



**National
Endowment
for the Arts**
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AGENCY FINANCIAL REPORT FISCAL YEAR 2018

Submitted to the Congress,
the Office of Management and Budget,
the Department of the Treasury, and
the Government Accountability Office
November 2018

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**Agency Financial Report for Fiscal Year 2018
November 2018**

TABLE OF CONTENTS

A Message from the Acting Chairman	1
I. Management’s Discussion and Analysis	
Mission and Organizational Structure	5
Performance Goals, Objectives, and Results.....	6
Analysis of Financial Statements	17
Table of Key Measures.....	19
Systems, Controls, and Legal Compliance.....	20
Other Management Information, Initiatives, and Issues	20
Organization Chart	21
II. Management Assurances	23
III. Financial Information	
Independent Auditor’s Report	27
Audited Financial Statements and Notes.....	35
IV. Other Information	
Inspector General’s Summary of Top Management Challenges.....	57
Summary of Financial Statement Audit & Management Assurances.....	61
Payment Integrity	62
Fraud Reduction	63
Civil Monetary Penalty Adjustment for Inflation	64
GONE Act	65

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***National Endowment for the Arts
Fiscal Year 2018
Agency Financial Report***

~ A Message from the Acting Chairman ~

I am pleased to present the National Endowment for the Arts' *Fiscal Year 2018 Agency Financial Report*, which summarizes the Agency's financial performance during the past year.

Overview

The National Endowment for the Arts is an independent federal agency that is entrusted to preserve American culture, history and heritage while welcoming new expressions of creativity. Although it is a small agency, the National Endowment for the Arts has all the responsibilities of a large agency, which includes the appropriate use of public dollars that helps ensure that every American has greater access to the arts throughout the United States and territories. This is done through grant-making, partnerships, and key initiatives that empower communities to craft their own visions for art programs in their communities. It is federalism at its best. Rural America particularly benefits from grants of the National Endowment for the Arts, as philanthropic sector dollars do not reach these areas equitably. For this reason, more than 20% of projects funded by the National Endowment for the Arts serve rural and small, metropolitan communities. The economic impact of the arts is palpable. The arts contribute more than \$760 billion to the U.S. economy, which is more than agriculture, transportation, or warehousing. Additionally, the arts employ almost 5 million people generating earnings of more than \$370 billion. The National Endowment for the Arts continues to forge new ground with innovative and effective programs applied in partnership with other federal government agencies such as the U.S. Department of Defense and Veterans Affairs. The National Endowment for the Arts remains steadfast in its commitment to serve the American people.

Mission

Established by Congress in 1965, the NEA is the independent Federal agency whose mission is:

To strengthen the creative capacity of our communities by providing all Americans with greater access through diverse opportunities for participation in the arts.

The mission of the National Endowment for the Arts is based on an abiding conviction that the arts play an integral role in our national life and public discourse. The first half of the mission statement refers to the Endowment's deep-rooted investment in the artistic and creative assets throughout the country. The agency is committed to helping communities that seek to leverage these assets more effectively as part of a comprehensive strategy to improve quality of life through the arts. The second half identifies the need to reach individuals with multiple channels for engaging with artistic

National Endowment for the Arts – FY 2018 Agency Financial Report
A Message from the Acting Chairman

excellence, thus improving the likelihood that Americans from all backgrounds will benefit directly from the agency’s activities.

The National Endowment for the Arts is the sole entity, public or private, whose funding reaches every Congressional District in all 50 states, the District of Columbia, and the U.S. territories, supporting activities such as performances, exhibitions, healing arts and arts education programs, festivals, and artist residencies. NEA funding is project-based and goes to thousands of nonprofits each year, along with partnerships and special arts initiatives, research and other support that contribute to the vitality of our neighborhoods, engage our students and schools, and preserve our American culture.

The Impact of the National Endowment for the Arts

The National Endowment for the Arts research indicates that the *ways* Americans are participating in the arts are expanding, along with the demographics of those who participate. There is more racial/ethnic diversity reflected in the pool of Americans who are most likely to approach art in new ways, such as through electronic media. In this, the digital age, 74% of American adults use mobile devices, computers and tablets to view and listen to art. Rural and underserved communities are also presented with more opportunities to participate. Based on recent figures, nearly 14% of the Endowment’s direct grant-making dollars¹ go to projects that feature some rural component.² Further, 38% of recent agency-supported projects reached high-poverty neighborhoods.

The arts also play a significant role in equalizing educational opportunities; students with an education rich in the arts have higher GPAs and standardized test scores, lower drop-out rates, and even better attitudes about community service – benefits reaped by students regardless of socio-economic status.

Art is an irreplaceable way of understanding and expressing the world, and it links our ability to create and innovate in ways beyond compare. The National Endowment for the Arts believes in and supports the connection of arts, science, engineering, and the humanities to catalyze new insights and solutions which over time will address some of our nation's highest priorities.

The more than \$5 billion awarded over our 50-year history represents the Endowment’s continuing commitment to making the arts a vital part of the lifeblood of this nation. The agency extends its work through partnerships with state arts agencies, regional arts organizations, local leaders, other federal agencies, and the philanthropic sector, reaching rural, suburban, and metropolitan areas in all 50 states, the District of Columbia, special jurisdictions, and military installations.

Three elements taken together – the works of art themselves, the ways that art works on individuals and communities, and art as work – are the guiding principles underpinning the agency’s FY 2014-2018 Strategic Plan; they have shaped our grant guidelines; and they guide implementation of initiatives such as *Creative Forces: National Endowment for the Arts Military Healing Arts Network*, a partnership of the National Endowment for the Arts and the Departments of Defense and Veterans

¹ Does not include awards to State & Regional Partnerships or to individuals.

² As defined by the U.S. Census, this analysis defines “urban” as metropolitan statistical area (MSA). An MSA consists of one or more counties that contain a city of 50,000 or more inhabitants. Counties containing the principal concentration of population – the largest city and surrounding densely settled area – are components of the MSA.

*National Endowment for the Arts – FY 2018 Agency Financial Report
A Message from the Acting Chairman*

Affairs that serves the unique and special needs of service members and veterans who have been diagnosed with traumatic brain injury and psychological health conditions, as well as their families and caregivers; and *Our Town*, which invests in partnerships among arts, cultural, or design organizations and local governments for creative placemaking projects.

A wide array of Agency programs and initiatives are providing Americans with opportunities to experience the best of the arts. These include, in addition to the initiatives cited above:

- A five-year national research agenda, focused on 1) new data collections for public access; 2) analyses of the arts' value and impact; and 3) strategic research alliances, one example being the 20-member federal Interagency Task Force on the Arts and Human Development.
- Collaborations with other Federal agencies (e.g., the Departments of Defense, Commerce, Education, Agriculture, and Interior, and the National Science Foundation) in recognition of the ability of the arts to help them achieve their goals.
- Other program leadership initiatives such as *Blue Star Museums*; *NEA Big Read*; *Poetry Out Loud*; *Shakespeare in American Communities*; the *Mayors' Institute for City Design*; and the *Musical Theater Songwriting Challenge for High School Students*.
- Outreach through programs such as *Challenge America*; grant information workshops (now conducted largely through online media); an online newsletter; our Web site; and increased use of webinars, webcasting, and social media such as blogs, Twitter, and Facebook.
- Efficiency improvements obtained through expanded use of technology, including the use of remote grant application review panels – conducted via the Internet – thereby reducing travel costs and further enhancing the efficiency and effectiveness of the application review process.

In FY 2018, the National Endowment for the Arts awarded more than 2,300 grants and cooperative agreements, reaching more than 16,000 communities and every Congressional district throughout the country. A recent examination of the agency's direct grants showed that 64% go to small organizations (less than \$2 million in prior year expenditures).

A significant percentage of grants reach those who have fewer opportunities to participate in the arts. Of the grants awarded in FY 2016 (the most recent year for which we have complete figures):

- 40% of Endowment-supported activities took place in high-poverty neighborhoods.
- 36% of Endowment grants went to organizations that reach underserved populations such as people with disabilities, people in institutions, and veterans.

National Endowment for the Arts grants provide a significant return on investment of federal dollars. Based upon historical review of final reports filed by grantees, it is estimated that each \$1 awarded by the agency in direct grants to nonprofit organizations in FY 2016 leveraged \$9 from other non-federal sources. This results in more than \$500 million in matching support, far surpassing the required non-Federal match of at least one to one.

*National Endowment for the Arts – FY 2018 Agency Financial Report
A Message from the Acting Chairman*

National Endowment for the Arts Support for States

The National Endowment for the Arts extends its influence through state arts agencies (SAAs) and regional arts organizations (RAOs), ensuring that programs reach even the smallest communities in remote rural areas. By Congressional statute, 40 percent of the agency’s grant-making funds are allocated to the 50 States, six special jurisdictions, and six RAOs. State governments match the federal NEA 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 recent years, more than 4,400 communities have been served each year through grants made possible by partnership agreements with SAAs and RAOs.

Collaboration with the SAAs and RAOs extends beyond just grant-making. The National Endowment for the Arts’ *Poetry Out Loud* initiative relies on our SAA partners to conduct outreach to schools and educators. Likewise, for *Creative Forces*, SAAs are helping to build a support network of state, regional, and local partners that provide community-based arts activities for military and veteran families in states where military medical sites are operating.

National Endowment for the Arts and Research

Research into the value and impact of the arts is a core function of the National Endowment for the Arts. Through accurate, relevant, and timely analyses and reports, the Endowment reveals the conditions and characteristics of the U.S. arts ecosystem and the impact of the arts on our everyday lives.

The National Endowment for the Arts is the national agency of record for arts-related research. As an example, its quadrennial Survey of Public Participation in the Arts is the most comprehensive survey of U.S. arts participation, with a nationally representative sample exceeding 35,000 adults.

Through our Research: Art Works grant category, the agency supports research that investigates the value and/or impact of the arts, either as individual components of the U.S. arts ecology or as they interact with each other and/or with other domains of American life. This program seeks to heighten the relevance and significance of arts-related research to policy and practice.

Data Reliability

The financial and performance data contained in this report are, to the best of our knowledge, complete and reliable.



Mary Anne Carter
Acting Chairman
November 15, 2018

National Endowment for the Arts Fiscal Year 2018 Agency Financial Report

~ Management's Discussion and Analysis ~

The National Endowment for the Arts produces an Agency Financial Report (AFR) and an Annual Performance Report (APR). We will include our FY 2018 Annual Performance Report with our FY 2020 Congressional Budget Justification in February 2019 and will post it on the NEA Web site at www.arts.gov.

Mission, Organizational Structure, and Internal Operations

The mission of the National Endowment for the Arts is *to strengthen the creative capacity of our communities by providing all Americans with diverse opportunities for arts participation*. We envision a nation in which every American benefits from arts engagement, and every community recognizes and celebrates its aspirations and achievements through the arts.

Over the past 50 years, the NEA has become the largest funder of the arts and arts education nationwide and, as a catalyst of public and private support for the arts, an essential institution. Established by Congress in 1965, the NEA annually awards an average of approximately 2,300 grants and cooperative agreements exceeding \$117 million, funding the arts in all 50 states and six U.S. jurisdictions, including rural and urban areas, and reaching civilian and military populations. The agency also exercises leadership through targeted support of key initiatives, research and evaluation, and domestic and international partnerships. NEA grantees include nonprofit organizations; units of state and local government; federally recognized tribal communities or tribes; and, where permitted, individuals.

By law, 40 percent of the NEA's grantmaking dollars are awarded to the nation's 56 state and jurisdictional arts agencies (SAAs) and the six regional arts organizations (RAOs). These funds are administered through Partnership Agreements with the SAAs and RAOs – an investment that catalyzes arts projects in thousands of communities across the country. Partnership Agreements allow the NEA to build and sustain local capacity for planning, programming, evaluation, and communications.

The NEA is led by a Chairman – appointed by the President and confirmed by the United States Senate – and advised by the [National Council on the Arts](#). The Council is comprised 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 the applications. Its recommendations for funding are sent to the NEA chairman, who reviews those applications and makes the final decision on all grant awards. Currently, the Council has sixteen Presidential appointees and three ex officio members.

*National Endowment for the Arts – FY 2018 Agency Financial Report
Management’s Discussion and Analysis*

The NEA’s organizational structure includes a Deputy Chairman for Programs & Partnerships and a Senior Deputy Chairman, both of whom report to the Chairman. Other senior positions include a Deputy Chairman for Management & Budget, Chief of Staff, Director of Strategic Communications & Public Affairs, General Counsel, and several other office heads – all of whom report to either the Senior Deputy Chairman (the Agency’s Chief Operating Officer) or the Chairman. Currently, the Senior Deputy Chairman is serving as the Acting Chairman.

The major program division, Programs & Partnerships, is chiefly responsible for handling the review of grant applications and management of cooperative agreements and leadership initiatives. The Deputy Chairman for Management & Budget position had been vacant for six months, but was filled in mid-October 2017. During FY 2018, the NEA operated with a staffing level of approximately 137 full-time equivalents. An organizational chart can be found at the end of this section.

Performance Goals, Objectives, and Results

The NEA supports excellent art with broad public reach in multiple disciplines across all 50 States, the District of Columbia, and special jurisdictions, reaching rural, suburban, and metropolitan areas, as well as military facilities. We are committed to providing the American people with access to the best of their artistic legacy. NEA support of the arts encourages artistic creativity and productivity that boosts the economies of our local communities and our nation. More than 4.9 million Americans work in industries that produce arts and cultural goods and services, receiving \$372 billion in compensation.³ This contribution made up 4.2% (or \$763.6 billion) of our nation’s GDP in 2015 (the most recent year for which such statistics are available), a 39.9% growth since 1998.

Through our efforts on behalf of the American people, we strive to achieve the following⁴:

Goals:

1. Support art that meets the highest standards of excellence.
2. Cultivate public engagement with, and access to, various forms of excellent art across the nation.
3. Promote public knowledge and understanding about the contributions of the arts.
4. Enable the NEA mission through organizational excellence.

Objectives:

- Honor and support artistic activities and traditions across the nation.
- Expand the portfolio of American art.
- Strengthen the cultural infrastructure of the nation.
- Provide opportunities for the American people to engage with the arts.
- Provide opportunities for the American people to acquire knowledge and skills in the arts at all stages of life.
- Provide opportunities for the arts to be integrated into the fabric of community life.

³ [The U.S. Arts and Cultural Production Satellite Account \(1998-2015\), Research Brief #1: National Summary.](#)

⁴ [National Endowment for the Arts Strategic Plan FY 2018-2022.](#)

*National Endowment for the Arts – FY 2018 Agency Financial Report
Management’s Discussion and Analysis*

- Support access to creative arts therapies and evidence-based programs in the arts and health.
- Inform and engage with the American people about arts activities and artists in communities across the country and their importance to the vitality of the nation.
- Expand and promote evidence of the value and impact of the arts for the benefit of the American people.
- Provide opportunities for the international exchange of artists, artworks, and arts activities.
- Be an effective and vigilant steward of public funds.
- Be transparent and accountable to the public.
- Attract and maintain a diverse, creative, knowledgeable, productive, and motivated workforce.
- Recruit and engage citizens as panelists who will make recommendations for NEA awards that meet the highest standards of excellence.
- Ensure that NEA-funded activities reach a wide breadth of geographic locations and underserved populations across the country.

Results:

Here are some highlights of key activities, accomplishments, and issues from FY 2018.

1. Enhanced Use of Technology

During FY 2018, we continued our joint development (and now implementation) with the National Endowment for the Humanities of a new Web-based grants management system (eGMS), with the participation of two additional partners: the Institute of Museum and Library Services (IMLS) and the National Historical Publications & Records Commission (a division of the National Archives). In addition, we built and launched an ancillary component (the NEA Applicant Portal), which allows our grant applicants to provide electronically all work samples associated with their applications. The fully functioning eGMS launched in January 2018, which included a financial interface between the eGMS and the Delphi financial management system. Enhancements continue to be implemented, with the next one scheduled for November 2018.

2. Strategic Management of Human Capital

We have established human capital (HC) strategies that enable us to carry out the Agency’s Strategic Plan. We manage our HC programs consistent with applicable internal controls and merit-based principles, and we build our budgets and programs consistent with our available HC resources. We conduct assessments on an ongoing basis to ensure that our staffing level and competency mix are sufficient to operate effectively and achieve our mission.

With the uncertainty of the FY18 budgetary outlook, the NEA paused backfilling positions in FY 2017 through early FY 2018. The improved budget outlook in mid-FY 2018 allowed NEA management to complete a careful analysis to identify the best approach to address staffing. The result was a mix of solutions to address the work, including entering

*National Endowment for the Arts – FY 2018 Agency Financial Report
Management’s Discussion and Analysis*

into an agreement with the Office of Personnel Management (OPM) to provide recruitment expertise on an as-needed basis.

The results of the 2018 Federal Employee Viewpoint Survey confirmed the high level of commitment exhibited by our work force; almost 96% of respondents said that, “When needed I am willing to put in the extra effort to get a job done.” And 92% said they are “held accountable for achieving results.”

3. Improved Financial Management

With our use of the U.S. Department of Transportation’s (DOT) Oracle-based fully-compliant financial system (Delphi), we continue to realize improvements in reliability and timeliness of financial information. During FY 2018, we transitioned to a “full-service” basis with ESC, and are already realizing the benefits of timeliness and accuracy of transaction processing, as well as consistency and reliability in the preparation of financial statements.

4. Integration of Budget and Performance

We prepare our budget requests as performance budgets, with performance data integrated throughout. This integration ensures that Agency goals, programs, and budget categories are aligned with and mirror one another. During FY 2018, we completed a thorough revision of our Strategic Plan, which now covers Fiscal Years 2018-2022; this revised Strategic Plan provides the foundation for all of our activities.

5. Leveraging Shared and Contracted Services

In addition to the interagency agreement with OPM discussed in paragraph 2 above, the NEA also implemented other shared service interagency agreements and contracts in order to tap into the operational efficiencies and expertise of larger service providers. Among the results of this approach in 2018, the NEA:

- Completed recruitments and on-boarded more than 20 staff. Of these positions, approximately 36% were NEA internal candidates, reflecting management’s efforts to improve advancement opportunities for current employees.
- Detail opportunities were assessed and one detailee joined the NEA to provide their expertise.
- Contractors were hired to help address a backlog of IT maintenance work and compliance requirements.
- A critical interagency agreement addressing financial operations enabled more efficient and timely transaction processing.

Core Grant Programs

Through its direct grant-making, the NEA annually supports in the range of 30,000 concerts, readings, and performances and more than 3,000 exhibitions of visual and media arts with annual, live attendance of 20 million. NEA-supported broadcast performances on television, radio, and cable will have additional audiences of at least 300 million. In FY 2018, the NEA

*National Endowment for the Arts – FY 2018 Agency Financial Report
Management’s Discussion and Analysis*

made more than 2,300 awards totaling \$121.6 million. Other funders annually provide more than \$500 million in further support of these NEA-funded projects; in our direct grant-making categories alone, the ratio of matching to federal funds currently approaches 9:1, far surpassing the required non-federal match of at least one to one. In addition to the above, the NEA’s reach is extended through the 40% of our grantmaking funds that, by statute, are awarded to the State Arts Agencies and Regional Arts Organizations, reaching millions more people in more than 16,000 communities in every Congressional district in the country. Grantees’ final reports provide the bulk of the information that allows us to report what we actually achieved across the country with our programmatic activities. We have found the actual results to be consistent with our projections, and periodic reviews of the grantee reporting process have confirmed the accuracy and relevance of our performance data. Thus, we believe that the performance data we receive (which will be reported in our Annual Performance Report in February 2019) indicate that our goals for these programs are being met and that our programs are effective.

The NEA’s core grant programs include signature initiatives, such as *Poetry Out Loud*, the *NEA Big Read*, and *Shakespeare in American Communities*, which extend the reach of the agency through partnerships with State Arts Agencies and Regional Arts Organizations; *Our Town*, a grant program that supports creative placemaking projects that help to transform communities into lively, beautiful, and sustainable places with the arts at their core; and an agency commitment to award at least one direct grant in every Congressional district (achieved consistently since 2004).

Our Town, which has achieved considerable success since its launch in 2011, builds on the NEA’s longstanding support for communities and the ability of the arts to strengthen them. The NEA has now awarded nearly \$37 million in grants to fund close to 500 *Our Town* projects, reaching all 50 states plus the District of Columbia, Puerto Rico, and the Virgin Islands. In FY 2018, the NEA awarded more than \$4 million in 61 grants supporting arts engagement, cultural planning, design, and knowledge-building about creative placemaking. The *Our Town* grants reinforce the NEA’s belief that the arts are as fundamental to a community’s success as safety, land use, transportation, education, and housing, and help build stronger communities in cities and rural areas alike. The NEA has created the web resource [Exploring Our Town](#) that features case studies and lessons learned on more than 70 *Our Town* projects, held convenings and released reports on how the performing arts can transform place, and launched a technical assistance initiative for *Our Town* grantees.

Since the *NEA Big Read* began in 2006, the National Endowment for the Arts has funded more than 1,400 local *NEA Big Read* programs, providing more than \$19 million to organizations nationwide. In addition, *NEA Big Read* activities have reached every Congressional district in the country. Over the past 12 years, grantees have leveraged more than \$44 million in local matching funds to support their *NEA Big Read* programs. More than 4.9 million Americans have attended an *NEA Big Read* event, approximately 82,000 volunteers have participated at the local level, and 39,000 community organizations have partnered to make *NEA Big Read* activities possible. For more information about the *NEA Big Read*, please visit arts.gov/national-initiatives/nea-big-read.

Arts Education

The NEA’s arts education strategic plan is grounded in collective impact, a concept described by John Kania and Mark Kramer as “the commitment of a group of important actors from different sectors to a common agenda for solving a specific social problem.”⁵ The strategic plan helps implement the NEA’s vision that every student be engaged and empowered through an excellent arts education. This statement reflects a fundamental belief that all students should have the opportunity to participate in the arts, both in school and out of school. It also acknowledges the very real benefits of an arts education – 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, students participating in the arts are engaged in life and are empowered to be fulfilled, responsible citizens who make a profound, positive impact in the world.

In addition to funding direct learning and professional development projects, the agency supports collective impact projects to leverage NEA investments for deeper impact. These projects are longer term, larger in scale, and use a systemic approach to provide arts education for students across entire neighborhoods, schools, school districts, and/or states – in communities of all sizes. Since 2015, the agency has awarded \$4.4 million for 52 collective impact projects nationwide; in FY 2018, there were 13 awards totaling \$1.1 million.

In addition to its grants, the NEA provides support for three national networks as part of its core work to advance arts education in the United States: 1) State Arts Agency Arts Education Managers (SAA AE Managers); 2) State Education Agency Directors of Arts Education (SEADAE); and 3) the Arts Education Partnership (AEP). 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.

- *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 a national workshop/conference of state arts agency arts education managers.
- *Collaboration with SEADAE:* The NEA provides support to SEADAE, a nonprofit organization with the mission of developing a nationwide infrastructure of arts education peers in state departments of education, largely modeled on the SAA Arts Education Managers’ network.
- *Arts Education Partnership (AEP):* The AEP is a national network of more than 100 arts, education, business, philanthropic, and government organizations that demonstrates and promotes the essential role of the arts in the learning and development of every child, and in the improvement of America’s schools.

⁵ Kania, John, and Mark Kramer. “Collective Impact. Large-scale social change requires broad cross-sector coordination, yet the social sector remains focused on the isolated intervention of individual organizations.” Stanford Social Innovation Review. Winter 2011.

Federal Partnerships

In addition to our core grant programs and partnerships as described above, the Agency pursues its goals through partnerships with other public and private entities. Notably, we have established the following ground-breaking partnerships with other federal agencies.

NEA Support for Military Members & Veterans

Creative Forces: NEA Military Healing Arts Network is a partnership of the NEA, the Department of Defense, and the Department of Veterans Affairs that serves the unique and special needs of service members and veterans who have been diagnosed with traumatic brain injury and psychological health conditions, as well as their families and caregivers. *Creative Forces* places creative arts therapies at the core of patient-centered care in military and veteran medical facilities; makes community arts programming available in the states or regions where clinical sites are operating; and invests in research on the impacts and benefits of these innovative treatment methods.

Having begun in 2011 (as the NEA Military Healing Arts Partnership), the *Creative Forces* program now provides creative arts therapies, which include art and music therapists, creative writing instructors, and program support, through 11 clinical sites across the country, as well as a telehealth program for patients in rural and remote areas. NEA works closely with its network of state, local, and regional partners at each clinical site location to develop community-based arts programs involving not just military service members, but also veterans, families, and caregivers, building deeper connections across civilian and military populations in the process.

The NEA is also investing in research on the impacts – biological, psycho-social, behavioral, and economic – of these arts-based interventions. More information about *Creative Forces*, including a research synthesis document and an inventory of past and ongoing studies involving the *Creative Forces* clinical sites may be accessed on the [NEA website](#). The NEA awarded \$4.14 million in FY 2018 in support of *Creative Forces*.

NEA and U.S Bureau of Economic Analysis

The Arts and Cultural Production Satellite Account (ACPSA), a partnership between the NEA and the Department of Commerce's Bureau of Economic Analysis, is the first federal effort to provide an in-depth analysis of the arts and cultural sector's contributions to current-dollar gross domestic product (GDP), a measure of the final dollar value of all goods and services produced in the United States. The most recent estimates⁶ reveal that the arts are a bigger driver of GDP and jobs than previously estimated. Among the new findings are:

⁴ [The U.S. Arts and Cultural Production Satellite Account \(1998-2015\), Research Brief #1: National Summary.](#)

*National Endowment for the Arts – FY 2018 Agency Financial Report
Management’s Discussion and Analysis*

- Arts and cultural production contributed more than \$763.6 billion to the U.S. economy in 2015 (the most recent year for which such statistics are available).
- 4.9 million workers were employed in the production of arts and cultural goods, receiving \$372 billion in compensation.

Starting in FY 2017, statistics have been produced spotlighting the [economic impact of arts and cultural activities in each state and the District of Columbia](#). These data provide state leaders with a tool to assess and advance arts and culture for the benefit of their residents. For example, while employment in arts and cultural jobs is high in New York and California as would be expected, the data show that arts and culture account for a larger share of jobs in Wyoming, Utah, and Colorado than they do nationally.

In addition to the work discussed above, the NEA has continued to grow its partnerships with other federal agencies. These include, but are not limited to:

U.S. Department of Agriculture (USDA) and the [Citizens’ Institute on Rural Design \(CIRD\)](#): USDA has partnered with the NEA since 2012 in this initiative, established in 1991, to help rural communities with populations of 50,000 or fewer enhance their quality of life and economic vitality through facilitated design workshops. Since its founding, more than 80 workshops have been conducted across the country. In 2018, the four host communities were: Greenville, Mississippi; Las Vegas, New Mexico; Tuttle, North Dakota; and Valentine, Nebraska. Each CIRD awardee received a \$10,000 stipend to support the workshop and follow-up planning sessions, as well as in-kind design expertise and technical assistance valued at \$35,000. In addition to the workshops, online resources – including a blog and webinars – are available on the CIRD website.

Department of Defense (DOD) and [Blue Star Museums](#): The NEA continues to collaborate with DOD, Blue Star Families, and museums across America to offer free admission all summer long to active duty military members and their families. In 2017, the program served more than 900,000 active-duty military personnel and their families at more than 2,100 museums nationwide. Figures for 2018 were not yet available for inclusion in this report.

Department of Health and Human Services (HHS) and the [Arts and Human Development Taskforce](#): A task force of 20 federal agencies and departments, including HHS, the Department of Education, the National Institutes of Health, and the National Science Foundation, has convened regularly since November 2011 to encourage more and better research on how the arts help people reach their full potential at all stages of life. The Task Force has conducted a series of public webinars on compelling research and practices, and has collaborated on reports, research announcements, and convenings about the arts and human development.

Research and Program Evaluation Highlights

The NEA’s Office of Research & Analysis had numerous accomplishments in FY 2018, highlights of which are listed below. These new products and partnerships are grouped into four categories: three in research, and one in evaluation, which are summarized in the table below.

Research Category Description	Examples
<p><i>Analyses of the arts' value and impact:</i> ORA runs a research grants program to incentivize such studies. The office posts Arts Data Profiles (ADPs) to the NEA website. ADPs are collections of statistics, graphics, and summary results from data-mining about the arts.</p>	<ul style="list-style-type: none"> • <u><i>Rural Arts, Design, and Innovation in America:</i></u> This report, resulting from a collaboration with the U.S. Department of Agriculture (USDA), analyzed data from the Rural Establishment Innovation Survey and found a positive correlation between the presence of performing arts organizations in rural communities and the degree of design integration and product innovation displayed by businesses located in those areas. ORA ran the report alongside a <u>series of fact-sheets and data visualizations</u> about the arts and rural communities. ORA staff also co-authored (with USDA) a subsequent <u>article</u> that appeared in the peer-review journal PLOS One. The findings have informed a separate publication, cosponsored by the NEA and the National Governors Association, to appear in December 2018. • <u><i>U.S. Arts and Cultural Production Satellite Account</i></u> (national and state-level reporting): In further collaboration with the Bureau of Economic Analysis (U.S. Department of Commerce), ORA released tables for national and state estimates of the value added by arts and cultural industries, including employment and compensation figures. As part of this release, ORA published research briefs and data visualizations; the office also worked with BEA and the National Assembly of State Arts Agencies to produce interactive data dashboards, maps, and state fact-sheets, all of which are accessible via ORA’s Arts Data Profile pages for the <u>national</u> and <u>state</u> NEA/BEA data. • <u><i>U.S. Trends in Arts Attendance and Literary Reading (2012-2017)</i></u>: This report analyzed data from the 2017 Survey of Public Participation in the Arts and reported increases in arts attendance

*National Endowment for the Arts – FY 2018 Agency Financial Report
Management’s Discussion and Analysis*

	<p>by the general adult population from 2012 to 2017. It also showed an historic increase in poetry-reading, and declines in the reading of novels and short stories. The report was posted to the NEA website in September 2018, along with an interactive graphic and other resources, including data and documentation for cultural researchers. In June 2018, ORA blogged about the poetry-reading results, which attracted positive coverage in national and regional news media, while sparking an evidence-based dialogue among literary publishers and arts organizations.</p> <ul style="list-style-type: none"> • Research: Art Works grant awards for 2018: ORA awarded 10 grants totaling \$550,000 to research projects examining the value and impact of the arts. Half of those awards supported experimental and quasi-experimental studies to investigate cause-and-effect relationships between the arts and outcomes of interest. In FY 2018, the office continued to post to the NEA website several research papers and publications resulting from prior <i>Research: Art Works</i> grant projects. • National Endowment for the Arts Research Labs: In FY 2018, ORA awarded four more Research Labs that will explore the arts’ relationship to these domains: Social and Emotional Health and Well-Being; Creativity, Cognition, and Learning; and Entrepreneurship and Innovation.
<p>Strategic research alliances: ORA began or completed the following products in collaboration with other federal agencies in FY 2018.</p>	<ul style="list-style-type: none"> • Research on music and health: In FY 2018, ORA and the National Institutes of Health (NIH) signed an interagency agreement to cosponsor three funding opportunity announcements to support basic and clinical research about the relationships between music and health. The NIH Director announced this research collaboration at the “Sound Health” events in September 2018, a partnership between the John F. Kennedy Center for the Performing Arts and NIH in association with the National Endowment for the Arts. • National Academies consensus study report: In partnership with the National Endowment for the Humanities (NEH), ORA participated in research

*National Endowment for the Arts – FY 2018 Agency Financial Report
Management’s Discussion and Analysis*

	<p>workshops culminating in the release of a National Academies of Sciences, Engineering, and Medicine report on the integration of the arts and humanities with STEM and medicine in higher education. The report was cosponsored by NEA, NEH, and the Andrew W. Mellon Foundation.</p> <ul style="list-style-type: none"> • <i>Creative Forces Clinical Research: A five-year research agenda and strategic framework</i>, benefiting from ORA consultation and guidance, was posted to the NEA website in FY 2018, along with an inventory of clinical research projects. This collaboration between the NEA and the U.S. Departments of Defense and Veterans Affairs has led to the appointment of a Clinical Research Advisor to the program.
<p><i>New data collections for public access:</i> ORA engages with other federal agencies and departments to generate new datasets of arts variables that can be analyzed for information about the value and impact of the arts. ORA established the National Archive of Data on Arts & Culture (NADAC), a free, publicly-accessible repository of arts data and interactive data tools.</p>	<ul style="list-style-type: none"> • Working with the Education Commission of the States and the NEA’s Arts Education division, ORA has provided input and guidance on several deliverables for the State Data Infrastructure Project for Arts Education (SDIP-AE). The project will identify technical-assistance opportunities for states to use their longitudinal data systems to track K-12 students’ arts education access and enrollment. • Additions to NADAC: In FY 2018, the following micro-datasets and meta-data containing arts variables were among several uploaded to the NEA’s public data repository for general free public use: <ul style="list-style-type: none"> ▪ Annual Social and Economic (ASEC) Supplement Survey, Current Population Survey; ▪ Arts and Cultural Production Satellite Account; ▪ Americans for the Arts’ Local Arts Index; ▪ Public Opinion Poll: Americans Speak Out about the Arts; and ▪ Creating Connection: Building Public Will for Arts and Culture (survey).
<p>Evaluation</p>	<p>Examples</p>
<p><i>Program evaluation and performance measurement:</i> ORA led program evaluations and</p>	<ul style="list-style-type: none"> ✓ Working with a contractor and the NEA’s Design staff, ORA continued to gather data and oversee analyses to validate a “theory of change” and

*National Endowment for the Arts – FY 2018 Agency Financial Report
Management’s Discussion and Analysis*

<p>distributed materials that will assist arts organizations, funders, and policy-makers in their own evaluation efforts.</p>	<p>measurement model for <i>Our Town</i>, the agency’s creative placemaking grants program.</p> <ul style="list-style-type: none"> ✓ ORA obtained OMB approval for data-collection instruments that can be used to begin a mixed-methods evaluation study of <i>Poetry Out Loud</i>, the NEA’s national poetry recitation contest. Enrollment is occurring at 10 high schools. ✓ The office provided key input to the NEA’s Arts Education division on contractor deliverables for an Arts Education Collective Impact grants metrics development project. ✓ Grants portfolio analysis: In FY 2018, ORA presented to the NEA’s Folk & Traditional Arts staff a qualitative research report on this segment of the agency’s grants portfolio. With the help of a staff detail from NIH, ORA has extended the analyses to a broader range of Folk & Traditional grants, has incorporated original interviews and additional analyses, and is readying the document for publication.
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Analysis of Financial Statements

The NEA’s principal financial statements have been prepared to report the financial position and results of operations of the agency, pursuant to the requirements of 31 U.S.C. 3515 (b). While the statements have been prepared from the books and records of the NEA in accordance with generally accepted accounting principles (GAAP) for federal entities and the formats prescribed by the Office of Management and Budget (OMB), the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. These statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

The NEA 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 NEA’s property, plant, and equipment are recorded at cost and are depreciated according to a written asset capitalization policy.

Here are some financial highlights:

- NEA's FY 2018 appropriation was \$152.849 million, an increase of \$3 million over FY 2017’s appropriation of \$149.849 million. Appropriations are the primary source of financial resources for the Agency, so the financial position of the NEA generally trends with the amount of appropriations received each year.
- The NEA received about \$711,000 in reimbursable agreement authority in FY 2018, a decrease of \$39,000 over FY 2017. As with appropriations, the financial resources of the agency fluctuate in response to changes in reimbursable authority received.

Explanations for significant changes between FY 2018 and FY 2017 to specific financial items on the following "Table of Key Measures" are provided below:

- Fund Balance with Treasury – The \$11.4 million increase was predominately due to the higher balance in program funds in FY 2018 as compared to FY 2017.
- Accounts Receivable – The \$7,900 decrease represents the collection payments received.
- Property, Plant and Equipment – The original purchase price less accumulated depreciation is reflected on the balance sheet. The more than \$108,000 decrease in the book values year over year represented continued depreciation expense.
- Advances and Prepayments – This line item represents advances and prepayments to other parties. The more than \$124,000 decrease during FY 2018 is due to reduced advances to other federal agencies.

*National Endowment for the Arts – FY 2018 Agency Financial Report
Management’s Discussion and Analysis*

- Accounts Payable – The more than \$203,000 increase is due to an increase in advances received from other government agencies.
- Grant Accrual Liability – The \$12.9 million increase is attributable to the increase in unbilled expenses.
- Net Position – The overall net position of the NEA decreased by \$1.9 million, which is attributed to an increase in accounts payable and accrued grant liabilities in FY 2018 compared to FY 2017.

In addition, provided below are explanations of Changes in Obligations and Outlays in FY 2018 compared to FY 2017:

- Obligations – In FY 2018, obligations were \$153.804 million as compared to \$159.211 million in FY 2017. The nearly 3% decrease is due to a decrease in obligations from all sources of funds, including funds appropriated in FY 2018, donated funds received in FY 2018, unobligated balances brought forward at the beginning of FY 2018, and recoveries of prior year unpaid obligations during FY 2018.
- Outlays – In FY 2018, net outlays were \$141.420 million compared to \$145.692 million in FY 2017. The 3% decrease was due to a reduction in the grant payment amounts requested.

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

*National Endowment for the Arts – FY 2018 Agency Financial Report
Management’s Discussion and Analysis*

National Endowment for the Arts Table of Key Measures FY 2018				
Amounts in Dollars	Current FY	Prior FY	Increase/(Decrease)	
			\$	%
Costs¹				
Total Financing Sources	\$157,415,839	\$155,400,522	(\$2,015,317)	-1.30%
Less: Net Cost	155,994,819	156,444,484	(4,449,665)	-2.85%
Net Change of Cumulative Results of Operations	\$1,421,020	(\$1,043,962)	\$2,464,982	236.00%
Net Position²				
Assets:				
Fund Balance with Treasury	\$161,425,654	\$149,996,713	\$11,428,941	7.62%
Accounts Receivable	105,514	113,446	(7,932)	-7.00%
Property, Plant, and Equipment	312,885	421,530	(108,644)	-25.78%
Advances and Prepayments	407,135	531,940	(124,805)	-23.47%
Total Assets	\$162,251,188	\$151,063,629	\$11,187,559	7.41%
Liabilities:				
Accounts Payable	\$962,751	\$759,136	\$203,614	26.83%
Grant Accrual Liability	60,020,794	47,163,463	12,857,331	27.27%
Other	1,958,727	1,943,245	15,482	0.80%
Total Liabilities	\$62,942,272	\$49,865,844	\$13,076,428	26.23%
Net Position (Assets-Liabilities)	\$99,308,916	\$101,197,785	(\$1,888,869)	-1.87%

¹ Source: Statement of Changes in Net Position

² Source: Balance Sheet

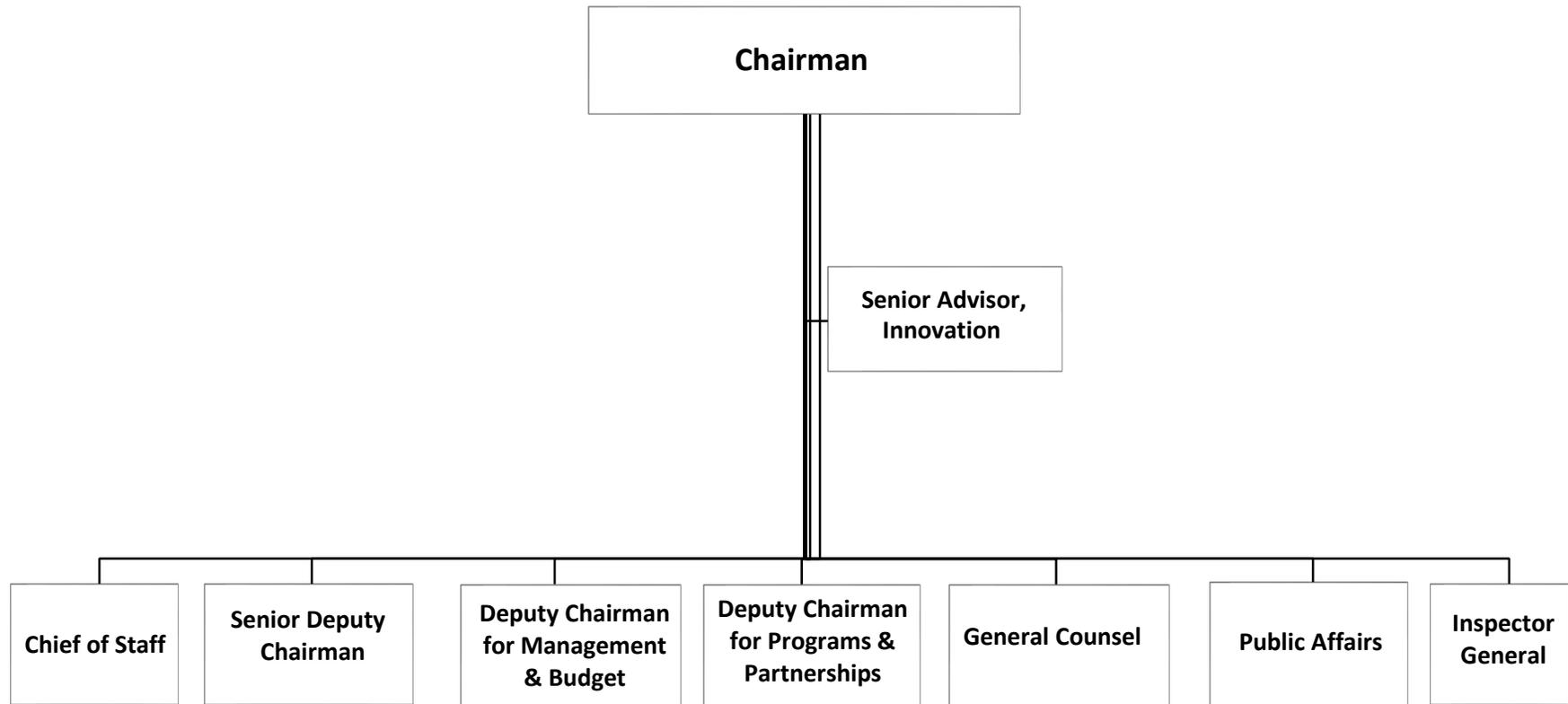
Systems, Controls, and Legal Compliance

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.

Other Management Information, Initiatives, and Issues

In previous years, we reported on the challenges presented by our reliance on an outdated grants management system (GMS); as noted in previous reports, we have taken decisive action to address this. With the approval of OMB, we established a strategic partnership with the National Endowment for the Humanities (NEH) – since joined by the Institute for Museum and Library Services and the National Historical Publications and Records Commission. Through this partnership, we migrated our outdated GMS to a new eGMS – a modern, flexible, cloud-based grants management system that was developed collaboratively and is maintained by the NEH. We are already seeing improvements in our internal grants management and panel management processes as a result of this partnership; our grant applicants, grantees, and panelists are finding that doing business with the NEA is easier and more flexible. The system became fully operational in FY 2018.

*National Endowment for the Arts – FY 2018 Agency Financial Report
Management’s Discussion and Analysis*



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~ Management Assurances ~

National Endowment for the Arts 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 NEA can provide reasonable assurance that internal control over operations, reporting, and compliance was operating effectively as of September 30, 2018.

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Financial Information

*National Endowment for the Arts – FY 2018 Agency Financial Report
Financial Information*

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Independent Auditor's Report

Chairman
National Endowment for the Arts

Inspector General
National Endowment for the Arts

In our audits of the fiscal years 2018 and 2017 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, 2018, and 2017, 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 performed;¹ and
- no reportable noncompliance for fiscal year 2018 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 an emphasis of matter paragraph related to the new Statement of Budgetary Resources presentation, and required supplementary information (RSI)² and other information included with the financial statements;³ (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 with auditor evaluation.

Report on the Financial Statements

In accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the Office of Management and Budget (OMB) Bulletin No. 19-01, *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, 2018, and 2017; the related statements of net cost, changes in net position, and budgetary resources for the fiscal years then ended; and the related notes to the financial statements.

¹A 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.

²The RSI consists of Management's Discussion and Analysis section which is included with the financial statements.

³Other information consists of Message from the Chief Financial Officer, and Other Information section and appendices.

WILLIAMS, ADLEY & COMPANY-DC, LLP

Certified Public Accountants / Management Consultants

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We conducted our audits in accordance with U.S. generally accepted government auditing standards. We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinions.

Management's Responsibility

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 documents containing the audited financial statements and auditor's report, and ensuring the consistency of that information with the audited financial statements and the RSI; and (4) maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of 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 Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. U.S. generally accepted government auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. We are also responsible for applying certain limited procedures to RSI and other information included with the financial statements.

An audit of financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the auditor's assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation 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 the entity's internal control. Accordingly, we express no such opinion. An audit of financial statements also involves evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audits also included performing such other procedures as we considered necessary in the circumstances.

Opinion on Financial Statements

In our opinion, NEA's financial statements present fairly, in all material respects, NEA's financial position as of September 30, 2018, and 2017, 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.

Emphasis of Matter

As described in note 1B to the financial statements, OMB Circular A-136, *Financial Reporting Requirements*, required federal agencies in fiscal year 2018 to present their budgetary information in a format different than that used in fiscal year 2017. We draw attention to the newly presented information in NEA's fiscal years 2018 and 2017 Statement of Budgetary Resources and related note 14. Our opinion on NEA's financial statements is not modified with respect to this matter.

Other Matters

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. Although the RSI is not a part of the financial statements, FASAB considers this information 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. We read the other information included with the financial statements in order to identify material inconsistencies, if any, with the audited financial statements. Our audit was conducted for the purpose of forming an opinion on NEA's financial statements. We did not audit and do not express an opinion or provide any assurance on the other information.

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

Management's Responsibility

NEA management is responsible for maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of 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 Responsibility

In planning and performing our audit of NEA's financial statements as of and for the year ended September 30, 2018, in accordance with U.S. generally accepted government auditing standards, we considered NEA's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, 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

deficiencies⁴ 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 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.

Results of Our Consideration of Internal Control over Financial Reporting

Our consideration of internal control was for the limited purpose described above, and was not designed to identify all deficiencies in internal control that might be material weaknesses and significant deficiencies 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 may exist that have not been identified.

As discussed in Appendix I in more detail, our 2018 audit identified a deficiency in NEA's controls relating to its grant accrual accounting estimation process that represents a significant deficiency in NEA's internal control over financial reporting. We considered this significant deficiency in determining the nature, timing, and extent of our audit procedures on NEA's fiscal year 2018 financial statements.

Although the significant deficiency in internal control did not affect our opinion on NEA's fiscal year 2018 financial statements, misstatements may occur in unaudited financial information reported internally and externally by NEA because of the significant deficiency.

In addition to the significant deficiency, we also identified other control deficiencies in NEA's internal control over financial reporting that we do not consider to be material weaknesses or significant deficiencies. Nonetheless, these deficiencies warrant NEA management's attention and, accordingly, we have communicated these matters to NEA management in a separate letter.

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.

⁴A 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.

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

In connection with our audit of NEA's financial statements, we tested compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements consistent with our auditor's responsibility discussed below. We caution that noncompliance may occur and not be detected by these tests. We performed our tests of compliance in accordance with U.S. generally accepted government auditing standards.

Management's Responsibility

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

Auditor's Responsibility

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 perform certain other limited procedures. Accordingly, we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to NEA.

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 2018 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.

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 and Auditor Evaluation

In commenting on a draft of this report, NEA management provided a written response which is presented in Appendix II. We did not audit NEA's response and, accordingly, we express no opinion on the response.

Williams, Adley & Company - DC, LLP
Washington, D.C.
November 14, 2018

Appendix I

Significant Deficiency

2018-01 Grant Accrual Accounting Estimation Process

Background and Criteria:

Accounting principles generally accepted in the U.S. (GAAP) require entities to prepare financial statements on an accrual basis and such principles also require entities to validate assumptions made in the accrual accounting process.

NEA's grant and cooperative agreement cost (collectively referred to as grant expenditures) is comprised of two components: 1) actual grant expenses paid to the grantees pursuant to NEA's manually intensive expense reimbursement program, and 2) an estimate of expenditures incurred by the grantees, for which a reimbursement request had not yet been submitted to NEA (referred to as the "Incurred but Not Reported" (IBNR) grant accrued liability). 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.

Prior to fiscal year 2018, reliable data of grantees' spending patterns was not available, and based on grantees' fluctuating spending patterns from year to year, NEA calculated the IBNR grant accrued liability using a "straight line" methodology. Such calculation was substantially based on the number of days remaining in the grant agreement term at the end of the year, less amounts paid to the grantee. Accordingly, at September 30, 2017, NEA estimated its IBNR grant accrued liability at \$47.1 million. This methodology was considered appropriate prior to fiscal year 2018 because, pursuant to TR12, the grant accrued liability estimate was "based upon the best available data at the time the estimates were made." Historically, due to the limitations of NEA's grant accounting reporting system, grant accrual estimates were not validated in the subsequent year as required by TR12.

In October 2017, NEA implemented a new grantee cash request and expenditure reporting system, Electronic Grants Management System (eGMS). This system significantly changed, through automation, the manner in which grantees requested reimbursement for grant expenditures for their awards. With the implementation of eGMS, the period to which the grant expense reimbursement related was captured in eGMS, enabling additional analysis.

Condition:

In response to the concern we raised during the fiscal year 2018 audit regarding the reasonableness of NEA's methodology to estimate the IBNR grant accrued liability, NEA utilized data in eGMS to review payment history to assess the reasonableness of the IBNR estimate in order to fully comply with TR12 in calculating the IBNR at September 30, 2018.

Accordingly, in October 2018, using the newly available grantee pay request information in eGMS, NEA performed an analysis as required by TR12 "comparing the estimates with subsequent grantee reporting." Such analysis is often referred to as a "Look Back" validation of the prior year grant accrual estimate. As a result of this analysis, NEA determined that its straight-line based IBNR estimate at September 30, 2017 was understated. In applying the results of the fiscal year 2017 Look Back analysis to the grant accrual estimate at September 30, 2018, NEA determined that the initial grant accrued liability recorded in its accounting system at September 30, 2018 was understated by approximately 7% or \$4 million. Accordingly, NEA increased its grant accrued liability at September 30, 2018 to approximately \$60 million. Since historical spending pattern data was not readily available prior to the implementation of eGMS in fiscal year 2018, pursuant to GAAP the full amount of the expense accounting adjustment noted above is considered a change in estimate, and therefore reflected in the fiscal year 2018 financial statements.

Appendix I
Significant Deficiency

Recommendations - We recommend that NEA:

1. Incorporate the “Look Back” analysis into NEA’s Standard Operating Procedures. The annual “Look Back” analysis should evaluate the impact that the variability of grantee spending habits has on the grant accrual estimate from year to year and adjust the grant accrual estimate adjustment factor each year at June 30th and September 30th.
2. Analyze grantee spending pattern data available in eGMS and perform a Look Back analysis of the September 30, 2018 grant accrual estimate through June 30, 2019, and adjust the straight-line based grant accrual estimate in the NEA general ledger as of that date.
3. Update the fiscal year 2018 Look Back analysis through August 30, 2019 and consider the cumulative adjustment factor in recording the grant accrual estimate at September 30, 2019, as needed.
4. Assess the viability of the use of a statistically based Look Back analysis for the grant accrual estimate processes and implement if determined viable.

Appendix II
Management's Response to Independent Auditor's Report



Date: November 13, 2018

To: Mr. Ronald Stith, Inspector General

From: Ann C. Eilers, Deputy Chairman for Management and Budget

Subject: Management's Response to Independent Auditors Report for Fiscal Year (FY) 2018 (Appendix II)

We reviewed the draft Independent Auditor's Report on the National Endowment for the Art's (NEA) FY 2018 financial statements. NEA received its 16th consecutive unmodified audit opinion on its financial statements and had no material weaknesses. I commend the NEA staff for their strong contributions and commitment to continuously improving operations and the internal controls of the Agency.

During FY2018 the NEA reached a major milestone in implementing the eGMS system, a system which through automation significantly improved the accuracy and efficiency of grant processing including analysis and reporting. The NEA is dedicated to further strengthening its controls over grant accruals and this system will be instrumental in addressing the four auditor recommendations:

1. To incorporate the "Look Back" analysis into NEA's Standard Operating Procedures to include practices where the "Look Back" analysis evaluates the impact that the variability of grantee spending habits has on the grant accrual estimate from year to year and adjustment of the grant accrual estimate accordingly.
2. To analyze grantee spending pattern data available in eGMS and perform a "Look Back" analysis of the grant accrual estimate and adjust the grant accrual estimate in the NEA general ledger.
3. To update the fiscal year 2018 "Look Back" analysis and consider the cumulative adjustment factor in recording the grant accrual estimate in future periods, as needed.
4. To assess the viability of the use of a statistically based "Look Back" analysis for the grant accrual estimate processes and implement if determined viable.

I would like to thank your staff and Williams Adley and Company, for their professionalism during the audit. We look forward to working cooperatively with you during the audit resolution process.

Audited Financial Statements and Notes

September 30, 2018 and 2017

*National Endowment for the Arts – FY 2018 Agency Financial Report
Financial Information*

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NATIONAL ENDOWMENT FOR THE ARTS
September 30, 2018 and 2017 (In Dollars)

BALANCE SHEETS
As of September 30, 2018 and September 30, 2017
(In Dollars)

	2018	2017
Assets (Notes 2-6):		
Intragovernmental		
Fund Balance With Treasury (Note 2)	\$ 161,425,654	\$ 149,996,713
Advances and Prepayments	407,135	531,946
Total Intragovernmental	161,832,789	150,528,653
Assets With the Public		
Accounts Receivable, Net (Note 3)	105,514	113,446
General Property, Plant, and Equipment, Net (Note 4)	312,885	421,530
Total Assets	\$ 162,251,188	\$ 151,063,629
Liabilities (Note 6, 7 and 8):		
Intragovernmental:		
Other	\$ 917,683	\$ 759,136
Total Intragovernmental	917,683	759,136
Liabilities With the Public:		
Accounts Payable	45,068	-
Other	1,958,727	1,943,245
Grant Accrued Liability (Note 8)	60,020,794	47,163,463
Total Liabilities	\$ 62,942,272	\$ 49,865,844
Net Position		
Unexpended Appropriations - Funds From Dedicated Collections	-	\$ (14,356)
Unexpended Appropriations - All Other Funds	97,323,192	100,647,436
Cumulative Results of Operations - Funds From Dedicated Collections	2,512,379	2,565,875
Cumulative Results of Operations - All Other Funds	(526,655)	(2,001,170)
Total Net Position	99,308,916	101,197,785
Total Liabilities and Net Position	\$ 162,251,188	\$ 151,063,629

The accompanying notes are an integral part of these statements.

NATIONAL ENDOWMENT FOR THE ARTS
September 30, 2018 and 2017 (In Dollars)

STATEMENTS OF NET COST
For the Years Ended September 30, 2018 and September 30, 2017
(In Dollars)

	2018	2017
Program Costs (Note 12):		
Access to Artistic Excellence:		
Gross Costs	\$ -	\$ (37,735)
Less: Earned Revenue	-	-
Net Access to Artistic Excellence Costs	\$ -	\$ (37,735)
Learning in the Arts:		
Gross Costs	\$ -	\$ -
Less: Earned Revenue	-	-
Net Learning in the Arts Costs	\$ -	\$ -
Partnerships for the Arts:		
Gross Costs	\$ (3,381)	\$ -
Less: Earned Revenue	-	-
Net Partnerships for the Arts Costs	\$ (3,381)	\$ -
Arts Creation:		
Gross Costs	\$ 23,376,142	\$ 26,737,428
Less: Earned Revenue	(389,907)	(49,840)
Net Arts Creation Costs	\$ 22,986,235	\$ 26,687,588
Engagement with the Arts:		
Gross Costs	\$ 78,024,304	\$ 77,400,699
Less: Earned Revenue	(2,597,096)	(898,179)
Net Engagement with the Arts Costs	\$ 75,427,208	\$ 76,502,520
Contribution of the Arts:		
Gross Costs	\$ 57,597,610	\$ 53,293,712
Less: Earned Revenue	(12,854)	(1,601)
Net Contribution of the Arts Costs	\$ 57,584,756	\$ 53,292,111
Net Cost of Operations (Note 19)	\$ 155,994,819	\$ 156,444,484

The accompanying notes are an integral part of these statements.

NATIONAL ENDOWMENT FOR THE ARTS
September 30, 2018 and 2017 (In Dollars)

STATEMENTS OF CHANGES IN NET POSITION
For the Years Ended September 30, 2018 and September 30, 2017
(In Dollars)

	2018			2017		
	Funds from Dedicated Collections	All Other Funds	Total	Funds from Dedicated Collections	All Other Funds	Total
Unexpended Appropriations:						
Beginning Balances, as adjusted	\$ (14,356)	\$ 100,647,436	\$ 100,633,080	\$ -	\$ 105,068,966	\$ 105,068,966
Budgetary Financing Sources:						
Appropriations received	-	152,849,000	152,849,000	-	149,849,000	149,849,000
Appropriations used	14,356	(156,173,244)	(156,158,888)	(14,356)	(154,270,530)	(154,284,885)
Total Budgetary Financing Sources	14,356	(3,324,244)	(3,309,888)	(14,356)	(4,421,530)	(4,435,885)
Total Unexpended Appropriations	-	97,323,192	97,323,192	(14,356)	100,647,436	100,633,080
Cumulative Results from Operations:						
Beginning balances, as adjusted	2,565,875	(2,001,170)	564,705	2,648,306	(1,039,639)	1,608,667
Budgetary Financing Sources:						
Appropriations Used	(14,356)	156,173,244	156,158,888	14,356	154,270,530	154,284,885
Donations	387,711	-	387,711	476,588	(9,929)	466,658
Other Financing Sources (Nonexchange):						
Imputed Financing	-	869,240	869,240	-	648,978	648,978
Total Financing Sources	373,355	157,042,484	157,415,839	490,943	154,909,579	155,400,522
Net Cost of Operations (+/-)	426,850	155,567,969	155,994,819	563,585	155,880,900	156,444,484
Net Change	(53,495)	1,474,515	1,421,020	(72,641)	(971,321)	(1,043,962)
Cumulative Results of Operations	2,512,380	(526,655)	1,985,725	2,575,665	(2,010,960)	564,705
Net Position	\$ 2,512,380	\$ 96,796,537	\$ 99,308,917	\$ 2,561,309	\$ 98,636,476	\$ 101,197,785

The accompanying notes are an integral part of these statements.

NATIONAL ENDOWMENT FOR THE ARTS
September 30, 2018 and 2017 (In Dollars)

STATEMENTS OF BUDGETARY RESOURCES
For the Years Ended September 30, 2018 and September 30, 2017
(In Dollars)

	2018	2017
BUDGETARY RESOURCES		
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	\$ 11,057,574	\$ 17,345,114
Appropriations (discretionary and mandatory)	153,236,710	150,325,868
Spending authority from offsetting collections (discretionary and mandatory)	710,969	739,187
Total budgetary resources	\$ 165,005,253	\$ 168,410,169
Net adjustments to unobligated balance brought forward, Oct 1	1,858,340	
STATUS OF BUDGETARY RESOURCES		
New obligations and upward adjustments (total) (Note 13)	\$ 153,804,139	\$ 159,210,936
Unobligated balance, end of year:		
Apportioned unexpired accounts	8,813,113	9,199,233
Exempt from apportionment unexpired accounts	2,388,001	-
Unexpired unobligated balance, end of year	11,201,114	9,199,233
Total budgetary resources	\$ 165,005,253	\$ 168,410,169
OUTLAYS, NET		
Outlays, net (total) (discretionary and mandatory)	\$ 141,807,769	\$ 146,174,989
Distributed offsetting receipts (-)	(387,711)	(482,868)
Agency outlays, net (discretionary and mandatory)	\$ 141,420,058	\$ 145,692,120

The accompanying notes are an integral part of these statements.

NOTE 1: Significant Accounting Policies

A. Reporting Entity

The National Endowment for the Arts (NEA) is an independent Federal agency whose mission is to advance artistic excellence, creativity, and innovation for the benefit of individuals and communities. NEA 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 30, 2018.

The statements consist of the: Balance Sheets, Statements of Net Cost, Statements of Changes in Net Position, Statements of Budgetary Resources, and Footnotes. These financial statements have been prepared to report the financial position and results of operations of NEA. All operations of NEA fall under the category of general fund for government accounting purpose. The statements should be read with the realization that they are for a component of the U.S. Government as sovereign entity. The format of the 2018 Statements of Budgetary Resources was modified in OMB-A-136. Therefore, the 2017 amounts were reclassified to conform to the new presentation.

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 recorded before the occurrence of an accrual-based transaction. Budgetary accounting is essential for compliance with legal constraints and controls over the use of funds. NEA's financial statements are prepared in conformity with GAAP set forth by FASAB.

Created in 1990, OMB's Office of Federal Financial Management (OFFM) is responsible for the financial management policy of the Federal Government. OFFM responsibilities 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 CFO Act.

NOTE 1: Significant Accounting Policies (Continued)

D. Revenues and Other Financing Sources

NEA receives funding through annual Congressional appropriations from the budget of the United States. No-year appropriations are used, 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.

NEA 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.

NEA enters into Intragovernmental reimbursable agreements. The NEA'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. Some donations carry restrictions as to the use of donated funds. See Note 2 for additional information.

F. Advances and Prepayments

NEA's interagency agreements with other Federal agencies are recorded as advances in cases where funds are received prior to expenditure. As work is performed by NEA, 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 advance is reduced, and the expense/revenue is recognized. Prepayments are amounts paid for by NEA in advance of the goods or services being received. Prepayments also includes payments to vendors for the portion of services that extend beyond the current fiscal year.

NOTE 1: Significant Accounting Policies (Continued)

G. General Property, Plant and Equipment, Net

NEA's policy is to depreciate property, plant and equipment over the estimated useful life of the asset using the straight-line method. NEA's capitalization threshold is \$50,000 for individual purchases and \$50,000 for bulk purchases with 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 NEA 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

The balance sheet approach, which uses a percentage of accounts receivable for a period, is used for the allowance for uncollectible accounts receivable. Over the previous two years, there has been no uncollected amounts. The balance sheet approach measures uncollectibles as a percentage of ending accounts receivable balance. Intragovernmental receivables do not have an allowance.

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.

NOTE 1: Significant Accounting Policies (Continued)

L. Retirement Plans

NEA 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 the FERS, a TSP account is automatically established and NEA makes a mandatory one percent contribution to this account. In addition, NEA 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 CSRS reinstatement employees are eligible to participate in the Social Security program after retirement. In these instances, NEA remits the employer's share of the required contribution.

NEA 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

NEA reports imputed benefit costs on Life Insurance, Health Insurance, and Retirement. The Office of Personnel Management provides the cost factors that are applied to the Agency's 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.

NOTE 1: Significant Accounting Policies (Continued)

P. Funds from Dedicated Collections

Amounts reported as funds from dedicated collections are represented by one appropriation, "Gifts and Donations" 471X8040.

Q. Fiduciary Activities

Various artists have loaned their artwork to the NEA 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 19, Fiduciary Activities.

R. Cost Accounting Methodology

NEA operates under an annual strategic plan that establishes goals and objectives. This plan has three programs that appear on the Statement of Net Cost: Arts Creation, Engagement with the Arts, and Contribution of the Arts. Costs for grants are recorded under these programs. Costs related to payment and overall support of grants issued prior to the existing strategic plan are attributed to the historical programs on the Statement.

S. Effects of Recent Accounting Pronouncements

Accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information. Accordingly, modifications may have been made to certain presentations and disclosures. SFFAS 56.

T. 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, 2018 and 2017 (In Dollars)

NOTE 2: Fund Balance with Treasury

Status of Fund Balance with Treasury	September 30, 2018	September 30, 2017
Unobligated Balance		
Available - Other	\$ 8,813,113	\$ 6,987,749
Available - Trust	<u>2,388,001</u>	<u>2,211,484</u>
Subtotal - Available	11,201,114	9,199,233
Unavailable	-	-
Obligated Balance not yet Disbursed Other	151,304,485	144,339,718
Obligated Balance not yet Disbursed Trust Fund	<u>124,378</u>	<u>241,134</u>
Subtotal - Obligated	151,428,863	144,580,851
Unfilled/Billed Reimbursable Orders	(1,204,323)	(3,783,372)
Total Fund Balance with Treasury	<u>\$ 161,425,654</u>	<u>\$ 149,996,713</u>

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

NOTE 3: Accounts Receivable, Net

	<u>September 30, 2018</u>	<u>September 30, 2017</u>
Gross Receivables:		
Custodial Receivables (Nonentity)	\$ 105,514	\$ 112,000
Receivables Due from the Public	<u>-</u>	<u>1,446</u>
	\$ 105,514	\$ 113,446
Allowance for Uncollectible	-	-
Net Receivables	<u>\$ 105,514</u>	<u>\$ 113,446</u>

The 2018 nonentity receivable represents cash collections that have been transferred to the General Fund of the U.S. Treasury after September 30, 2018.

NOTE 4: General Property, Plant, and Equipment

<u>Class of Property</u>	<u>September 30, 2018</u>			<u>September 30, 2017</u>		
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>
Equipment	\$ 742,709	\$ 429,824	\$ 312,885	\$ 749,905	\$ 328,376	\$ 421,530
Total	<u>\$ 742,709</u>	<u>\$ 429,824</u>	<u>\$ 312,885</u>	<u>\$ 749,905</u>	<u>\$ 328,376</u>	<u>\$ 421,530</u>

Straight line depreciation with a useful life of seven years is used. Capitalization threshold is described in Note 1 on accounting policies.

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

NATIONAL ENDOWMENT FOR THE ARTS
September 30, 2018 and 2017 (In Dollars)

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 NEA’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. All items classified as heritage assets, though generally individual items, are considered a collection in totality. NEA’s collection contains two major categories of heritage assets: Artworks and Decorative Art, and Furniture.

The General Counsel’s office approves the acceptance of all gifts to the NEA. An independent art appraiser reviews the inventory items and provides an appraisal update to the Administrative Services Office (ASO) in May or June of each year. After the appraisal, the ASO incorporates any updates into the Heritage Asset Inventory. 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. Each year, the ASO will review the Heritage Asset inventory for items that do not meet the “artistic importance” standard and remove 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.

Condition Rating Scale	Definition
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 Art, and Furniture:

The NEA 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 numbers disclosed below are based on number of inventory property numbers.

Heritage Assets Category	Quantity as of 9/30/2018	Quantity as of 9/30/2017	Unit Change	Percentage Change	General Condition
Artwork and Decorative Art	217	203	14	6.90%	Good
Furniture	40	40	0	0	Excellent
Total	257	243	14		

NATIONAL ENDOWMENT FOR THE ARTS
September 30, 2018 and 2017 (In Dollars)

NOTE 6: Liabilities Not Covered by Budgetary Resources

Intragovernmental:	<u>September 30, 2018</u>	<u>September 30, 2017</u>
Unfunded FECA Liability	344	344
Total Intragovernmental	<u>\$ 344</u>	<u>\$ 344</u>
Federal Employee and Veterans' Benefits Payable	1,695	1,776
Accrued Pay and Benefits	1,141,378	1,236,167
Total Liabilities Not Covered by Budgetary Resources	<u>\$ 1,143,417</u>	<u>\$ 1,216,184</u>
Total Liabilities Covered by Budgetary Resources	<u>\$ 61,798,855</u>	<u>\$ 48,649,659</u>
Total Liabilities Not Requiring Budgetary Resources	<u>\$ 105,500</u>	<u>\$ 11,200</u>
Total Liabilities	<u><u>\$ 62,942,272</u></u>	<u><u>\$ 49,865,844</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.

NOTE 7: Other Liabilities

Intragovernmental:	<u>September 30, 2018</u>	<u>September 30, 2017</u>
Advances and Prepayments	<u>\$ 775,000</u>	<u>\$ 484,839</u>
Accrued Pay and Benefits	155,372	157,741
FECA Billings	87	17,332
Total Intragovernmental	<u>\$ 930,459</u>	<u>\$ 659,912</u>
Federal Employees Compensation Act (FECA)	\$ 344	\$ 344
Grant Accrued Liability	60,020,794	47,163,463
Accrued Pay and Benefits	1,851,533	1,941,469
Custodial Liability	105,500	-
Total Other Liabilities	<u><u>\$ 61,978,171</u></u>	<u><u>\$ 49,105,276</u></u>

All liabilities are current liabilities.

NOTE 8: 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. NEA's grant and cooperative agreement (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 (IBNR) (via reimbursement submission) to NEA. 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. Due to historical data which show considerable variability among a range of factors – including award dollar

NATIONAL ENDOWMENT FOR THE ARTS
September 30, 2018 and 2017 (In Dollars)

size, award dates, reimbursement timing, and award period of performance extensions – the NEA’s grant accrual estimate (IBNR) has been computed on a straight-line basis. For this method, 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 award accrued liability is calculated by multiplying the average daily rate by the number of days in the financial reporting period and reducing this amount by any payments made to date.

With the implementation of the eGMS system in FY 2018, the NEA utilized data in the eGMS to review payment history to determine the grant accrual estimate. TR12 provides guidance on internal control procedures to ensure the grant accrual is reasonable, based on “comparing the estimates with subsequent grantee reporting.” In completing this comparison of subsequent payments to the initial \$47 million grant accrual estimate as of September 30, 2017, it was determined that the amount was understated. The results of this analysis were then applied to the data used to calculate the September 30, 2018 grant accrual estimate, with the result being an approximately 7%, or \$4 million, understatement. The grant accrual estimate was therefore increased by \$4 million, to a total of approximately \$60 million. Robust historical spending data were not available prior to the implementation of eGMS; therefore, the full amount of the adjustment to expense is considered a change in estimate and reflected in the current year financial statements.

NOTE 9: Leases

Brief Description of Occupancy Agreement:

The Occupancy Agreement with Constitution Center includes rental of office space and two parking spaces for agency vehicles. NEA entered into a 10-year agreement starting in 2014. The occupancy agreement was updated on November 3, 2017, and the upcoming terms are as follows:

2019	2020	2021	2022	2023	Total
\$3,056,678	\$3,150,639	\$3,186,576	\$3,223,592	\$3,261,718	\$15,879,203

The Agency’s financial obligations for years beyond the current year do not mature until the later year(s) are reached. The obligation to pay rent in future years is subject to the availability of funds.

NOTE 10: Commitments and Contingencies

NEA is one of approximately sixty federal agencies named in an ongoing class action lawsuit brought by former federal employees who allege that the U.S. Government failed to properly calculate supplements to the lump sum payment of annual leave. The lead trial attorney at the Department of Justice has indicated that the parties are nearing settlement, although the amount for which NEA may be responsible cannot be estimated at this time.

NATIONAL ENDOWMENT FOR THE ARTS
September 30, 2018 and 2017 (In Dollars)

NOTE 11: Funds from Dedicated Collections

	September 30, 2018	September 30, 2017
	Funds From Dedicated Collections	Funds From Dedicated Collections
Balance Sheet		
Assets		
Fund Balance with Treasury	\$ 2,512,379	\$ 2,452,618
Other Assets	-	115,000
Total Assets	\$ 2,512,379	\$ 2,567,618
Liabilities and Net Position		
Other Liabilities (FEDERAL)	-	\$ 16,100
Unexpended Appropriations	-	(14,356)
Cumulative Results of Operations	2,512,379	2,565,875
Total Liabilities and Net Position	\$ 2,512,379	\$ 2,567,619
Statement of Net Cost for the Period Ended		
Program Costs	\$ 132,438	\$ 563,585
Program Costs (NON-FEDERAL)	294,412	-
Net Program Costs	426,850	563,585
Net Cost of Operations	\$ 426,850	\$ 563,585
Statement of Changes in Net Position		
Beginning Net Position	\$ 2,551,519	\$ 2,648,306
Budgetary Financing Sources	14,356	-
Other Financing Sources	373,354	466,798
Net Cost of Operations	(426,850)	(563,585)
Net Position End of Period	\$ 2,512,379	\$ 2,551,519

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

NATIONAL ENDOWMENT FOR THE ARTS
September 30, 2018 and 2017 (In Dollars)

NOTE 12: Intragovernmental Costs and Exchange Revenues

	<u>September 30, 2018</u>			<u>September 30, 2017</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>
Access to Artistic Excellence:						
Program Costs	\$ -	\$ -	\$ -	\$ -	\$ (37,735)	\$ (37,735)
Earned Revenue	-	-	-	-	-	-
Net Costs - Access to Artistic Excellence	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (37,735)</u>	<u>\$ (37,735)</u>
Learning in the Arts:						
Program Costs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Earned Revenue	-	-	-	-	-	-
Net Costs - Learning in the Arts	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Partnerships for the Arts:						
Program Costs	\$ -	\$ (3,381)	\$ (3,381)	\$ -	\$ -	\$ -
Earned Revenue	-	-	-	-	-	-
Net Costs - Partnerships for the Arts	<u>\$ -</u>	<u>\$ (3,381)</u>	<u>\$ (3,381)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Arts Creation:						
Program Costs	\$ 2,249,828	\$ 21,126,314	\$ 23,376,142	\$ 4,760,487	\$ 21,976,941	\$ 26,737,428
Earned Revenue	(389,907)	-	(389,907)	(49,840)	-	(49,840)
Net Costs - Arts Creation	<u>\$ 1,859,921</u>	<u>\$ 21,126,314</u>	<u>\$ 22,986,235</u>	<u>\$ 4,710,647</u>	<u>\$ 21,976,941</u>	<u>\$ 26,687,588</u>
Engagement with the Arts:						
Program Costs	\$ 2,835,679	\$ 75,188,625	\$ 78,024,304	\$ 5,527,862	\$ 71,872,837	\$ 77,400,699
Earned Revenue	(2,597,096)	-	(2,597,096)	(898,179)	-	(898,179)
Net Costs - Engagement with the Arts	<u>\$ 238,582</u>	<u>\$ 75,188,625</u>	<u>\$ 75,427,208</u>	<u>\$ 4,629,683</u>	<u>\$ 71,872,837</u>	<u>\$ 76,502,520</u>
Contribution of the Arts:						
Program Costs	\$ 604,880	\$ 56,992,730	\$ 57,597,610	\$ 1,080,340	\$ 52,213,372	\$ 53,293,712
Earned Revenue	(12,854)	-	(12,854)	(1,601)	-	(1,601)
Net Costs - Contribution of the Arts	<u>\$ 592,026</u>	<u>\$ 56,992,730</u>	<u>\$ 57,584,756</u>	<u>\$ 1,078,740</u>	<u>\$ 52,213,372</u>	<u>\$ 53,292,111</u>
Total						
Program Costs	\$ 5,690,387	\$ 153,304,289	\$ 158,994,676	\$ 11,368,689	\$ 146,025,415	\$ 157,394,104
Earned Revenues	(2,999,857)	-	(2,999,857)	(949,620)	-	(949,620)
Net Cost of Operations	<u><u>\$ 2,690,530</u></u>	<u><u>\$ 153,304,289</u></u>	<u><u>\$ 155,994,819</u></u>	<u><u>\$ 10,419,069</u></u>	<u><u>\$ 146,025,415</u></u>	<u><u>\$ 156,444,484</u></u>

NOTE 13: Apportionment Categories of Obligations Incurred

A distribution made by OMB of budgetary resources by calendar quarters is defined as category A, and by other specified time periods, programs, activities, projects, or combinations thereof is category B. NEA is provided funding only under category B.

	<u>September 30, 2018</u>		
	<u>Direct</u>	<u>Reimbursable</u>	<u>Total</u>
Category B	\$ 152,917,184	\$ 670,031	\$ 153,587,214
Exempt from apportionment	216,924	-	216,924
Total	<u><u>\$ 153,134,108</u></u>	<u><u>\$ 670,031</u></u>	<u><u>\$ 153,804,139</u></u>

The direct apportionments include funds appropriated and donations received in FY 2018 as well as downward adjustments of prior-year paid delivered orders. The direct apportionments do not include unobligated balances brought forward at the start of the fiscal year or recoveries of prior year unpaid obligations during the fiscal year.

NATIONAL ENDOWMENT FOR THE ARTS
September 30, 2018 and 2017 (In Dollars)

Direct obligations incurred assume use of funding available during the fiscal year including funds appropriated in FY 2018, donated funds received in FY 2018, unobligated balances brought forward at the start of the fiscal year, and recoveries of prior year unpaid obligations during the fiscal year.

NOTE 14: Undelivered Orders at the End of the Period

	September 30, 2018	September 30, 2017
Intragovernmental Undelivered orders, Unpaid at the end of the period	\$ 2,416,937	\$ -
Public Undelivered orders, Unpaid at the end of the period	\$ 92,093,570	\$ 93,466,664
Intragovernmental Undelivered orders, Paid at the end of the period	\$ 407,135	\$ 530,822

The FY 2017 value for Intragovernmental Undelivered Orders, Unpaid at the end of period has been left blank intentionally. This disclosure is a new OMB Circular A-136 requirement for FY 2018 only. The values for FY 2017 are not available for comparison.

NOTE 15: Explanation of Differences between the Statements of Budgetary Resources and the Budget of the United States Government

The differences between the FY 2017 Statements of Budgetary Resources and the FY 2017 actual numbers presented in the FY 2019 Budget of the United States Government (Budget) are summarized below. The President's Fiscal Year 2020 Budget, which will include actual amounts for fiscal year 2018, has not yet been published. The FY 2020 Budget is expected to be published in February 2019.

September 30, 2017 (\$ in millions)	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Statements of Budgetary Resources	\$168	\$160	\$0	\$145
Budget of U.S. Government	\$168	\$160	\$0	\$145

There are no material differences between the amounts reported in the FY17 Statements of Budgetary Resources and the 2017 actual amounts reported in the Budget of the United States Government.

NOTE 16: Explanation of Differences between Liabilities Not Covered by Budgetary Resources and Components Requiring or Generating Resources in Future Periods

Components that comprise liabilities not covered by budgetary resources represent the cumulative balance of the liability. By contrast, components requiring or generating resources in future periods included in Note 19 - Reconciliation of Net Cost of Operations to Budget represent the change in the liability created in the current year.

NOTE 17: Incidental Custodial Collections

	September 30, 2018	September 30, 2017
Intrabudgetary Receipts Deducted by Agencies	\$ 6,500	\$ 6,000
Total Custodial Collections	\$ 6,500	\$ 6,000

NATIONAL ENDOWMENT FOR THE ARTS
September 30, 2018 and 2017 (In Dollars)

NOTE 18: Schedule of Fiduciary Activity

NEA has a painting on loan from an artist to be displayed in one office. This piece is not an asset of NEA, 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. An FY 2018 increase in the market value is reflected in the table below.

**Schedule of Fiduciary Activity
For the Years Ended September 30, 2018 and September 30, 2017**

	September 30, 2018	September 30, 2017
	Painting	Painting
Fiduciary net assets, beginning of year	\$ 75,000	\$ 75,000
Contributions	23,000	-
Increase/(Decrease) in fiduciary net assets	23,000	-
Fiduciary net assets, end of period	<u>\$ 98,000</u>	<u>\$ 75,000</u>

**Fiduciary Net Assets
As of September 30, 2018 and 2017**

	September 30, 2018	September 30, 2017
Fiduciary Assets:		
Other Assets (painting)	\$ 98,000	\$ 75,000
Fiduciary Liabilities:		
Less: Liabilities	-	-
Total Fiduciary Net Assets	<u>\$ 98,000</u>	<u>\$ 75,000</u>

NATIONAL ENDOWMENT FOR THE ARTS
September 30, 2018 and 2017 (In Dollars)

NOTE 19: Reconciliation of Net Cost of Operations to Budget

Resources Used to Finance Activities:	<u>September 30, 2018</u>	<u>September 30, 2017</u>
Obligations Incurred	\$ 153,804,139	\$ 159,210,936
Less: Spending Authority from Offsetting Collections and Recoveries	(2,569,310)	(2,991,849)
Obligations Net of Offsetting Collections and Recoveries	151,234,829	156,219,087
Less: Distributed Offsetting Receipts	(387,709)	(482,868)
Net Obligations	<u>150,847,120</u>	<u>155,736,219</u>
Other Resources		
Donations and Forfeitures of Property	-	(9,790)
Imputed Financing From Costs Absorbed by Others	869,240	648,978
Net Other Resources Used to Finance Activities	869,240	639,188
Total Resources Used to Finance Activities	<u>\$ 151,716,360</u>	<u>\$ 156,375,407</u>
 Resources Used to Finance Items Not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not yet Provided	(2,030,329)	(482,889)
Resources That Fund Expenses Recognized in Prior Periods	(1,351)	(11,162)
Budgetary Offsetting Collections and Receipts That Do Not Affect Net Cost of Operations		
Other/Change in Unfilled Customer Orders	(2,098,822)	482,868
Resources That Finance the Acquisition of Assets	-	(24,612)
Total Resources Used to Finance Items Not Part of the Net Cost Of Operations	<u>(4,130,502)</u>	<u>(35,795)</u>
Total Resources Used to Finance the Net Cost of Operations	<u>155,846,862</u>	<u>156,339,612</u>
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Increase in Annual Leave Liability	39,313	-
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	<u>39,313</u>	<u>-</u>
Components Not Requiring or Generating Resources:		
Depreciation and Amortization	106,845	106,485
Revaluation of Assets or Liabilities (+/-)	1,799	-
Other Expenses and Adjustments not Otherwise Classified Above (+/-)	-	(1,612)
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	<u>108,644</u>	<u>104,872</u>
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	147,956	104,872
Net Cost of Operations	<u>\$ 155,994,819</u>	<u>\$ 156,444,484</u>

NOTE 20: Donations In-Kind

During FY 2018, NEA received in-kind gifts from several organizations. Gifts include payment of NEA staff travel, lodging, and meals, and NEA staff registration fees to attend and/or participate in various arts related functions. The total value of these in-kind donations was \$36,089 in FY 2018 and \$39,803 in FY 2017.

Other Information

*National Endowment for the Arts – FY 2018 Agency Financial Report
Other Information*

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MEMORANDUM

Memo 19-01

DATE: October 31, 2018

TO: Mary Anne Carter, Acting Chairman
National Endowment for the Arts
National Council for the Arts

FROM:  Robert Smith, Inspector General

SUBJECT: National Endowment for the Arts Top Management Challenges

The Consolidated Reports Act of 2000 and Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, require that the Office of Inspector General provide the agency head with a summary of the top management and performance challenges facing the agency. It is our assessment that the areas of financial management, human capital, information technology, administrative services, and awardee accountability represent the top management and performance challenges for the National Endowment for the Arts (NEA). Following is a discussion of each challenge area.

Financial Management. NEA's top financial management challenge for FY 2018 and beyond includes keeping pace with government-wide modernization efforts and regulatory changes, while improving efficiency and effectiveness of NEA accounting and finance policy and procedures, systems, and staff cross-training.

The Finance office continued to make progress institutionalizing existing system use, planning improvements to systems and processes, and implementing key procedural and control enhancements. In February 2018, the office expanded an existing service agreement with Federal Aviation Administration (FAA) to obtain full service finance processing and systems support. This further automated key operations and improved the accuracy and efficiency of the transactional processing. The Finance office continues to fine tune processes working with FAA to further streamline operations. Finance also continued to assist in developing and implementing NEA's new electronic grants management system which was implemented in October 2017, and later included an interface with the financial system.

Human Capital. NEA's top human capital challenge includes ensuring an effective human capital strategy to work with hiring managers to attract candidates with the right skills, ability and knowledge to replace retiring employees. This will need to be done while maintaining high quality service in other human capital areas, such as training and development, and performance management. In 2018, to address workload due to staff vacancies, the Office entered into two government interagency agreements; one to provide staffing and recruiting services and one to provide personnel security and credentialing

services. The Office now must revise and institutionalize new operations working with these agencies.

Information Technology. NEA addressed its previous top information technology management challenge through transition to a new, more robust electronic grants management system (eGMS) in October 2017. Built on a more flexible, operationally efficient platform, the eGMS is fully integrated with NEA business processes and connects to both Grants.gov and NEA's financial system.

Another challenge for NEA is the Federal Information Security Modernization Act of 2014 (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 reviews of NEA compliance with FISMA, we continuously identify ways for NEA to enhance security and NEA continually makes progress in complying with the ever increasing information system security requirements.

Yet another challenge for NEA is the E-Government Act and Privacy Act that provide legislative guidance for the control and dissemination of personal information and personally identifiable information. In light of data theft at several Federal agencies, a review of agency protection of Privacy Act data has been included as part of the FISMA evaluation and reporting process. This area will require NEA's ongoing attention as information security requirements are ever changing and increasingly important.

Administrative Services. NEA worked to address the top Administrative Services management challenge, inventory, by refining electronic inventories and reconciling against a full physical accounting of items through July 2018. Accountable property is captured in an automated inventory system and other assets are manually captured in an electronic inventory spreadsheet. During FY 2017, Administrative Services became responsible for maintaining all inventory and developing related policy and procedures. Since receiving responsibility for inventory management, Administrative Services has made progress identifying missing information and capturing inventoried items in the electronic systems. The challenge to ensure accurate and complete inventory records continues into FY 2019. The scope of this challenge has shifted from establishing and performing the inventory to control of inventoried items that cross functional areas. Administrative Services Office is developing additional policies and procedures, and working closely with functional areas to better manage asset transfer, to ensure inventory accounting matches asset allocation, specifically IT assets.

Awardee Accountability. The NEA Grants Management Office faces the challenge, along with the rest of the Federal community, to help awardees fully implement and comply with the accountability 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 its awards.

Our audits continue to identify awardees that have not complied with all applicable Federal award requirements. These awardees are typically identified through our annual planning, hotline allegations, or referrals from the NEA's Office of Grants and Contracts. Based on audits of these awardees, following are the five most common findings:

- (1) failing to ensure that contractors and sub-award recipients have not been debarred or suspended from receiving Federal assistance prior to paying or awarding them Federal funds;
- (2) no written policies and procedures for managing Federal awards;
- (3) not reporting accurate and allowable costs incurred on the Federal Financial Report;
- (4) not maintaining supporting documentation for costs charged to NEA grants; and
- (5) not maintaining a Section 504 self-evaluation at the organization.

We acknowledge and encourage NEA's continuous efforts to identify opportunities to improve awardee compliance with Federal requirements. Continued development and implementation of web-based tools and technical assistance efforts by NEA, and the results of our audits will, in our opinion, help to improve awardee compliance. As grant making is the primary mission of the NEA, this area will continue to be an important challenge.

We have experienced strong support from NEA management in identifying and tracking these challenges. We look forward to continuing our work to help NEA deliver its mission with excellence and integrity.

cc: Mike Griffin, Chief of Staff
Ann Eilers, Deputy Chairman for Management and Budget
Jeanette Duncan, Chief Information Officer
Nicki Jacobs, Grants Director
Craig McCord, Human Resources Director
Heidi Ren, Finance Director
Gregory Gendron, Administrative Services Director
Ned Read, Senior Advisor, Deputy Chairman for Management and Budget

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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

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, requires 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, Appendix C*, 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 NEA 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. NEA annually conducts an assessment of 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.

NEA Payment Reporting

NEA'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 pre-payment 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. Additionally, ESC runs a system check on all payment requests prior to payment to prevent duplicate payments. 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. For travel expenditures, a 100% review is completed of all submitted travel vouchers prior to their payment.

NEA 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 by ESC to ensure that invoices were approved and proper procedures 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 NEA has an insignificant risk of improper payments for FY 2018.

Fraud Reduction

Fraud risk management is an important aspect of the NEA’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 NEA takes a variety of steps to both address and prevent fraud, waste and abuse. During FY 2018, the NEA continued the use of its existing policies and procedures to perform risk assessments for significant improper payments, including those under IPIA, IPERA, IPERIA, and OMB Circular A-123, Appendix C. Though NEA reports only on significant improper payments in this report, NEA 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 NEA’s financial internal control program. Annually, the NEA performs a risk assessment and assesses exposures and controls around fraud risk. How the NEA 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 risks. The exercise and results of the 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 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 83 CFR 2017-2073. The NEA did not assess any CMPs this year.

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	\$11,180
31 U.S.C. 1352	Penalty for certain violations of the NEA’s Restrictions on Lobbying	Violation	1989	1989	Between \$19,639 and \$196,387

Grants Oversight & New Efficiency (GONE) Act

The objective of the Grants Oversight and New Efficiency (GONE) Act is to identify and close out expired grants. The covered grants are those within an agency's cash payment management system that have been expired for two or more years and have not been closed out.

As required, the NEA reviewed its close-out population of federal grants and cooperative agreements in FY 2017 and found no instances where either a grant award or cooperative agreement with the period of performance ending on or prior to September 30, 2015 had not been closed out. Therefore, per OMB guidance, the National Endowment for the Arts has nothing to report for FY 2018.

*National Endowment for the Arts – FY 2018 Agency Financial Report
Other Information*

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