020 and 2021 awards. Cash prize and reception costs are unallowable, and reporting unallowable costs could result in a potential refund due to the Arts Endowment. However, we calculated the potential impact of all questioned and unallowable report costs and determined the Council still exceeded the cost share minimum for all three awards (see Appendix B).

Council Recommendation 3: We recommend the Council works with its subrecipient to ensure understanding of, and compliance with, POL regulations and requirements.

Arts Endowment Recommendation 4: We recommend the Arts Endowment review any additional POL costs provided by the Council or the subrecipient and determine allowability.

Arts Endowment Recommendation 5: We recommend the Arts Endowment disallow \$7,206 in unallowable POL cash prize and reception costs - \$3,600 from the 2020 Award and \$3,606 from the 2021 Award.

*MACC concurs with this finding and recommendations (see Appendix D).*

***Finding 4 – Subrecipient Pre-Award Costs:*** One subrecipient reported \$3,154 in costs that incurred prior to the performance period.

Arts Endowment General Terms (5. Period of Performance & 13(A)) states that costs must be incurred within the award's performance period to be allowable. Federal regulations state that costs incurred prior to the award period (pre-award costs) could be allowable if permission is requested and received by the grantor (2 CFR 200.458), but the Arts Endowment did not authorize any pre-award costs.

The 2019, 2020, and 2021 Awards all had award periods that started on October 1 of their respective years (see Table #2 in Background above). During cost testing we identified one transaction from the 2019 Award that incurred prior to the performance period. The subrecipient

reported a \$3,154 payroll expense for an employee that was paid October 4, 2019, but the pay period covered September 16-29, 2019. The 2019 Award's award period started on October 1, 2019; therefore, we determined this cost was a pre-award cost.

The misreporting occurred because the subrecipient reported costs based on when they were paid rather than when incurred. This is the only instance of the 94 transactions tested; therefore, we did not have an issue with the Council's monitoring procedures.

We are questioning the allowability of the \$3,154 pre-award cost; reporting unapproved pre-award costs could result in a potential refund due to the Arts Endowment. However, we calculated the potential impact of all questioned and unallowable report costs and determined the Council still exceeded the cost share minimum for all three awards (see Appendix B).

Arts Endowment Recommendation 6: We recommend the Arts Endowment disallow \$3,154 in pre-award subrecipient costs from the 2019 Award.

*MACC concurs with this finding and recommendation (see Appendix D).*

***Finding 5 – Unreasonable Subrecipient Costs:*** One subrecipient reported unreasonable costs.

Arts Endowment General Terms (13(A)) state that a cost must be reasonable to be allowable. Federal regulations also define what "reasonable" means and provide considerations for determining reasonableness (2 CFR 200.404).

During cost testing we identified one subrecipient transaction from the 2019 Award that was determined unreasonable. The subrecipient reported a \$34,016 transaction that included a 1.5 percent late fee of \$503. However, support documentation shows the subrecipient paid, and the vendor received the full amount and late fee prior to the late fee date. We verified the subrecipient did not include an offsetting refund of the overpayment in the cost report, so the late fee was included in the reported costs. We determined it was not reasonable to pay a late fee that was not due.

We determined this instance was caused by potential subrecipient payment control weaknesses rather than any Council monitoring failures, as this would not have been detected with standard and reasonable monitoring procedures and controls. Additionally, this is the only instance of this type out of the 94 transactions tested; therefore, we do not find an issue with the Council's monitoring procedures.

We are questioning the allowability of the \$503 unreasonable cost; reporting unreasonable costs could result in a potential refund due to the Arts Endowment. However, we calculated the potential impact of all questioned and unallowable report costs and determined the Council still exceeded the cost share minimum for all three awards (see Appendix B)



Arts Endowment Recommendation 7: We recommend the Arts Endowment disallow \$503 in unreasonable subrecipient costs from the 2019 Award.

*MACC concurs with this finding and recommendation (see Appendix D).*

## SUBAWARD MANAGEMENT

When a Federal award recipient uses award funds to issue its own grants, the Federal award recipient becomes a pass-through entity, the associated grants become subawards, and the grant recipients become subrecipients (2 CFR 200.1). Federal regulations and Arts Endowment award terms and conditions establish subaward issuance and monitoring requirements (subawarding requirements) for pass-through entities.

All three Partnership awards' approved activities included subawarding, and their respective FFRs contained subaward costs. During the audit we reviewed and tested the Council's subawarding selection, issuance, and monitoring procedures and controls, and generally found they met Federal and Arts Endowment requirements for subaward management. However, we determined the Council did not fully comply with subrecipient notification requirements.

***Finding 6 – Subrecipient Notification:*** The Council did not always provide accurate and complete subaward information to subrecipients.

Federal regulations require pass-through entities to notify subrecipients of their participation in a Federal award, including the amount of award funds in each subaward, the total amount of that award's funds issued to the subrecipient to date, and the total amount of Federal funds issued to the subrecipient from all the pass-through entity's active Federal awards (2 CFR 200.332(b)(1))<sup>1</sup>. This notification is especially important when pass-through entities issue more than one subaward to a subrecipient, or when Federal award periods overlap. We noted that all three awards in this audit overlapped, and the Council issued multiple subawards to its subrecipients.

The Council's established procedures and controls ensured grant contracts issued with Arts Endowment funds included most of the required Federal and Arts Endowment notices and disclosures. However, we determined they left out requirements related to identifying the total amount of funds the recipient had been granted from that Arts Endowment award to date, and the total amount of funds the recipient had been granted from all active Arts Endowment awards to date.

Council officials stated their contract documents were reviewed annually by MEDC General Council, so they relied on MEDC's expertise for ensuring technical compliance with disclosure requirements. We determined this reliance caused the finding, as ultimately the Council is

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<sup>1</sup> 2 CFR 200 was revised in 2020; at the time of the award the reference number for this requirement was 2 CFR 200.331(a).



responsible for knowing and complying with the specifics of Arts Endowment award requirements.

Additionally, we determined the Council misinformed their FY2022 OS subrecipients about which Arts Endowment award the subaward funds came from. The Council used award letters to notify its grantees about subawarded funds, and which Arts Endowment Award the funds came from. These letters were generated from a template that the Council updates annually with that year's Arts Endowment Award information. We determined the Council provided the correct information to the 2019 and 2020 Awards' subrecipients, but not the 2021 Award's. The Council forgot to update the template with 2021 Award information, so its FY2022 OS grantees were incorrectly informed their grants were part of the 2020 Award. The Council did not conduct secondary reviews of their award letter template to ensure the information was accurate, which we determined caused this finding.

We determined the missing and incorrect information resulted in subrecipients not knowing the cumulative totals of Arts Endowment funds they had received, or which award they participated in. Proper funding notification is important for subrecipient decision-making and cost allocation. Additionally, it helps the Council track its funding amounts and meets its own subaward management requirements.

Council Recommendation 4: We recommend the Council update its contract template to include the total amount of that Arts Endowment award's funds issued to the subrecipient to date, and the total amount of Arts Endowment funds issued to the subrecipient from all active Arts Endowment awards (2 CFR 200.332(b)(1)(viii) & (ix)).

Council Recommendation 5: We recommend the Council document subrecipient notification procedures that adhere to the requirements established in 2 CFR 200.332(b)1, and establish controls that ensure the procedures are followed.

*MACC concurs with this finding and recommendations (see Appendix D).*

## RECOMMENDATION SUMMARY

We recommend the Council:

1. Document and implement FFR reporting procedures that adhere to cost allowability restrictions prohibiting state agencies from reporting subrecipient cost shares as their own cost share (General Terms #13), or reporting the same costs across multiple awards (2 CFR 200.403).
2. Establish controls over its FFR reporting procedures that ensure the procedures were followed and report costs are allowable.
3. Works with its subrecipient to ensure understanding of, and compliance with, Poetry Out Loud (POL) regulations and requirements.
4. Update its contract template to include the total amount of that Arts Endowment award's funds issued to the subrecipient to date, and the total amount of Arts Endowment funds issued to the subrecipient from all active Arts Endowment awards (2 CFR 200.332(b)(1)(viii) & (ix)).
5. Document subrecipient notification procedures that adhere to the requirements established in 2 CFR 200.332(b)1, and establish controls that ensure the procedures are followed.

We recommend the Arts Endowment:

- B.1 Disallow \$5,894,428 of unallowable subrecipient cost share from the 2019 Award.
- B.2 Disallow \$6,566,008 of duplicate costs - \$5,673,608 from the 2020 Award and \$892,400 from the 2021 Award.
- B.3 Disallow \$16,175 in unsupported costs - \$500 from the 2019 Award and \$15,675 from the 2021 Award.
- B.4 Review any additional POL costs provided by the Council or the subrecipient and determine allowability.
- B.5 Disallow \$7,206 in unallowable POL cash prize and reception costs - \$3,600 from the 2020 Award and \$3,606 from the 2021 Award.
- B.6 Disallow \$3,154 in pre-award subrecipient costs from the 2019 Award.
- B.7 Disallow \$503 in unreasonable subrecipient costs from the 2019 Award.

## BREAKDOWN OF AWARD COSTS

CARES and ARP program funds do not have a cost share/matching requirement; therefore, we are separating CARES and ARP financial reviews from the standard Partnership reviews. This is to ensure the effects of CARES or ARP program cost findings are not hidden by any excessive cost share provided under Partnership program costs.

### Partnership Program Cost Results

**Table 1 – 2019 Award**

Arts Endowment Partnership Funds Disbursed	\$ 783,680
Council Minimum Cost Share Required <sup>2</sup>	\$ 783,680
 Total Reported Partnership Costs	 \$ 10,998,473
Less Subrecipient Cost Share (Finding 1)	(5,894,428)
Less Unsupported Subrecipient Cost (Finding 2)	(500)
Less Pre-Award Subrecipient Cost (Finding 4)	(3,154)
Less Unreasonable Subrecipient Cost (Finding 5)	(503)
Potential Allowable Reported Costs	\$ 5,099,888
Less Arts Endowment Share of Allowable Reported Costs <sup>3</sup>	(783,680)
Less Council Minimum Cost Share Required	(783,680)
Council Actual Cost Share Exceeded	<u>\$ 3,532,528</u>

**Table 2 – 2020 Award**

Arts Endowment Partnership Funds Disbursed	\$ 844,950
Council Minimum Cost Share Required	\$ 844,950
 Total Reported Partnership Costs	 \$ 11,507,699
Less Duplicate Costs (Finding 1)	(5,673,608)
Less Unallowable POL Subrecipient Cost (Finding 3)	(3,600)
Potential Allowable Reported Partnership Costs	\$ 5,830,491
Less Arts Endowment Share of Costs	(844,950)
Less Council Minimum Cost Share Required	(844,950)
Council Actual Cost Share Exceeded	<u>\$ 4,140,591</u>

<sup>2</sup> Partnership award funds had a one-to-one cost share requirement, therefore the Council's minimum cost share required is equal to the amount of Arts Endowment Partnership funds disbursed.

<sup>3</sup> Because of the one-to-one cost share requirement, the Arts Endowment share of allowable reported costs is half the amount of reported allowable costs, up to the amount of Partnership funds disbursed.

**Table 3 – 2021 Award**

Arts Endowment Partnership Funds Disbursed	\$ 869,891
Council Minimum Cost Share Required	\$ 869,891
Total Reported Partnership Costs	\$ 6,712,388
Less Duplicate Costs (Finding 1)	(892,400)
Less Unsupported Subrecipient Cost (Finding 2)	(15,675)
Less Unallowable POL Subrecipient Cost (Finding 3)	(3,606)
Potential Allowable Reported Partnership Costs	\$ 5,800,707
Less Arts Endowment Share of Costs	(869,891)
Less Council Minimum Cost Share Required	(869,891)
Council Actual Cost Share Exceeded	<u>\$ 4,060,925</u>

**CARES Program Cost Results****Table 4 – 2019 Award**

Arts Endowment CARES Funds Disbursed	\$ 502,400
Council Minimum Cost Share Required	0
Total Reported Costs	\$ 502,400
Less Cost Findings (None)	(0)
Potential Allowable Reported Costs	502,400
Less Arts Endowment Funds Disbursed <sup>4</sup>	(502,400)
Potential Refund Due	<u>\$ (0)</u>

**ARP Program Cost Results****Table 5 – 2020 Award**

Arts Endowment ARP Funds Disbursed	\$ 892,400
Council Minimum Cost Share Required	0
Total Reported Costs	\$ 892,400
Less Cost Findings (None)	(0)
Potential Allowable Reported Costs	892,400
Less Arts Endowment ARP Funds Disbursed	(892,400)
Potential Refund Due	<u>\$ (0)</u>

<sup>4</sup> Because there is no cost share, the table is designed to determine whether a potential refund is due to the Arts Endowment. To determine that, we calculate whether allowable reported costs exceed Arts Endowment funds disbursed.

## AUDIT CRITERIA

The following provides extracts of relevant criteria used in the report. Skips in reference numbers indicate requirements or verbiage that were not applicable to report findings.

### CRITERIA DEFINITIONS

#### Arts Endowment General Terms, 5. Selected Definitions

***Cost share or matching funds:*** The portion of the approved Arts Endowment award's project costs not paid with Federal funds.

***Federal share:*** The portion of the award's costs, including administrative or programmatic subaward costs, that are paid by Federal funds.

***Pass-through entity:*** A non-Federal entity that provides a subaward to a subrecipient to carry out part of a Federal program. **Note:** This includes all SAAs/RAOs who issue subawards using Arts Endowment or cost share/matching funds.

***Period of performance:*** The start and end date of the award. Only costs associated with approved activities incurred during this time period can be charged to the award.

***Project costs:*** The total allowable costs incurred under a Federal award and all required cost sharing and voluntary committed cost sharing, including third-party contributions.

***Recipient:*** The non-Federal entity that receives an award directly from the Federal agency.

***Recipient cost share or match:*** Non-Federal funds that are used to support additional costs for the project. For Arts Endowment grants, this means matching the Arts Endowment award at a minimum of one-to-one.

***Source documentation:*** Documentation that provides evidence that expenditures were incurred during the approved period of performance. Documentation includes receipts, invoices, contracts, copies of cancelled checks, transaction records, bank statements, charge/debit card statements, and in-kind contribution reports, all of which must specifically identify the expense(s).

***Subaward:*** An award provided by a pass-through entity to a subrecipient for the subrecipient to carry out a project or activity identified as part of a Federal award.

***Subrecipient:*** A non-Federal entity that receives a subaward from a pass-through entity to carry out a project or activity identified with the Federal program. A subrecipient may also be a recipient of other Federal awards directly from a Federal awarding agency.

#### 2 CFR 200.1 Definitions

***Questioned Cost:*** Questioned cost has the meaning provided in paragraphs 1-3.

1. Questioned cost means an amount, expended or received from a Federal award, that in the auditor's judgment:
  - i. Is noncompliant or suspected noncompliant with Federal statutes, regulations, or the terms and conditions of the Federal award;
  - ii. At the time of the audit, lacked adequate documentation to support compliance; or
  - iii. Appeared unreasonable and did not reflect the actions a prudent person would take in the circumstances.
2. The questioned cost amount under (1)(ii) is calculated as if the portion of a transaction that lacked adequate documentation were confirmed noncompliant.
3. There are no questioned costs solely because of

- i. Deficiencies in internal control; or
- ii. Noncompliance with the reporting type of compliance requirement (described in the compliance supplement) if this noncompliance does not affect the amount expended or received from the Federal award.

## **FEDERAL AWARD MANAGEMENT**

### **Federal Financial Report Cost Share:**

#### **Arts Endowment General Terms 12. Cost Sharing or Matching Requirements**

Unless otherwise stated in your grant award document, Arts Endowment funds cannot exceed 50 percent of the total cost of the Arts Endowment-supported project (i.e., funds must be matched one-to-one, or “dollar for dollar”). This required cost share, or match, refers to the portion of project costs not paid by Federal funds.

##### **A. For SAAs**

- Per Arts Endowment legislation (20 USC 954(g)(4)) SAAs must match the Federal award with state government funds that are directly controlled and appropriated by the state and directly managed by the state agency. Note: all Partnership Agreement funds must be used to supplement and not supplant non-Federal funds.
- SAAs may not use subrecipient cost share/matching funds to meet the minimum cost share/matching requirements for the Partnership Agreement.

##### **E. Ineligible Cost Share/Matching Resources.** These items are not eligible to meet your cost share or matching requirement:

- a. Other Federal funds, including other Arts Endowment funds.
- b. Resources that have been used to match another Arts Endowment award or other Federal program (2 CFR 200.306(b)(2) and 2 CFR 200.403(f)).
- c. SAAs may not use subrecipient cost share/matching funds to meet the minimum cost share/matching requirements for the Partnership Agreement.

## **SUBAWARD MANAGEMENT**

### **Record Retention & Access:**

#### **Arts Endowment General Terms 23. Requirements for Subawards made under a**

**Partnership Agreement:** Both the Arts Endowment’s enabling legislation and 2 CFR 200 include requirements for subawards that are made under a Federal award. You must abide by, or implement, all of the items below if you are making subawards with Arts Endowment or cost share/matching funds.

**Record Retention and Access:** You must inform subrecipients that they must permit you and your financial auditors’ access to their records and financial statements as necessary for you to ensure compliance with the Federal award requirements. 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 years from the date of submission of the final expenditure report to the Federal awarding agency. This means that you, as the prime recipient, must retain all records pertinent to your Federal award for a period of three years from the date

that you submit the FFR to us. Your subrecipients must retain their records in a manner that allows you, as the prime recipient, to comply with this requirement.

**2 CFR 200.334 Record retention requirements.** The recipient and subrecipient must retain all Federal award records for three years from the date of submission of their final financial report. For awards that are renewed quarterly or annually, the recipient and subrecipient must retain records for three years from the date of submission of their quarterly or annual financial report, respectively. Records to be retained include but are not limited to, financial records, supporting documentation, and statistical records. Federal agencies or pass-through entities may not impose any other record retention requirements except for the following:

- a) The records must be retained until all litigation, claims, or audit findings involving the records have been resolved and final action taken if any litigation, claim, or audit is started before the expiration of the three-year period.

**2 CFR 200.337 Access to records. (a) *Records of recipients and subrecipients.***

The Federal agency or pass-through entity, Inspectors General, the Comptroller General of the United States, or any of their authorized representatives must have the right of access to any records of the recipient or subrecipient pertinent to the Federal award to perform audits, execute site visits, or for any other official use. This right also includes timely and reasonable access to the recipient's or subrecipient's personnel for the purpose of interview and discussion related to such documents or the Federal award in general.

**Subrecipient Notification**

**Arts Endowment General Terms, 22. Subawarding Federal or Cost Share/Matching Funds**

If you are using Federal funds – or funds that you allocate to meet the required cost share or match for the Arts Endowment award – for a subaward, you must inform subrecipients that they must comply with these mandates.

**Arts Endowment General Terms 23. Requirements for Subawards made under a Partnership Agreement:** As the pass-through entity, you are required to ensure that every subaward is clearly identified to the subrecipient as a subaward and includes the information in Appendix B, at the time of the subaward. If any of these data elements change, include the changes in subsequent subaward modifications. 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.

**Arts Endowment General Terms Appendix B – Required Data Elements for Subaward**

**Notices:** Pass-through entities are required to provide subrecipients with the following information any time a subaward is made with Federal funds or funds that are used to meet a Federal grant's required cost share/match. You do not need to provide this information in any particular order or format; the important thing is that the subrecipient is aware of the Federal source of funding and informed of the applicable award requirements. You must also ensure that all subawards to which Federal/Cost share/Matching funds are obligated are in compliance with all other terms and conditions for the Arts Endowment award.

- 2 CFR 200.332(iii) Federal Award Identification Number (FAIN) – the Arts Endowment grant number as included on the SAA/RAO’s Arts Endowment Official Notice of Action award document. Example: XXXXXXXX-61-XX

**2 CFR 200.332 Requirements for pass-through entities.** A pass-through entity must:

- b) Ensure that every subaward is clearly identified to the subrecipient as a subaward and includes the information provided below. A pass-through entity must provide the best available information when some of the information below is unavailable. A pass-through entity must provide the unavailable information when it is obtained. Required information includes:
  1. Federal award identification
    - iii. Federal award identification number (FAIN)
    - vii. Amount of Federal Funds Obligated in the subaward;
    - viii. Total Amount of Federal Funds Obligated to the subrecipient by the pass-through entity, including the current financial obligation;
    - ix. Total Amount of the Federal Award committed to the subrecipient by the pass-through entity.

## **COST ALLOWABILITY**

### **Cost Allowability Requirements**

**Arts Endowment General Terms, 13. Cost Principles.** The allowability of costs for work performed under your Arts Endowment award, including costs incurred under subawards made with Federal or matching funds, is determined in accordance with the Arts Endowment’s Partnership Agreements guidelines and the Uniform Guidance Subpart E – Cost Principles.

- A. All costs included in the approved project budget or reported on payment requests and financial reports for the award, whether supported with Federal or required cost share/matching funds or any voluntary committed cost share, must be:
  - Necessary and reasonable for the performance of the Federal award.
  - Allocable and in conformance with these cost principles and as set forth in the award (200.403(b)).
  - Not included as a cost or used to meet cost share or matching requirements of any other Federally-financed program.
  - Adequately documented for reporting and audit purposes.
  - Incurred during the approved period of performance during which funds are budgeted.

Where the determination of cost allowability differs, the Arts Endowment guidelines and Partnership General Terms (and any Specific Terms and Conditions, as appropriate) take precedence over the Uniform Guidance.

- B. Selected Costs and their allowability under Partnership Agreements.  
The allowability of costs is based on Arts Endowment legislation and 2 CFR 200.
  - (1) Unallowable
    - Entertainment (2 CFR 200.438). Entertainment, including amusement and social activities such as receptions, parties, galas, dinners, community



gatherings, etc., and any associated costs including food, catering, alcoholic beverages, as well as costs for the planning, staffing, and supplies for such, etc., are unallowable.

⇒ Specific costs that might otherwise be considered entertainment but 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.

(2) Allowable or generally allowable

- Conferences (2 CFR 200.432) Costs of conferences (including meetings, retreats, seminars, symposia, workshops, or other events whose primary purpose is dissemination of technical information) are still generally allowable, however:

⇒ Costs associated with activities that generally occur at a closing meal, or a reception at the end of the working day, are unallowable. These activities also often have alcohol associated with them and/or are of a social nature, which are prohibited under Federal awards (see also Entertainment).

**Arts Endowment Poetry Out Loud Component Information Sheet:**

**Awards:** The Poetry Foundation provides and administers all monetary prizes awarded in Poetry Out Loud. Awards are made in the form of lump sum cash payments, reportable to the IRS. Tax liabilities are the sole responsibility of the winners and their families. Poetry Out Loud funding as part of the Arts Endowment Partnership Agreement grant may not be used to supplement the awards.

4. **How may the funds be spent?** Arts Endowment funds may be used for administrative expenses of the state POL program, including staffing, in compliance with the General Terms. Funds may be used to send writers or teaching artists to give workshops in schools. Funds can also be sub-granted or subcontracted to a local partner – as long as the program is implemented and the state finals are held in cooperation with the SAA. Arts Endowment funds can be used for travel expenses to bring school-level champions to the state finals. Grant funds may also be used to pay travel costs for a SAA representative to attend the National Finals. Typically, costs include guest artists, transportation, and the state finals event.

**IMPORTANT:** Arts Endowment grant funds and state matching funds may not be used for receptions, parties, additional monetary or merchandise prizes, or any other items of cost that are noted as unallowable in 2 CFR 200 Subpart E.

5. **If we cannot pay for receptions, how do we feed students who participate in our state final event or teachers during workshops?** Students traveling to a state final competition may be offered a per diem. Alternatively, grant funds may support working lunches (excluding costs for employees of the grantee organization). If you have day-long events for students or teachers you may serve

lunch or support their meals during the POL-related activities. This is considered subsistence.

## **2 CFR 200.306 Cost Sharing.**

- b) For all Federal awards, the Federal agency or pass-through entity must accept any cost sharing funds (including cash and third-party in-kind contributions, and also including funds committed by the recipient, subrecipient, or third parties) as part of the recipient's or subrecipient's contributions to a program when the funds:
  - 1. Are verifiable in the recipient's or subrecipient's records;
  - 2. Are not included as contributions for any other Federal award;
  - 3. Are necessary and reasonable for achieving the objectives of the Federal award;
  - 4. Are allowable under Subpart E;
  - 5. Are not paid by the Federal Government under another Federal award, except where the program's Federal authorizing statute specifically provides that Federal funds made available for the program can be applied to cost sharing requirements of other Federal programs;

## **2 CFR 200 Subpart E – Cost Principles**

**200.403 – Factors affecting allowability of costs.** Except where otherwise authorized by statute, costs must meet the following criteria to be allowable under Federal Awards:

- a) Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles
- b) Conform to any limitations or exclusions set forth in these principles or in the Federal award as to types or amount of cost items.
- c) Be consistent with policies and procedures that apply uniformly to both Federally financed and other activities of the recipient or subrecipient.
- f) Not be included as a cost or used to meet cost sharing requirements of any other Federally-financed program in either the current or a prior period. See 200.306(b).
- g) Be adequately documented. See 200.300-.309.

**200.404 – Reasonable Costs.** A cost is reasonable if it does not exceed an amount that a prudent person would incur under the circumstances prevailing when the decision was made to incur the cost. In determining reasonableness of a given cost, consideration must be given to the following:

- a) Whether the cost is generally recognized as ordinary and necessary for the recipient's or subrecipient's operation or the proper and efficient performance of the Federal award;
- d) Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the recipient or subrecipient, its employees, its students or membership (if applicable), the public at large, and the Federal Government.

## **200.438 – Entertainment and prizes.**

- a) **Entertainment costs.** Costs of entertainment, including amusement, diversion, and social activities and any associated costs (such as gifts), are unallowable unless they have a specific and direct programmatic purpose and are included in a Federal award.

**200.458 – Pre-award costs.** Pre-award costs are those incurred before the start date of the Federal award or subaward directly pursuant to the negotiation and in anticipation of the Federal award where such costs are necessary for efficient and timely performance of the scope of work. These costs are allowable only to the extent that they would have been allowed if incurred after the start date of the Federal award and only with the written approval of the Federal agency. If approved, these costs must be charged to the initial budget period of the Federal award unless otherwise specified by the Federal agency or pass-through entity.

## MANAGEMENT RESPONSES



State of Michigan  
Gretchen Whitmer, Governor

The State of Michigan  
**Arts and Culture Council**  
300 N Washington Square  
Lansing, Michigan 48913

August 14, 2025

Ron Stith  
Inspector General  
National Endowment for the Arts  
400 7<sup>th</sup> Street SW  
Washington DC 20506

Dear Mr. Stith:

The Michigan Arts and Culture Council (MACC) concurs with the findings and recommendations.  
We will start implementing the recommendations within the next 30 days.

Respectfully,

Alison Watson, Director  
State of Michigan Arts and Culture Council  
300 N. Washington Square  
Lansing, MI 48913  
watsona11@michigan.org  
517.275.0579

Alison Watson  
Director

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