



AGENCY FINANCIAL REPORT FISCAL YEAR 2022

Submitted to the Congress,
the Office of Management and Budget,
the Department of the Treasury, and
the Government Accountability Office
November 15, 2022

BLANK PAGE

Table of Contents

Message from the Chair	1
I. Management’s Discussion and Analysis	3
A. Mission, Organizational Structure, and Internal Operations.....	3
Performance Goals, Objectives, and Results.....	5
B. FY 2022 Grantmaking Statistics	15
C. Analysis of Systems, Controls, and Legal Compliance.....	16
D. Management Assurances.....	16
E. Financial Highlights.....	16
F. Table of Key Measures.....	18
II. Financial Information	19
Independent Auditor’s Report	20
Audited Financial Statements and Notes.....	29
III. Other Information	53
Inspector General’s Summary of Top Management Challenges.....	54
Summary of Financial Statement Audit and Management Assurances	60
Payment Integrity	61
Fraud Reduction	62
Civil Monetary Penalty Adjustment for Inflation.....	63
Grants Oversight & New Efficiency (GONE) Act	63

BLANK PAGE

*National Endowment for the Arts – FY 2022 Agency Financial Report
A Message from the Chair*

~ A Message from the Chair ~

I am pleased to present the National Endowment for the Arts' *Fiscal Year 2022 Agency Financial Report*, which summarizes the Agency's financial performance during the past year.

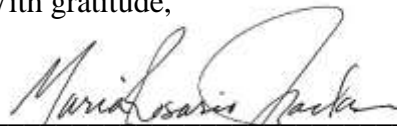
The NEA's mission is based on an abiding conviction that the arts play an integral role in our national life, public discourse, and our ability to reach our full potential. The arts strengthen and promote the well-being and resilience of people and communities, and they play important roles in our local and national economies. By advancing equitable opportunities for arts participation and practice, the NEA fosters and sustains an environment in which the arts belong to and benefit everyone in the United States.

The NEA is proud of its efforts during fiscal year 2022 to support the nation's arts sector with grant programs to help rebuild the creative economy and educate the next generation, and unite and heal the nation through the arts. Whether those that the NEA reaches are students finding their voices through the *Poetry Out Loud* initiative, seniors struggling with social isolation who participate in the *Big Read*, members of our military community and our veterans wrestling with invisible and visible wounds who receive creative arts therapies as part of our *Creative Forces*® partnership, or citizens working to enhance opportunity in towns and cities through arts-based community development as part of the *Our Town* program, the work of the NEA is integrated throughout all segments of our society.

The arts are crucial to helping us make sense of our shared circumstances from different perspectives as we emerge from the pandemic. They are a vital part of how we need to move forward together and begin to address the wide-range of social, environmental, and economic challenges that lie before us as a nation. Through grant awards, honorific awards, and strategic partnerships, the NEA is a national resource that supports learning in and about the arts, celebrates the nation's rich and diverse cultural heritage and helps to advance critically important work at the intersection of arts and other fields such as education, health, and community development. These activities, which the NEA aims to undertake everywhere across the United States—from our largest metropolitan areas to rural communities—hold the potential to help repair our strained social fabric and step into a new era stronger, smarter and better equipped to help fulfill the promise of our nation.

As described in the pages that follow, I can state confidently that the NEA made meaningful progress in fulfilling its mission in FY2022.

With gratitude,



Maria Rosario Jackson, Ph.D.
Chair, National Endowment for the Arts

BLANK PAGE

National Endowment for the Arts
Fiscal Year 2022
Agency Financial Report

~ I. Management’s Discussion and Analysis ~

The National Endowment for the Arts (“NEA”) produces an Agency Financial Report (AFR) and an Annual Performance Report (APR). It will include its FY 2022 APR with its FY 2024 Congressional Budget Justification in February 2023. It will post these on the NEA website at www.arts.gov.

Overview

The National Endowment for the Arts, established by Congress in 1965, is an independent federal agency that is the largest funder of the arts and arts education in communities nationwide and a catalyst of public and private support for the arts. The agency partners closely with the nation’s 56 state and jurisdictional arts agencies, 6 regional arts organizations, and private entities, leveraging resources to provide more arts funding and arts programs across the country. Through its grant awards, strategic partnerships, and honorific awards, the NEA supports learning in and about the arts, celebrating the nation’s rich and diverse cultural heritage, and promoting equitable access to the arts in every community in the United States.

The NEA’s primary activities include grantmaking to nonprofit arts organizations, public arts agencies and organizations, and individual writers and translators. The NEA also is a national leader in the arts field and a convener on issues important to the arts community and people working at the intersections of arts and fields such as health, community development, and education, among others. The NEA supports and conducts groundbreaking arts-focused research and disseminates important information about the arts nationwide via our blog, podcasts, *American Artscape* magazine, and social media.

The NEA seeks to bring meaningful arts experiences to all Americans.

A. Mission, Organizational Structure, and Internal Operations

In February 2022, the NEA published a revised Strategic Plan for fiscal years 2022 through 2026. The agency’s revised plan was drafted while the agency was implementing provisions of the American Rescue Act of 2021. The American Rescue Act was designed to bring direct relief to Americans—including artists and other creative workers—enduring the health and economic crises of COVID-19. The NEA’s Strategic Plan reflects the agency’s recognition of the need to further align itself with the needs of our nation today and seeks to elevate the vital and enduring role of the agency within the federal government and society at large.

*National Endowment for the Arts – FY 2022 Agency Financial Report
Management's Discussion and Analysis*

Mission

The arts strengthen and promote the well-being and resilience of people and communities. By advancing equitable opportunities for arts participation and practice, the National Endowment for the Arts fosters and sustains an environment in which the arts belong to everyone in the United States.

The NEA mission is based on an abiding conviction that the arts play an integral role in our national life and public discourse.

Vision

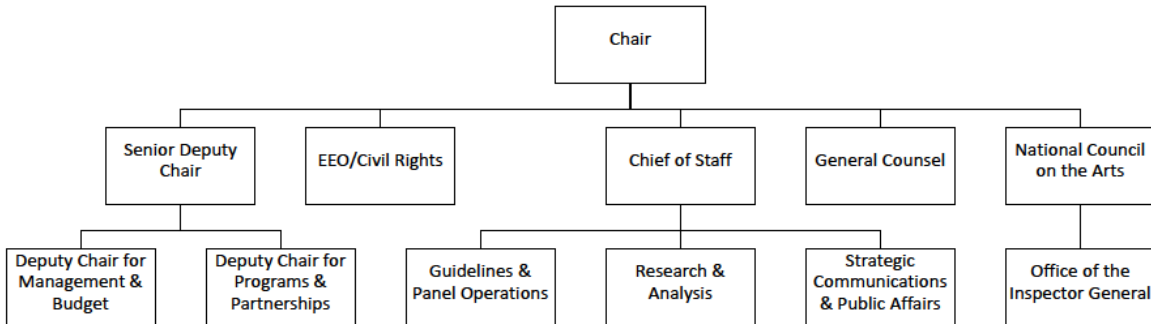
A nation in which the arts are essential to our democracy by nourishing creative enterprise, freedom of thought, imagination, and inquiry.

By giving voice to unique talents and perspectives through creative expression, the arts embody and reflect the boldness of our democratic experiment.

The National Endowment for the Arts is led by Chair Maria Rosario Jackson, Ph.D., who was appointed by President Biden and subsequently confirmed by the United States Senate on December 18, 2021. Chair Jackson is advised by the [National Council on the Arts](#), a council of up to eighteen nationally and internationally renowned artists, distinguished scholars, and arts patrons appointed by the President and confirmed by the Senate. The Council also includes non-voting Congressional (ex officio) members who are appointed by Senate and House leadership from both sides of the aisle. The Council reviews and votes to approve or reject grant applications. Its recommendations for funding are sent to the NEA Chair, who reviews those applications and makes the final decision on all grant awards. Currently, the Council has a full complement of eighteen Presidential appointees and three ex officio members.

In FY 2022, the NEA's senior organizational leaders, in addition to Chair Jackson, included, among others, a Senior Deputy Chair, Deputy Chair for Programs & Partnerships, Deputy Chair for Management & Budget, Chief of Staff, Director of Strategic Communications & Public Affairs, and General Counsel. During FY 2022, the agency operated with a staffing level of approximately 145 full-time equivalents.

NEA Organizational Chart
(as of September 30, 2022)



Performance Goals, Objectives, and Results

The NEA’s FY 2022-2026 Strategic Plan includes the following four goals and underlying objectives:

Goal 1. Support opportunities for all people to participate in the arts and arts education.

Objective 1.1 Expand public access to the NEA’s programs and award-supported activities.

Objective 1.2 Prioritize data-driven methods to broaden and deepen engagement with underserved communities.

Objective 1.3 Provide opportunities for people throughout the country to participate in arts education and to increase their knowledge and skills in the arts at all stages of life.

Objective 1.4 Ensure opportunities for the international exchange of artists and arts and cultural traditions.

Goal 2. Integrate the arts with strategies that promote the well-being and resilience of people and communities.

Objective 2.1 Support arts projects with a focus on advancing the health and well-being of individuals.

*National Endowment for the Arts – FY 2022 Agency Financial Report
Management's Discussion and Analysis*

Objective 2.2 Embed the arts in system-wide initiatives that strengthen or heal communities.

Goal 3. Build capacity and infrastructure within the arts sector through knowledge-sharing, tools, resources, and evidence-based practices.

Objective 3.1 Support the development of skills and strategies that will enable arts leaders to manage more effective organizations and agencies.

Objective 3.2 Produce research, statistics, and general information about the arts for the benefit of the arts sector and beyond.

Objective 3.3 Invest in the capacity of arts organizations and artists to serve a broader public through digital or emergent technology.

Goal 4. Pursue and adopt exemplary practices to support the agency's mission.

Objective 4.1 Continue to be accountable and transparent to the public through effective operations that promote vigilant stewardship of funds.

Objective 4.2 Foster a skilled, agile, diverse, and cohesive workforce.

CROSS-CUTTING OBJECTIVE

The NEA will model diversity, equity, inclusion, and accessibility in the arts through all of its activities and operations.

Across the four strategic goals, the NEA will support the cross-cutting objective to model diversity, equity, inclusion, and accessibility in the arts through all of its activities and operations.

Results

The following activities and initiatives, organized by goal, highlight some of the key accomplishments that the NEA achieved during FY 2022.

Goal 1. Support opportunities for all people to participate in the arts and arts education.

- Pilot Initiative with Regional Arts Organizations Focused on Underserved Communities: In FY 2022, the NEA signed a cooperative agreement with South Arts Inc. to support a range of eligible organizations throughout the arts and cultural ecosystem that have

*National Endowment for the Arts – FY 2022 Agency Financial Report
Management's Discussion and Analysis*

demonstrated a commitment to equity within their practices and programming (e.g., programming that is reflective of the community they serve, planning activities that are inclusive of diverse voices, etc.) and have undertaken consistent engagement with underserved groups/communities that have rich and inspiring artistic and cultural contributions to share. (Objective 1.1)

- American Rescue Plan Grantmaking: In March 2021, President Biden signed the American Rescue Plan (ARP) Act, which included funding for the NEA to support organizations and jobs in the arts sector that have been impacted by the pandemic. The \$135 million allocated for the NEA in this historic legislation represents a significant commitment to the arts, a recognition of the value of the arts and culture sector to the nation's economy and recovery, and a testament to need in the sector.

The NEA moved quickly after ARP was enacted in FY 2021 to develop guidelines and application materials for the competitive funding process that centered on equity and access, reducing barriers to accessing funding, and engaging arts communities that might be new to federal funding. In particular, the NEA encouraged applications from a variety of eligible organizations, including those that might be applying for federal support through the NEA for the first time.

In FY 2021, the NEA awarded \$52.11 million in funding for state and jurisdictional arts agencies and regional arts organizations, the first recommended awards of the ARP, by amending 62 prior year partnership agreements. In FY 2022, the NEA finished awarding the remaining \$78.15 million of its ARP grant funds (569 ARP Grants to Organizations awards and 66 ARP Local Arts Agency awards) based on recommendations made at the October and December 2021 (FY 2022) meetings of the National Council on the Arts.

Direct grant funding under ARP was made available through two separate competitive opportunities.

- The ARP Grants to Organizations program was carried out through one-time grants to eligible organizations including, but not limited to, nonprofit arts organizations, local arts agencies, arts service organizations, units of state or local government, federally recognized tribal communities or tribes, and a wide range of other organizations that can help advance the goals of this program. Applicants could request a fixed grant amount of \$50,000, \$100,000, or \$150,000. The application window for these grants closed on September 2, 2021 and the NEA announced grant awards in December 2021.
- The ARP Grants to Local Arts Agencies for Subgranting program recognized the central role local arts agencies play in supporting artists, enhancing the quality of life in their communities, and increasing public access to the arts. Local arts agencies are valued partners of the NEA, greatly extending our reach and impact to assist communities responding to the economic and health effects of the COVID-19 pandemic. The NEA competitively awarded funds to designated local arts agencies

*National Endowment for the Arts – FY 2022 Agency Financial Report
Management’s Discussion and Analysis*

for subgranting programs. Applicants could request a fixed grant amount of \$150,000, \$250,000, or \$500,000. The application window closed on August 2, 2021 and the NEA announced grant awards in November 2021.

The NEA received more than 7,500 grant applications for these two ARP funding opportunities. For context, this is about four times more grant applications than the Agency received under a *Grants for Arts Projects* FY 2022 funding opportunity. Additionally, about 21 percent of the grant applications received for the ARP Grants to Local Arts Agencies for Subgranting program were from first-time applicants to the NEA. These statistics are a testament to the success of the NEA’s extensive public engagement related to the funding opportunities for the American Rescue Plan. (Objective 1.1)

- **Support for States:** The NEA extends its influence through state arts agencies (SAAs) and regional arts organizations (RAOs), helping to ensure that, along with other NEA efforts, programs reach even the smallest communities in remote rural areas. Forty percent of the agency’s grantmaking funds are allocated to the 50 States, six special jurisdictions, and six RAOs. State governments match the federal grant dollars to create additional investments that support programs and initiatives that respond to constituent needs in arts education, organizational and community development, preservation of diverse cultures, and providing access to the arts. In FY 2022, the NEA provided approximately \$57.76 million (excluding ARP funds) in federal support for projects that benefit local communities in partnership with the state and jurisdictional arts agencies and regional arts organizations. (Objective 1.1 and Objective 1.3)

Goal 2. Integrate the arts with strategies that promote the well-being and resilience of people and communities.

- **United We Stand Summit:** NEA leadership participated in President Biden’s “United We Stand” Summit at the White House on September 15, 2022. This event and the forthcoming programs related to it are aimed at connecting communities through shared humanity and cultural engagement. The initiative was developed to counter the destructive effects of hate-fueled violence on our democracy and public safety, mobilize diverse sectors of society and communities across the country to these dangers, and put forward a shared, inclusive, bipartisan vision and programs for a more united America. (Objective 2.2)
- **Creative Forces:** The NEA maintained its primary healing arts initiative, *Creative Forces: NEA Military Healing Arts Network*, in partnership with the Departments of Defense, Veterans Affairs, and State and local arts agencies. The mission of *Creative Forces* is to improve the health, wellness, and quality of life for military and veteran populations exposed to trauma, as well as their families and caregivers, by increasing knowledge of and access to clinical creative arts therapies and community arts engagement.

*National Endowment for the Arts – FY 2022 Agency Financial Report
Management’s Discussion and Analysis*

The program has three components: **creative arts therapies** (including art therapy, music therapy, and dance movement therapy, as well as creative writing instruction), which are at the core of patient-centered care in military and veteran medical facilities, as well as a telehealth program for patients in rural and remote areas; **community-based arts** opportunities for military and veteran family populations around clinical site locations; and **capacity-building efforts**, including an online National Resource Center, manuals, training, and support for research on the impacts and benefits of the treatment methods.

The initiative continues to expand and grow; in 2021, the NEA announced Creative Forces Community Engagement grants to support emerging and established non-clinical arts engagement projects. Creative Forces also continues to invest in research on the impacts and benefits – physical, emotional, social, and economic – of creative arts therapies as innovative treatment methods for military and veteran-connected populations who have been exposed to trauma. (Objective 2.1)

- **Leadership Initiatives:** In addition to the NEA’s Creative Forces program, the NEA continued its other signature initiatives, including *Poetry Out Loud*, *Shakespeare in American Communities*, *NEA Big Read*, and *Our Town*. The agency also maintained its commitment to recommend at least one direct grant in every Congressional district. In response to COVID-related constraints and demands, all programmatic efforts demonstrated admirable innovation and nimbleness in their commitment to meet their goals and serve the public. (Objective 2.2)
 - *Poetry Out Loud* (POL) is a national arts education program that encourages high school students to learn about great poetry through memorization and performance. This program helps students master public speaking skills, build self-confidence, and learn about literary history and contemporary life. During the school year, POL annually serves more than 300,000 students from every State, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, Guam, and American Samoa. Since its start in 2005, more than 4.1 million students and 68,000 teachers from 17,000 high schools have participated in *Poetry Out Loud* nationwide. A fact sheet summarizes the results of a national study on the impact of the program.
 - *Shakespeare in American Communities* is a national theater program bringing performances and related educational activities to audiences across the country. Since 2003, it has introduced 3 million middle and high school students to the power of live theater and the masterpieces of William Shakespeare through performances and educational activities. Nearly 130 theater companies from across the country have provided more than 13,000 performances and more than 51,000 related educational activities at more than 11,000 schools and juvenile justice facilities in 4,500 communities across all 50 States, the District of Columbia, and the U.S. Virgin Islands.

*National Endowment for the Arts – FY 2022 Agency Financial Report
Management's Discussion and Analysis*

- The *NEA Big Read* offers grants to support innovative community reading programs designed around a single book. Showcasing a diverse range of titles that reflect many different voices and perspectives, the program aims to inspire conversation and discovery. Since 2006, the NEA has funded more than 1,600 local *NEA Big Read* programs, providing more than \$22 million in grants to organizations nationwide. *NEA Big Read* activities have reached every Congressional district in the country, and grantees have leveraged more than \$50 million in local matching funds to support their *NEA Big Read* programs. More than 5.7 million Americans have attended an *NEA Big Read* event, approximately 91,000 volunteers have participated at a local level, and more than 39,000 community organizations have partnered to make *NEA Big Read* activities possible.
- *Our Town*, the NEA's creative placemaking grant program, builds on the NEA's longstanding support for communities and the ability of the arts to strengthen them. Since 2011, the agency has funded more than 700 projects in all 50 States, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, and the Northern Mariana Islands. *Our Town* supports local partnership projects that have social, economic or physical impacts. The ultimate goal of *Our Town* is to sustain support and recognition of arts, design, and cultural strategies as integral to every phase of community development across the United States. To learn more about the program, go to *Our Town: A Framework for Understanding and Measuring the National Endowment for the Arts' Creative Placemaking Grants Program*.
- **Federal Partnerships:** In addition to our core programs and partnerships as described above, the NEA pursues its goals through partnerships with other public and private entities. Notably, we have established the following ground-breaking partnerships with other federal agencies. (Objective 2.2)
 - *Arts and the Economy:* The NEA and the Bureau of Economic Analysis, in the U.S. Department of Commerce, maintained the NEA's annual Arts and Cultural Production Satellite Account (ACPSA) that seeks to measure arts and cultural contributions to the gross domestic product (GDP). Among other data, the ACPSA reveals the size of the arts and cultural sector and its contributions to the U.S. economy, the number of workers employed by those industries and their compensation figures, consumer expenditures on arts and culture, and import/export activity.
 - *Support for Historically Black Colleges and Universities:* The NEA continued to be an active member of the White House Initiative for Historically Black Colleges and Universities (HBCUs). The foundation of the agency's efforts is direct outreach to HBCUs, meetings between NEA staff and HBCU representatives, and changes to agency grant guidelines to specifically encourage HBCU applications. In particular, the NEA works with colleagues at other federal agencies to share resources for HBCUs around grant opportunities, careers and professional

*National Endowment for the Arts – FY 2022 Agency Financial Report
Management's Discussion and Analysis*

development, and the creative economy. In February 2022, the NEA and other federal agencies presented: Exploring Career and Professional Development Opportunities in the Arts, Humanities, Museums, Libraries, and History Sectors. This webinar covered career/job opportunities in the arts, humanities, history, museum, and library spaces as well as the ways the federal government supports professional development for HBCU faculty and leadership working in these areas.

- *Native Arts and Culture*: Working with Native-led national service organizations and an interagency federal working group, the NEA continued its strategic outreach to Native communities. Outreach included nation-to-nation work with tribal governments, reservation communities, and Tribal Colleges and Universities (TCUs), and at conferences and convenings of indigenous leaders and organizations. On October 26, 2022, the NEA held a tribal consultation to gather input from tribal leaders on the needs and concerns of tribal communities as related to NEA resources and grants, to provide an update on NEA's engagement with Native cultural leaders and tribal-serving organizations, and to inform our work related to the Executive Order on Advancing Racial Equity and Support for Underserved Communities Through the Federal Government.
- *Disaster Recovery*: The NEA continued to support the recovery of arts and cultural communities devastated by major disasters through financial support, technical and policy assistance, and leadership. Since FY 2018, the NEA has served as a member agency in the federal Natural and Cultural Resources Recovery Support Function (NCRRSF), working in coordination with other federal agencies, such as the Federal Emergency Management Agency and the Department of Interior. In recent years, NEA staff have been deployed multiple times to the U.S. Virgin Islands and Puerto Rico to assist in the wake of Hurricanes Irma and Maria.
- *Blue Star Museums*: The NEA continued to collaborate with the Department of Defense, Blue Star Families, and museums across America to offer free admission all summer long to active duty military members and their families. It is estimated that the program serves annually more than 900,000 active-duty military personnel and their families at more than 2,000 museums nationwide, including children's museums, fine art museums, history and science museums, zoos, and nature centers. After operating at a somewhat reduced level in 2021 and not at all in 2020 due to the coronavirus pandemic, the program was restored fully in 2022.

Goal 3. Build capacity and infrastructure within the arts sector through knowledge-sharing, tools, resources, and evidence-based practices.

- Arts Education: The National Endowment for the Arts envisions a nation where every student is engaged and empowered through an excellent arts education. This vision reflects a fundamental belief that all students should have the opportunity to participate in

*National Endowment for the Arts – FY 2022 Agency Financial Report
Management's Discussion and Analysis*

the arts, both in school and out of school. Studies have shown that students with an education rich in the arts have higher grade point averages and standardized test scores, and lower drop-out rates. In addition, research shows that students from low socioeconomic backgrounds, as well as students of color, are more likely to attend schools without arts education programs.

Our Arts Education funding is focused on providing arts education for all students, and closing the opportunity gap for students who have the least arts education access. In addition to funding projects for pre-K-12th grade students through Direct Learning grants, and the educators and teaching artists who support them through Professional Development grants, the agency funds the systems and communities that serve students through Collective Impact grants.

Collective Impact grants are awarded at higher amounts for longer-term, large-scale projects that create lasting change tailored to community needs, fundamentally altering the ways in which the components and structures of a system behave and interact over time.

The NEA also provides support for three national networks as part of its core work to advance arts education in the United States: 1) the Arts Education Partnership, 2) State Arts Agency Arts Education Managers; and 3) State Education Agency Directors of Arts Education. Each network plays a distinct leadership role that extends the federal reach and impact of the NEA's work to the State and local level.

- o *Arts Education Partnership (AEP)*: Through a cooperative agreement with Education Commission of the States (ECS), jointly funded by the U.S. Department of Education, the NEA provides annual support for AEP. The AEP was established in 1995 by the NEA and the U.S. Department of Education, and is the nation's hub for arts and education leaders, building their leadership capacity to support students, educators, and learning environments.
- o *Collaboration with State Arts Agency Arts Education Managers*: Since 1987, the NEA, in coordination with the National Assembly of State Arts Agencies (NASAA), has provided technical assistance and support services to convene and administer an annual Professional Development Institute for state arts agencies' education managers. The Institute provides meaningful learning opportunities for new and seasoned arts education managers, as well as a peer network of knowledgeable arts education leaders.
- o *Collaboration with the State Education Agencies Directors of Arts Education (SEADAE)*: The NEA provides support to SEADAE, a nonprofit professional membership organization, whose members consist of individuals at state education agencies who are responsible for dance, media arts, music, theater and/or visual arts education. SEADAE provides professional development and technical assistance to

*National Endowment for the Arts – FY 2022 Agency Financial Report
Management’s Discussion and Analysis*

increase the professional effectiveness of individual members and provides a collective voice for leadership on issues affecting arts education. (Objective 3.1)

- Arts-related Research and Evaluations: Research and evaluation regarding the value and impact of the arts is a core function of the NEA. Through accurate, relevant, and timely analyses and reports, the NEA reveals the conditions and characteristics of the U.S. arts ecosystem and the impact of the arts on our everyday lives and economy. The NEA is the national agency of record for arts-related research and evaluation; examples include:
 - *WE-Making: How Arts & Culture Unite People to Work Toward Community Well-Being*, published in April 2021, shows that place-based arts and cultural practices, or creative placemaking, can help grow social cohesion to encourage community well-being. Developed with support from the NEA, the Kresge Foundation, and other funders, *WE-Making* breaks new ground by synthesizing research from different areas of study along with on-the-ground experiences of artists and researchers, practitioners in community development, and advocates for health equity.
 - The report, *The Art of Reopening: A Guide to Current Practices Among Arts Organizations During COVID-19* (January 2021), presented the results of a mixed methods study about reopening practices of arts organizations that resumed in-person programming in 2020, during the pandemic. The report presents promising tactics and insights through nine case studies. (Objective 3.2)

Goal 4. Pursue and adopt exemplary practices to support the agency’s mission.

- IT Modernization: In FY 2022, the NEA’s Office of Information and Technology Management (OITM) completed the deployment and integration of a new remote access platform and retired its use of traditional virtual private networks. It began improving its identity and access controls by completing the migration of logical access for all systems to a new cloud-based Identity as a Service (IDaaS) service provider. OITM also modernized and updated the agency’s three major information systems (the General Support System, the agency website (arts.gov), and the grant application Applicant Portal). In addition, OITM deployed a case management system to automate the workflow of the NEA’s Office of General Council (Objective 4.1)
- Strategic Management of Human Capital: The NEA staff continued to prove its resilience in its ability to adapt in the face of the COVID-19 pandemic. The NEA transitioned to a mainly virtual workforce for two-and-a-half years without losing its ability to operate effectively, efficiently, and with continued exemplary levels of customer service. To further support hybrid operations, in December 2021 the agency deployed the federal Office of Personnel Management’s (OPM) performance management system to automate the NEA’s employee performance planning, review and rating processes. In June 2022, the NEA finalized a new Telework and Remote

*National Endowment for the Arts – FY 2022 Agency Financial Report
Management's Discussion and Analysis*

Work Directive, consistent with OPM's "2021 Guide to Telework and Remote Work in the Federal Government," which is currently being implemented. The agency also implemented GovTA in September 2022 to ensure continued accurate and timely timekeeping recording. Finally, the NEA continued to leverage its agreement with OPM for human resource project planning and management support; candidate assessment and referral support; staffing consultation services; performance management system and support; and metrics and reporting services. (Objectives 4.1 and 4.2)

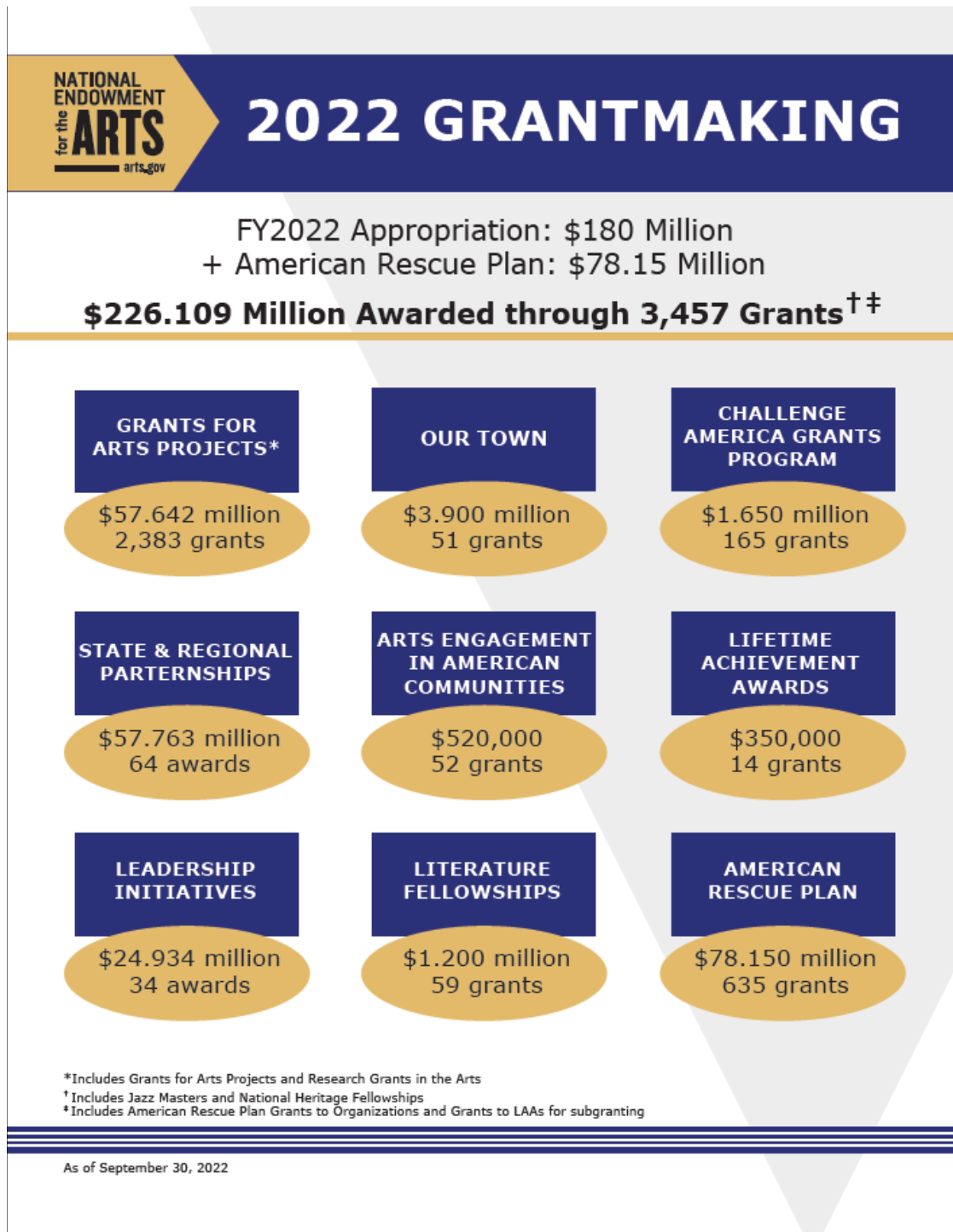
- **Effective Financial Management:** The NEA maintained its commitment to ensuring the stewardship of the public funds and donations that it receives by continuing to: (1) leverage the financial system expertise of U.S. Department of Transportation's Enterprise Services Center (ESC), which provides the NEA with an Oracle-based fully-compliant financial management system (Delphi) and full financial services support; (2) use ESC's E2 travel system for online travel arrangements, authorizations, and associated payments; and (3) utilize the payroll processing operations of the National Finance Center to process staff pay and benefits.

In addition, the NEA merged its previously separate Budget and Finance functions into a single Office of the Chief Financial Officer. This change, which is consistent with government-wide best-practices, has led to improved finance/budget staff collaboration and a strengthening of the agency's financial and transaction processing operations. This combined financial team also worked on user acceptance testing and preparing for the FY 2023 implementation of the Department of Treasury's government-wide G-invoicing system, a new system that is intended to help agencies manage intergovernmental buy/sell transactions.

Separately, the agency's most recent assessment of improper payment risk, which included the review of preventive and detective payment controls, noted that NEA had an insignificant risk of significant improper payments. The agency's audits of Data Act reporting, likewise, found that the Agency submissions were complete, accurate, and timely. (Objective 4.1)

B. FY 2022 Grantmaking Statistics

The following graphic provides details on the volume of the NEA's grantmaking activities in FY 2022.

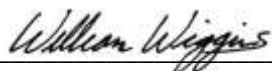


C. Analysis of Systems, Controls, and Legal Compliance

The NEA is cognizant of the importance of establishing and maintaining adequate controls over its programs and administrative functions. Management continues to evaluate and, where necessary, modify existing controls – and establish new ones as appropriate – to ensure that we are able to provide reasonable assurance that we are accountable for our resources. We also recognize the importance of using technology to enhance effectiveness and efficiency, as well as to ensure an adequate degree of internal control and compliance with applicable laws and regulations.

D. Management Assurances

NEA management is responsible for managing risks and maintaining effective internal control to meet the objectives of Sections 2 and 4 of the Federal Managers' Financial Integrity Act (FMFIA). The NEA conducted its assessment of risk and internal control in accordance with OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Based on the results of the assessment, the Arts Endowment can provide reasonable assurance that internal control over operations, reporting, and compliance was operating effectively as of September 30, 2022.



William Wiggins, Chief Financial Officer

E. Financial Highlights

The Arts Endowment's principal financial statements are prepared to report the financial position, financial condition, and results of operations, pursuant to the requirements of 31 U.S.C. 3515 (b). The statements are prepared from records of Federal entities in accordance with Federal generally accepted accounting principles (GAAP) and the formats prescribed by OMB. Reports used to monitor and control budgetary resources are prepared from the same records. Users of the statements are advised that the statements are for a component of the U.S. Government.

The Arts Endowment receives an annual appropriation of "no-year" funds from Congress, and has been granted authority to receive donations and invest in interest-bearing accounts. Accounts are maintained for restricted as well as unrestricted funding, and the same guidelines are used to account for both appropriated and non-appropriated funds. The Arts Endowment's property, plant, and equipment are recorded at cost and are depreciated according to a written asset capitalization policy.

The Arts Endowment's FY 2022 annual appropriation was \$180.0 million, an increase of \$12.5 million over FY 2021. Appropriations are the primary source of financial resources for the

*National Endowment for the Arts – FY 2022 Agency Financial Report
Management's Discussion and Analysis*

agency, so the financial position of the Arts Endowment generally trends with the amount of appropriations received each year.

Explanations for significant changes to specific financial items on the following "Table of Key Measures" between FY 2022 and FY 2021 are provided below:

- Total Net Cost – The \$68.6 million increase in net cost year-over-year is attributable to \$67.2 million in program costs offset by a \$1.4 million decrease in earned revenue.
- Fund Balance with Treasury – The \$51.4 million decrease was due primarily to the net \$69.0 million decrease in funds remaining from the American Rescue Plan Act of 2021 and the CARES Act Funds of 2020. Offsetting the decrease was a \$17.6 million year-over-year increase in program funds.
- Property, Plant and Equipment – The original purchase price less accumulated depreciation is reflected on the balance sheet. The \$167,895 decrease is due to year-over-year increase in depreciation expenses.
- Advances from Others and Deferred Revenue – The \$370,000 decrease between FY 2022 and FY 2021 is attributable to the NEA's only having one interagency agreement in FY 2022 that required advance payment. In FY 2021, several other inter-agency agreements required advance payments for services.
- Grant Accrued Liabilities – The \$44.3 million increase in accrued liabilities is primarily attributable to \$28.8 million increase in open obligations and associated accrual related to American Rescue Plan grants, and a \$19.2 million increase in open obligations within regular grants. This increase is offset by a \$3.7 million decrease in CARES Act open obligations and associated accruals.
- Net Position – The \$95.5 million decrease in net position is attributed to a \$51.5 million decrease in total assets and a nearly \$44.0 million increase in total liabilities year-over-year.

Overall, the current financial condition of the Arts Endowment is strong. As mentioned above, the Arts Endowment's programs and operations are funded primarily through appropriated funding provided by Congress and approved by the President. Therefore, year-to-year changes in the agency's financial condition are highly dependent on these appropriated funding levels.

The agency received an unmodified audit opinion on its FY 2022 financial statements as presented later in this report. This is the agency's 20th consecutive year receiving a "clean" audit opinion.

*National Endowment for the Arts – FY 2022 Agency Financial Report
Management's Discussion and Analysis*

F. Table of Key Measures

National Endowment for the Arts Table of Key Measures				
In Dollars	2022	2021	Increase/(Decrease)	
COSTS¹				
Gross Program Cost	\$ 278,799,140	\$ 211,611,548	\$ 67,187,591	31.75%
Less: Earned Revenue	\$ 559,713	\$ 1,978,378	\$ (1,418,665)	(71.71%)
Net Cost of Operations	\$ 278,239,427	\$ 209,633,170	\$ 68,606,257	32.73%
NET POSITION²				
Assets:				
Fund Balance with Treasury	\$ 285,752,425	\$ 337,153,409	\$ (51,400,983)	(15.25%)
Accounts Receivable	\$ 2,268	\$ 3,844	\$ (1,576)	(41.00%)
Property, Plant, and Equipment	\$ 229,750	\$ 397,645	\$ (167,895)	(42.22%)
Advances and Prepayments	\$ 14,195	\$ 16,074	\$ (1,880)	(11.69%)
Total Assets	\$ 285,998,638	\$ 337,570,972	\$ (51,572,334)	(15.28%)
Liabilities:				
Advances from Others and Deferred Revenue	\$ 525,000	\$ 895,000	\$ (370,000)	(41.34%)
Accounts Payable	\$ 159,406	\$ 65,440	\$ 93,966	143.59%
Federal Employee Benefits Payable	\$ 1,787,465	\$ 1,883,148	\$ (95,683)	(5.08%)
Grant Accrued Liability	\$ 119,350,000	\$ 75,080,000	\$ 44,270,000	58.96%
Other	\$ 1,490,327	\$ 1,413,433	\$ 76,894	5.44%
Total Liabilities	\$ 123,312,198	\$ 79,337,021	\$ 43,975,176	55.43%
Net Position (Assets minus Liabilities)	\$ 162,686,441	\$ 258,233,951	\$ (95,547,510)	(37.00%)

1. Source: Statement of Net Cost
2. Source: Balance Sheet

*National Endowment for the Arts
Fiscal Year 2022
Agency Financial Report*

~ II. Financial Information ~

Independent Auditor's Report



Independent Auditor's Report

Chair
National Endowment for the Arts

Inspector General
National Endowment for the Arts

In our audits of the fiscal years 2022 and 2021 financial statements of The National Endowment for the Arts (NEA), we found:

- NEA's financial statements as of and for the fiscal years ended September 30, 2022, and 2021, are presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles;
- no material weaknesses in internal control over financial reporting based on the limited procedures we performed¹; and
- no reportable noncompliance for fiscal year 2022 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

The following sections discuss in more detail (1) our report on the financial statements, which includes required supplementary information (RSI)² and other information included with the financial statements³; (2) our report on internal control over financial reporting; (3) our report on compliance with laws, regulations, contracts, and grant agreements; and (4) agency comments.

Report on the Financial Statements

Opinion

¹ A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

² The RSI consists of the Management's Discussion and Analysis.

³ Other information consists of information included with the financial statements, other than the RSI and the auditor's report.

In accordance with Government Auditing Standards issued by the Comptroller General of the United States; and OMB Bulletin No. 22-01, Audit Requirements for Federal Financial Statements, we have audited NEA's financial statements. NEA's financial statements comprise the balance sheets as of September 30, 2022, and 2021; the related statements of net cost of operations, changes in net position, and budgetary resources for the fiscal years then ended; and the related notes to the financial statements. In our opinion, NEA's financial statements present fairly, in all material respects, NEA's financial position as of September 30, 2022, and 2021, and its net cost of operations, changes in net position, and budgetary resources for the fiscal years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the U.S. and the U.S. generally accepted government auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of NEA and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

NEA's management is responsible for (1) the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; (2) preparing, measuring, and presenting the RSI in accordance with U.S. generally accepted accounting principles; (3) preparing and presenting other information included in NEA's Agency Financial Report and ensuring the consistency of that information with the audited financial statements and the RSI; and (4) designing, implementing, and maintaining effective internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of the financial statements conducted in accordance with U.S. generally accepted government auditing standards will always detect a material misstatement or a material weakness when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered to be material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with U.S. generally accepted government auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether

due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements in order to obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

- Obtain an understanding of internal control relevant to our audit of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of NEA's internal control over financial reporting. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Perform other procedures we consider necessary in the circumstances.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the financial statement audit.

Required Supplementary Information

U.S. generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board (FASAB) require that the RSI be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by FASAB, which considers it to be an essential part of financial reporting for placing the financial statements in appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with U.S. generally accepted government auditing standards, which consisted of inquiries of management about the methods of preparing the RSI and comparing the information for consistency with management's responses to the auditor's inquiries, the financial statements, and other knowledge we obtained during the audit of the financial statements, in order to report omissions or material departures from FASAB guidelines, if any, identified by these limited procedures. We did not audit, and we do not express an opinion or provide any assurance on the RSI because the limited procedures we applied do not provide sufficient evidence to express an opinion or provide any assurance.

Other Information

NEA's other information contains a wide range of information, some of which is not directly related to the financial statements. This information is presented for purposes of additional analysis and is not a required part of the financial statements or the RSI. Management is responsible for the other information included in NEA's Agency Financial Report. The other information comprises the information included in the Agency Financial Report but does not include the financial statements, RSI, and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated.

If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Report on Internal Control over Financial Reporting

In connection with our audits of NEA's financial statements, we considered NEA's internal control over financial reporting, consistent with our auditor's responsibilities discussed below.

Results of Our Consideration of Internal Control over Financial Reporting

Our consideration of internal control was for the limited purpose described below and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies⁴ or to express an opinion on the effectiveness of NEA's internal control over financial reporting. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Basis for Results of Our Consideration of Internal Control over Financial Reporting

We performed our procedures related to NEA's internal control over financial reporting in accordance with U.S. generally accepted government auditing standards.

Responsibilities of Management for Internal Control over Financial Reporting

Entity's management is responsible for designing, implementing, and maintaining effective internal control over financial reporting relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for Internal Control over Financial Reporting

In planning and performing our audit of NEA's financial statements as of and for the fiscal year ended September 30, 2022, in accordance with U.S. generally accepted government auditing standards, we considered NEA's internal control relevant to the financial statement audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of NEA's internal control over financial reporting. Accordingly, we do not express an opinion on NEA's internal control over financial reporting. We are required to report all deficiencies that are considered to be significant deficiencies or material weaknesses. We did not consider all internal controls relevant to operating objectives, such as those controls relevant to preparing performance information and ensuring efficient operations.

Definition and Inherent Limitations of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or

⁴ A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

disposition, and (2) transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements due to fraud or error.

Intended Purpose of Report on Internal Control over Financial Reporting

The purpose of this report is solely to describe the scope of our consideration of NEA's internal control over financial reporting and the results of our procedures, and not to provide an opinion on the effectiveness of NEA's internal control over financial reporting. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering internal control over financial reporting. Accordingly, this report on internal control over financial reporting is not suitable for any other purpose.

Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

In connection with our audits of NEA's financial statements, we tested compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements consistent with our auditor's responsibilities discussed below.

Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance for fiscal year 2022 that would be reportable under U.S. generally accepted government auditing standards. However, the objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to NEA. Accordingly, we do not express such an opinion.

Basis for Results of Our Tests for Compliance with Laws, Regulations, Contracts, and Grant Agreements

We performed our tests of compliance in accordance with U.S. generally accepted government auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for Tests of Compliance section below.

Responsibilities of Management for Compliance with Laws, Regulations, Contracts, and Grant Agreements

NEA's management is responsible for complying with laws, regulations, contracts, and grant agreements applicable to NEA.

Auditor's Responsibilities for Tests of Compliance with Laws, Regulations, Contracts, and Grant Agreements

Our responsibility is to test compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements applicable to NEA that have a direct effect on the determination of material amounts and disclosures in NEA's financial statements, and to perform certain other limited procedures. Accordingly, we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to NEA. We caution that noncompliance may occur and not be detected by these tests.

Intended Purpose of Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

The purpose of this report is solely to describe the scope of our testing of compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements, and the results of that testing, and not to provide an opinion on compliance. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering compliance. Accordingly, this report on compliance with laws, regulations, contracts, and grant agreements is not suitable for any other purpose.

Agency Comments

In commenting on a draft of this report, NEA's management provided a written response which is provided in Appendix I.

Williams, Adley & Company - DC, LLP

Washington, District of Columbia
November 10, 2022



MEMORANDUM

Date: November 10, 2022
To: Ron Stith, Inspector General
From: William Wiggins, Chief Financial Officer
Subject: Management's Response to Independent Auditor's Report for Fiscal Year 2022

We reviewed the draft Independent Auditor's Report on the National Endowment for the Arts' (NEA) FY 2022 financial statements. The NEA has received its 20th consecutive unmodified audit opinion on its financial statements, and had no material weaknesses or significant deficiencies. I commend the NEA staff for their strong contributions and commitment to continuously improving agency operations and internal controls.

I would like to thank your staff, as well as Williams Adley and Company, for their professionalism throughout the audit.

William Wiggins

A handwritten signature in black ink that reads "William Wiggins". The signature is written in a cursive style.

Chief Financial Officer

BLANK PAGE



Audited Financial Statements and Notes

September 30, 2022 and 2021

BLANK PAGE

NATIONAL ENDOWMENT FOR THE ARTS
September 30, 2022 and September 2021 (In Dollars)

BALANCE SHEETS
As of September 30, 2022, and September 30, 2021
(In Dollars)

	2022	2021
Assets (Notes 2, 6, and 15):		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	\$ 285,752,425	\$ 337,153,409
Advances and Prepayments (Note 6 and 15)	14,195	16,074
Total Intragovernmental	285,766,620	337,169,483
Other Than Intragovernmental:		
Accounts Receivable, Net (Note 3)	2,268	3,844
General Property, Plant, and Equipment, Net (Note 4)	229,750	397,645
Total Other Than Intragovernmental	232,018	401,489
Total Assets	\$ 285,998,638	\$ 337,570,972
Liabilities (Notes 7-9):		
Intragovernmental:		
Advances from Others and Deferred Revenue (Note 8)	\$ 525,000	\$ 895,000
Other (Note 8)	328,970	345,959
Total Intragovernmental	853,970	1,240,959
Other Than Intragovernmental:		
Accounts Payable (Note 7)	159,406	65,440
Federal Employee and Veteran Benefits Payable (Note 8)	1,787,465	1,883,148
Other (Note 8)	1,161,357	1,067,474
Grants Accrual (Note 8 and 9)	119,350,000	75,080,000
Total Other Than Intragovernmental	122,458,228	78,096,062
Total Liabilities	\$ 123,312,198	\$ 79,337,021
Net Position:		
Unexpended Appropriations - Funds From Dedicated Collections	\$ -	\$ -
Unexpended Appropriations - Funds from other than Dedicated Collections	158,855,594	256,099,561
Total Unexpended Appropriations	158,855,594	256,099,561
Cumulative Results of Operations - Funds From Dedicated Collections (Note 12)	5,209,154	3,442,648
Cumulative Results of Operations - Funds from other than Dedicated Collections	(1,378,308)	(1,308,257)
Total Cumulative Results of Operations	3,830,847	2,134,391
Total Net Position	162,686,441	258,233,951
Total Liabilities and Net Position	\$ 285,998,638	\$ 337,570,972

The accompanying notes are an integral part of these statements.

NATIONAL ENDOWMENT FOR THE ARTS
September 30, 2022 and September 2021 (In Dollars)

STATEMENT OF NET COST
For the Years Ended September 30, 2022 and September 30, 2021
(In Dollars)

	<u>2022</u>	<u>2021</u>
Program Costs: (Note 13)		
Gross Costs	\$ 278,799,140	\$ 211,611,548
Less: Earned Revenue	<u>559,713</u>	<u>1,978,378</u>
Net Program Costs	\$ 278,239,427	\$ 209,633,170
Net Cost of Operations	<u><u>\$ 278,239,427</u></u>	<u><u>\$ 209,633,170</u></u>

The accompanying notes are an integral part of these statements.

NATIONAL ENDOWMENT FOR THE ARTS
September 30, 2022 and September 2021 (In Dollars)

STATEMENT OF BUDGETARY RESOURCES
For the Years Ended September 30, 2022 and September 30, 2021
(In Dollars)

	2022	2021
Budgetary Resources		
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	\$ 96,385,000	\$ 12,124,011
Appropriations (discretionary and mandatory)	181,789,207	303,063,675
Spending authority from offsetting collections (discretionary and mandatory)	195,000	889,425
Total budgetary resources	\$ 278,369,207	\$ 316,077,111
Status of Budgetary Resources		
New obligations and upward adjustments (total) (Note 14)	\$ 261,051,351	\$ 221,156,394
Unobligated balance, end of year:		
Apportioned unexpired accounts	11,778,607	91,127,244
Exempt from apportionment unexpired accounts	5,173,185	3,415,977
Unapportioned unexpired accounts	308,095	377,496
Unexpired unobligated balance, end of year	17,259,887	94,920,717
Expired unobligated balance, end of year	57,970	-
Unobligated balance, end of year (total)	17,317,857	94,920,717
Total budgetary resources	\$ 278,369,207	\$ 316,077,111
Outlays, Net, and Disbursements, Net		
Outlays, net (total) (discretionary and mandatory)	\$ 233,190,190	\$ 186,413,967
Distributed offsetting receipts (-) (Note 18)	(1,789,207)	(563,675)
Agency outlays, net (discretionary and mandatory)	\$ 231,400,983	\$ 185,850,292

The accompanying notes are an integral part of these statements.

NATIONAL ENDOWMENT FOR THE ARTS
September 30, 2022 and September 2021 (In Dollars)

STATEMENTS OF CHANGES IN NET POSITION
For the Years Ended September 30, 2022 and September 30, 2021
(In Dollars)

	2022			2021		
	Funds from Dedicated Collections	All Other Funds	Consolidated Total	Funds from Dedicated Collections	All Other Funds	Consolidated Total
Unexpended Appropriations:						
Beginning Balance	\$ -	\$ 256,099,561	\$ 256,099,561	\$ 115	\$ 162,221,188	\$ 162,221,303
Adjustment	-	-	-	-	-	-
Beginning Balance, as adjusted	-	256,099,561	256,099,561	115	162,221,188	162,221,303
Appropriations received	-	180,000,000	180,000,000	-	302,500,000	302,500,000
Appropriations used	-	<u>(277,243,967)</u>	<u>(277,243,967)</u>	<u>(115)</u>	<u>(208,621,627)</u>	<u>(208,621,742)</u>
Net Change in Unexpended Appropriations	-	<u>(97,243,967)</u>	<u>(97,243,967)</u>	<u>(115)</u>	<u>93,878,373</u>	<u>93,878,258</u>
Total Unexpended Appropriations - Ending	<u>-</u>	<u>158,855,594</u>	<u>158,855,594</u>	<u>-</u>	<u>256,099,561</u>	<u>256,099,561</u>
Cumulative Results from Operations:						
Beginning Balance	3,442,648	(1,308,257)	2,134,391	2,900,769	(1,231,145)	1,669,624
Adjustment	-	-	-	-	-	-
Beginning Balance, as adjusted	3,442,648	(1,308,257)	2,134,391	2,900,769	(1,231,145)	1,669,624
Appropriations Used	-	277,243,967	277,243,967	115	208,621,627	208,621,742
Donations	1,789,207	-	1,789,207	563,675	-	563,675
Imputed Financing	-	902,710	902,710	-	912,520	912,520
Net Cost of Operations (+/-) (Note 13 and 18)	<u>22,700</u>	<u>278,216,727</u>	<u>278,239,427</u>	<u>21,911</u>	<u>209,611,259</u>	<u>209,633,170</u>
Net Change in Cumulative Results of Operations	1,766,507	(70,051)	1,696,456	541,879	(77,112)	464,767
Total Cumulative Results of Operations	5,209,154	(1,378,308)	3,830,847	3,442,648	(1,308,257)	2,134,391
Net Position	<u>\$ 5,209,154</u>	<u>\$ 157,477,287</u>	<u>\$ 162,686,441</u>	<u>\$ 3,442,648</u>	<u>\$ 254,791,304</u>	<u>\$ 258,233,951</u>

The accompanying notes are an integral part of these statements.

NOTE 1: Summary of Significant Accounting Policies

A. Reporting Entity

The National Endowment for the Arts (Arts Endowment) is an independent Federal agency whose mission is to strengthen and promote the well-being and resilience of people and communities, advance equitable opportunities for arts participation and practice, and sustain an environment in which the arts benefit everyone in the United States. The Arts Endowment was established by the National Foundation on the Arts and the Humanities Act of 1965.

B. Basis of Presentation

The following footnotes and instructions include the disclosure requirements contained in Statements of Federal Financial Accounting Standards (SFFAS).

These statements were prepared from the accounting records of the Agency in conformance with U.S. generally accepted accounting principles (GAAP) and the form and content for entity financial statements specified by the Office of Management and Budget (OMB) in Circular A-136, Financial Reporting Requirements (Circular A-136), revised June 3, 2022.

The statements consist of the: Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Footnotes. These financial statements have been prepared to report the financial position and results of operations of the Arts Endowment. All operations of the Arts Endowment fall under the category of general funds for government accounting purposes. The statements should be read with a view that they are for a component of the U.S. Government, a sovereign entity.

C. Basis of Accounting

The financial statements reflect both the accrual and budgetary bases of accounting. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to cash receipt or payment. The budgetary method recognizes the obligation of funds according to legal requirements, which in many cases is before the occurrence of an accrual-based transaction. Budgetary accounting is essential for compliance with legal constraints and controls over the use of funds. The Arts Endowment's financial statements are prepared in conformity with GAAP set forth by the Federal Accounting Standards Advisory Board (FASAB).

OMB's Office of Federal Financial Management (OFFM) is responsible for the financial management policy of the Federal Government. OFFM responsibilities

NOTE 1: Significant Accounting Policies (Continued)

include implementing the financial management improvement priorities of the President, establishing government-wide financial management policies of executive agencies, and carrying out the financial management functions of the Chief Financial Officers Act of 1990.

D. Exchange Revenues and Other Financing Sources

The Arts Endowment receives funding through annual Congressional appropriations. In particular, the NEA receives “no-year” appropriations funds that are made available for use, within statutory limits, for operations and capital expenditures for essential personal property.

Appropriations are recognized as revenues at the time the related program or administrative expenses are incurred. Appropriations expended for capitalized property and equipment are recognized as expenses when an asset is consumed in operations.

An Arts and Artifacts Indemnity Fund was established by Congress to address insurance issues that may arise in the course of national exhibits.

The Arts Endowment was granted the authority to receive donations and to invest in interest-bearing accounts. Appropriate accounting guidelines are followed for both restricted and unrestricted funds.

The Arts Endowment enters into intragovernmental reimbursable agreements. The Arts Endowment’s pricing policy on these exchange revenue transactions is based on mutually approved agreements, with no profits or losses.

E. Fund Balance with Treasury

Funds with the Department of the Treasury primarily represent appropriated funds that are available to pay current liabilities and finance authorized purchase commitments. Additionally, some funds with Treasury are donations that may carry restrictions as to the use of funds. See Note 2 for additional information.

F. Advances and Prepayments

The Arts Endowment’s interagency agreements with other Federal agencies are recorded as advances when the funds are received prior to expenditure. As work is performed by the Arts Endowment, expenditures are incurred, and advances reduced. Advances are recorded for intragovernmental transactions until the expenditures or revenues are reported by the trading partner, at which time the

NOTE 1: Significant Accounting Policies (Continued)

advance is reduced, and the expense/revenue is recognized. Prepayments are amounts paid for by the Arts Endowment in advance of the goods or services being received. Prepayments also include payments to vendors for the portion of services that extend beyond the current fiscal year.

G. General Property, Plant and Equipment, Net

The Arts Endowment's policy is to depreciate property, plant and equipment over the estimated useful life of the asset using the straight-line method. The Arts Endowment's capitalization threshold is \$50,000 for individual purchases and \$50,000 for bulk purchases or a minimum \$10,000 per item. Service lives are as shown below:

<u>Description</u>	<u>Life</u>
Leasehold Improvements	Term of Lease
Capital Leases	Term of Lease
Office Furniture	10 Years
Computer Equipment Software	4 Years
Office Equipment	7 Years
Vehicles	8 Years

H. Liabilities

Liabilities represent the amount of monies or other resources likely to be paid by the Arts Endowment as a result of transactions or events that have already occurred. No liability can be paid, however, absent an appropriation (or, in some cases, donated funds). Liabilities for which an appropriation has not been enacted are, therefore, classified as not covered by budgetary resources, and there is no certainty that the appropriation will be enacted. Also, the Government, acting in its sovereign capacity, can abrogate liabilities.

I. Accounts Payable

Accounts payable consists of amounts owed to other federal agencies and trade accounts payable.

J. Accounts Receivable

Federal accounting standards and applicable federal laws and Treasury regulations guide the management of accounts receivable, recognition of losses, and write-off of accounts receivable. For delinquent accounts, collection efforts such as demand letters are made. In accordance with federal law, the Arts Endowment refers accounts that it identifies as uncollectible to the U.S.

NOTE 1: Significant Accounting Policies (Continued)

Department of the Treasury, Bureau of the Fiscal Service (Fiscal Service), for appropriate collection action and advice.

Allowance method is used to measure receivables. Losses on receivables shall be recognized when it is more likely than not that the receivables will not be totally collected. The phrase “more likely than not” means more than a 50 percent chance of loss occurrence. An allowance for estimated uncollectible amounts shall be recognized to reduce the gross receivables to its net realizable value. If the delinquency is less than two years from the start date of non-payment by the debtor, according to Treasury regulations, the uncollectible receivable can be written-off.

In 2021, the Arts Endowment recognized a loss of \$95,500 of a receivable as it was determined that it is more likely than not that the receivable will not be collected. According to OMB Circular No. A-129, Treasury’s guidance on Managing Federal Receivables, and Statement of Federal Financial Accounting Standards (SFFAS) 1, interest on this receivable is charged at 1 percent, or \$7,544.50, and penalty is set at 6 percent, or \$45,267, respectively.

K. Annual, Sick and Other Leave

Annual leave and credit hours are accrued when earned and the accrual is reduced as leave is taken. Each year, the balance in the accrued leave account is adjusted to reflect current pay rates and balances. To the extent current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources. Sick leave and other types of non-vested leave are expensed as taken.

L. Retirement Plans

Arts Endowment employees participate in the Civil Service Retirement System (CSRS) or the Federal Employees’ Retirement System (FERS). FERS was established by enactment of Public Law 99-335. Pursuant to this law, FERS and Social Security automatically cover most employees hired after December 31, 1983. Employees hired before January 1, 1984, participate in CSRS unless they elected to join FERS and Social Security.

All employees are eligible to contribute to the Thrift Savings Plan (TSP). For those employees participating in FERS, a TSP account is automatically established and the Arts Endowment makes a mandatory one percent contribution to this account. In addition, the Arts Endowment makes matching contributions, ranging from one to four percent, for FERS-eligible employees who contribute to their TSP accounts. Matching contributions are not made to the TSP accounts established by CSRS employees. FERS employees and certain

NOTE 1: Significant Accounting Policies (Continued)

CSRS reinstatement employees are eligible to participate in the Social Security program after retirement. In these instances, the Arts Endowment remits the employer's share of the required contribution.

The Arts Endowment does not report on its financial statements' information pertaining to the retirement plans covering its employees, except for imputed costs related to retirement (see M. below). Reporting amounts such as plan assets and accumulated plan benefits, if any, is the responsibility of the Office of Personnel Management (OPM).

M. Imputed Benefit Costs

The Arts Endowment reports imputed benefit costs on Life Insurance, Health Insurance, and Retirement. The Office of Personnel Management (OPM) provides the cost factors that are applied to the Agency's benefits records.

N. Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

O. Contingencies

Contingent liabilities are recognized when a past event or exchange transaction has occurred, a future outflow or other sacrifice of resources is probable, and the future outflow or sacrifice of resources is measurable.

P. Funds from Dedicated Collections

Amounts reported as funds from dedicated collections are represented by one appropriation, "Gifts and Donations."

Q. Fiduciary Activities

Various artists have loaned their artwork to the Arts Endowment for display in certain agency offices. These artworks are not assets of the Federal Government. Fiduciary activities are not recognized in the proprietary financial statements, but are reported in the notes to the financial statements. See Note 18, Fiduciary Activities.

NOTE 1: Significant Accounting Policies (Continued)

R. Cost Accounting Methodology

The Arts Endowment operated under an annual strategic plan that establishes goals and objectives. This plan has three programs: Arts Creation, Engagement with the Arts, and Contribution of the Arts. Costs for grants are recorded under these programs.

S. Rounding

Some totals and amounts reflected on the financial statements and in the notes may differ due to rounding.

NATIONAL ENDOWMENT FOR THE ARTS
September 30, 2022 and September 2021 (In Dollars)

NOTE 2: Fund Balance with Treasury

Status of Fund Balance with Treasury	<u>September 30, 2022</u>	<u>September 30, 2021</u>
Unobligated Balance:		
Available - Other	\$ 12,086,701	\$ 91,504,740
Available - Trust	<u>5,173,185</u>	<u>3,415,977</u>
Subtotal - Available	\$ 17,259,886	\$ 94,920,717
Obligated Balance not yet Disbursed Other	\$ 268,489,467	\$ 242,233,632
Obligated Balance not yet Disbursed Trust Fund	<u>35,855</u>	<u>26,556</u>
Subtotal - Obligated	268,525,322	242,260,188
Unfilled/Billed Reimbursable Orders	(32,783)	(27,496)
Total Fund Balance with Treasury	<u><u>\$ 285,752,425</u></u>	<u><u>\$ 337,153,409</u></u>

There are no unreconciled differences between the general ledger and Treasury.

NOTE 3: Accounts Receivable, Net

	<u>September 30, 2022</u>	<u>September 30, 2021</u>
Gross Receivables:		
Receivables Due from the Public	\$ 2,268	\$ 3,844
	<u>2,268</u>	<u>3,844</u>
Allowance for Uncollectible	-	-
Net Receivables	<u><u>\$ 2,268</u></u>	<u><u>\$ 3,844</u></u>

The receivable represents amount owed by employees to the Agency.

NOTE 4: General Property, Plant, and Equipment, Net

<u>Class of Property</u>	<u>September 30, 2022</u>			<u>September 30, 2021</u>		
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>
Furniture & Equipment	\$ 876,642	\$ 646,892	\$ 229,750	\$ 876,642	\$ 478,997	\$ 397,645
Total	<u><u>\$ 876,642</u></u>	<u><u>\$ 646,892</u></u>	<u><u>\$ 229,750</u></u>	<u><u>\$ 876,642</u></u>	<u><u>\$ 478,997</u></u>	<u><u>\$ 397,645</u></u>

Straight line depreciation with a useful life of seven years is used. The capitalization threshold is described in Note 1.G.

NOTE 5: Heritage Assets

Heritage assets are property, plant and equipment that are unique for one of the following reasons: historic or natural significance; cultural, educational, or artistic importance. Federal agencies are not required to assign a cost on the Balance Sheet for heritage assets. These items support the agency mission by demonstrating artistic excellence, creativity, and innovation. Heritage assets are received through donations from the public. To qualify as a heritage asset, items must meet Arts Endowment’s objective criteria to classify an item as a heritage asset, which includes: the age of the asset, the artist/author of the asset, the materials used in the asset’s creation, the cultural importance of the asset, and the process by which the asset was created. The General Counsel’s office approves the acceptance of all gifts to the Arts Endowment. If a gift or award holds some type of historical significance, cultural, educational or artistic importance, or it provides evidence of distinguished achievements and celebrates accomplishments throughout the ages and represents how art works in our communities, it will be added to the Heritage Assets inventory. All items classified as heritage assets, though generally individual items, are considered a collection in totality. The Arts Endowment’s collection contains two major categories of heritage assets: Artworks and Decorative Art, and Furniture.

An independent art appraiser reviews the inventory items and provides an appraisal update to the Administrative Services Office (ASO). The appraisal typically takes place annually during the summer unless there are special circumstances that may cause minor delays. After the appraisal, the ASO incorporates any updates into the Heritage Asset Inventory. Each year, the ASO reviews the Heritage Asset inventory for items that do not meet the “artistic importance” standard and removes them from the inventory. All gifts or awards that do not meet the “artistic importance” standard will be prepared for transfer to the General Services Administration.

For purposes of disclosure, each of the NEA’s Heritage Assets is classified as being in one of the following states of physical condition.

Poor	Item is in danger of damage or loss. Requires major conservation or repair to maintain it intact and keep it stable.
Fair	Item is physically sound but requires major conservation to improve aesthetic integrity.
Good	Item is physically sound and retains aesthetic integrity. Requires routine conservation maintenance (e.g. minor surface cleaning).
Excellent	Item is new or has been conserved close to its original condition and appearance.

Art Works and Decorative and Furniture:

The Arts Endowment collection includes principally unique works of art by known artists that are not permanently attached to or designed for the structure (i.e. collectible). The assets disclosed below are based on the number of items with inventory control identification numbers.

NATIONAL ENDOWMENT FOR THE ARTS
September 30, 2022 and September 2021 (In Dollars)

	Quantity as of 9/30/2022	Quantity as of 9/30/2021	Unit Change	Percentage Change	General Condition
Artwork and Decorative Art	220	220	0	0%	Good
Furniture	40	40	0	0%	Good
Total	260	260	0		

NOTE 6: Advances and Prepayments

	<u>September 30, 2022</u>	<u>September 30, 2021</u>
Intragovernmental:		
Department of Transportation	\$ 14,195	\$ 16,074
Total Advances and Prepayments	<u><u>\$ 14,195</u></u>	<u><u>\$ 16,074</u></u>

The September 30, 2022, amount represents an advance for employee transit benefit payments and Oracle Financial System hosting and accounting services with the Department of Transportation.

NOTE 7: Liabilities Not Covered by Budgetary Resources

	<u>September 30, 2022</u>	<u>September 30, 2021</u>
Intragovernmental:		
Unfunded FECA Liability	\$ 952	\$ 952
Total Intragovernmental	\$ 952	\$ 952
Accounts Payable	159,406	65,440
Federal Employee Actuarial FECA Liability	8,157	4,455
Federal Employee Accrued Leave Payable	1,733,204	1,836,326
Total Liabilities Not Covered by Budgetary Resources	\$ 1,901,719	\$ 1,907,173
Total Liabilities Covered by Budgetary Resources	121,410,479	77,429,848
Total Liabilities	<u><u>\$ 123,312,198</u></u>	<u><u>\$ 79,337,021</u></u>

Liabilities not covered by budgetary resources are financial responsibilities that do not yet have financial resources provided by Congress. Action from Congress is required before resources can be provided.

NATIONAL ENDOWMENT FOR THE ARTS
September 30, 2022 and September 2021 (In Dollars)

NOTE 8: Other Liabilities

	September 30, 2022	September 30, 2021
Intragovernmental:		
Advances and Prepayments	\$ 525,000	\$ 895,000
Accrued Pay and Benefits	328,970	345,959
Total Intragovernmental	\$ 853,970	\$ 1,240,959
Other Than Intragovernmental:		
Accounts Payable	\$ 159,406	\$ 65,440
Grant Accrued Liability	119,350,000	75,080,000
Accrued Funded Payroll and Leave	1,161,357	1,067,474
Federal Employee and Veteran Benefits Payable	1,787,465	1,883,148
Total Liabilities	\$ 123,312,198	\$ 79,337,021

All liabilities are current liabilities.

NOTE 9: Grant Accrued Liability

The preparation of the financial statements requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes available, which could impact the amounts reported and disclosed herein. The Arts Endowment's grants and cooperative agreements (collectively referred to as grant or award) cost is comprised of two components: 1) actual grant expenditures reported by grantees through reimbursement submissions, and 2) an estimate (accrual) of grantee expenditures incurred but not yet reported (via reimbursement submission) to the Arts Endowment. The Federal Accounting Standards Advisory Board (FASAB) Technical Release (TR12) "Accrual Estimates for Grant Programs" specifically addresses the process for preparing accrual estimates for grant programs.

TR12 provides guidance on internal control procedures to ensure the grant accrual is reasonable, based on "comparing the estimates with subsequent grantee reporting." The agency uses data from its Delphi financial system and the electronic Grants Management System (eGMS) to review payment history and determine the grant accrual estimate. As the initial step in the estimation process, the grant accrual is calculated based on a straight-line basis. An average daily expenditure rate is calculated for each award by dividing the total award by the number of days of the award period. The agency performs comprehensive analyses reviewing actual payments and the period of performance associated with each. Then, based on payment history, an adjustment to the straight-line basis is applied to arrive at the agency grant accrual estimate. The grant accrual was \$119,350,000 and \$75,080,000 at September 30, 2022 and September 30, 2021, respectively.

Since late Q2 2020, the U.S. economy has encountered unforeseen challenges and changes related to the coronavirus pandemic. As part of the response to the current challenges, the Arts Endowment received \$75.00 million under the Coronavirus Aid, Relief, and Economic Security

NATIONAL ENDOWMENT FOR THE ARTS
September 30, 2022 and September 2021 (In Dollars)

(CARES) Act, which has been directed toward grantmaking. The Arts Endowment continues to manage these grants and accrue for estimates as part of the grant accrual process.

In FY 2021, the Arts Endowment received an additional special appropriation of \$135.00 million as part of the American Rescue Plan (ARP). This emergency relief funding, similar to CARES Act funding, is tied to the continued economic challenges related to the coronavirus pandemic. Of this funding, \$130.28 million was directed toward grantmaking, with forty percent of that awarded as amendments to FY 2020 partnership agreements, inclusive of \$23.96 million of amendments processed in Q3 FY 2021, and \$28.15 million processed in Q4 FY 2021 (with one-year extensions to the period of performance). Sixty percent of the \$130.28 million was awarded as direct grants; cumulatively, \$78.15 million in direct grants have been awarded through Q4 FY 2022. Given the anticipated similarities to CARES Act, the agency has used a slightly adjusted methodology for the accrual of ARP funds based upon a lookback analysis of CARES Act payments. The unadjusted methodology will continue to be used for grants funded through the agency’s regular appropriation and remaining CARES Act grants.

The net increase in the September 30, 2022, accrual compared to September 30, 2021, can be largely attributed to several main factors:

- Increased open obligations and associated accrual related to ARP grants; this accounts for \$28.8 million of the increase.
- Increased open obligations within regular grants resulting in a \$19.2 million corresponding increase to the adjusted straight-line accrual figure.
- Decreased open obligations within CARES Act grants resulting in a \$3.7 million corresponding decrease to the adjusted straight-line accrual figure.

NOTE 10: Leases

Brief Description of Occupancy Agreement

The Occupancy Agreement with the General Services Administration (GSA) for space at Constitution Center includes rental of office space and two parking spaces for the agency vehicles. The occupancy agreement through February 29, 2024, was last modified on April 9, 2021; an extension from March 1, 2024, through February 28, 2027, was executed on October 19, 2021.

Year	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	Federal Total
Annual Amount	\$2,945,063	\$2,977,810	\$2,985,100	\$3,041,018	\$3,077,035	\$1,274,540	\$16,300,566

The Arts Endowment's financial obligations for years beyond the current year do not mature until the later year(s) are reached. The occupancy agreement includes GSA’s projected increases for real estate taxes and operating costs in future years; however, actual payments may vary slightly from GSA projections. This is not expected to increase the overall lease cost by more than 2%. The obligation to pay rent in future years is subject to the availability of funds.

NATIONAL ENDOWMENT FOR THE ARTS
September 30, 2022 and September 2021 (In Dollars)

NOTE 11: Commitments and Contingencies

The Arts Endowment was one of multiple federal agencies named in an ongoing class action lawsuit brought by former federal employees who alleged that the U.S. Government had failed to properly calculate supplements to the lump sum payment of annual leave. On September 7, 2022, the lead trial attorney at the Department of Justice informed the NEA that the class did not appeal the court's decision and the Judgment Fund has distributed settlement amounts to the claimants; hence, the case is essentially resolved. We understand that the total amount the former NEA employees have received from the Judgment Fund is insignificant. As of September 30, 2022, to our knowledge, there are no pending commitments or contingencies for which NEA is responsible for at this time.

NOTE 12: Funds from Dedicated Collections

The Arts Endowment receives funds from gifts and donations.

	Gifts and Donations	
Balance Sheet	<u>September 30, 2022</u>	<u>September 30, 2021</u>
Assets		
Fund Balance with Treasury	\$ 5,209,154	\$ 3,442,648
Total Assets	<u>\$ 5,209,154</u>	<u>\$ 3,442,648</u>
Liabilities and Net Position		
Unexpended Appropriations	\$ -	\$ -
Cumulative Results of Operations	5,209,154	3,442,648
Total Liabilities and Net Position	<u>\$ 5,209,154</u>	<u>\$ 3,442,648</u>
Statement of Net Cost		
Gross Program Costs	\$ 22,700	\$ 21,911
Less: Earned Revenue	-	-
Net Cost of Operations	<u>\$ 22,700</u>	<u>\$ 21,911</u>
Statement of Changes in Net Position		
Beginning Balance	\$ 3,442,648	\$ 2,900,884
Net Change in Cumulative Results of Operations	1,789,206	563,675
Net Cost of Operations	(22,700)	(21,911)
Net Position, End of Period	<u>\$ 5,209,154</u>	<u>\$ 3,442,648</u>

NATIONAL ENDOWMENT FOR THE ARTS
September 30, 2022 and September 2021 (In Dollars)

NOTE 13: Intragovernmental Costs and Exchange Revenues

	<u>September 30, 2022</u>			<u>September 30, 2021</u>		
	<u>Intragovern- mental</u>	<u>With the Public</u>	<u>Total</u>	<u>Intragovern- mental</u>	<u>With the Public</u>	<u>Total</u>
Arts Creation:						
Program Costs	\$ 4,114,420	\$ 87,707,124	\$ 91,821,544	\$ 2,207,069	\$ 21,067,451	\$ 23,274,520
Earned Revenue	(179,108)	-	(179,108)	(374,123)	-	(374,123)
Net Costs - Arts Creation	<u>\$ 3,935,312</u>	<u>\$ 87,707,124</u>	<u>\$ 91,642,436</u>	<u>\$ 1,832,946</u>	<u>\$ 21,067,451</u>	<u>\$ 22,900,397</u>
Engagement with the Arts:						
Program Costs	\$ 8,659,064	\$ 71,768,005	\$ 80,427,069	\$ 9,274,226	\$ 99,161,784	\$ 108,436,010
Earned Revenue	(369,410)	-	(369,410)	(1,562,065)	-	(1,562,065)
Net Costs - Engagement with the Arts	<u>\$ 8,289,654</u>	<u>\$ 71,768,005</u>	<u>\$ 80,057,659</u>	<u>\$ 7,712,161</u>	<u>\$ 99,161,784</u>	<u>\$ 106,873,945</u>
Contribution of the Arts:						
Program Costs	\$ 825,519	\$ 105,725,007	\$ 106,550,526	\$ 913,904	\$ 78,987,114	\$ 79,901,018
Earned Revenue	(11,194)	-	(11,194)	(42,190)	-	(42,190)
Net Costs - Contribution of the Arts	<u>\$ 814,325</u>	<u>\$ 105,725,007</u>	<u>\$ 106,539,332</u>	<u>\$ 871,714</u>	<u>\$ 78,987,114</u>	<u>\$ 79,858,828</u>
Total						
Program Costs	\$ 13,599,003	\$ 265,200,137	\$ 278,799,140	\$ 12,395,199	\$ 199,216,349	\$ 211,611,548
Earned Revenues	(559,713)	-	(559,713)	(1,978,378)	-	(1,978,378)
Net Cost of Operations	<u><u>\$ 13,039,290</u></u>	<u><u>\$ 265,200,137</u></u>	<u><u>\$ 278,239,427</u></u>	<u><u>\$ 10,416,821</u></u>	<u><u>\$ 199,216,349</u></u>	<u><u>\$ 209,633,170</u></u>

The Arts Endowment receives funds from other Federal agencies that participate in the Arts Endowment's program awards. The Arts Endowment may also incur intragovernmental costs for its participation in program awards of other Federal agencies.

NATIONAL ENDOWMENT FOR THE ARTS
September 30, 2022 and September 2021 (In Dollars)

NOTE 14: Apportionment Categories of Obligations Incurred

OMB apportions funds to the Arts Endowment only under category B, which includes direct and reimbursable resources. The Arts Endowment has no funds apportioned under Category A, which relates to program reporting as specified by OMB.

The Arts Endowment's donated funds are exempt from apportionment by OMB.

	<u>September 30, 2022</u>	<u>September 30, 2021</u>
Category B - Direct and Reimbursable	\$ 261,018,936	\$ 221,109,592
Exempt from Apportionment	32,415	46,802
Total	<u>\$ 261,051,351</u>	<u>\$ 221,156,394</u>

Apportionments for direct and reimbursable funds include funds appropriated and donations received in FY 2022, unobligated balances brought forward at the start of the fiscal year, and recoveries of prior year paid or unpaid obligations during the fiscal year.

Obligations incurred assume use of funding available during the fiscal year including funds appropriated in FY 2022, donated funds received in FY 2022, unobligated balances brought forward at the start of the fiscal year, and recoveries of prior year paid or unpaid obligations during the fiscal year.

NOTE 15: Undelivered Orders at the End of the Period

	<u>September 30, 2022</u>	<u>September 30, 2021</u>
Intragovernmental Undelivered Orders, Unpaid at the End of the Period	\$ 1,967,480	\$ 3,405,500
Public Undelivered Orders, Unpaid at the End of the Period	\$ 145,444,988	\$ 162,254,400
Intragovernmental Undelivered Orders, Paid at the End of the Period	\$ 14,195	\$ 16,074

NOTE 16: Explanation of Differences between the Statement of Budgetary Resources and the Budget of the United States Government

The differences between the FY 2021 Statement of Budgetary Resources and the FY 2021 actual numbers presented in the FY 2023 Budget of the United States Government (Budget) are summarized below.

FY 2021 (\$ in millions)	Budgetary Resources	New Obligations & Upward Adjustments (Total)	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	\$316	\$222	(\$1)	\$186
Difference (see above)	(2)	0	0	0
Budget of U.S. Government	\$314	\$222	(\$1)	\$186

NATIONAL ENDOWMENT FOR THE ARTS
September 30, 2022 and September 2021 (In Dollars)

The President's Fiscal Year 2024 Budget, which will include actual amounts for fiscal year 2022, will be available at a later date at <https://www.whitehouse.gov/omb/budget/>.

NOTE 17: Schedule of Fiduciary Activity

The Art Endowment has a painting on loan from an artist to be displayed in one office. This piece is not an asset of the Endowment, but is managed and insured with the intent to return this piece to the artist according to the loan agreement. The artwork is valued and insured at fair market value.

Schedule of Fiduciary Activity
For the Period Ended September 30, 2022 and September 30, 2021

	September 30, 2022	September 30, 2021
	Painting	Painting
Fiduciary Net Assets, Beginning of Year	\$ 98,000	\$ 98,000
Contributions	-	-
Increase/(Decrease) in Fiduciary Net Assets	-	-
Fiduciary Net Assets, End of Period	\$ 98,000	\$ 98,000

Fiduciary Net Assets
As of September 30, 2022 and 2021

	September 30, 2022	September 30, 2021
Fiduciary Assets:		
Other Assets (Painting)	\$ 98,000	\$ 98,000
Fiduciary Liabilities:		
Less: Decrease in Fair Value	-	-
Total Fiduciary Net Assets	\$ 98,000	\$ 98,000

NATIONAL ENDOWMENT FOR THE ARTS
September 30, 2022 and September 2021 (In Dollars)

NOTE 18: Reconciliation of Net Cost to Net Outlays

	FY2022		
	Intragovernmental	With Public	Current Year
Net Operating Cost (SNC)	\$ 13,039,290	\$ 265,200,137	\$ 278,239,427
Components of Net Operating Cost Not Part of the Budgetary Outlays:			
Property, Plant, and Equipment Depreciation	-	(167,895)	\$ (167,895)
Property, Plant, and Equipment Disposal & Reevaluation - Losses	-	-	-
Increase/(Decrease) in Assets not affecting Budget Outlays:			
Accounts Receivable	-	(1,576)	\$ (1,576)
Advances, Prepayments and Other Assets	(1,880)	-	\$ (1,880)
(Increase)/Decrease in Liabilities not Affecting Budget Outlays:			
Accounts Payable	-	(93,966)	\$ (93,966)
Federal Employees Benefits Payable	-	95,683	\$ 95,683
Advances from Others and Deferred Credits	370,000	-	\$ 370,000
Other Liabilities (Unfunded Leave, Unfunded FECA, Actuarial FECA)	16,989	(93,883)	\$ (76,894)
Imputed Financing	(902,710)	-	(902,710)
Total Components of Net Operating Cost Not Part of the Budget Outlays	\$ (517,600)	\$ (261,637)	\$ (779,237)
Components of the Budget Outlays That Are Not Part of Net Operating Cost:			
Acquisition of Capital Assets	-	-	-
Financing Sources:			
Donated Revenue	-	(1,789,207)	(1,789,207)
Total Components of the Budgetary Outlays That Are Not Part of Net Operating Cost	-	(1,789,207)	(1,789,207)
Net Outlays	\$ 12,521,690	\$ 263,149,294	\$ 275,670,983

NATIONAL ENDOWMENT FOR THE ARTS
September 30, 2022 and September 2021 (In Dollars)

NOTE 19: Donations In-Kind

Donations in-kind include payments of the Arts Endowment staff travel, lodging, and meals, as well as payment of the Arts Endowment staff registration fees to attend and/or participate in various arts related functions. The total value of these in-kind donations was \$698.57 on September 30, 2022. There were no in-kind donations during September 30, 2021.

NOTE 20: COVID-19 Activity

	FY 2022		
COVID-19 Activity Funded by DEF Code L, M, N, O, P, U, or V	American Rescue Plan Act of 2021	CARES Act 2020	Total
Budgetary Resources: Unobligated (and unexpired) Balance Carried Forward from PY	\$ 82,322,967	\$ -	\$ 82,322,967
New Budget Authority (+)	-	-	-
Rescissions(-)/Other Changes (+/-) to Budgetary Resources	-	-	-
Budgetary Resources Obligated (-)	(82,322,967)	-	(82,322,967)
Budgetary Resources: Ending Unobligated (and unexpired) Balance to be Carried Forward	\$ (3,338,724)	\$ (57,970)	\$ (3,396,694)
Outlays, Net (Total)	\$ (59,039,981)	\$ (10,105,813)	\$ (69,145,794)

The Coronavirus Aid, Relief and Economic Security (CARES) Act (Public Law 116-136) became law on March 27, 2020, and it included provisions to support individuals and businesses in the form of loans, grants, and tax changes, among other types of relief. The Arts Endowment received \$75 million through the CARES Act to preserve jobs and help support organizations forced to close operations due to the spread of COVID-19. The Arts Endowment follows OMB Memorandum M-20-21 guidance in reporting and differentiating grant-making activities under CARES Act funding from regular appropriations.

On March 11, 2021, President Biden signed the American Rescue Plan Act of 2021 (P.L. 117-2), providing \$135 million for the Arts Endowment. Per the Act, funds are for “grants, and relevant administrative expenses, that support organizations’ programming and general operating expenses to cover up to 100 percent of the costs of the programs which the grants support, to prevent, prepare for, respond to, and recover from the coronavirus.” All funds appropriated in the Act are available until expended.

In FY 2021, the Arts Endowment completed and awarded \$52 million in funding for state and jurisdictional arts agencies and regional arts organizations, the first recommended awards of the American Rescue Plan, by amending 62 prior year partnership agreements.

In FY 2022, the Arts Endowment awarded \$78 million in American Rescue Plan funding to eligible nonprofit arts organizations, based on recommendations made at the October and December 2021, and March 2022 meetings of the National Council on the Arts.

BLANK PAGE

*National Endowment for the Arts
Fiscal Year 2022
Agency Financial Report*

~ III. Other Information ~

Inspector General’s Summary of Top Management Challenges



MEMORANDUM

M-23-01

DATE: October 31, 2022

TO: Maria Rosario Jackson, Ph.D., Chair, National Council on the Arts

FROM: Ron Smith, Inspector General

SUBJECT: Fiscal Year 2023 National Endowment for the Arts Top Management Challenges

The Consolidated Reports Act of 2000 and OMB Circular A-136, Financial Reporting Requirements, require that the Office of Inspector General (OIG) provide the National Endowment for the Arts (NEA) Chair with an annual summary of the top management and performance challenges facing the NEA. We have experienced strong support from NEA management in identifying and tracking these top management challenges. We look forward to continuing our work to help the NEA improve in these challenge areas and deliver its mission with excellence and integrity. The following is an update of the Top Management Challenges provided to the NEA in November 2021.

At the end of FY 2022, we identified the areas of Awardee Stewardship; Financial Management; Human Capital; Information Technology; and Diversity, Equity, Inclusion, and Accessibility as the top management and performance challenges for the NEA. Following is a discussion of each challenge area.

Awardee Stewardship. The NEA Grants and Program Management Offices face the challenge, along with the rest of the Federal government grant making community, to issue grants and help awardees fully implement and comply with the requirements of 2 CFR Part 200: Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance). This challenge includes helping awardees comply with NEA General Terms and Conditions for awards.

This challenge area has increased in significance because, in March 2021, President Biden signed into law the American Rescue Plan (ARP), which provided an additional \$135 million in grant funding to the NEA. This funding followed on the heels of \$75 million in additional grant funding to the NEA through the Coronavirus Aid, Relief and Economic Security (CARES) Act in 2020 to preserve jobs and help support organizations forced to close operations due to the spread of COVID-19. The NEA completed remaining awards of ARP funding during this fiscal year.

Notwithstanding the NEA's success in awarding grants in a timely manner and in responding to our recommendations to improve awardee compliance with regulations, our audits continue to identify awardees that have not fully complied with Federal award requirements. These awardees are typically identified for audit through our risk based annual audit planning process,

*National Endowment for the Arts – FY 2022 Agency Financial Report
Other Information*

hotline allegations/complaints, and referrals from the NEA offices. OIG audits continue to identify findings that awardees are failing to:

1. Ensure that contractors and sub-award recipients have not been debarred or suspended from receiving Federal assistance prior to awarding them Federal funds;
2. Put in place complete written policies and procedures for managing Federal awards;
3. Report actual, allowable, and allocable costs on FFRs; and
4. Maintain supporting documentation for all costs charged to NEA grants.

We acknowledge and encourage the NEA’s continuous efforts to identify ways to improve awardee compliance with Federal requirements. For instance, in FY 2021 the NEA Grants Office and the OIG participated in a webinar for State Arts Agencies and Regional Arts Organizations, designed to help them better understand the grant audit process and how to increase compliance with Federal grant management requirements. In FY 2022, the Grants Office offered webinars specific to the use of ARP funding for subgrantees. Technical assistance webinars were also conducted for direct ARP awardees and Local Arts Agencies that received ARP funding for subgranting activity. During FY 2022, the NEA Grants Office began providing annual refresher training on allowable costs to NEA staff and awardees, and began developing web-based tools to assist awardees in complying with grant management requirements.

Continued refresher training, development and implementation of web-based tools and technical assistance by the NEA, and the results of our audits will help to improve awardee compliance with grant requirements. As grantmaking is a major part of the NEA mission, this area will continue to be an important challenge, particularly as NEA grant funding continues to be increased thereby increasing the number of awards; and Presidential Executive Orders continue to assign leading roles to the NEA and the National Endowment for Humanities to partner with other Federal, public, and private entities increasing the focus of NEA support and initiatives to help respond to the Nation’s challenges.

Financial Management. This is one of the areas where the NEA works to continuously improve each year. The NEA is required to keep pace with government-wide financial systems modernization efforts and regulatory changes. The NEA also focuses continuously on improving efficiency and effectiveness of its accounting and finance policies and procedures, systems, and staff cross-training. While this is a top challenge area, a positive indicator in the financial management area is that the NEA consistently receives unmodified opinions on its annual financial statement audits and has a high level of compliance with the Digital Accountability and Transparency Act of 2014 (DATA Act) requirements. Evidence of continuous improvement in this area are the “Clean” financial statement audit opinions that NEA has received the past two years – meaning that auditors have not identified any major issues with NEA financial statements and no financial management areas needing significant improvements.

Notwithstanding these positive indicators, the importance of this challenge area has been increased due to the additional funding and reporting requirements associated with the CARES Act and ARP. For instance, the NEA will be challenged with timely review of

*National Endowment for the Arts – FY 2022 Agency Financial Report
Other Information*

grantees' increasing number of reimbursement requests and NEA's processing and disbursement of CARES Act and ARP funds.

To date, the NEA has reported success in timely disbursing and reporting the funds provided by the CARES Act. The additional funding came with increased monthly reporting required under the DATA Act. In 2023, my office will begin to audit awardees of these grant funds and NEA will begin to see how well these funds have been stewarded.

Human Capital. The NEA considers its people to be its most valuable resource – not just assets – but instead as colleagues in achieving the agency mission. We have noted NEA's work to continuously improve its human resource programs, policies, and procedures consistent with its human capital strategy. The NEA has demonstrated strong ability to deal with this challenge area during the continuing Pandemic – specifically the challenges of: 1) maintaining a safe work environment during this Pandemic for employees and contractors; 2) providing employees with the tools needed to successfully accomplish the NEA mission; 3) ensuring an effective strategy to attract and retain high quality candidates with the right skills, ability and knowledge to fill vacant positions due to normal attrition and retiring employees; and 4) maintaining high quality service in other human capital areas, such as training and development, and performance management and recognition.

Additional challenges in this area facing NEA in 2023 and beyond is addressing balance of work issues that continues to increase due to increasing budgets, increasing number of applications and awards, and assignments through executive orders. To address these issues, NEA will need to be limber and strategic in filling and retaining key leadership and staff positions, considering changes in its organizational structure, and changes in tools and processes to help address mission delivery challenges. This challenge area affects not only NEA, but the entire Federal government.

In this regard, the Office of Personnel Management (OPM) has begun to provide feedback and guidance to all Agency Heads encouraging them to consider the feedback provided by their respective employees to understand the strengths, challenges and opportunities you face in driving workplace improvements across their organization. While OPM typically provides this feedback each year, for the first time, OPM will soon release a public summary of topline OPM viewpoint measurements, and the full government-wide report of the survey results. Furthermore, while this has already been provided to the Agency, we are providing links to OPM's websites and survey related information and reports to OPM as they encourage Agency Heads to use this information to help plan and implement a way forward that is supportive of their mission as well as the health and well-being, and work-life balance of their employees. We have attached a copy of the memorandum to Agency Heads here as it includes OPM's specific suggestions on the value of this information and how Agency heads may access and use this information to improve their organizations:

OPM-FEVS-Results- Agency-Heads-Mem

Prior year survey results on this topic can be found at this [LINK](#).

Information Technology. The NEA began addressing this area by transitioning to a new, more robust electronic grants management system (eGMS) in FY 2018. This new system was built on a more flexible, operationally efficient platform. The initial version of eGMS was fully connected to the Grants.gov site. In 2018 and 2019, the NEA worked to fully integrate eGMS operations with its internal systems and the systems operated by external service providers. These updates are continuous and should prove helpful, yet still challenging due to the significant increase in the volume of transactions and additional data elements required for monthly reporting of grant award activity through the NEA secure financial systems.

Another challenge in this area for the NEA is the FISMA that requires each Federal agency to develop, document, and implement an agency-wide information security program to provide information security over the operations and assets of the agency. Through our annual review of the NEA's compliance with FISMA, we continuously identify and assess progress in complying with FISMA. We have found that the NEA continually makes progress each year in complying with increasing information system security requirements.

Despite this continuous progress, the Pandemic requirement to telework has made it much more challenging for the NEA to continue on the planned schedule of information security improvements. Beginning in FY 2021, NEA information technology staff shifted their focus to keeping the network secure and operating for all teleworking staff and ensuring the financial systems are secure and more fully integrated with the grant awards management system to insure accurate reporting and secure processing of the increased volume of grant awards under the CARES Act and ARP. Progress in this area continued through FY 2022, and is expected to be continuous as the NEA works to respond to ever-changing and increased Federal information security requirements.

Based on the NEA OIG FY 2022 FISMA audit, the independent auditor noted information security improvements in three areas of NEA's information network security. However, the NEA continues to miss opportunities for improvement because of staffing and resource challenges, and untimely implementation of security software policies and procedures. To its credit, the NEA appears poised to continue improving FISMA compliance in FY 2023. In addition to improving information technology security, the NEA will be challenged to identify IT tools to help streamline efforts to award grants, partner with other agencies, and to track key metrics related to diversity, equity and inclusion, and accessibility in the process of awarding grants.

Diversity, Equity, Inclusion, and Accessibility. Diversity, Equity, Inclusion, and Accessibility (DEIA) has been added to the list of the top management challenges as the President has issued executive orders requiring all Federal agencies to establish DEIA as integral to its internal (employee) and external equity action (customer/supplier) focused programs. The NEA has moved quickly to address this area and its new requirements establishing both an internal DEIA Strategic Plan and external Equity Action Plan. NEA established a DEIA initiative by including it in its strategic plan as a cross-cutting initiative for all its programs and operations. The NEA has completed its required internal focused DEIA assessment report and strategic plan, and submitted it to OMB. The NEA has also

*National Endowment for the Arts – FY 2022 Agency Financial Report
Other Information*

already begun to evaluate and consider structural changes to its organization to implement its enhanced DEIA strategic focus. The OIG will continue to monitor the NEA efforts in these areas with the expectation that the DEIA initiative will require continuous effort and time to fully implement.

cc: Diane Dewhirst, Senior Deputy Chair
Ra Joy, Chief of Staff
Ann Eilers, Deputy Chair for Management & Budget

National Endowment for the Arts – FY 2022 Agency Financial Report
Other Information

Summary of Financial Statement Audit and Management Assurances

Table 1.
Summary of Financial Statement Audit

Audit Opinion		Unmodified			
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
<i>Total Material Weaknesses</i>	0	0	0	0	0

Table 2.
Summary of Management Assurances

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance		Unmodified				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
<i>Total Material Weaknesses</i>	0	0	0	0	0	0
Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance		Unmodified				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
N/A						
<i>Total Material Weaknesses</i>	0	0	0	0	0	0
Conformance with financial management system requirements (FMFIA § 4)						
Statement of Assurance		Systems conform				
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
N/A						
<i>Total non-conformances</i>	0	0	0	0	0	0

Payment Integrity

Payment Integrity

The Payment Integrity Information Act of 2019 (Pub. L. No. 116-117, 31 U.S.C. § 3352 and § 3357), the Improper Payments Information Act of 2002 (IPIA) as amended by the Improper Payments Elimination and Recovery Act (IPERA) of 2010, and the Improper Payments Elimination and Recovery Improvement Act (IPERIA) of 2012 require agencies to periodically assess their programs and identify which, if any, programs may be subject to high risk with respect to improper payments, and take corrective measures, as necessary. The Office of Management and Budget (OMB) *Circular A-123, Requirements for Effective Estimation and Remediation of Improper Payments*, defines an improper payment and provides guidance to agencies to comply with IPIA as amended, and for agency improper payments efforts.

Improper Payments Risk Assessments

The Arts Endowment has four major fund categories: Administrative; Program Support; Direct Grantmaking; and Partnership. None of these programs is considered susceptible to significant erroneous payments or qualifies as risk-susceptible based on OMB guidance thresholds. The Arts Endowment annually assesses the effectiveness of internal control over financial reporting, in compliance with OMB Circular A-123, Appendix C. The most recent reviews indicate that the internal controls over disbursement processes were effective.

Preventing and Detecting Improper Payments

The Arts Endowment's internal controls did not identify any programs that constitute a high risk for improper payments. The improper payments identified by the Arts Endowment totaled less than \$1.0 million in aggregate for all programs (or <1%) for FY 2022. All improper payments identified were corrected either through recapture or remittance of correct funds.

The Arts Endowment's internal controls include established pre-award and pre-payment processes for all acquisition and financial assistance awards. Procedures include cross-referencing applicants against the General Services Administration's (GSA) System for Award Management (SAM) exclusion records. As part of prepayment processing, our shared service provider, Enterprise Services Center (ESC), verifies an entity against both SAM and the Internal Revenue Service's Taxpayer Identification Number (TIN) before establishing them as a vendor in the financial system. For payroll expenditures, timesheets are reviewed and approved prior to submission for processing, which, along with edit checks in the National Finance Center (NFC) System, helps to facilitate accurate payroll expenditures.

The Arts Endowment also completes post-payment reviews. To identify the possibility of erroneous payment for financial assistance awards, quarterly reviews of obligations are completed to ensure awards have appropriate approval and are obligated accurately in the financial system, and that related award payments are authorized, accurate, and complete. Administrative expense reviews include a quarterly review of manual invoices and bi-weekly review of payments to those who serve on the panels evaluating applications of financial assistance awards. The reviews are to ensure that invoices were approved and proper procedures

*National Endowment for the Arts – FY 2022 Agency Financial Report
Other Information*

were followed for invoice payments. While the system controls for vendor set-up facilitate proper set-up of authorized suppliers, system edit checks prevent duplicate payments. Payroll costs are reviewed by completing a pay period to pay period comparison of costs. Any variances or unanticipated changes are flagged and researched. Based on these internal controls and payment monitoring reviews, we believe that the Arts Endowment has an insignificant risk of significant improper payments for FY 2022.

Improvement of Payment Accuracy with the Do Not Pay Initiative

At the Arts Endowment, an important part of our program integrity efforts designed to prevent, identify, and reduce improper payments is integrating Treasury Department’s Do Not Pay (DNP) Business Center into our existing processes. We utilize the DNP Business Center to perform online searches, screen payments against the DNP databases, and augment Treasury’s Office of Financial Management (OFM) data analytics capabilities.

We follow established procedures outlined in the preventing and detecting improper payments section. Also, for any payments made outside of the financial system, ESC reviews the DNP portal prior to making the payment. ESC has undertaken the following initiatives and measures.

- Engages the DNP Analytics Services to match its vendor records with the Death Master File (DMF). The review identifies high-risk vendor records possibly associated with deceased individuals and prompts ESC to classify the vendor records into risk-based categories for further evaluation.
- Deactivates the highest-risk vendor records, thereby decreasing the likelihood of improper payments to deceased individuals.
- Implements a vendor maintenance process to deactivate profiles with no activity within 18 months and with no active invoices or purchase orders. This control decreases the likelihood of making improper payments.
- Implemented integration of SAM.GOV with the financial system to manage its supplier database. The daily processing of vendor changes from SAM is handled systemically. Financial transactions are processed based on SAM status – thereby requiring vendors to keep their SAM record active and the financial information accurate.
- Implemented a software tool to help monitor duplicate payments more effectively and timely based on business rules defined by ESC. This has allowed for daily review and the potential to prevent duplicate payments due to the quick software processing of information.
- Implemented a pre-payment review of Enterprise Data Quality (EDQ) potential duplicate invoices, which will enhance its control of ensuring payments are made accurately.

Fraud Reduction

Fraud risk management is an important aspect of the Arts Endowment’s strategy to achieve its mission and goals. Fraud prevention, detection, monitoring, and response are key to managing fraud risk and are continually being integrated into the culture and controls throughout the Agency. The Arts Endowment takes a variety of steps to both address and prevent fraud, waste and abuse. During FY 2022, the Arts Endowment continued the use of its existing policies and procedures to perform risk assessments for significant improper payments, including those under

*National Endowment for the Arts – FY 2022 Agency Financial Report
Other Information*

the improper payment and related laws and regulations discussed above (IPIA, IPERA, IPERIA, and OMB Circular A-123, Appendix C). Though the Arts Endowment reports only on significant improper payments in this report, the Arts Endowment reviews all sources of payments as part of its overall improper payment risk assessment and considers fraud among the variety of contributing risk factors.

Analyses of risks, including fraud risks, are a component of the Arts Endowment’s financial internal control program. Annually, the Arts Endowment performs a risk assessment and assesses exposures and controls around fraud risk. How the Arts Endowment anticipates, identifies, and responds to fraud is considered during the assessment. Existing policies and procedures are also examined to ensure that they adequately meet their objective. Operational processes are also reviewed for inherent and control-based risks. The results of these assessments aid in identifying types and levels of risks within the agency and inform the mitigation process.

Civil Monetary Penalty Adjustment for Inflation

The Federal Civil Penalties Inflation Adjustment Act of 1990, as amended by the Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015, requires agencies to adjust their civil monetary penalties (CMP) for inflation. The table below describes the Arts Endowment’s current civil monetary penalties, their authorities, year enacted, last year of adjustments, and current monetary penalty amounts. These CMP adjustments are located at 87 FR 2065.

Statutory Authority	Description	CMP Name	Year CMP originally enacted (by statute)	Latest Year of CMP non-inflation adjustment	Current CMP Level
31 U.S.C. 3802(a)	Penalty for false statements under the Program Fraud and Civil Remedies Act	Violation	1986	1986	\$12,536
31 U.S.C. 1352	Penalty for certain violations of the Arts Endowment’s Restrictions on Lobbying	Violation	1989	1989	Between \$22,009 and \$220,213

Grants Oversight & New Efficiency (GONE) Act

The Grants Oversight and New Efficiency (GONE) Act (P.L. 114-117) reporting requirements have expired. Nevertheless, to promote the efficient administration of grants programs, all reporting entities with Federal grants programs must submit a brief high-level summary of expired, but not closed, Federal grants and cooperative agreements (awards), including a summary table (as shown below) of the total number of awards and balances for which closeout has not yet occurred, but for which the period of performance has elapsed by two years or more prior to September 30, 2022 (i.e., on or before September 30, 2020).

*National Endowment for the Arts – FY 2022 Agency Financial Report
Other Information*

CATEGORY	2-3 Years	3-5 Years	More than 5 Years
Number of Grants/Cooperative Agreements with Zero Dollar Balances	0	0	0
Number of Grants/Cooperative Agreements with Undisbursed Balances	0	0	0
Total Amount of Undisbursed Balances	0	0	0

The NEA reviewed its closed-out population of federal grants and cooperative agreements and found no instances where either a grant award or cooperative agreement with the period of performance ending on or prior to September 30, 2020, had not been closed out. We have no delays in grant and cooperative agreement closeout, and no challenges to address pursuant to the GONE Act.