



AGENCY FINANCIAL REPORT FISCAL YEAR 2019

Submitted to the Congress,
the Office of Management and Budget,
the Department of the Treasury, and
the Government Accountability Office
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Agency Financial Report for Fiscal Year 2019
November 14, 2019

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National Endowment for the Arts Fiscal Year 2019 Agency Financial Report

~ A Message from the Chairman ~

I am pleased to present the National Endowment for the Arts' *Fiscal Year 2019 Agency Financial Report*, which summarizes the Agency's financial performance during the past year.

Overview

The National Endowment for the Arts (the Arts Endowment) 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 shoulders many of 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 from the National Endowment for the Arts, as philanthropic sector dollars do not necessarily reach these areas equitably. Based on FY 2016-2018 direct grant locations, 13% of projects funded by the Arts Endowment serve rural and small, metropolitan communities.¹ The economic impact of the arts is palpable. 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 Arts Endowment 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

¹ Rural is defined as all areas that are non-metro. Small metro communities are those with population less than 250,000. Direct Grants exclude: cooperative agreements, individual fellowships, state and regional partnerships, and federal partnerships.

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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 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. The Arts Endowment 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 11% of the Arts Endowment's direct grant-making dollars² go to projects that feature some rural component.³ Further, 41% of projects supported through recent direct grants reached high-poverty neighborhoods.⁴

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.⁵

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

² Does not include awards to State & Regional Partnerships or to individuals.

³ 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.

⁴ Census defined poverty tracts where 20% or more of the population is below poverty thresholds.

⁵ National Endowment for the Arts, [*The Arts and Achievement in At-Risk Youth: Findings from Four Longitudinal Studies \(2012\)*](#).

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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.

The Arts Endowment's commitment to supporting art that meets the highest standards of excellence, cultivating public engagement with, and access to, the arts, and promoting public knowledge and understanding about the contributions of the arts form the basis for the agency's FY 2018-2022 Strategic Plan. These strategic goals underpin our grant guidelines, and they guide implementation of initiatives such as *Creative Forces: NEA Military Healing Arts Network*, a partnership of the National Endowment for the Arts and the Departments of Defense and 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; 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 activities such as grant information workshops (conducted both through online media and in-person); 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 2019, the National Endowment for the Arts awarded more than 2,400 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 62% go to small and medium organizations⁶ (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 2017 (the most recent year for which we have complete figures)⁷:

⁶ Grant organization size breakdown: Small <\$500k in prior year expenditures; Medium \$500k-\$2m; Large >\$2m.

⁷ This analysis is based on data from Final Descriptive Reports. The most recent data available from grantees' FDRs are from FY 2017, due to a lag occurring from the time of the agency's award of a grant to the conclusion of the grant period of support and extending to the grantee's submission of the FDR.

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- 43% of Arts Endowment-supported activities took place in high-poverty neighborhoods.
- 22% of Arts 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 leverages \$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 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 Arts Endowment 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.

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Data Reliability

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



Mary Anne Carter
Chairman
November 14, 2019

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Fiscal Year 2019

Agency Financial Report

~ Management's Discussion and Analysis ~

The National Endowment for the Arts (the Arts Endowment) produces an Agency Financial Report (AFR) and an Annual Performance Report (APR). We will include our FY 2019 Annual Performance Report with our FY 2021 Congressional Budget Justification in February 2020 and will post it on the Arts Endowment Web site at www.arts.gov.

Mission, Organizational Structure, and Internal Operations

The mission of the Arts Endowment 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 54 years, the Arts Endowment 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 Arts Endowment has, in recent years, annually awarded approximately 2,400 grants and cooperative agreements exceeding \$120 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. Arts Endowment 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 Arts Endowment'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 Arts Endowment to build and sustain local capacity for planning, programming, evaluation, and communications.

The Arts Endowment 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 Arts Endowment 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.

The Arts Endowment's organizational structure includes a Senior Deputy Chairman and a Deputy Chairman for Programs & Partnerships, 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 others

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– all of whom report to either the Senior Deputy Chairman (the Agency’s Chief Operating Officer) or the Chairman. The agency’s current Chairman, Mary Anne Carter, served first as Senior Deputy Chairman and then as Acting Chairman (starting in June 2018).

The major program division, Programs & Partnerships, is chiefly responsible for handling the review of grant applications and management of cooperative agreements and leadership initiatives. During FY 2019, the agency operated with a staffing level of approximately 140 full-time equivalents. An organizational chart can be found at the end of this section.

Performance Goals, Objectives, and Results

The Art’s Endowment 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. Arts Endowment support of the arts encourages artistic creativity and productivity that boosts the economies of our local communities and our nation. More than 5 million Americans work in industries that produce arts and cultural goods and services, receiving \$386 billion in compensation. This contribution made up 4.3% (or \$804.2 billion) of our nation’s GDP in 2016 (the most recent year for which such statistics are available), up from 4.2% in 2015. The arts contribute more to the U.S. economy than do construction, transportation, and warehousing, or agriculture (among other sectors), and they generate a widening trade surplus. From 2006 to 2016, this surplus grew 12-fold, to nearly \$25 billion.⁸

Through our efforts on behalf of the American people, we strive to achieve the following:⁹

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 Arts Endowment 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.
- 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.

⁸ All data in this paragraph from: [The U.S. Arts and Cultural Production Satellite Account \(1998-2016\): A National Summary, March 2019.](#)

⁹ [National Endowment for the Arts Strategic Plan FY 2018-2022.](#)

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- 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 agency awards that meet the highest standards of excellence.
- Ensure that agency-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 2019.

1. Enhanced Use of Technology

The Arts Endowment and the National Endowment for the Humanities (NEH) have continued their partnership to maintain their grants management system known as eGMS. eGMS serves a consortium of small grantmaking agencies that includes the Arts Endowment, NEH, the Institute of Museum and Library Services, and the National Historical Publications & Records Commission of the National Archives. Working together, these four small agencies have been able to achieve a better and more cost-effective product than any agency could have implemented on its own. eGMS has increased efficiency by automating processes, integrating disparate systems, and enhancing grantee engagement.

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.

The Arts Endowment's management continues to complete careful analysis to identify best approaches to strategically staff the organization to meet agency mission. The result has been a mix of solutions to address staffing or skill set shortages, including entering into interagency agreements and contracts to meet work requirements.

3. Improved Financial Management

The Arts Endowment leverages the financial system expertise of the U.S. Department of Transportation's Enterprise Services Center (ESC), which provides an Oracle-based fully-compliant financial management system (Delphi). Over the past few years, the Arts Endowment has expanded the range of ESC financial services and system support; continued to use the systems and receive expert support from Department of Agriculture's National Finance Center (NFC) payroll services; and continued to use the General Service Administration's (GSA) E2 travel system.

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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 continues to provide the foundation for all of our activities.

Core Grant Programs

Through its direct grant-making, the Arts Endowment 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. Arts Endowment-supported broadcast performances on television, radio, and cable will have additional audiences of at least 300 million. In FY 2019, the Arts Endowment made more than 2,400 awards totaling \$122.4 million. Other funders annually provide more than \$500 million in further support of these Arts Endowment-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 Arts Endowment’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 2020) indicate that our goals for these programs are being met and that our programs are effective.

The Arts Endowment’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).

[*Poetry Out Loud*](#) is a national arts education program that encourages high school students to learn about great poetry through memorization and performance. This program helps students master public speaking skills, build self-confidence, and learn about literary history and contemporary life. Annually serves more than 300,000 students from every state, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands during the school year. Since its start in 2005, more than 3.8 million students and 60,000 teachers from more than 16,000 high schools have participated in Poetry Out Loud nationwide.

[*Shakespeare in American Communities*](#) is a national theater program bringing performances and related educational activities to audiences across the country. Since 2003, introduced 2.9 million middle and high school students to the power of live theater and the masterpieces of William Shakespeare through performances and educational activities. 112 theater companies

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across the United States have taken part. 12,900 performances and more than 45,800 related educational activities at more than 10,400 schools and juvenile justice facilities in 4,400 communities in all 50 states, the District of Columbia, and the U.S. Virgin Islands.

The National Endowment for the Arts has funded more than 1,500 local *NEA Big Read* programs, providing more than \$21 million to organizations nationwide, since the inception of the program in 2006. In addition, *NEA Big Read* activities have reached every Congressional district in the country. Over the past 13 years, grantees have leveraged more than \$50 million in local matching funds to support their *NEA Big Read* programs. More than 5.7 million Americans have attended an *NEA Big Read* event, approximately 92,000 volunteers have participated at the local level, and 40,000 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.

Our Town builds on the Arts Endowment’s longstanding support for communities and the ability of the arts to strengthen them. Since the inception of the program in 2011, the Arts Endowment has awarded more than \$47 million in grants to fund nearly 580 *Our Town* projects, reaching all 50 states plus the District of Columbia, Puerto Rico, and the Virgin Islands. In FY 2019, the Arts Endowment awarded more than \$4.1 million in 57 grants supporting arts engagement, cultural planning, design, and knowledge-building about creative placemaking. The *Our Town* grants reinforce the Arts Endowment’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 Arts Endowment has created the web resource, [Exploring Our Town](#), which 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 and prospective applicants.

Arts Education

The Arts Endowment’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.”¹⁰ The strategic plan helps implement the Art’s Endowment’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 the Art’s Endowment’s 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

¹⁰ 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.

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– in communities of all sizes. Since 2015, the agency has awarded \$5.5 million for 65 collective impact projects nationwide; in FY 2019, there were 13 awards totaling \$1.1 million.

In addition to its grants, the Arts Endowment provides support for three national networks as part of its core work to advance arts education in the United States: 1) the Arts Education Partnership (AEP), which is jointly funded by the US Department of Education, 2) State Arts Agency Arts Education Managers (SAA AE Managers); and 3) State Education Agency Directors of Arts Education (SEADAE). Each network plays a distinct leadership role that extends the federal reach and impact of the Arts Endowment's work to the state and local level.

- [*Arts Education Partnership \(AEP\)*](#): The AEP, in coordination with Education Commission of the States, is a national coalition of more than 100 education, arts, cultural, government, business and philanthropic organizations that was created in 1995 by the National Endowment for the Arts and the U.S. Department of Education. AEP serves as the nation's hub for individuals and organizations committed to making high-quality arts education accessible to all U.S. students, improving arts education practice, tracking relevant state and national education policies, and researching how art influences and strengthens American education.
- *Collaboration with State Arts Agency Arts Education Managers*: Since 1987, the Arts Endowment, in coordination with the National Assembly of State Arts Agencies (NASAA), has provided technical assistance and support services to convene and administer an annual [*Professional Development Institute*](#) for state arts agency arts education managers. The Professional Development Institute provides meaningful learning opportunities for new and seasoned arts education managers, as well as a peer network of knowledgeable arts education leaders.
- *Collaboration with the State Education Agencies Directors of Arts Education (SEADAE)*: The Arts Endowment provides support to SEADAE, a nonprofit professional membership organization, whose members consist of individuals at state education agencies who are responsible for dance, media arts, music, theater and/or visual arts education. SEADAE provides professional development and technical assistance to increase the professional effectiveness of individual members and provide a collective voice for leadership on issues affecting arts education.
- Also, through a cooperative agreement with the Education Commission of the States, the Arts Endowment is implementing the Statewide Data Infrastructure Project for Arts Education. Through this project, the Arts Endowment is creating tools and providing technical assistance to states to help states extract, analyze, and report on the arts education data that most states already collect in their statewide education data systems. By reporting on the condition of arts education, states will have crucial data they need to make informed decisions about student access to dance, media arts, music, theater, and visual arts and the quality of arts instruction.

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.

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National Endowment for the Arts Support for Military Members & Veterans

[*Creative Forces: NEA Military Healing Arts Network*](#) is a national initiative led by the Arts Endowment in partnership with the Departments of Defense, Veterans Affairs, and state and local arts agencies that serves the unique and special needs of military service members and veterans who have been diagnosed with traumatic brain injury and psychological health conditions, as well as their families and caregivers. The program has three components: **creative arts therapies**, which are at the core of patient-centered care in military and veteran medical facilities, as well as a telehealth program for patients in rural and remote areas; increased **community-based arts** opportunities for military and veteran family populations around clinical site locations; and investments in **capacity-building efforts**, including the development of manuals, training, and research on the impacts and benefits of the treatment methods.

The Arts Endowment funds creative arts therapists, equipment, and supplies at 11 clinical sites across the nation, plus a telehealth program. In clinical settings, creative arts therapists provide art and music therapy, as well as creative writing instruction. On average, creative arts therapists provide 1,000-1,200 clinical encounters, and treat approximately 200 new patients, per year. In FY 2019 and FY 2020, *Creative Forces* is providing up to 21 Arts Endowment-funded creative arts therapists, who will provide an estimated 16,500 clinical encounters, and serve approximately 3,300 new patients. Additional patients will be served via the telehealth program.

The Arts Endowment 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 Arts Endowment [website](#).

The National Endowment for the Arts and U.S Bureau of Economic Analysis

The Arts and Cultural Production Satellite Account (ACPSA), a partnership between the Arts Endowment 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 estimates¹⁰ reveal that the arts are a bigger driver of GDP and jobs than previously estimated. Among the new findings are:

- Arts and cultural production contributed more than \$804.2 billion to the U.S. economy in 2016 (the most recent year for which such statistics are available).
- More than 5 million workers were employed in the production of arts and cultural goods, receiving \$386 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

¹⁰ [The U.S. Arts and Cultural Production Satellite Account \(1998-2016\): A National Summary.](#)

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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 Arts Endowment 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 Arts Endowment 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 FY 2019, the four host communities were: Greenville, Mississippi; Valentine, Nebraska; Las Vegas, New Mexico; and Tuttle, North Dakota. 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 Arts Endowment 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. It is estimated that the program serves annually more than 900,000 active-duty military personnel and their families at more than 2,000 museums nationwide, including children's museums, fine art museums, history and science museums, zoos, and nature centers.

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 Arts Endowment's Office of Research & Analysis had numerous accomplishments in FY 2019, 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
<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 Arts Endowment website. ADPs are	<ul style="list-style-type: none"> • U.S. Arts and Cultural Production Satellite Account (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

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<p>collections of statistics, graphics, and summary results from data-mining about the arts.</p>	<p>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 national and state NEA/BEA data.</p> <ul style="list-style-type: none"> • Artists and Other Cultural Workers: A Statistical Portrait: This report analyzes six federal datasets—but predominantly the American Community Survey and the Current Population Survey—to capture a statistical profile of 11 artist occupations and several types of cultural workers who are non-artists. • Research: Art Works grant awards for 2018: ORA awarded 15 grants totaling \$724,000 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 2019, the office continued to post to the agency 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 2019, ORA awarded four 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. ORA also convened 12 Research Labs and their partner organizations for an “All-Labs Summit,” which featured a public component that is accessible via the agency’s website.
<p>Strategic research alliances: ORA began or completed the following products in collaboration with other federal agencies in FY 2019.</p>	<ul style="list-style-type: none"> • The National Institutes of Health announced \$20 million in research grants to support new studies of music and health and well-being, in partnership with ORA, which also cosponsors the Adolescent Brain Cognitive Development Study. The research awards stemmed from “Sound

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	<p>Health,” an initiative cosponsored by the Kennedy Center, NIH, and the Arts Endowment.</p> <ul style="list-style-type: none"> • In FY 2019, ORA co-authored with staff from the Arts Endowment’s Design division and colleagues from the Centers for Disease Control & Prevention a commentary article for <i>The Journal of Physical Activity and Health</i>. Titled “Creating Activity-Friendly Communities: Exploring the Intersection of Public Health and the Arts,” the article is scheduled for publication in November 2019. • In September 2019, ORA cosponsored with the Robert Wood Johnson Foundation and other funders a convening in Lexington, Ky., to assess the evidence base supporting connections between art, place, social cohesion, and health equity. • <i>Creative Forces</i> Clinical Research: ORA continued to advise on implementation of the five-year clinical research agenda developed for the Creative Forces program, a partnership between the Arts Endowment and the Departments of Defense and Veterans Affairs. ORA convened meetings of a Core Planning Group consisting of representatives from those departments and the National Center for Complementary and Integrative Health, among others.
<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"> • Additions to NADAC: In FY 2019, the following micro-datasets and meta-data containing arts variables were among several uploaded to the Arts Endowment’s public data repository for general free public use: <ol style="list-style-type: none"> 1. American Time Use Survey: Arts Activities, [United States], 2003-2017 2. Arts and Cultural Production Satellite Account 3. American Housing Survey (AHS): Arts and Cultural Events Module Data, [United States], 2015 4. Survey of Public Participation in the Arts (SPPA), United States, 2017

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	5. Current Population Survey, May 2017: Contingent Worker Supplement
Evaluation	Examples
<p><i>Program evaluation and performance measurement:</i> ORA launched a Learning Agenda, which identifies and sets priorities for evidence building about agency programs. Activities include grant portfolio analyses, activities that support program improvement, and program evaluations.</p>	<ul style="list-style-type: none"> ✓ Published an online resource featuring a theory of change and logic model for <i>Our Town</i>, the agency’s creative placemaking grants program, and conducted a survey and case studies of <i>Our Town</i> grantees to refine the program’s measurement framework. ✓ Collected data as part of a mixed-methods evaluation study of <i>Poetry Out Loud</i>, the Art’s Endowment’s national poetry recitation contest. Study findings will be released in FY 2020. ✓ Worked with the agency’s Arts Education division on program design and a measurement framework for the Arts Education Collective Impact grant program. ✓ Prepared a publication on the Folk & Traditional Arts awards portfolio, which was published in early October 2019. This first-ever analysis of the Folk & Traditional Arts awards portfolio explores the program’s geographic reach, its capacity to address historically underserved populations, and the activities and achievements of its grantees and partners. ✓ Launched with the agency’s Media Arts division an Art & Technology Field Scan, conducted in partnership with the Ford Foundation and the Knight Foundation. The study seeks to better understand the needs of US-based artists working with technology as a creative medium and use this information to inform arts funders and resource providers in both the public and private sector. ✓ Supported program evaluation for Creative Forces community engagement activities, including an evaluation study of Community Connections pilot/demonstration projects.

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Improper Payments Reporting

The Arts Endowment has four major fund categories: Administrative; Program Support; Direct Grantmaking; and Partnership. Based on risk assessments conducted in accordance with OMB guidance, none of these “programs” qualifies as risk-susceptible based on OMB guidance thresholds. In FY 2019, improper payments were identified; however, these did not rise to the category level of significant. Based on our strong internal controls, we believe that the Arts Endowment has an insignificant risk of significant improper payments for FY 2019.

Analysis of Financial Statements

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

Here are some financial highlights:

- The Arts Endowment's FY 2019 appropriation was \$155 million, an increase of \$2.151 million over FY 2018. Appropriations are the primary source of financial resources for the Agency, so the financial position of the Arts Endowment generally trends with the amount of appropriations received each year.
- The Arts Endowment received about \$0.562 million in reimbursable agreement authority in FY 2019, a decrease of \$0.149 million over FY 2018. As with appropriations, the financial resources of the agency fluctuate in response to changes in reimbursable authority received.

Explanations for significant changes to specific financial items on the following "Table of Key Measures" between FY 2019 and FY 2018 are provided below:

- Fund Balance with Treasury – The \$264,000 decrease was predominately due to the \$848,000 decrease in balances in administrative funds and offset by \$584,000 increase in balances in program funds and donated funds in FY 2019 as compared to FY 2018.
- Accounts Receivable – The nearly \$3,000 decrease represents the collection payments received.

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- Property, Plant and Equipment – The original purchase price less accumulated depreciation is reflected on the balance sheet. The \$100,000 decrease in the book values year over year represents depreciation expense.
- Accounts Payable – The \$11,725 increase is due to an increase in payables to vendors.
- Grant Accrued Liabilities – The \$7.7 million decrease in accrued liabilities is attributable to a reduction in open obligations effected by grantee spending, which affected the accrual. Additionally, with the implementation of the new grants management system (eGMS), there was enhanced system data, which helped with our ability to perform both the accrual calculation and the look-back analysis.
- Other liabilities – The \$256,000 increase in FY 2019 as compared to FY 2018 is due to increase in payments to employee accrued leave benefits.
- Net Position – The overall net position increase of approximately \$6.7 million is attributed to a decrease in total liabilities in FY 2019 as compared to FY 2018.

In addition, provided below are explanations of Changes in Obligations and Outlays in FY 2019 compared to FY 2018:

- Obligations – In FY 2019, obligations were \$157.5 million as compared to \$153.8 million in FY 2018. The 2.5% or \$3.7 million increase is due to \$1.7 million increase in obligations from all sources of funds, including funds appropriated in FY 2019, donated funds received in FY 2019, unobligated balances brought forward at the beginning of FY 2019, and recoveries of prior year unpaid obligations during FY 2019.
- Outlays – In FY 2019, net outlays were nearly \$155.6 million compared to \$141.8 million in FY 2018. The 9.8% or \$13 million increase was due to \$10 million increase in program fund and \$3 million increase on administrative funds.

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

The agency received an unqualified audit opinion on its FY 2019 financial statements as presented later in this report. This is the agency's 17th consecutive year receiving a "clean" audit opinion.

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National Endowment for the Arts							
Table of Key Measures							
Amounts in Dollars	Current FY		Prior FY		Increase/(Decrease)		
					\$	%	
Costs ¹							
Total Financing Sources	\$	154,554,931	\$	157,415,839	\$	(2,860,908)	-1.82%
Less: Net Cost		153,917,905		155,994,819		(2,076,914)	-1.33%
Net Change of Cumulative Results of Operations		637,026		1,421,020		(783,994)	-55.17%
Net Position ²							
Assets:							
Fund Balance with Treasury	\$	161,161,435	\$	161,425,654	\$	(264,219)	-0.16%
Accounts Receivable		102,717		105,514		(2,797)	-2.65%
Property, Plant, and Equipment		212,707		312,885		(100,178)	-32.02%
Advances and Prepayments		192,038		407,135		(215,097)	-52.83%
Total Assets		161,668,897		162,251,188		(582,291)	-0.36%
Liabilities:							
Intragovernmental	\$	1,026,957	\$	917,683	\$	109,274	11.91%
Accounts Payable		56,793		45,068		11,725	26.02%
Grant Accrued Liability		52,310,000		60,020,794		(7,710,794)	-12.85%
Other		2,214,837		1,958,727		256,110	13.08%
Total Liabilities	\$	55,608,587	\$	62,942,272	\$	(7,333,685)	-11.65%
Net Position (Assets-Liabilities)	\$	106,060,309	\$	99,308,916	\$	6,751,394	6.80%

¹ Source: Statement of Changes in Net Position

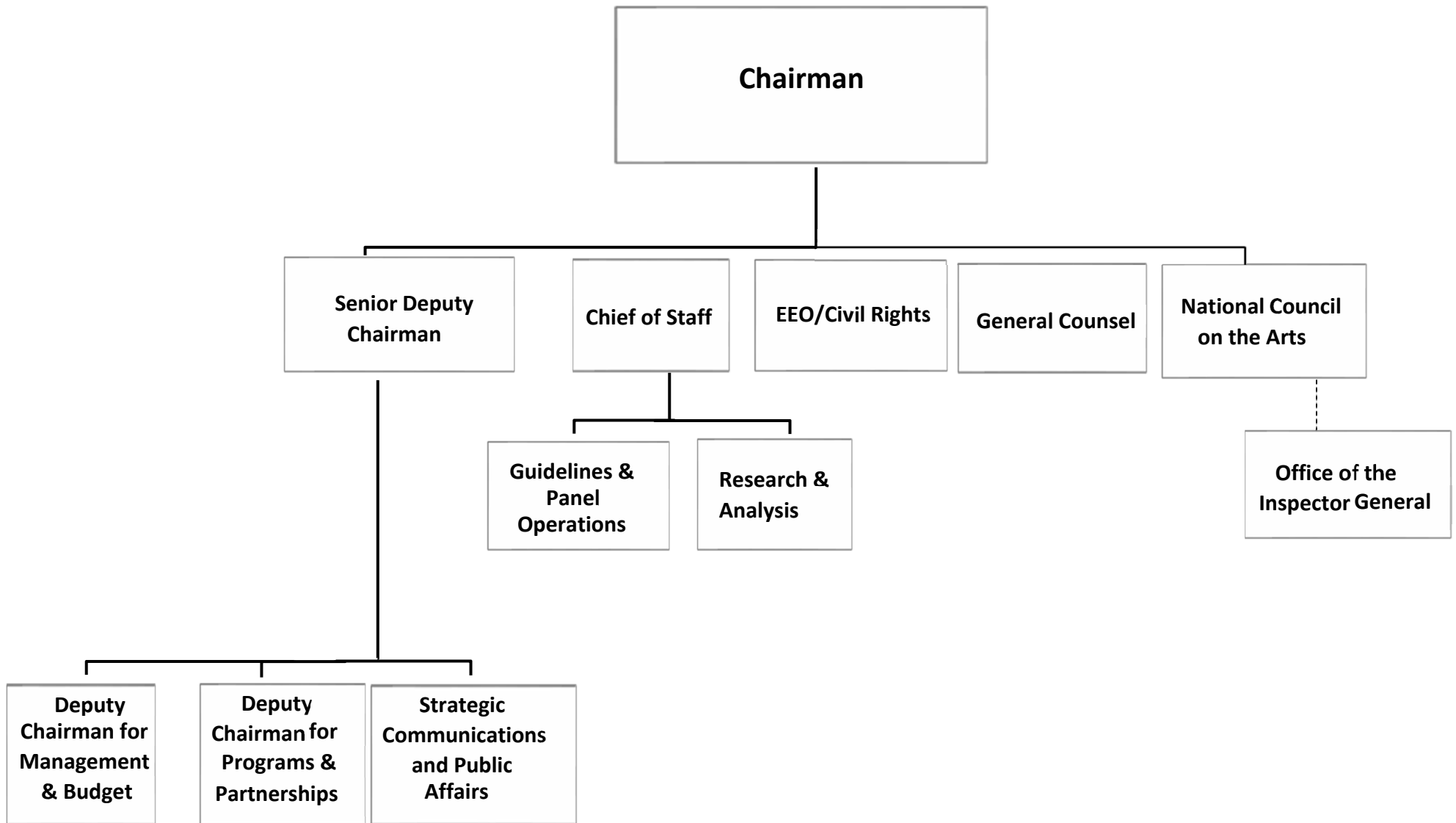
² Source: Balance Sheet

Systems, Controls, and Legal Compliance

The Arts Endowment 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 Arts Endowment is easier and more flexible. The system became fully operational in FY 2018.



~ 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 Arts Endowment conducted its assessment of risk and internal control in accordance with OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Based on the results of the assessment, the Arts Endowment can provide reasonable assurance that internal control over operations, reporting, and compliance was operating effectively as of September 30, 2019.

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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 2019 and 2018 financial statements of the National Endowment for the Arts (the Arts Endowment), we found:

- the Arts Endowment's financial statements as of and for the fiscal years ended September 30, 2019 and 2018, 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 2019 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, 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. 19-03, *Audit Requirements for Federal Financial Statements*, we have audited the Arts Endowment's financial statements. The Arts Endowment's financial statements comprise the balance sheets as of September 30, 2019 and 2018, 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 opinion.

Management's Responsibility

The Arts Endowment'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 and OMB Bulletin No. 19-03 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 audit also included performing such other procedures as we considered necessary in the circumstances.

Opinion on Financial Statements

In our opinion, the Arts Endowment's financial statements present fairly, in all material respects, the Arts Endowment's financial position as of September 30, 2019 and 2018, 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.

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

The Arts Endowment'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 the Arts Endowment'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 the Arts Endowment's financial statements, we considered the Arts Endowment's internal control over financial reporting, consistent with our auditor's responsibility discussed below. We performed our procedures related to the Arts Endowment's internal control over financial reporting in accordance with U.S. generally accepted government auditing standards.

Management's Responsibility

The Arts Endowment's 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 the Arts Endowment's financial statements as of and for the year ended September 30, 2019, in accordance with U.S. generally accepted government auditing standards, we considered the Arts Endowment'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 the Arts Endowment's internal control over financial reporting. Accordingly, we do not express an opinion on the Arts Endowment'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.

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.

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 the Arts Endowment'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.

We assessed the current status of a prior year significant deficiency, which is presented in *Appendix I*.

We identified a control deficiency in the Arts Endowment's internal control over financial reporting that we do not consider to be a material weakness or significant deficiency. Nonetheless, this deficiency warrants the Arts Endowment's management's attention. We have communicated this matter to the Arts Endowment's 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 the Arts Endowment's internal control over financial reporting and the results of our procedures, and not to provide an opinion on the effectiveness of the Arts Endowment's internal control over financial reporting. This report is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering internal control over financial reporting. Accordingly, this report on internal control over financial reporting is not suitable for any other purpose.

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

In connection with our audit of the Arts Endowment'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

The Arts Endowment's management is responsible for complying with laws, regulations, contracts, and grant agreements applicable to the Arts Endowment.

Auditor's Responsibility

Our responsibility is to test compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements applicable to the Arts Endowment that have a direct effect on the determination of material amounts and disclosures in the Arts Endowment'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 the Arts Endowment.

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 2019 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 the Arts Endowment. 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, the Arts Endowment's management provided a written response which is presented in *Appendix II*. We did not audit the Arts Endowment's response and, accordingly, we express no opinion on the response.

Williams, Adley & Company-DC, LLP

Washington, District of Columbia
November 14, 2019

Appendix I
Status of Prior Year Significant Deficiency

Our assessment of the current status of the prior year finding is presented below.

Prior Year Finding	Current Year Status
2018-01 – Grant Accrual Accounting Estimation Process	The Arts Endowment refined its accounting processes and the finding has been closed.

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



Date: November 8, 2019

To: Ron Stith, Inspector General

From: Ann Eilers, Deputy Chairman for Management and Budget

Subject: Management's Response to Independent Auditor's Report for Fiscal Year (FY) 2019 (Appendix II)

We reviewed the draft Independent Auditor's Report on the National Endowment for the Arts (the Arts Endowment) FY2019 financial statements. The Arts Endowment received its 17th consecutive unmodified audit opinion on its financial statements and had no material weaknesses or significant deficiencies. I commend the Arts Endowment staff for their strong contributions and commitment to continuously improving operations and the internal controls to the Agency.

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

A handwritten signature in cursive script that reads "Ann Eilers". The signature is written in dark ink and is positioned above a horizontal line.

Ann Eilers, Deputy Chairman for Management and Budget



Audited Financial Statements and Notes

September 30, 2019 and 2018

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NATIONAL ENDOWMENT FOR THE ARTS
September 30, 2019 and September 2018 (In Dollars)

BALANCE SHEETS
As of September 30, 2019 and September 30, 2018
(In Dollars)

	2019	2018
Assets (Notes 2-6)		
Intragovernmental		
Fund Balance With Treasury (Note 2)	\$ 161,161,435	\$ 161,425,654
Advances and Prepayments (Note 6)	192,038	407,135
Total Intragovernmental	161,353,473	161,832,789
Assets With the Public		
Accounts Receivable, Net (Note 3)	102,717	105,514
General Property, Plant, and Equipment, Net (Note 4)	212,707	312,885
Total Assets	<u>\$ 161,668,897</u>	<u>\$ 162,251,188</u>
Liabilities (Notes 7-9)		
Intragovernmental		
Other (Note 8)	\$ 1,026,957	\$ 917,683
Total Intragovernmental	1,026,957	917,683
Liabilities With the Public		
Accounts Payable (Note 7)	56,793	45,068
Other (Note 7 and 8)	2,214,837	1,958,727
Grants Accrual (Note 9)	<u>52,310,000</u>	<u>60,020,794</u>
Total Liabilities	<u>\$ 55,608,587</u>	<u>\$ 62,942,272</u>
Net Position		
Unexpended Appropriations - Funds From Dedicated Collections	\$ 115	\$ -
Unexpended Appropriations - All Other Funds	103,437,444	97,323,192
Cumulative Results of Operations - Funds From Dedicated Collections (Note 12)	2,651,087	2,512,379
Cumulative Results of Operations - All Other Funds	(28,337)	(526,655)
Total Net Position	<u>106,060,309</u>	<u>99,308,916</u>
Total Liabilities and Net Position	<u>\$ 161,668,897</u>	<u>\$ 162,251,188</u>

STATEMENT OF NET COST
For the Years Ended September 30, 2019 and September 30, 2018
(In Dollars)

	<u>2019</u>	<u>2018</u>
Program Cost (Note 13)		
Gross costs	\$ 154,716,997	\$ 158,994,676
Less: Earned Revenue	<u>799,092</u>	<u>2,999,857</u>
Net Program Costs	\$ 153,917,905	\$ 155,994,819
Net cost of operations	<u>\$ 153,917,905</u>	<u>\$ 155,994,819</u>

The accompanying notes are an integral part of these statements.

NATIONAL ENDOWMENT FOR THE ARTS
September 30, 2019 and September 2018 (In Dollars)

STATEMENTS OF CHANGES IN NET POSITION
For the Years Ended September 30, 2019 and September 30, 2018
(In Dollars)

	2019			2018		
	Funds from Dedicated Collections	All Other Funds	Total	Funds from Dedicated Collections	All Other Funds	Total
Unexpended Appropriations						
Beginning Balances, as adjusted	\$ -	\$ 101,323,192	\$ 101,323,192	\$ (14,356)	\$ 100,647,436	\$ 100,633,080
Budgetary Financing Sources						
Appropriations received	-	155,000,000	155,000,000	-	152,849,000	152,849,000
Appropriations used	115	(152,885,748)	(152,885,633)	14,356	(156,173,244)	(156,158,888)
Total Budgetary Financing Sources	115	2,114,252	2,114,367	14,356	(3,324,244)	(3,309,888)
Total Unexpended Appropriations	115	103,437,444	103,437,559	-	97,323,192	97,323,192
Cumulative Results from Operations						
Beginning balances, as adjusted	2,512,379	(526,655)	1,985,724	2,565,875	(2,001,170)	564,705
Budgetary Financing Sources:						
Appropriations Used	(115)	152,885,748	152,885,633	(14,356)	156,173,244	156,158,888
Donations	342,002	-	342,002	387,711	-	387,711
Other Financing Sources (Nonexchange)						
Imputed Financing	-	1,327,296	1,327,296	-	869,240	869,240
Total Financing Sources	341,887	154,213,044	154,554,931	373,355	157,042,484	157,415,839
Net Cost of Operations (+/-)	203,179	153,714,726	153,917,905	426,850	155,567,969	155,994,819
Net Change	138,708	498,318	637,026	(53,495)	1,474,515	1,421,020
Cumulative Results of Operations	2,651,087	(28,337)	2,622,751	2,512,380	(526,655)	1,985,725
Net Position	\$ 2,651,202	\$ 103,409,108	\$ 106,060,309	\$ 2,512,380	\$ 96,796,537	\$ 99,308,917

The accompanying notes are an integral part of these statements.

NATIONAL ENDOWMENT FOR THE ARTS
September 30, 2019 and September 2018 (In Dollars)

STATEMENT OF BUDGETARY RESOURCES
For the Years Ended September 30, 2019 and September 30, 2018
(In Dollars)

	2019	2018
BUDGETARY RESOURCES		
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	\$ 13,923,051	\$ 11,057,574
Appropriations (discretionary and mandatory)	155,342,002	153,236,710
Spending authority from offsetting collections (discretionary and mandatory)	553,338	710,969
Total budgetary resources	<u>\$ 169,818,391</u>	<u>\$ 165,005,253</u>
 STATUS OF BUDGETARY RESOURCES		
New obligations and upward adjustments (total) (Note 14)	\$ 157,524,091	\$ 153,804,139
Unobligated balance, end of year:		
Apportioned unexpired accounts	8,979,198	8,813,113
Exempt from apportionment unexpired accounts	2,393,345	2,388,001
Unapportioned unexpired accounts	921,757	-
Unexpired unobligated balance, end of year	12,294,300	11,201,115
Expired unobligated balance, end of year	-	-
Total budgetary resources	<u>\$ 169,818,391</u>	<u>\$ 165,005,253</u>
 OUTLAYS, NET		
Outlays, net (total) (discretionary and mandatory)	\$ 155,606,221	\$ 141,807,769
Distributed offsetting receipts (-)	(342,002)	(387,710)
Agency outlays, net (discretionary and mandatory)	<u>\$ 155,264,219</u>	<u>\$ 141,420,059</u>

The accompanying notes are an integral part of these statements.

NOTE 1: Summary of Significant Accounting Policies

A. Reporting Entity

The National Endowment for the Arts (Arts Endowment) is an independent Federal agency whose mission is to advance artistic excellence, creativity, and innovation for the benefit of individuals and communities. The Arts Endowment was established by the National Foundation on the Arts and the Humanities Act of 1965.

B. Basis of Presentation

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

These statements were prepared from the accounting records of the Agency in conformance with U.S. generally accepted accounting principles (GAAP) and the form and content for entity financial statements specified by the Office of Management and Budget (OMB) in Circular A-136, Financial Reporting Requirements (Circular A-136), revised June 28, 2019.

The statements consist of the: Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Footnotes. These financial statements have been prepared to report the financial position and results of operations of the Arts Endowment. All operations of the Arts Endowment fall under the category of general 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.

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. The Arts Endowment's financial statements are prepared in conformity with GAAP set forth by the Federal Accounting Standards Advisory Board (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: Summary of Significant Accounting Policies (Continued)

D. Revenues and Other Financing Sources

The Arts Endowment 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.

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

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

E. Fund Balance with Treasury

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

F. Advances and Prepayments

The Arts Endowment's interagency agreements with other Federal agencies are recorded as advances in cases where funds are received prior to expenditure. As work is performed by the Arts Endowment, expenditures are incurred, and advances reduced. Advances are recorded for intragovernmental transactions until the expenditures or revenues are reported by the trading partner, at which time the advance is reduced, and the expense/revenue is recognized. Prepayments are amounts paid for by the Arts Endowment in advance of the goods or services being received. Prepayments also includes payments to vendors for the portion of services that extend beyond the current fiscal year.

NOTE 1: Summary of Significant Accounting Policies (Continued)

G. General Property, Plant and Equipment, Net

The Arts Endowment's policy is to depreciate property, plant and equipment over the estimated useful life of the asset using the straight-line method. The Arts Endowment's capitalization threshold is \$50,000 for individual purchases and \$50,000 for bulk purchases 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 the Arts Endowment as a result of transactions or events that have already occurred. No liability can be paid, however, absent an appropriation (or, in some cases, donated funds). Liabilities for which an appropriation has not been enacted are, therefore, classified as not covered by budgetary resources, and there is no certainty that the appropriation will be enacted. Also, the Government, acting in its sovereign capacity, can abrogate liabilities.

I. Accounts Payable

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

J. Accounts Receivable

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: Summary of Significant Accounting Policies (Continued)

L. Retirement Plans

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

All employees are eligible to contribute to the Thrift Savings Plan (TSP). For those employees participating in the FERS, a TSP account is automatically established and the Arts Endowment makes a mandatory one percent contribution to this account. In addition, the Arts Endowment makes matching contributions, ranging from one to four percent, for FERS-eligible employees who contribute to their TSP accounts. Matching contributions are not made to the TSP accounts established by CSRS employees. FERS employees and certain CSRS reinstatement employees are eligible to participate in the Social Security program after retirement. In these instances, the Arts Endowment remits the employer's share of the required contribution.

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

M. Imputed Benefit Costs

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

N. Use of Estimates

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

O. Contingencies

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

P. Funds from Dedicated Collections

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

NATIONAL ENDOWMENT FOR THE ARTS
September 30, 2019 and September 2018 (In Dollars)

NOTE 1: Significant Accounting Policies (Continued)

Q. Fiduciary Activities

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

R. Cost Accounting Methodology

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

S. 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. Additionally, the Budget and Accrual Reconciliation footnote has been presented in accordance with SFFAS 53.

T. Rounding

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

NOTE 2: Fund Balance with Treasury

Status of Fund Balance with Treasury	<u>September 30, 2019</u>	<u>September 30, 2018</u>
Unobligated Balance:		
Available - Other	\$ 9,900,955	\$ 8,813,113
Available - Trust	2,393,345	2,388,001
Subtotal - Available	\$ 12,294,300	\$ 11,201,114
 Obligated Balance not yet Disbursed Other	\$ 149,492,981	\$ 151,304,485
Obligated Balance not yet Disbursed Trust Fund	257,723	124,378
Subtotal - Obligated	149,750,704	151,428,863
Unfilled/Billed Reimbursable Orders	(883,569)	(1,204,323)
 Total Fund Balance with Treasury	<u>\$ 161,161,435</u>	<u>\$ 161,425,654</u>

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

NATIONAL ENDOWMENT FOR THE ARTS
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NOTE 3: Accounts Receivable, Net

	<u>September 30, 2019</u>	<u>September 30, 2018</u>
Gross Receivables:		
Custodial Receivables (Nonentity)	\$ 99,500	\$ 105,514
Receivables Due from the Public	3,217	-
	<u>\$ 102,717</u>	<u>\$ 105,514</u>
Allowance for Uncollectible	-	-
Net Receivables	<u><u>\$ 102,717</u></u>	<u><u>\$ 105,514</u></u>

The 2019 nonentity receivable represents cash collections that will be transferred to the General Fund of the U.S. Treasury after September 30, 2019.

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

<u>Class of Property</u>	<u>September 30, 2019</u>			<u>September 30, 2018</u>		
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>
Furniture & Equipment	\$ 742,709	\$ 530,002	\$ 212,707	\$ 742,709	\$ 429,824	\$ 312,885
Total	<u>\$ 742,709</u>	<u>\$ 530,002</u>	<u>\$ 212,707</u>	<u>\$ 742,709</u>	<u>\$ 429,824</u>	<u>\$ 312,885</u>

Straight line depreciation is used. Capitalization threshold and depreciable lives are described in Note 1 of the 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 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 the Arts Endowment's objective criteria to classify an item as a heritage asset, which includes: the age of the asset, the artist/author of the asset, the materials used in the asset's creation, the cultural importance of the asset, and the process by which the asset was created. All items classified as heritage assets, though generally individual items, are considered a collection in totality. The Arts Endowment's collection contains two major categories of heritage assets: Artworks and Decorative Art, and Furniture.

The General Counsel's office approves the acceptance of all gifts to the Arts Endowment. 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.

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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.

Arts Works and Decorative and Furniture:

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

Heritage Assets Category	Quantity as of 9/30/2019	Quantity as of 9/30/2018	Unit Change	Percentage Change	General Condition
Artwork and Decorative Art	217	217	0	0%	Good
Furniture	40	40	0	0%	Good
Total	257	257	0		

NOTE 6: Other Assets

	September 30, 2019	September 30, 2018
Intragovernmental:		
Advances and Prepayments	\$ 192,038	\$ 407,135
Total Intragovernmental Other Assets	\$ 192,038	\$ 407,135
Total Other Assets	\$ 192,038	\$ 407,135

NATIONAL ENDOWMENT FOR THE ARTS
September 30, 2019 and September 2018 (In Dollars)

NOTE 7: Liabilities Not Covered by Budgetary Resources

	<u>September 30, 2019</u>	<u>September 30, 2018</u>
Intragovernmental:		
Accounts Payable	\$ -	\$ 344
Unfunded FECA Liability	-	344
Total Intragovernmental	<u>\$ -</u>	<u>\$ 344</u>
Accounts Payable	56,793	45,068
Federal Employee and Veterans' Benefits Payable	-	1,695
Accrued Pay and Benefits	1,324,121	1,141,378
Total Liabilities Not Covered by Budgetary Resources	\$ 1,380,914	\$ 1,188,485
Total Liabilities Covered by Budgetary Resources	54,128,173	61,648,287
Total Liabilities Not Requiring Budgetary Resources	99,500	105,500
Total Liabilities	<u><u>\$ 55,608,587</u></u>	<u><u>\$ 62,942,272</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 8: Other Liabilities

	<u>September 30, 2019</u>	<u>September 30, 2018</u>
Intragovernmental:		
Advances and Prepayments	\$ 850,000	\$ 775,000
Accrued Pay and Benefits	176,957	142,596
FECA Billings	-	87
Total Intragovernmental	<u><u>\$ 1,026,957</u></u>	<u><u>\$ 917,683</u></u>
Federal Employees Compensation Act (FECA)	-	344
Grant Accrued Liability	52,310,000	60,020,794
Accrued Pay and Benefits	2,115,337	1,851,533
Custodial Liability	99,500	105,500
Total Other Liabilities	<u><u>\$ 54,524,837</u></u>	<u><u>\$ 61,978,171</u></u>

All liabilities are current liabilities.

NOTE 9: Grant Accrued Liability

The preparation of the financial statements requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes available, which could impact the amounts reported and disclosed herein. The Arts Endowment's grants and cooperative agreements (collectively referred to as grant or award) cost is comprised of two components: 1) actual grant expenditures reported by grantees through reimbursement submissions, and 2) an estimate (accrual) of grantee expenditures incurred but not yet reported

NATIONAL ENDOWMENT FOR THE ARTS
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(via reimbursement submission) to the Arts Endowment. The Federal Accounting Standards Advisory Board (FASAB) Technical Release (TR12) “Accrual Estimates for Grant Programs” specifically addresses the process for preparing accrual estimates for grant programs.

TR12 provides guidance on internal control procedures to ensure the grant accrual is reasonable, based on “comparing the estimates with subsequent grantee reporting.” With the implementation of the electronic Grants Management System (eGMS) in FY 2018, eGMS data was used to review payment history to determine the grant accrual estimate. Starting in Q4 2018, the methodology to estimate the grant accrual was modified. As the initial step in the estimation process, the grant accrual was calculated based on a straight-line basis, as had been the case historically. For this method, an average daily expenditure rate was calculated for each award by dividing the total award by the number of days of the award period. The award accrued liability was 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. Based on payment history from the eGMS, we subsequently applied an adjustment to the straight-line basis to estimate a reasonable grant accrual.

Starting in Q3 2019, the methodology to estimate the grant accrual was refined further to better estimate the accrual. Using eGMS data, we performed comprehensive analyses reviewing actual payments and the period of performance associated with each.

The grant accrual was \$52,310,000 and \$60,020,794 at September 30, 2019 and September 30, 2018, respectively. The accrual decreased from the amount reported in FY 2018 due to a reduction in open obligations effected by grantee spending, which affected the accrual. Additionally, with the implementation of the eGMS, there was enhanced system data, which helped with our ability to perform both the accrual calculation and the look-back analysis. We anticipate future grant accruals to fluctuate based on annual grantee spending habits.

NOTE 10: Leases

Brief Description of Occupancy Agreement

The Occupancy Agreement with Constitution Center includes rental of office space and two parking spaces for the agency vehicles and the lease ends on February 29, 2024. The occupancy agreement was updated on April 24, 2019 and the upcoming lease terms are as follows:

2020	2021	2022	2023	2024	Total
\$3,136,018	\$3,171,517	\$3,208,081	\$3,245,742	\$1,302,186	\$14,063,544

The Arts Endowment'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. The fiscal year 2024 amount covers from October 2023 to February 2024.

NOTE 11: Commitments and Contingencies

The Arts Endowment 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 the Arts Endowment may be responsible cannot be estimated at this time.

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September 30, 2019 and September 2018 (In Dollars)

NOTE 12: Funds from Dedicated Collections

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

Balance Sheet	Gifts and Donations	
	September 30, 2019	September 30, 2018
Assets		
Fund Balance with Treasury	\$ 2,651,202	\$ 2,512,379
Other Assets	-	-
Total Assets	<u>\$ 2,651,202</u>	<u>\$ 2,512,379</u>
Liabilities and Net Position		
Other Liabilities (FEDERAL)	-	-
Unexpended Appropriations	-	-
Cumulative Results of Operations	\$ 2,651,087	\$ 2,512,379
Total Liabilities and Net Position	<u>\$ 2,651,087</u>	<u>\$ 2,512,379</u>
Statement of Net Cost for the Period Ended		
Program Costs (FEDERAL)	\$ 18,320	\$ 132,438
Program Costs (NON-FEDERAL)	184,859	294,412
Less Earned Revenue (FEDERAL)	-	-
Less Earned Revenue (NON-FEDERAL)	-	-
Net Program Costs	203,179	426,850
Net Cost of Operations	<u>\$ 203,179</u>	<u>\$ 426,850</u>
Statement of Changes in Net Position		
Beginning Net Position	\$ 2,512,379	\$ 2,551,519
Budgetary Financing Sources	342,002	14,356
Other Financing Sources	-	373,354
Net Cost of Operations	(203,179)	(426,850)
Net Position End of Period	<u>\$ 2,651,202</u>	<u>\$ 2,512,379</u>

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NOTE 13: Intragovernmental Costs and Exchange Revenues

	September 30, 2019			September 30, 2018		
	Intragovern- mental	With the Public	Total	Intragovern- mental	With the Public	Total
Arts Creation:						
Program Costs		\$ 25,706,286	\$ 25,706,286	\$ 2,249,828	\$ 21,126,314	\$ 23,376,142
Earned Revenue	(294,698)		(294,698)	(389,907)	-	(389,907)
Net Costs - Arts Creation		\$ 25,706,286	\$ 25,706,286	\$ 1,859,921	\$ 21,126,314	\$ 22,986,235
Engagement with the Arts:						
Program Costs	\$ 215,624	\$ 76,787,924	\$ 77,003,547	\$ 2,835,679	\$ 75,185,245	\$ 78,020,924
Earned Revenue	(484,162)	-	(484,162)	(2,597,096)	-	(2,597,096)
Net Costs - Engagement with the Arts	\$ (268,539)	\$ 76,787,924	\$ 76,519,385	\$ 238,528	\$ 75,185,245	\$ 75,427,208
Contribution of the Arts:						
Program Costs	\$ 430,587	\$ 51,576,577	\$ 52,007,164	\$ 604,880	\$ 56,992,730	\$ 57,597,610
Earned Revenue	(20,232)	-	(20,232)	(12,854)	-	(12,854)
Net Costs - Contribution of the Arts	\$ 410,355	\$ 51,576,577	\$ 51,986,932	\$ 592,026	\$ 56,992,730	\$ 57,584,756
Total						
Program Costs	\$ 646,211	\$ 154,067,405	\$ 154,716,997	\$ 5,690,387	\$ 153,304,289	\$ 158,994,676
Earned Revenues	(799,092)	-	(799,092)	(2,999,857)	-	(2,999,857)
Net Cost of Operations	\$ (152,881)	\$ 154,067,405	\$ 153,917,905	\$ 2,690,530	\$ 153,304,289	\$ 155,994,819

NOTE 14: 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. The Arts Endowment is provided funding only under category B which includes direct and reimbursable resources.

	September 30, 2019	September 30, 2018
Category B- Direct and Reimbursable	\$ 157,180,123	\$ 153,587,215
Exempt from apportionment	343,968	216,924
Total	\$ 157,524,091	\$ 153,804,139

The direct apportionments include funds appropriated and donations received in FY 2019 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.

Direct obligations incurred assume use of funding available during the fiscal year including funds appropriated in FY 2019, donated funds received in FY 2019, unobligated balances brought forward at the start of the fiscal year, and recoveries of prior year unpaid obligations during the fiscal year.

NOTE 15: Undelivered Orders at the End of the Period

	September 30, 2019	September 30, 2018
Intragovernmental Undelivered orders, Unpaid at the end of the period	\$ 3,444,912	\$ 2,416,937
Public Undelivered orders, Unpaid at the end of the period	\$ 92,970,826	\$ 92,093,570
Intragovernmental Undelivered orders, Paid at the end of the period	\$ 192,038	\$ 407,135

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

The differences between the FY 2018 Statement of Budgetary Resources and the FY 2018 actual numbers presented in the FY 2020 Budget of the United States Government (Budget) are summarized below.

Sept 30, 2018 (\$ in millions)	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	\$165	\$154	\$0	\$141
Budget of U.S. Government	\$165	\$154	\$0	\$141

The President's Fiscal Year 2021 Budget, which will include actual amounts for fiscal year 2019, will be available at a later date at <https://www.whitehouse.gov/omb/budget/>.

NOTE 17: Incidental Custodial Collections

	<u>September 30, 2019</u>	<u>September 30, 2019</u>
Intrabudgetary Receipts Deducted by Agencies	\$ 6,000	\$ 6,500
Total Custodial Collections	<u>\$ 6,000</u>	<u>\$ 6,500</u>

NATIONAL ENDOWMENT FOR THE ARTS
September 30, 2019 and September 2018 (In Dollars)

NOTE 18: Schedule of Fiduciary Activity

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

**Schedule of Fiduciary Activity
For the Period Ended September 30, 2019 and September 30, 2018**

	<u>September 30, 2019</u>	<u>September 30, 2018</u>
	Painting	Painting
Fiduciary Net Assets, Beginning of Year	\$ 98,000	\$ 75,000
Contributions	-	23,000
Increase/(Decrease) in Fiduciary Net Assets	-	23,000
Fiduciary Net Assets, End of Period	<u><u>\$ 98,000</u></u>	<u><u>\$ 98,000</u></u>

**Fiduciary Net Assets
As of September 30, 2019 and 2018**

	<u>September 30, 2019</u>	<u>September 30, 2018</u>
Fiduciary Assets:		
Other Assets (Painting)	\$ 98,000	\$ 98,000
Fiduciary Liabilities:		
Less: Decrease in Fair Value	-	-
Total Fiduciary Net Assets	<u><u>\$ 98,000</u></u>	<u><u>\$ 98,000</u></u>

NATIONAL ENDOWMENT FOR THE ARTS
September 30, 2019 and September 2018 (In Dollars)

Note 19: Budget and Accrual Reconciliation

	FY2019		
	Intragovernmental	With Public	Current Year
Net Operating Cost (SNC)	\$ 11,784,190	\$ 142,133,715	\$ 153,917,905
Components of Net Operating Cost Not Part of the Budgetary Outlays:			
Property, plant, and equipment depreciation	-	(100,178)	(100,178)
Increase/(Decrease) in Assets not affecting Budget Outlays:			
Accounts receivable	-	(2,797)	(2,797)
Advances, Prepayments and Other Assets	(215,097)	-	(215,097)
(Increase)/Decrease in Liabilities not Affecting Budget Outlays:			
Accounts payable	(13,121)	(11,727)	(24,848)
Federal Employees Benefits Payable	-	1,695	1,695
Other liabilities (Unfunded leave, unfunded FECA, actuarial FECA)	(96,153)	3,452,990	3,356,837
Other Financing Sources:			
Federal employee retirement benefit costs paid by OPM and imputed to agency	(1,327,296)	-	(1,327,296)
Total Components of Net Operating Cost Not Part of the Budget Outlays	<u>\$ (1,651,667)</u>	<u>\$ 3,339,983</u>	<u>\$ 1,688,316</u>
Components of the Budget Outlays That Are Not Part of Net Operating Cost:			
Other	-	(342,002)	(342,002)
Total Components of the Budgetary Outlays That Are Not Part of Net Operating Cost	<u>-</u>	<u>(342,002)</u>	<u>(342,002)</u>
Net Outlays	<u>\$ 10,132,523</u>	<u>\$ 145,131,696</u>	<u>\$ 155,264,219</u>

NOTE 20: Donations In-Kind

During FY 2019, the Arts Endowment received in-kind gifts from several organizations. Gifts include payment of the Arts Endowment staff travel, lodging, and meals, as well as payment of the Arts Endowment staff registration fees to attend and/or participate in various arts related functions. The total value of these in-kind donations was \$8,783 in September 30, 2019 and \$36,089 in September 30, 2018.

Other Information


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MEMORANDUM

Memo 20-01

DATE: October 31, 2019

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

FROM:  Robert Stein, 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, inventory management, and awardee accountability represent the top management and performance challenges for the National Endowment for the Arts (Arts Endowment). Following is a discussion of each challenge area.

Financial Management. This is one of the key areas where the Arts Endowment works to continuously improve each year. The challenge is continuous because the agency is required to keep pace with government-wide financial systems modernization efforts and regulatory changes. At the same time the agency focuses on continuously improving efficiency and effectiveness of its accounting and finance policy and procedures, systems, and staff cross-training. While this is a top challenge area, a positive indicator in the financial management area is that the agency consistently receives unmodified opinions on its financial statement audits and has a high level of compliance with Data Act requirements.

Human Capital. The Arts Endowment considers its people to be its most valuable asset in achieving its mission. Thus, it works to continuously improve its personnel policies to support its employees. The top human capital challenge includes ensuring an effective strategy to work with hiring managers to attract and retain candidates with the right skills, ability and knowledge to fill vacant positions due to normal attrition and retiring employees. This needs to be done while maintaining high quality service in other human capital areas, such as training and development, and performance management, and recognition. In 2019, the agency filled a number of key leadership and staff positions, including the Senior Deputy Chairman, to address mission delivery challenges.

Information Technology. The Arts Endowment began addressing this area by transitioning to a new, more robust electronic grants management system (eGMS) in FY 2018. This new system was built on a more flexible, operationally efficient platform. The initial version of the eGMS was fully connected to the Grants.gov site. In 2018 and 2019, the agency has been working to fully integrate eGMS with its internal financial systems and the financial systems operated by external service providers.

Another challenge for the Arts Endowment 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 the Arts Endowment's compliance with FISMA, we continuously identify ways for the agency to enhance security, and the agency continually makes progress each year in complying with information system security requirements.

A further challenge for the Arts Endowment is the E-Government and Privacy Acts 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 the agency's ongoing attention as information security requirements change and become increasingly important in safeguarding information network systems.

Inventory Management. The Arts Endowment continues to improve the accountable property inventory process. The Administrative Services along with Information Technology staff worked to identify and document all accountable property, including furniture and technology equipment. Most accountable property has been recorded in an automated inventory system and other assets have been recorded in an electronic spreadsheet. The focus of this challenge has shifted from establishing and maintaining the inventory to ensuring inventory records accurately reflect the location of assets.

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

Our audits continue to identify awardees that have not complied with all applicable Federal award requirements. These awardees are typically identified through our risk based annual audit planning, hotline allegations/complaints, or referrals from the agency's Grants Office. 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 agency awardees; and
- (5) Not maintaining a Section 504 self-evaluation at the organization.

We acknowledge and encourage the Arts Endowment'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 the agency, and the results of our audits will, in our opinion, help to improve awardee compliance. As grant making is the primary mission of the Arts Endowment, this area will continue to be an important challenge.

We have experienced strong support from Arts Endowment management in identifying and tracking these top management challenges. We look forward to continuing to partner with Arts Endowment managers and staff – helping to deliver the Agency mission with excellence and integrity.

cc: Tom Simplot, Senior Deputy Chairman
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

*National Endowment for the Arts – FY 2019 Agency Financial Report
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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

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, Requirements for Effective Estimation and Remediation of Improper Payments*, defines an improper payment and provides guidance to agencies to comply with IPIA as amended, and for agency improper payments efforts.

Improper Payments Risk Assessments

The Arts Endowment has four major fund categories: Administrative; Program Support; Direct Grantmaking; and Partnership. None of these programs is considered susceptible to significant erroneous payments or qualifies as risk-susceptible based on OMB guidance thresholds. The Arts Endowment annually 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.

Preventing and Detecting Improper Payments

The Arts Endowment's internal controls did not identify any programs that constitute a high risk for improper payments. The improper payments identified by the Arts Endowment totaled less than \$1M in aggregate for all programs or (<1%) for FY 2019. All improper payments identified were corrected either through recapture or remittance of correct funds.

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

The Arts Endowment also completes post-payment reviews. To identify the possibility of erroneous payment for financial assistance awards, quarterly reviews of obligations are completed to ensure awards have appropriate approval and are obligated accurately in the financial system, and that related award payments are authorized, accurate, and complete. Administrative expense reviews include a quarterly review of manual invoices 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

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flagged and researched. Based on these internal controls and payment monitoring reviews, we believe that the Arts Endowment has an insignificant risk of significant improper payments for FY 2019.

Improvement of Payment Accuracy with the Do Not Pay Initiative

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

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

- Engages the DNP Analytics Services to match its vendor records with the Death Master File (DMF). The review identifies high-risk vendor records possibly associated with deceased individuals and prompts ESC to classify the vendor records into risk-based categories for further evaluation.
- Deactivates the highest risk vendor records, thereby decreasing the likelihood of improper payments to deceased individuals.
- Implements a vendor maintenance process to deactivate profiles without activity within 18 months and does not have active invoices or purchase orders. This effort of cleaning up financial system decreases the likelihood of making improper.
- Kicked off a project to integrate SAM.GOV with the financial system to manage its supplier database to ensure the accuracy and integrity vendor data.
- Implemented a software tool to help monitor duplicate payments more effectively and timely based on business rules defined by ESC. This has allowed for daily review and even potential to prevent duplicate payments due to the quick software processing of information.
- In FY19, implemented a pre-payment review of Enterprise Data Quality (EDQ) potential duplicate invoices which will enhance its control of ensuring payments are made accurately.

Fraud Reduction

Fraud risk management is an important aspect of the Arts Endowment's strategy to achieve its mission and goals. Fraud prevention, detection, monitoring, and response are key to managing fraud risk and are continually being integrated into the culture and controls throughout the Agency. The Arts Endowment takes a variety of steps to both address and prevent fraud, waste and abuse. During FY 2019, the Arts Endowment 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 the Arts Endowment reports only on significant improper payments in this report, the Arts Endowment reviews all sources of payments as part of its overall improper payment risk assessment and considers fraud among the variety of contributing risk factors.

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Analyses of risks, including fraud risks, are a component of the Arts Endowment’s financial internal control program. Annually, the Arts Endowment performs a risk assessment and assesses exposures and controls around fraud risk. How the Arts Endowment anticipates, identifies, and responds to fraud is considered during the assessment. Existing policies and procedures are also examined to ensure that they adequately meet their objective. Operational processes are also reviewed for inherent and control 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 84 CFR 1402-1404. The Arts Endowment 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	\$11,462
31 U.S.C. 1352	Penalty for certain violations of the Arts Endowment’s Restrictions on Lobbying	Violation	1989	1989	Between \$20,134 and \$201,340

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