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Performance Audit of the
Maryland State Arts Council
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Office of Inspector General

Performance Audit of the Maryland State Arts Council (OIG-25-03)

EXECUTIVE SUMMARY

We conducted a performance audit of the Maryland State Arts Council (MSAC) for the audit scope period of August 1, 2021 through July 31, 2024. During this period, the National Endowment for the Arts (Arts Endowment) closed four MSAC awards totaling \$4,545,800 in Arts Endowment funds, and \$24,614,504 in total reported costs. One award included \$467,900 in additional funding from the Coronavirus Aid, Relief, and Economic Security Act, and another included \$831,700 in additional funding from the American Rescue Plan Act (ARP).

Based on our review, we determined MSAC generally met activity and award management requirements for each award. However, we identified opportunities for improvement in its award management and subawarding processes, and internal controls. Additionally, we identified subrecipient and payroll costs that did not meet cost allowability requirements. These findings resulted in \$1,040,826 in questioned and unallowable costs. After removing these costs we determined there was no refund due to the Arts Endowment for three of the awards because MSAC's remaining reported cost share still exceeded the minimum required cost share/match for each award. However, we identified a \$50,000 potential refund due for unallowable subaward costs related to ARP funds.

We provided 18 recommendations to address the report findings – 12 to MSAC and 6 to the Arts Endowment. We believe these recommendations, if implemented, will help ensure MSAC 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 Maryland State Arts Council (MSAC); a summary of this audit's objectives, scope, and methodology; and a summary of our review of prior MSAC 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 funds the arts in all 50 states and six U.S. jurisdictions, including rural and urban areas, reaching civilian and military populations.

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, which provide funds to SAAs to address arts and cultural priorities identified at the state level, and to RAOs to support touring and other activities based on the needs of the region. Taken together, the work of the Arts Endowment, SAAs, and RAOs align national leadership with local impact.

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. For example, an Arts Endowment grant of \$10,000 with a one-to-one cost share/match requires at least \$20,000 in allowable costs. The 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 SAAs and RAOs. In March 2021, Congress appropriated \$135 million to the Arts Endowment through the American Rescue Plan (ARP). 40 percent were also dedicated to SAAs and RAOs.

Arts Endowment OIG: The Arts Endowment OIG was established in 1989 pursuant to Public Law 100-504, "The Inspector General Act Amendments of 1988," (IG Act, as amended). The stated purpose of the IG Act, as amended, is to create independent and objective units within each agency whose duty is 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 the Arts Endowment's funds were used for their intended purpose and whether the auditees complied with established laws, regulations, and Arts Endowment-specific guidance on the administration and management of its funds. We report the results of our work to the auditee, Arts Endowment, National Council on the Arts, and Congress.

MSAC: MSAC is a state arts agency that is dedicated to advancing the arts in its state by providing leadership that champions creative expression, diverse programming, equitable access, lifelong learning, and the arts as a celebrated contributor to the quality of life for all the people of Maryland. It achieves its mission by awarding grants to non-profit, tax-exempt organizations for ongoing arts programming and projects, awarding grants to independent artists, and providing technical assistance and professional development to individuals and groups. MSAC has various programs that administer grants under each program. Grants are provided to artists, Arts and Entertainment Districts, County Arts Agencies of Maryland, nonprofits, government, universities, folklife network collaborators, and schools. Grant amounts vary based on eligibility and type of grant.

MSAC is led by an Executive Director and operates under the umbrella of the Maryland Department of Commerce (DOC). The DOC manages MSAC's core administrative functions such as information technology management, budgeting and finance, human resources, and contracts and procurement. This allows MSAC to focus its efforts on grantmaking, as well as on providing technical assistance and professional development to individuals and groups. MSAC is also overseen by an appointed body of up to 17 citizens from across the state, 13 of whom are named by the governor. Its primary sources of funding come from state appropriations and Arts Endowment grants and, on occasion, contributions from private, non-governmental sources. During the COVID-19 pandemic, MSAC received significant increases in specialized funds from both the State of Maryland and the Arts Endowment. The Arts Endowment issued extra funding to MSAC from both the CARES and ARP Acts to help save arts sector jobs and non-profits.

MSAC experienced workload increases during the audit period as new programs were created and existing programs adapted to manage these additional funds and meet the changing needs of the industry it served. MSAC created a grant program (Emergency Grant) to issue its Arts Endowment CARES Act funds, while existing programs were utilized to issue its Arts Endowment ARP funds.

MSAC also experienced leadership staffing changes during the audit period. The former Executive Director resigned in June 2021, with the Deputy Director acting as Interim Executive Director until officially named MSAC's Executive Director in December 2021. Additionally, MSAC experienced turnover in the Deputy Director, Fiscal Officer, Grants Director, and Arts Education Grants Management Associate roles.

We remained aware of these operational changes during our audit, and considered their potential impacts when evaluating the cause for our findings.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

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

- MSAC’s financial management system and recordkeeping complied with requirements established by OMB and the Arts Endowment;
- MSAC fulfilled the financial and compliance requirements of the selected awards, including any required cost share/matching; and
- The audited awards’ total reported project costs were supported, reasonable, allocable, and allowable.

Audit Scope: We limited our audit scope to four Arts Endowment awards closed within the audit period of August 1, 2021 through July 31, 2024 – Award 1855985-61-19 (2019 award), Award 1863321-61-20 (2020 award), Award 1886899-61-21 (2021 award), and Award 1903717-61-22 (2022 Award). All four awards were issued under Arts Endowment’s Partnership program to support programs, services, and activities associated with MSAC’s Arts Endowment-approved strategic plan. MSAC limited its Arts Endowment Partnership activities to salaries and wages, fringe benefits, subawarding, and other operating or programmatic costs. Initially, all four awards required a one-to-one cost share/match.

The Arts Endowment amended the 2019 award to include \$467,900 in CARES Act funds, and the 2020 award to include \$831,700 in ARP funds; neither CARES nor ARP funds required a cost share/match from the MSAC. The table below provides a breakdown of Arts Endowment award actions:

Table 1: Partnership Award Financial Actions

Action	2019 Award	2020 Award	2021 Award	2022 Award	Totals
Partnership Funds Awarded	\$ 752,000	\$ 794,600	\$819,900	\$879,700	\$3,246,200
CARES Act funds awarded	467,900	-	-	-	467,900
ARP Act funds awarded	-	831,700	-	-	831,700
Total Arts Endowment Funds Awarded and Disbursed	\$1,219,900	\$1,626,300	\$819,900	\$879,700	\$4,545,800
Cost Share/Match Required	\$752,000	\$794,600	\$819,900	\$879,700	\$3,246,200

During review of these awards, we noted differences between the award financial reports and MSAC’s cost ledgers (see details in Finding #1 below). As a result, we further limited the audit scope to the Disbursed Award Amounts and Actual Costs identified in the table below:

Table 2: Award Amounts vs. Actual Costs

Action	2019 Award	2020 Award	2021 Award	2022 Award	Totals
Disbursed Award Amounts	\$1,219,900	\$1,626,300	\$ 819,900	\$ 879,700	\$ 4,545,800
Reported Costs	\$5,944,903	\$6,112,589	\$5,873,709	\$6,683,303	\$24,614,504
Actual Costs	\$5,270,153	\$6,337,079	\$5,873,527	\$6,685,975	\$24,166,734

The Arts Endowment also amended all four awards to extend the 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 3: Award Extension Dates

	2019 Award	2020 Award	2021 Award	2022 Award
Initial Period of Performance	July 1, 2019 - June 30, 2020	July 1, 2020 - June 30, 2021	July 1, 2021 - June 30, 2022	July 1, 2022 - June 30, 2023
Amended Period of Performance	July 1, 2019 - June 30, 2022	July 1, 2020 - June 30, 2022	N/A	N/A
Initial Reporting Deadline	September 28, 2020	September 28, 2021	October 28, 2022	October 28, 2023
Amended Reporting Deadline	September 28, 2022	November 30, 2022	November 30, 2022	N/A

Audit Methodologies: To accomplish the first audit objective, we designed and conducted reviews of MSAC's compliance with Federal requirements and award terms and conditions. Audit procedures included reviews of documented procedures, interviews with MSAC 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 MSAC's performance outcomes, reported costs, and the financial impact of audit findings. Audit procedures included reviews of internal MSAC documents and financial reports, publicly available information, and interviews with MSAC staff.

To accomplish the third audit objective, we designed and conducted tests of subawards and 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. As a result, findings and conclusions based on tested items cannot be projected onto the total population.

In accordance with generally accepted government auditing standards, 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 audit objectives – control

environment, control activities, and monitoring activities. Based on these results, we limited our review of MSAC's internal controls to those related to Federal award management, data protection, program monitoring, and reporting (relevant processes). As a result, we did not provide an opinion on MSAC's overall internal control structure.

We reviewed MSAC's manual and automated procedures for the relevant processes and identified significant controls for further review. We tested the significant controls' operation and reliability, including audit work to verify the reliability of computer-processed data provided by MSAC. Based on our review, we determined the data obtained and used for the purposes of this audit was reliable. However, we limited our reliance on MSAC's electronic grants management system's data due to accuracy and reliability concerns.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

PRIOR AUDITS

The Arts Endowment OIG had not issued any audit reports on Federal awards to MSAC within the past five years. As of the planning phase of this audit, independent auditors issued annual audit reports on the State of Maryland's basic financial statements (FS) for fiscal years (FY) ended June 30, 2022 and 2023, and corresponding annual audit reports on the State's compliance with Uniform Guidance requirements (Single Audit reports). In addition, the State's Office of Legislative Audits (OLA) issued a fiscal compliance audit over the DOC in FY24 and the State's Office of Internal Audits (OIA) conducted a limited review of MSAC's large grants in 2021, 2022, and 2023. We considered the information within these reports while planning our audit, but did not rely on the independent auditors' work or conclusions when conducting audit procedures.

FY 2022 and FY 2023 FS: We reviewed the FS reports for each year and determined the auditors issued unmodified opinions on the financial statements of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and aggregate remaining fund information for the State of Maryland. The auditors disclosed that they did not audit the financial statements of certain funds, agencies, and component units of the State and that those financial statements were audited by other auditors. We determined that neither MSAC nor the DOC was included as a fund, agency, or component unit audited by a separate auditor. As such, this did not affect our audit.

FY 2022 and FY 2023 Single Audit: We reviewed the Single Audit reports for each year and determined the Arts Endowment programs were included in the report's Schedule of Expenditures of Federal Awards (SEFA), but were not selected as a major program to audit. The auditors found that the SEFA was fairly stated in all material respects in relation to the basic financial statements as a whole. The auditors did not identify any material weaknesses or

significant deficiencies related to MSAC, DOC, or the information systems utilized by MSAC. We determined this did not affect our audit.

FY 2024 Compliance: We reviewed the OLA's compliance audit report and identified a finding concerning MSAC. Specifically, the DOC lacked adequate procedures and controls for awarding and distributing MSAC's Grants for Organizations (GFO) program grants. However, MSAC did not utilize Arts Endowment partnership funds for GFO grants. We determined this did not affect our audit.

2021, 2022, and 2023 Limited Review: We reviewed the OIA's limited review report and determined the 2021 report noted an exception concerning the determination of allowable income disclosed on grant applications; the 2022 report noted an exception related to inadequately supported applications; and the 2023 report noted no exceptions. As the most recent report resulted in no findings, we determined this did not affect our audit.

AUDIT RESULTS

We determined MSAC generally met activity and award management requirements for each award. Additionally, we determined MSAC generally established and maintained effective controls over computer processed data and systems access. However, we identified opportunities for improvement in its award management and subawarding processes, and internal controls. Additionally, we identified subrecipient and payroll 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 all the time, 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 MSAC's related processes and procedures for compliance with requirements. We determined MSAC generally complied with the relevant award management requirements, but identified three issues related to Federal financial reporting, payroll, and documentation retention.

Finding 1 – Federal Financial Reporting

MSAC's 2019 Award cost report did not reconcile to its Federal Financial Report (FFR), resulting in unsupported FFR costs.

Arts Endowment General Terms and Conditions for Partnership Awards (General Terms) requires award recipients to submit FFRs (General Terms 16(E)). These FFRs provide a final record of actual costs incurred by the recipient and applied to the award, whether funded by the Arts Endowment or claimed as cost share/match. Additionally, Arts Endowment FFR instructions state award recipients are to report only actual, allowable, documented costs; and supporting documentation must be kept on file for three years from the FFR submission date (Arts Endowment Instructions for Completing the FFR).

MSAC officials stated that their Fiscal Officer completed FFRs based on reports obtained from the DOC, which detailed direct costs by state and Federal funding codes. The Fiscal Officer calculated indirect costs from these DOC reports, though MSAC officials could not explain the calculation process as it was done by the prior Fiscal Officer and the records were not retained. The Executive Director then reviewed and approved the FFR before it was submitted to the Arts Endowment.

During planning, we reconciled all four FFRs to detailed cost reports obtained from MSAC and noted the 2019 Award's cost report was \$674,750 less than what was reported on the FFR. MSAC was unable to provide historical DOC reports supporting the FFR numbers, nor current financial records supporting the total FFR amount. As a result, we determined the \$674,750 difference between the 2019 Award's FFR totals and current cost report was unsupported. We also adjusted our audit scope to reflect the lower amount.

We determined MSAC's lack of documented FFR reporting procedures and controls contributed to this finding, as well as a lack of controls over document retention. MSAC officials acknowledged they do not have a documented FFR reporting process, and stated prior staff did not know they needed to save the documents in a way current staff could access.

Failure to retain FFR preparation documentation resulted in \$674,750 of unsupported 2019 Award FFR costs excluded from the audit scope. It also could result in a refund due to the Arts Endowment if the newly lowered amount reduced MSAC's cost share amount below what was required. However, we calculated the impact of all potential questioned and unallowable report costs and determined MSAC still exceeded the cost share minimum for the 2019 Award (see Appendix B).

MSAC Recommendation 1: We recommend MSAC document its procedures for completing award FFRs, including how to calculate indirect costs.

MSAC Recommendation 2: We recommend MSAC establish controls to ensure its FFR reporting procedures are followed.

Arts Endowment Recommendation 1: We recommend the Arts Endowment disallow \$674,750 in unsupported FFR costs from the 2019 Award.

MSAC concurs with this finding and recommendations (see Appendix E).

Finding 2 – Unsupported Payroll Costs

MSAC included unsupported payroll costs in three of its Partnership awards.

MSAC included payroll costs on the FFRs for all four awards under review. Federal award regulations require award recipients to have a financial management system that permits the tracing of funds to a level of costs that show award requirements have been met (2 CFR 200.302(a)). The financial system must also provide records that are supported by source documentation, among other requirements (2 CFR 200.302(b)(3)). Finally, Federal award regulations state that payroll costs charged to a Federal award must be based on records that accurately reflect the work performed, and are supported by a system of internal control that provides reasonable assurance the charges are accurate, allowable, and properly allocated (2 CFR 200.430(g)(1)(i)).

During fieldwork we tested the cost allowability of 113 payroll transactions totaling \$353,217 across all four awards. We determined 102 transactions, totaling \$346,652, met Federal payroll cost allowability requirements. However, we identified 11 transactions across the 2020, 2021, and 2022 awards that were not supported – five related to miscellaneous adjustments and six related to personnel expenses.

- *Miscellaneous adjustments:* MSAC included payroll transactions classified as Miscellaneous Adjustments in its cost reports. We initially tested two of these transactions from the 2020 Award, and three from the 2021 Award. We traced each transaction amount to its payroll register but the register did not describe what those costs

entailed. Additionally, MSAC was not able to provide further supporting documentation or an explanation for these costs. We could not determine cost allowability without the missing documents or explanation.

To determine the extent of these unsupported transactions in reported costs, we expanded testing across all four award cost reports. As a result, we identified a total of 17 transactions totaling \$11,788 in unsupported Miscellaneous Adjustments – five totaling \$4,507 for the 2020 Award and 12 totaling \$7,281 for the 2021 Award. There were no Miscellaneous Adjustments transactions in the 2019 or 2022 Awards' cost reports.

- *Personnel expenses:* One pay period of reported 2022 Award costs included six transactions totaling \$13,803 across various payroll categories (regular earnings, healthcare, etc.). When we attempted to trace the amounts to payroll registers obtained from MSAC we found that the registers only supported \$8,830 in costs. MSAC was not able to provide additional documentation or an explanation for the remaining \$4,973 variance; therefore, we could not determine cost allowability.

We determined a lack of payroll procedures and controls caused this finding. MSAC had established payroll procedures and controls to ensure employee timesheets were reviewed and approved by the appropriate supervisor. However, we determined they did not have procedures or controls in place to reconcile payroll registers to their accounting records. Instead, MSAC officials stated they relied on the DOC and Maryland Central Payroll Bureau (CPB) to handle all MSAC payroll procedures and controls other than approving timesheets. We determined this reliance contributed to the finding, as ultimately MSAC is responsible for knowing what costs are charged to their accounts, and for establishing procedures and controls that ensure employee payroll costs are supported and recorded correctly.

This lack of oversight resulted in \$16,761 of unsupported payroll costs reported on award FFRs - \$4,507 for the 2020 Award; \$7,281 for the 2021 Award; and \$4,973 for the 2022 Award. 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 questioned and unallowable report costs and determined MSAC still exceeded the Partnership cost share minimum for all four awards (see Appendix B).

MSAC Recommendation 3: We recommend MSAC document and implement payroll reconciliation procedures that verify recorded payroll costs are accurate and supported (2 CFR 200.430(g)(1)(i)).

MSAC Recommendation 4: We recommend MSAC establish controls to ensure its payroll reconciliation procedures are followed.

Arts Endowment Recommendation 2: We recommend the Arts Endowment disallow \$16,761 of unsupported payroll costs - \$4,507 from the 2020 Award; \$7,281 from the 2021 Award; and \$4,973 from the 2022 Award.

MSAC concurs with this finding and recommendations (see Appendix E).

Finding 3 – Document Retention

MSAC did not comply with Federal record retention requirements.

Federal regulations require award recipients to retain award-related documentation for three years after submission of the award's FFR (2 CFR 200.334). Mandatory document retention applies to financial records and support documents, among others (2 CFR 200.334) (2 CFR 200.302(b)(3)). Record retention is necessary to ensure award-related subawards, and disbursements meet cost allowability requirements. It is also necessary for verifying compliance with Federal subaward and financial management requirements.

MSAC established and documented a record retention policy that reasonably complied with the Federal requirements, but we did not identify procedures or controls to ensure the policy was followed. During the audit we identified missing documentation related to final reports and internal controls.

- *FFRs* – As stated in Finding 1, we determined MSAC did not retain historical documentation to support the 2019 Award FFR. During the audit we also determined MSAC did not retain historical documentation to support the 2020 Award FFR, though MSAC was able to provide a current cost report that supported the direct cost report amounts. Additionally, we determined MSAC did not retain documentation related to how the prior Fiscal Officer calculated the Indirect Cost (IC) amounts present on all four FFRs. This did not result in a financial finding because we recalculated potential IC amounts and determined they exceed the IC amounts reported on the FFRs.
- *Internal Controls* – During our review of MSAC's subawarding procedures and controls, we determined MSAC did not retain key spreadsheets that were used by staff during the granting process to verify grant data recorded in their electronic grants management system (eGMS) was accurate. The spreadsheets provided a critical control for ensuring only approved applications received grants, and grant contract information (recipient name, grant amount, project funded, etc.) was accurate. Additionally, we determined the spreadsheets provided a historical record of approved applications and funding amounts that could be used to determine whether eGMS records were improperly altered. However, MSAC personnel did not retain the spreadsheets once the granting process was complete.

MSAC officials stated grants staff did not realize the spreadsheets were subject to Federal grant requirements. They also stated they experienced significant employee turnover during the selected award periods, and acknowledged documentation retained by prior employees was not readily accessible by current staff. We determined employee turnover would not have mattered if MSAC had established controls to ensure its document retention policy was followed.

In addition to the unsupported costs identified in Finding 1, MSAC's deviation from its document retention policy caused significant delays to the audit. Specifically, MSAC's attempts to find requested documents required extra time gaining access to a prior employee's email account, reaching out to prior employees for information, and requesting and obtaining reports from the DOC and CPB that MSAC should have had on file. Additional delays were caused by

the need for meetings between MSAC, DOC, and NEA OIG to obtain additional cost report information from DOC.

MSAC Recommendation 5: We recommend MSAC establish document retention controls that ensure its policy is followed.

MSAC concurs with this finding and recommendation (see Appendix E).

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 four Partnership awards included subawarding among its approved activities, and their respective FFRs contained subaward costs. During the audit, we reviewed and tested MSAC's subawarding selection, issuance, and monitoring procedures and controls, as well as subrecipient transactions. We found MSAC generally did not meet Federal and Arts Endowment subawarding requirements. We identified four issues related to honorifics, Federal Funding Accountability and Transparency Act (FFATA) reporting, subrecipient notification requirements, and ARP subawards.

Finding 4 – Honorifics

MSAC reported \$105,000 in Heritage Award honorifics across all four FFRs.

Within the Partnership program, the Arts Endowment funds a Folk and Traditional Arts (FA) subprogram designed to help preserve the nation's diverse cultural heritage. During the Partnership application process, applicants submit separate narratives detailing their FA program and why they are requesting FA funding. When the Arts Endowment approves an applicant for FA funding, the designated amount must be used for the activities identified in the application narrative, while still meeting Federal and Arts Endowment cost allowability requirements. The General Terms for all four awards states that awards to individuals or organizations to honor or recognize achievement (honorifics) are unallowable, including one-time monetary recognition awards to individual artists (General Terms 13). Costs for this type of award program must be excluded from budget and financial reports (General Terms 13).

All four Partnership awards included designated FA funding to support MSAC's Maryland Traditions program, which identifies, documents, supports, and presents traditional arts. Within the Traditions program are Folklife Apprenticeships, Archives, and Folklife Network subprograms, which we determined met FA activity and cost allowability requirements. There is also a Heritage Awards subprogram, which recognizes long-term achievement in the traditional arts. Heritage Awards are issued annually and provide unrestricted grant funds that may be expended at the winner's discretion. There are no activity or performance requirements, and

winners can only receive a Heritage Award once . We determined Heritage Awards qualified as honorifics and therefore were unallowable.

MSAC used all four Awards' FA funds to support its Traditions activities, but included Heritage Award grants in the cost share portion of its FFR costs.

MSAC officials stated they thought the Heritage Awards were allowed because they were reported to the NEA in the FA budgets and narratives without comment from the NEA. However, documentation from the Arts Endowment states that honorifics were not allowed, but programmatic activities associated with a Heritage Awards event could be allowed. We determined this misunderstanding caused the finding.

Each Heritage Award grant amount was \$5,000 during the 2019 through 2021 award periods, and increased to \$10,000 during the 2022 award period. We identified \$105,000 of unallowable honorifics across all four award FFRs - \$10,000 from the 2019 Award, \$20,000 from the 2020 Award, \$15,000 from the 2021 Award, and \$60,000 from the 2022 Award. Reporting unallowable costs could result in a refund due to the Arts Endowment. However, we calculated the impact of all potential questioned and unallowable report costs and determined MSAC still exceeded the cost share minimum for all four awards (see Appendix B).

MSAC Recommendation 6: We recommend MSAC establish and implement FFR reporting controls that ensure honorifics are excluded from all costs included in award FFRs (General Terms 13).

Arts Endowment Recommendation 3: We recommend the Arts Endowment disallow \$105,000 in honorifics from reported costs- \$10,000 from the 2019 Award, \$20,000 from the 2020 Award, \$15,000 from the 2021 Award, and \$60,000 from the 2022 Award.

MSAC concurs with this finding and recommendation (see Appendix E).

Finding 5 – FFATA Reporting

MSAC did not report subawards as required by the Federal Funding Accountability and Transparency Act (FFATA) for all four awards.

The FFATA requires pass-through entities to publicly report all subawards that contain at least \$30,000 in Federal funds (\$25,000 during 2019 and 2020 Partnership award periods of performance) (2 CFR 170, Appendix A, 1.a). Pass-through entities must report the information within one month after the month the Federal funds were allocated to the subaward (2 CFR 170, Appendix A, 1.a). For example, if an entity issues a \$50,000 subaward on July 1, 2022 that included \$35,000 in Federal funds, the entity had until August 31, 2022 to report the \$50,000 subaward. If the subaward included \$29,900 in Federal funds on July 1, 2022, but then a November 2, 2022 funding adjustment raised the amount of Federal funds applied to the subaward to \$35,000, the entity had until December 31, 2022 to report the \$50,000 subaward. The Arts Endowment General Terms reiterate this requirement (General Terms 23).

During fieldwork we reviewed MSAC's cost reports to determine whether MSAC issued any subawards that triggered FFATA reporting requirements. We identified a total of 30 subawards, for a total of \$1,491,212, that should have been reported under the requirement - 14 (\$555,789) for the 2019 Award, 7 (\$371,360) for the 2020 Award, 5 (\$303,189) for the 2021 Award, and 4 (\$260,874) for the 2022 Award. We searched for each subaward in USASpending.gov and were unable to find any records indicating that MSAC had reported these grants.

MSAC leadership stated they thought this requirement was being met and did not realize staff were not reporting the data as required. We determined MSAC did not establish FFATA procedures and controls to ensure compliance, which caused the finding.

This compliance requirement was created to improve transparency and accountability in Federal spending. Prompt and accurate reporting of FFATA information is necessary for providing a complete picture of government spending to the American public, and to prevent misinformed decision-making by concerned citizens or government entities. MSAC's failure to report relevant subawards resulted in a \$1.49 million gap in USASpending.gov data across all four awards.

MSAC Recommendation 7: We recommend MSAC document and implement procedures that ensure prompt and accurate compliance with FFATA requirements (2 CFR 170, Appendix A).

MSAC Recommendation 8: We recommend MSAC establish controls that ensure its FFATA procedures are followed.

MSAC concurs with the finding and recommendations (see Appendix E).

Finding 6 – Subrecipient Notification

MSAC did not provide complete subaward information to subrecipients.

Federal regulations require pass-through entities to provide specific information to subrecipients about the Federal award they are participating in. This includes Federal award information, Federal funding amounts, relevant award restrictions, and a requirement that the subrecipient's relevant records are accessible to auditors (2 CFR 200.332(b)). The General Terms reiterate these requirements (General Terms 1 and 23), and also state subrecipient costs must follow cost allowability requirements (General Terms 13). Further, the General Terms requires subrecipients to acknowledge Arts Endowment support in all subaward-related materials and announcements (General Terms 3). We determined subrecipients needed to know about these requirements in order to meet them.

MSAC had established procedures and controls to ensure grant contracts met MSAC's grant disclosure requirements. However, we determined that MSAC did not review the grant contract template to include considerations of Federal or Arts Endowment subawarding requirements and did not have procedures to subsequently notify applicants regarding the awarding of federal funds and federal fund requirements. As a result, none of the four awards' subrecipients were notified of their participation in an Arts Endowment award, nor of the Federal and Arts Endowment subaward requirements.

MSAC officials stated their grant contract templates were reviewed by the Assistant Attorney General assigned to the DOC, and they assumed all necessary regulations were included. We determined this reliance contributed to the finding, along with the lack of controls to ensure Federal and Arts Endowment subawarding requirements were addressed.

During fieldwork, we tested 152 subaward transactions to determine whether reported costs were supported by source documentation, appeared reasonable, met cost allowability requirements, and were incurred within the award performance period. While 95 met all test attributes, 57 did not, resulting in \$194,315 in questioned or unallowable subrecipient costs tested across all four awards (see breakdowns in table below).

We determined these cost findings were caused by MSAC's failure to provide the required notifications. Subrecipients needed to know about the relevant award's performance period to ensure they only reported costs incurred within the period, and to maintain their documents in compliance with the award's retention period. They also needed to know what an award's cost restrictions were to ensure they excluded unallowable costs from their final reports. MSAC was responsible for providing this information, and since they did not they are responsible for their subrecipients' cost issues.

Table 4: Subrecipient Cost Test Results

	2019 Award	2020 Award	2021 Award	2022 Award	Totals
Total Tested	41 \$171,414	31 \$67,904	39 \$108,466	41 \$141,036	152 \$488,820
Total Passed	23 \$130,203	20 \$25,556	24 \$32,079	28 \$106,667	95 \$294,505
Total Findings	18 \$41,211	11 \$42,348	15 \$76,387	13 \$34,369	57 \$194,315
<i>Total Unsupported</i>	<i>16</i> <i>\$36,686</i>	<i>8</i> <i>\$16,274</i>	<i>13</i> <i>\$73,274</i>	<i>9</i> <i>\$23,231</i>	46 \$149,465
<i>Total Unallowable</i>	<i>2</i> <i>\$4,525</i>	<i>2</i> <i>\$20,301</i>	<i>1</i> <i>\$2,563</i>	<i>N/A</i>	5 \$27,389
<i>Total Outside</i>	<i>N/A</i>	<i>1</i> <i>\$5,773</i>	<i>1</i> <i>\$550</i>	<i>4</i> <i>\$11,138</i>	6 \$17,461

Reporting unallowable costs could result in a refund due to the Arts Endowment. However, we calculated the impact of all potential questioned and unallowable report costs and determined MSAC still exceeded the cost share minimum for all four awards (see Appendix B).

MSAC Recommendation 9: We recommend MSAC establish and implement controls that ensure Federal and Arts Endowment subawarding notification (2 CFR 200.332(b), General Terms 1 & 23), cost allowability (General Terms 13 & 2 CFR 200 Subpart E), and acknowledgment requirements (General Terms 3) are included in its grant contract documents.

Arts Endowment Recommendation 4: We recommend the Arts Endowment disallow \$194,315 in questioned or unallowable subrecipient costs - \$41,211 from the 2019 Award FFR; \$42,348 from the 2020 Award FFR; \$76,387 from the 2021 Award FFR; and \$34,369 from the 2022 Award FFR.

MSAC concurs with the finding and recommendation (see Appendix E).

Finding 7 – ARP Subawards

Activities for one subaward issued with ARP funds were not allowable.

The 2020 award included ARP funds, and award documents stated that subawarded ARP funds were intended to support day-to-day business expenses and operating costs (NEA ARP Requirements & Guidance). Approved ARP subaward cost activities were limited to salary support, artist fees and stipends, facility costs (i.e., rent and utilities), health and safety supplies (i.e., personal protective equipment and hand sanitizer), and marketing and promotion costs. ARP FAQs issued by the Arts Endowment state that artists fees and costs must be for regular day-to-day work, not for a new or special project or program

MSAC disbursed ARP funds by retroactively applying the funds to existing award program grants through journal entries. During fieldwork we tested three subawards issued with ARP funds to determine whether the subawards met the allowable activities limitations, among other things. Two subawards passed the test, but one did not. The failed subaward provided \$50,000, in ARP funds, to a parent-teacher association (PTA) to support conservation treatment and restoration of a sculpture at a combined public elementary and middle school. We determined sculpture restoration does not fall under any of the stated allowable ARP activities; therefore, the subaward was unallowable.

MSAC officials stated they believed sculpture restoration qualified under the allowable “artist fees” category. We disagree with this interpretation, as PTA-led statue restoration at a public school is not part of regular day-to-day work. We also determined this was a unique circumstance and all other tested subawards (43 of 44) met allowable activities requirements. As a result, we do not have a larger finding related to MSAC’s subaward issuance process.

ARP funds did not have a cost share requirement, and MSAC did not provide any voluntarily ARP cost share. We removed this cost from the 2020 Award’s final reported ARP costs and identified a \$50,000 potential refund due to the Arts Endowment (See Table 6 in Appendix B).

Arts Endowment Recommendation 5: We recommend the Arts Endowment disallow the \$50,000 unallowable ARP cost from the 2020 Award.

Arts Endowment Recommendation 6: We recommend the Arts Endowment determine whether a refund is due (see Appendix B, Table 6).

MSAC concurs with the finding (see Appendix E).

INTERNAL CONTROLS

Federal internal controls regulations require award recipients to establish and maintain effective internal controls over Federal awards that provide reasonable assurance the recipient manages its awards in compliance with Federal statutes and regulations, and award terms and conditions (award requirements) (2 CFR 200.303(a)). Recipients must also evaluate and monitor their compliance with award requirements (2 CFR 200.303(c)).

We determined MSAC generally established and maintained effective controls over computer processed data and systems access. However, we determined some of MSAC's relevant internal controls were missing or ineffective. Additionally, MSAC did not have procedures in place to evaluate and monitor their compliance with Federal and Arts Endowment award requirements.

Finding 8 – Internal Control

MSAC did not establish and maintain effective internal controls over the Arts Endowment awards.

Federal regulations require award recipients to establish and maintain effective internal controls that provide reasonable assurance the award is managed in compliance with Federal statutes and regulations, and award terms and conditions (2 CFR 200.303(a)). This is reiterated in the Arts Endowment General Terms (General Terms 9). Federal regulations also require award recipients to evaluate and monitor their compliance with statutes and regulations, and award terms and conditions (2 CFR 200.303(c)). This includes ensuring subawards made with Federal or matching funds are closed out (including submission and approval of subrecipient final reports and disbursement of funds) prior to closing out the Federal award (General Terms 23).

We determined MSAC established policies and procedures over subawards, payroll, financial reporting, payment requests, and Arts Endowment award management. However, we determined internal controls were missing or ineffective in many of these areas. As previously discussed in this report, missing or ineffective controls were the root cause of issues with document retention (Findings 1 and 3), payroll (Finding 2), subrecipient notification of Federal and Arts Endowment award requirements (Finding 6), and honorific costs (Finding 4). The financial effect of these findings totaled \$990,826 in questioned or unallowable costs across all four awards - \$691,511 in FFR and payroll costs, and \$194,315 in subrecipient costs.

In addition, we determined MSAC's controls over subaward closeout were ineffective. During fieldwork, we tested 44 subawards and determined 14 were not properly closed out in accordance with the Arts Endowment's grant closeout requirements (General Terms 23). This included 1 of 5 subawards from the 2019 Award, 3 of 15 from the 2020 Award, 5 of 12 from the 2021 Award, and 5 of 12 from the 2022 Award. We found that MSAC either did not approve the grantee's final report prior to the Arts Endowment's award closeout date, did not incorporate federal closeout requirements when setting or extending report deadlines, or did not ensure that grantees submitted their final reports timely.

Finally, we determined MSAC did not have procedures in place to evaluate and monitor their compliance with Federal and Arts Endowment award requirements. MSAC officials

acknowledged this gap, and stated they did not realize requirements were not met because the systems were not in place when the leadership transition occurred. They also stated the abruptness of the transition further aggravated the situation. We determined this explanation was reasonable, but also that it further proved the importance of documenting controls and reviews so that compliance did not rely on institutional knowledge or optimum circumstances.

We reviewed the report findings identified above to determine whether annual reviews by MSAC management could have reasonably detected and corrected the gaps between operations and requirements. We determined annual reviews of subawarding procedures against award requirements could have shortened MSAC's noncompliance with FFATA, grant closeout, or subrecipient notification requirements, and potentially lowered the amount of identified questioned or unallowable subrecipient costs.

MSAC Recommendation 10: We recommend MSAC strengthen its controls over subaward closeout to ensure all subawards are closed before submitting the FFR (General Terms 23).

MSAC Recommendation 11: We recommend MSAC establish procedures to evaluate and monitor its compliance with Federal and Arts Endowment award requirements (2 CFR 200.303(c)).

MSAC Recommendation 12: We recommend MSAC establish controls that ensure compliance evaluations are conducted and gaps are addressed (2 CFR 200.303(a)).

MSAC concurs with the finding and recommendations (see Appendix E).

RECOMMENDATION SUMMARY

We recommend MSAC:

- A.1 Document its procedures for completing award FFRs, including how to calculate indirect costs.
- A.2 Establish controls to ensure its FFR reporting procedures are followed.
- A.3 Document and implement payroll reconciliation procedures that verify recorded payroll costs are accurate and supported (2 CFR 200.430(g)(1)(i)).
- A.4 Establish controls to ensure its payroll reconciliation procedures are followed.
- A.5 Establish document retention controls that ensure its policy is followed.
- A.6 Establish and implement FFR reporting controls that ensure honorifics are excluded from all costs included in award FFRs (General Terms 13).
- A.7 Document and implement procedures that ensure prompt and accurate compliance with FFATA requirements (2 CFR 170, Appendix A).
- A.8 Establish controls that ensure its FFATA procedures are followed.
- A.9 Establish and implement controls that ensure Federal and Arts Endowment subawarding notification (2 CFR 200.332(b), General Terms 1 & 22), cost allowability (General Terms 13 & 2 CFR 200 Subpart E), and acknowledgment requirements (General Terms 3) are included in its grant contract documents.
- A.10 Strengthen its controls over subaward closeout to ensure all subawards are closed before submitting the FFR (General Terms 23).
- A.11 Establish procedures to evaluate and monitor its compliance with Federal and Arts Endowment award requirements (2 CFR 200.303(c)).
- A.12 Establish controls that ensure compliance evaluations are conducted and gaps are addressed (2 CFR 200.303(a)).

We recommend the Arts Endowment:

- B.1 Disallow \$674,750 in unsupported FFR costs from the 2019 Award.
- B.2 Disallow \$16,761 of unsupported payroll costs - \$4,507 from the 2020 Award; \$7,281 from the 2021 Award; and \$4,973 from the 2022 Award.
- B.3 Disallow \$105,000 in honorifics from reported costs- \$10,000 from the 2019 Award, \$20,000 from the 2020 Award, \$15,000 from the 2021 Award, and \$60,000 from the 2022 Award.
- B.4 Disallow \$194,315 in questioned or unallowable subrecipient costs - \$41,211 from the 2019 Award FFR; \$42,348 from the 2020 Award FFR; \$76,387 from the 2021 Award FFR; and \$34,369 from the 2022 Award FFR.
- B.5 Disallow the \$50,000 unallowable ARP cost from the 2020 Award.
- B.6 Determine whether a refund is due (see Appendix B, Table 6).

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	\$ 752,000
MSAC Minimum Cost Share Required ¹	\$ 752,000
Total Reported Partnership Costs	\$5,477,003
Less Unsupported FFR Cost (Finding 1)	(674,750)
Less Unallowable Honorific Cost (Finding 4)	(10,000)
Less Unsupported Subrecipient Cost (Finding 6)	(36,686)
Less Unallowable Subrecipient Cost (Finding 6)	(4,525)
Potential Allowable Reported Costs	\$4,751,042
Less Arts Endowment Share of Allowable Reported Costs ²	(752,000)
Less MSAC Minimum Cost Share Required	(752,000)
MSAC Actual Cost Share Exceeded	<u>\$3,247,042</u>

Table 2 – 2020 Award

Arts Endowment Partnership Funds Disbursed	\$ 794,600
MSAC Minimum Cost Share Required ²	\$ 794,600
Total Reported Partnership Costs	\$5,280,889
Less Unsupported Payroll Cost (Finding 2)	(4,507)
Less Unallowable Honorific Cost (Finding 4)	(20,000)
Less Unsupported Subrecipient Cost (Finding 6)	(16,274)
Less Unallowable Subrecipient Cost (Finding 6)	(20,301)
Less Outside Performance Period Subrecipient Cost (Finding 6)	(5,773)
Potential Allowable Reported Costs	\$5,214,034
Less Arts Endowment Share of Allowable Reported Costs ³	(794,600)
Less MSAC Minimum Cost Share Required	(794,600)
MSAC Actual Cost Share Exceeded	<u>\$3,624,834</u>

¹ Partnership award funds had a one-to-one cost share requirement, therefore MSAC's minimum cost share required is equal to the amount of Arts Endowment Partnership funds disbursed.

² 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	\$ 819,900
MSAC Minimum Cost Share Required ²	\$ 819,900
Total Reported Partnership Costs	\$5,873,709
Less Unsupported Payroll Cost (Finding 2)	(7,281)
Less Unallowable Honorific Cost (Finding 4)	(15,000)
Less Unsupported Subrecipient Cost (Finding 6)	(73,274)
Less Unallowable Subrecipient Cost (Finding 6)	(2,563)
Less Outside Performance Period Subrecipient Cost (Finding 6)	(550)
Potential Allowable Reported Partnership Costs	\$5,775,041
Less Arts Endowment Share of Allowable Reported Costs ³	(819,900)
Less MSAC Minimum Cost Share Required	(819,900)
MSAC Actual Cost Share Exceeded	\$4,135,241

Table 4 – 2022 Award

Arts Endowment Partnership Funds Disbursed	\$ 879,700
MSAC Minimum Cost Share Required ²	\$ 879,700
Total Reported Partnership Costs	\$6,683,303
Less Unsupported Payroll Cost (Finding 2)	(4,973)
Less Unallowable Honorific Cost (Finding 4)	(60,000)
Less Unsupported Subrecipient Cost (Finding 6)	(23,231)
Less Outside Performance Period Subrecipient Cost (Finding 6)	(11,138)
Potential Allowable Reported Partnership Costs	\$6,583,961
Less Arts Endowment Share of Allowable Reported Costs ³	(879,700)
Less MSAC Minimum Cost Share Required	(879,700)
MSAC Actual Cost Share Exceeded	\$4,824,561

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

³ 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.

CARES Program Cost Results**Table 5 – 2019 Award**

Arts Endowment CARES Funds Disbursed	\$ 467,900
MSAC Minimum Cost Share Required	0
Total Reported Costs	\$ 467,900
Less Cost Findings (None)	(0)
Potential Allowable Reported Costs	467,900
Less Arts Endowment Funds Disbursed ³	(467,900)
Potential Refund Due	\$ (0)

ARP Program Cost Results**Table 6 – 2020 Award**

Arts Endowment ARP Funds Disbursed	\$ 831,700
MSAC Minimum Cost Share Required	0
Total Reported Costs	\$ 831,700
Less Cost Findings (Finding 7)	(50,000)
Potential Allowable Reported Costs	781,700
Less Arts Endowment ARP Funds Disbursed ⁴	(831,700)
Potential Refund Due	\$ (50,000)

⁴ 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 SUMMARY

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

CRITERIA DEFINITIONS

Arts Endowment General Terms, 5. Selected Definitions

Closeout: The process by which the federal awarding agency or pass-through entity determines that all applicable administrative actions and all required work of the Federal award have been completed and takes actions as described in 2 CFR 200.344.

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 Reporting

Arts Endowment General Terms 16 (E) Final Reports: To close out your award you must submit the following no later than **120 days after the period of performance end date** (2 CFR 200.329(c):

- A Federal Financial Report (FFR)

Arts Endowment Instructions for Completing the FFR: The expenses reported on your FFR should be consistent with the line items in your approved project budget. During a pre-award review, we may have made adjustments to your budget to bring the costs into compliance with the terms of your award. Any adjustments were noted on the Terms & Conditions document found under the Documents Tab for your award in REACH. We may also have made adjustments if you requested a budget amendment. Take note of these changes when compiling figures for your FFR.

We understand that the project budget was your best estimate at the time of submission and know that actual costs vary from projections. On the FFR, you will report actual expenditures only.

Review your accounting and supporting documentation (such as invoices, contracts, receipts, checks, transaction reports, and bank statements) and report only actual, allowable, documented costs on the FFR. You are not required to submit supporting documentation unless we request it, but you must keep it on file for three years from the FFR submission date. All costs reported on your Federal Financial Report are subject to federal audit.

Unallowable costs such as receptions, galas, general fundraising efforts, special donor events, and prizes must not be included in the costs reported on the FFR. All project expenditures must meet federal requirements even if paid with your own funds (cost share/match).

Section 10 includes all project costs, including indirect costs if applicable (indirect costs are further broken down in Section 11). The recipient share of expenditures should include the value of allowable third party, in-kind contributions and indirect costs as approved by the Arts Endowment.

All costs, including those paid for with cost share/matching funds, must be incurred within the period of performance, though you have 120 days to liquidate expenses after the period of performance ends.

Payroll Costs

2 CFR 200.302 Financial Management: The recipient's and subrecipient's financial management system must provide for the following:

- (a) Each State must expend and account for the Federal award in accordance with State laws and procedures for expending and accounting for the State's funds. All recipient and subrecipient financial management systems, including records documenting compliance with Federal statutes, regulations, and the terms and conditions of the Federal award, must be sufficient to permit the preparation of reports required by the terms and conditions; and tracking expenditures to establish that funds have been used in accordance with Federal statutes, regulations, and the terms and conditions of the Federal award. See § 200.450.
- (b) The recipient's and subrecipient's financial management system must provide for the following:
 - (3) Maintaining records that sufficiently identify the amount, source, and expenditure of Federal funds for Federal awards. These records must contain information necessary to identify Federal awards, authorizations, financial obligations, unobligated balances, as well as assets, expenditures, income, and interest. All records must be supported by source documentation.

2 CFR 200.430(g) Standards for Documentation of Personnel Expenses:

(1) Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:

- (i) Be supported by a system of internal control that provides reasonable assurance that the charges are accurate, allowable, and properly allocated;

Record Retention

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.

2 CFR 200.302 Financial Management: The recipient's and subrecipient's financial management system must provide for the following:

- (b) The recipient's and subrecipient's financial management system must provide for the following:
 - (3) Maintaining records that sufficiently identify the amount, source, and expenditure of Federal funds for Federal awards. These records must contain information necessary to identify Federal awards, authorizations, financial obligations, unobligated balances, as well as assets, expenditures, income, and interest. All records must be supported by source documentation.

SUBAWARD MANAGEMENT

Honorifics

Arts Endowment General Terms 13. Cost Principles (B) Individual Artists: Awards to individuals or organizations to honor or recognize achievement (P.L. 111–88, October 30, 2009, Sec. 438 (2)) are unallowable. Emergency relief funds for housing, food, etc. to an individual artist are also unallowable. However, support to individual artists may be allowable if the award funds programs and activities and is not a one-time monetary recognition award to an individual artist. Awards to individuals should include presentations, training, research, and/or creation of an artwork, with tangible outcomes required by the subaward. This is considered a stipend to the artist for the work undertaken and completed. Because neither the Arts Endowment Partnership Agreement funds nor the cost share/matching funds can support a fellowship solely as an honorific, costs for this type of award program must not be included in the Partnership Agreement budget and future financial reports.

Federal Funding Accountability and Transparency Act (FFATA) Reporting **2 CFR 170 Appendix A, 1) Reporting Subawards and Executive Compensation Information:**

a. Reporting of first-tier subawards —

- (1) *Applicability.*** Unless the recipient is exempt as provided in paragraph (d) of this award term, the recipient must report each subaward that equals or exceeds \$30,000 in Federal funds for a subaward to an entity or Federal agency. The recipient must also report a subaward if a modification increases the Federal funding to an amount that equals or exceeds \$30,000. All reported subawards should reflect the total amount of the subaward.
- (2) *Reporting Requirements.***
 - I.** The recipient must report each subaward described in paragraph (a)(1) of this award term to the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) at <http://www.fsrs.gov>.
 - II.** For subaward information, report no later than the end of the month following the month in which the subaward was issued. (For example, if the subaward was made on November 7, 2025, the subaward must be reported by no later than December 31, 2025).

Subrecipient Notification

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.
 - ii.** Subrecipient's unique entity identifier;
 - iii.** Federal award identification number (FAIN);

- iv. Federal Award Date;
 - 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.
 - x. Federal award project description, as required by the Federal Funding Accountability and Transparency Act (FFATA);
 - xi. Name of the Federal agency, pass-through entity, and contact information for awarding official of the passthrough entity;
 - xii. Assistance Listings title and number; the pass-through entity must identify the dollar amount made available under each Federal award and the Assistance Listings Number at the time of disbursement;
 - xiii. Identification of whether the Federal award is for research and development; and
 - xiv. Indirect cost rate for the Federal award (including if the de minimis rate is used in accordance with§ 200.414).
2. All requirements of the subaward, including requirements imposed by Federal statutes, regulations, and the terms and conditions of the Federal award;
 3. Any additional requirements that the pass-through entity imposes on the subrecipient for the pass-through entity to meet its responsibilities under the Federal award.

Arts Endowment General Terms, 1. Applicability: If you are making awards using Arts Endowment or cost share/matching funds, you are considered a "pass-through entity" as defined by 2 CFR 200.1 and the awards you make using these funds are considered subawards. The particular requirements that apply to you in your role as a pass-through entity (i.e., a subawarder) of Federal or matching funds, and the subrecipient entities who receive such awards, are noted throughout these Partnership General Terms and Appendix B. If you are using Federal funds - or funds allocated 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, 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, 3. Acknowledgement of Arts Endowment Support and Disclaimer: Acknowledgment of the Arts Endowment must be prominently displayed in all materials and announcements related to Partnership Agreement activities for the duration of the period of performance for this award.

(D) Despite the above, your agency or subawardee must clearly acknowledge Arts Endowment support as follows:

- Where a partnership agreement has been amended to include funds for general operating support through CARES/ARP, use of our logo - or other

acknowledgement of our funding - must not imply support of any particular activity.

- Where funds were awarded for project-based support for particular activity, the acknowledgement of our funding must be limited just to the specific Arts Endowment funded project. Do not imply our support of other activity that we did not fund.

COST ALLOWABILITY

Cost Allowability Requirements

Arts Endowment General Terms for Partnerships, 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:
 - Allocable and in conformance with these cost principles and as set forth in the award (200.403(b)).
 - 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

- Fundraising (2 CFR 200.442). A percentage of salaries and fringe benefits for development or fundraising staff, or fees to contractors who raise funds to implement the Arts Endowment project during the period of performance may be allowable costs. However:

- ⇒ Salaries or other costs for general fundraising activities or events, including those for donors, or that benefit the organization as a whole, are unallowable.
- ⇒ Costs associated with activities such as galas or parties, picnics or other community gatherings where food and beverages are provided, are unallowable (see also Entertainment.)

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:

- 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.
- g) Be adequately documented. See 200.300-.309.
- h) Administrative closeout costs may be incurred until the due date of the final report(s). If incurred, these costs must be liquidated prior to the due date of the final report(s) and charged to the final budget period of the award unless otherwise specified by the Federal agency. All other costs must be incurred during the approved budget period.

200.425 Audit Services:

- a) A reasonably proportionate share of the costs of audits required by and performed in accordance with the Single Audit Act Amendments of 1996 (31 U.S.C. 7501-7507), and the requirements of this part are allowable. However, the following audit costs are unallowable:
 - a. Any costs when audits required by the Single Audit Act and subpart F of this part have not been conducted, or have been conducted but not in accordance with the requirements; and
 - b. Except as provided for in paragraph (c) of this section, any costs of auditing a non-Federal entity that is exempted from having an audit conducted under the Single Audit Act and subpart F of this part because its expenditures under Federal awards are less than \$1,000,000 during its fiscal year.

200.434 Contributions and donations:

- a) Costs of contributions and donations, including cash, property, and services, from the recipient or subrecipient to other entities are unallowable.

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.

200.442 – Fundraising and investment management costs:

- a) Costs of organized fundraising, including financial campaigns, endowment drives, solicitation of gifts and bequests, and similar expenses incurred to raise capital or obtain contributions are unallowable. Fundraising costs for meeting the Federal program objectives are allowable with the prior written approval of the Federal agency.

ARP Subawards**Arts Endowment Additional Requirements and Guidance, American Rescue Plan (ARP)**

Act: The ARP Act funds support administration costs and subawarding to the nonprofit arts sector in response to the COVID-19 pandemic.

(2) **Subawards.** Subawarded ARP Act funds are intended to support day-to-day business expenses/operating costs and are limited to the following:

- Salary support, full or partial, for one or more staff positions
- Fees and stipends for artists and/or contractual personnel to support the services they provide for specific activities.
- Facilities costs such as rent and utilities.
- Costs associated with health and safety supplies for staff and/or visitors/audiences (e.g., personal protective equipment ,cleaning supplies, hand sanitizer, etc.).
- Marketing and promotion costs.

INTERNAL CONTROLS**Internal Controls**

Arts Endowment General Terms 9. Internal Controls: You must establish and maintain effective internal controls over your award and provide reasonable assurance that you are managing the award in compliance with Federal statutes, regulations, and the terms and conditions of the award.

2 CFR 200.303 Internal Controls: The recipient and subrecipient must:

- (a) Establish, document, and maintain effective internal control over the Federal award that provides reasonable assurance that the recipient or subrecipient is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should align with the guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control-Integrated Framework” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).
- (c) Evaluate and monitor the recipient's or subrecipient's compliance with statutes, regulations, and the terms and conditions of Federal awards.

Arts Endowment General Terms 23. Requirements for Subawards made under a Partnership Agreement: Both the Arts Endowment’s enabling legislation and the Uniform Administrative Requirements (2 CFR Part 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. Any subrecipients who make further subawards using Arts Endowment or cost/share matching funds must also comply with these requirements.

Closeout: All subawards made with Federal and/or required cost share/ matching funds must be closed out (including submission and approval of all subrecipient final reports and disbursal of all Federal and cost share/matching funds) prior to closing out your Federal award. If you extend

a subaward to allow a subrecipient more time to complete the activities for which the subaward was made, the period of performance for the prime award must also be extended accordingly. However, subawards that encounter significant delays should (unless required to meet the cost share/match) be removed from the scope of the Arts Endowment award to avoid continued delays in closing out the Federal award.

JUNE 2025 PARTNERSHIP CRITERIA

The Arts Endowment issued a new version of the Partnership General Terms in June 2025 which is effective for FY2024 awards and onward. Any corrective action plans MSAC creates to address the report recommendations should be based on meeting the regulations in that document, therefore this appendix provides the updated General Terms equivalents of the criteria identified in Appendix C.

CRITERIA DEFINITIONS

4. Selected Definitions

Closeout: The process by which the federal awarding agency or pass-through entity determines that all applicable administrative actions and all required work of the Federal award have been completed and takes actions as described in 2 CFR 200.344.

Cost share: The portion of project costs not paid with Federal funds. This term includes matching, which refers to required levels of cost share that you must provide to the project.

Federal share: The portion of the federal award costs paid using Federal (NEA) funds.

Indirect Costs: Those costs incurred for a common or joint purpose benefitting more than one cost objective and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved. Institutes of higher education (IHE) often use the term ‘facilities and administrative cost’ to refer to indirect cost.

Internal Control: Processes designed and implemented by recipients and subrecipients to provide reasonable assurance regarding the achievement of objectives in the effectiveness and efficiency of operations; reliability of reporting for internal and external use; and compliance with applicable laws and regulations.

Non-Federal entity: Either a State, local government, Indian Tribe, IHE, or nonprofit organization that carries out a Federal award as a recipient or subrecipient.

Participant: Generally, an individual participating in or attending program activities under a Federal award, such as trainings or conferences, but who is not responsible for implementation of the Federal award. Individuals committing effort to the development or delivery of program activities under a Federal award such as consultants, project personnel, or staff members of a recipient or subrecipient are not participants. Examples may include community members participating in a community outreach program, members of the public whose perspectives or input are sought as part of a program, students, or conference attendees.

Pass-through entity: A recipient or subrecipient that provides a subaward to a subrecipient (including lower tier subrecipients) to carry out part of a Federal program. The authority of the pass-through entity under this part flows through the subaward agreement between the pass-through entity and the subrecipient.

Period of performance: The time interval between the start and end date of a Federal award. It is the time during which the recipient must perform and complete the work authorized under the Federal award. Only costs associated with approved activities incurred during this period can be charged to the award.

Project cost: Total allowable costs incurred under a Federal award and all cost sharing, including third-party contributions.

Recipient: An entity that receives a Federal award directly from a Federal agency to carry out an activity under a Federal program. The term recipient does not include subrecipients or individuals that are participants and beneficiaries of the award.

Source documentation: Documentation that provides evidence that expenditures allocable to an award were incurred and paid during the approved period of performance. Source documentation includes receipts, invoices, contracts, copies of cancelled checks, transaction reports, bank statements, charge/debit card statements, and in-kind contribution reports. All source documentation must specifically identify the expenditures.

Subaward: An award provided by a pass-through entity to a subrecipient for the subrecipient to contribute to the goals and objectives of the project by carrying out part of a Federal award received by the pass-through entity. It does not include payments to a contractor, beneficiary, or participant. A subaward may be provided through any form of legal agreement consistent with criteria in 200.331, including an agreement the pass-through entity considers a contract.

Subrecipient: An entity that receives a subaward from a pass-through entity to carry out part of a Federal award. The term subrecipient does not include a beneficiary or participant. A subrecipient may also be a recipient of other Federal awards directly from a Federal agency.

FEDERAL AWARD MANAGEMENT

Federal Financial Reporting

17. Performance and Financial Reporting, Final Reports: To close out your award you must submit the following reports no later than 120 days after the period of performance end date:

- Final Federal Financial Report

SUBAWARD MANAGEMENT

Honorifics

14. Cost Principles, Allowability of Common Costs, Subawards to Individual Artists:

Awards to individuals or organizations to honor or recognize achievement are unallowable (P.L. 11-88, October 30, 2009, Sec. 438 (2)). Emergency relief funds for housing, food, etc. to an individual artist are also unallowable. Neither NEA funds nor the cost share funds for a Partnership Agreement award can fund a fellowship solely as an honorific, therefore costs for this type of award program must not be included in the Partnership Agreement award budget and future financial reports for the award. However, subawards to individual artists may be allowable if the award funds programs and activities and is not a one-time monetary recognition award to an individual artist. Awards to individuals should include presentations, training, research, and/or or creation of an artwork, with tangible outcomes required by the subaward. This is considered a stipend to the artist for the work undertaken and completed.

Federal Funding Accountability and Transparency Act (FFATA) Reporting

4. Definitions, FFATA (P.L. 109-282, 9/26/2006): The FFATA requires information about Federal awards to be posted on a single, searchable website (www.USASpending.gov) that is open for public access.

17. Performance and Financial Reporting, Subaward Reporting to SAM.gov: The FFATA requires you to report any subawards that include \$30,000 or more in Federal funds to the System for Award Management (SAM) at www.sam.gov by the end of the month after the subaward is made. For more details, review the *FFATA FAQs: The Transparency Act and Subaward Reporting Requirements* on the Manage Your Award page of the NEA website. Pass-through entities must connect the Federal Subrecipient Reporting System (FSRS.gov) user accounts to SAM.gov before reporting subawards in SAM.gov. For detailed information on subaward reporting in SAM.gov, visit SAM.gov/fsrs.

Subrecipient Notification

1. Important Information Regarding Your NEA Award, Applicability, Additional Statutes and Policies: By law, only State Arts Agencies, Regional Arts Organizations, and Local Arts Agencies that are designated to operate on behalf of their local governments or are operating units of city or county governments are eligible to subaward NEA funding (P.L. 118 -42, Division E, Section 412). NEA award recipients that issue awards using NEA funds or cost share funds for the NEA award are considered a pass-through entity as defined by 200.1 and the awards made using these funds are considered subawards. There are requirements that apply to a pass-through entity and to the subrecipient entity. These requirements are noted through these General Terms. Pass-through entities must inform subrecipients that they must comply with these requirements.

3. Acknowledgment of NEA Support and Disclaimer: See Section 23. Requirements for Subawards Made with NEA Funds or Cost Share Funds for crediting requirements for subrecipients.

23. Requirements for Subawards Made with NEA Funds or Cost Share Funds: As a pass-through entity, you must also comply with the requirements for monitoring and management of all subrecipients who receive subawards comprised of NEA funds and/or cost share funds. Note: If you issue a subaward to an entity eligible to subaward NEA funds for further subaward activity, your subrecipient becomes a pass-through entity as defined in 200.1 and must comply with all the provisions listed below. A pass-through entity must:

- 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.

23. Requirements for Subawards Made with NEA Funds or Cost Share Funds,

Subrecipient 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 an NEA award must be retained for a period of three (3) years from the date of submission of the pass-through entity's final expenditure report to the NEA.

- Your terms and conditions must require your subrecipients to retain their records in a manner that allows you to comply with this requirement.

23. Requirements for Subawards Made with NEA Funds or Cost Share Funds,

Subrecipient Acknowledgment of NEA Support: As a pass-through entity, you must ensure your subrecipients recognize the role of the NEA in the subaward project and provide them with appropriate crediting language for their award. You may also want to consult the NEA's Working with the Media Toolkit on our Manage Your Award webpage.

COST ALLOWABILITY

14. Cost Principles: The allowability of costs under an NEA Partnership Agreement award is determined in accordance with the NEA's legislation and appropriate NEA program guidelines or program solicitation, and the cost principles. All costs included in your approved budget and on payment requests and financial reports for the award, whether supported with NEA funds or cost share funds, must be:

- Allocable and in conformance with these cost principles and as set forth in the award.
- Adequately documented for reporting and audit purposes.
- Incurred during the approved period of performance and budget period.

Where the determination of cost allowability differs, the NEA program guidelines, General terms, and any specific terms and conditions, as appropriate, take precedence over 2 CFR 200.

14. Cost Principles, Unallowable Costs: You should refer to the Partnership Agreement award program guidelines applicable to your award for the full list of unallowable costs and activities. The following section is a list of common costs that are unallowable based on NEA legislation and policy:

- Gifts and prizes, including cash prizes as well as other items with monetary value (e.g., electronic devices, gift certificates).

14. Cost Principles, Allowability of Common Costs:

Pre-award Costs. The NEA does not approve costs incurred prior to the start date of the period of performance. Do not include these costs in your project budget or subsequent financial reports for your award.

Entertainment. Costs associated with amusement, diversion, and social activities are unallowable. Activities such as receptions, parties, galas, dinners, and other community social gatherings are unallowable. This includes costs such as catering, gifts, and gift cards, as well as costs for the planning, staffing, and supplies for the activities. Generally, this also includes activities at venues such as bars, wineries, and breweries where the consumption of alcohol/social activity is the primary purpose of the venue.

- Alcoholic beverages are unallowable.

Fundraising. A percentage of salaries and fringe benefits for development or fundraising staff, or fees to contractors, to raise funds used as cost share for the NEA project during the period of performance are allowable. Costs related to development/fundraising staff time and effort spent managing the NEA award are also allowable.

- Costs of fundraising to benefit the general operations of the recipient are unallowable. This may include costs related to financial campaigns, endowment drives, solicitation of gifts and bequests, or similar expenses incurred to raise capital or obtain contributions.

INTERNAL CONTROLS

Internal Controls

10. Financial Management & Internal Controls, Internal Controls: Recipients and subrecipients must establish, document, and maintain effective internal controls over the Federal award and provide reasonable assurance that the recipient or subrecipient is managing the award in compliance with Federal statutes, regulations, executive orders, and the terms and conditions of the Federal award. See recommended compliance guidance regarding documenting internal controls at 200.303. Recipients and subrecipients must take prompt action when instances of noncompliance are identified.

23. Requirements for Subawards Made with NEA Funds or Cost Share Funds, Closeout of Subawards: All subawards made with Federal and/or required cost share funds must be closed out prior to closing out your Federal award (including submission and approval of all subrecipient final reports and disbursal of all Federal and cost share funds).



Steven Skerritt-Davis | Executive Director

Wes Moore | Governor

Aruna Miller | Lt. Governor

Harry Coker, Jr. | Secretary of Commerce

APPENDIX E

Sept. 22, 2025

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

To Whom It May Concern:

The Maryland State Arts Council (MSAC) concurs with all findings and recommendations included in the draft audit report. The development and implementation of a corrective action plan, which includes revising procedures and controls to address OIG recommendations, will begin upon issuance of the final report.

On Finding 7, regarding ARP subawards, MSAC concurs with the finding and notes that it disbursed funds based on staff understanding of allowable expenditures. The outcome of the grant was employment for artists. MSAC staff look forward to discussing a remedy with a designated representative from the National Endowment for the Arts.

MSAC appreciates the insights gained throughout the audit process and thanks the auditor team, Katie Weisner and Christy Geleg, for their support.

Sincerely,

Steven Skerritt-Davis
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Maryland State Arts Council
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