NATIONAL ENDOWMENT FOR THE HUMANITIES

PERFORMANCE & ACCOUNTABILITY REPORT

FISCAL YEAR 2023

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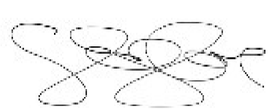
Message from the Chair

I am pleased to present the Performance and Accountability Report for the National Endowment for the Humanities for the fiscal year 2023. The report sets forth the agency's goals, objectives and results for the fiscal year just concluded. The report provides communication on the Endowment's performance, operations, and financial information.

The Endowment’s grant programs received over 4,000 applications in fiscal year 2023. Each eligible application underwent a rigorous peer review process to evaluate the quality and significance of the proposed projects. The information contained in this report summarizes the agency’s work on behalf of the taxpayer and the value of NEH’s programs for the American people.

During FY23, NEH awarded more than $105 million in direct grant funding through 1145 grant awards to humanities organizations and individuals to support research, education, preservation, and public programs in history, literature, philosophy, languages, and other humanities fields. These peer-reviewed grants were awarded in addition to $65 million in annual operating support provided to the national network of state and jurisdictional humanities councils. Additional funding initiatives include emergency grants to assist nonprofit cultural organizations in recovering from damage due to floods, tornadoes, wildfires, and typhoons in Mississippi, Vermont, Hawaii, and Guam, and a $4 million partnership with the Department of the Interior to expand the Federal Indian Boarding School Initiative through the collection of oral histories and digitization of records documenting the experiences of survivors and descendants of federal Indian boarding school policies. Under NEH’s ongoing initiative, “American Tapestry: Weaving Together Past, Present, and Future,” the Endowment committed $1.7 million toward the creation of pilot programs in civics and history education pilot programs in underserved elementary schools; provided $500,000 in supplemental funding to 39 state and jurisdictional humanities councils to support regional and local National History Day competitions; and awarded $2.8 million for “United We Stand: Connecting Through Culture” programs to leverage the humanities to foster community dialogue and counter hate-fueled violence.

The financial and performance data contained in this report are, to the best of my knowledge, reliable, accurate, and complete. NEH’s fiscal year 2023 financial statement audit yielded a 17th consecutive unmodified (clean) audit opinion. While Enterprise Risk Management (ERM) was again identified as an area for improvement, NEH made significant progress in establishing our program, which is discussed further in this report. The agency is fully committed to continuous process and operational improvements.



Shelly C. Lowe (Navajo)
Chair

I. Management's Discussion and Analysis

Mission, Vision, and Core Values[1]

NEH's vision is for "*a nation where the public has access to and can benefit from the Humanities without barriers*".

The agency's mission is to "*to serve and strengthen our nation by fostering an expanded role for the Humanities*".

Accessible: We listen, learn, and strive to break down barriers.

Responsive: We provide high-quality support and advice to meet on-going needs.

Collaborative: We work respectfully and inclusively through collaboration and open communications.

Reflective: We encourage critical, deep, and innovative thinking.

Integrity: We uphold public trust through honesty, fairness, and transparency.

Organization

The National Endowment for the Humanities (NEH) is an independent federal agency created in 1965. NEH serves the American public as the only federal agency dedicated to funding the humanities, which include history, philosophy, literature, language, ethics, law, archaeology, political theory, comparative religion, anthropology, sociology, and media and cultural studies. NEH supports the fundamental building blocks of American civil society, helping us to examine the human condition, understand our cultural heritage, foster mutual respect for diverse beliefs and cultures, develop media and information literacy, and promote civics education. Since its founding in 1965, NEH has awarded nearly $6 billion in grants to museums, historic sites, colleges, universities, K–12 teaching, libraries, public television and radio stations, research institutions, independent scholars, and state and jurisdictional humanities councils nationwide—providing a critical lifeline to the nation's cultural and educational sectors and sustaining the United States' role as a global leader in the humanities.

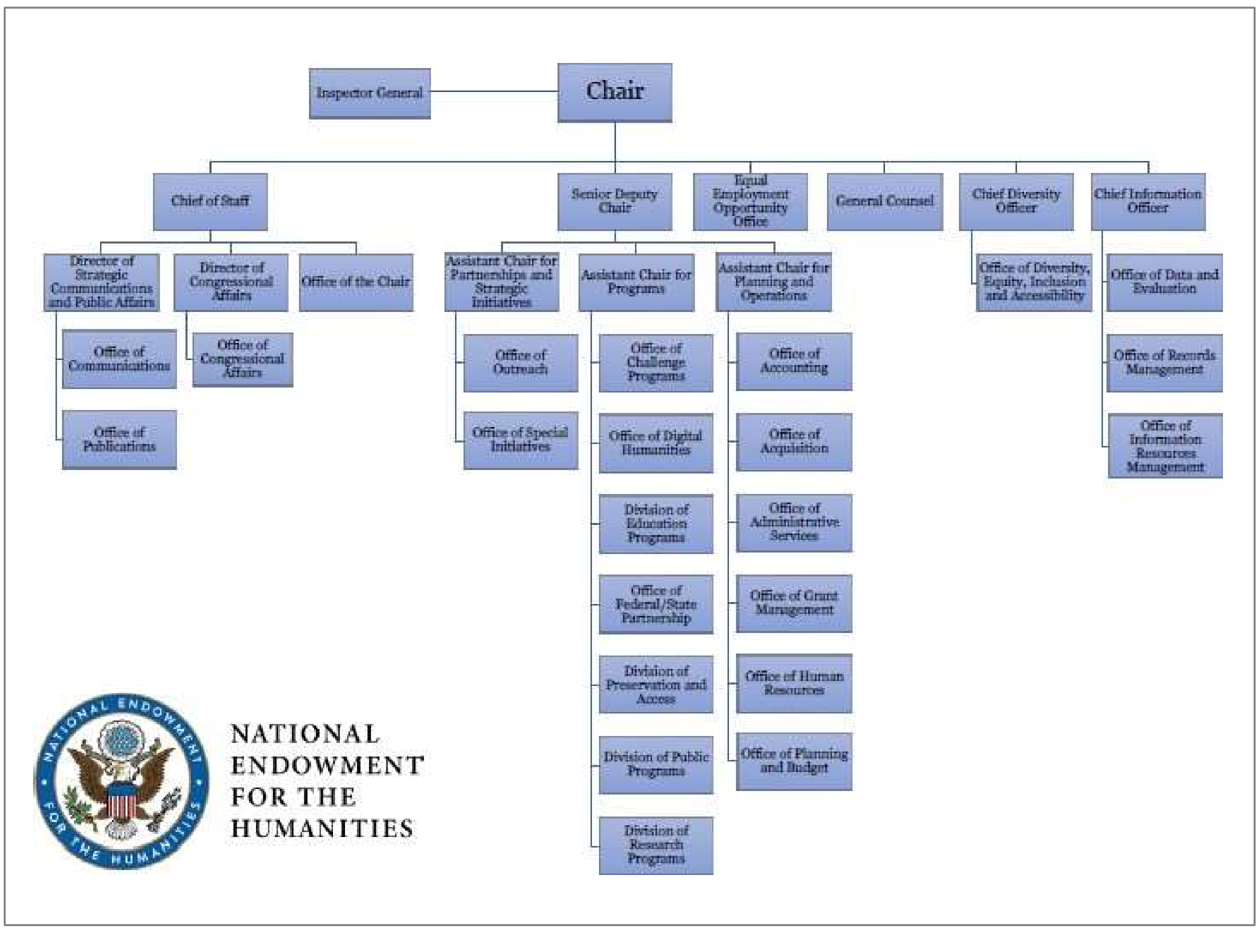
NEH is a consolidation entity of the federal financial reports of the U.S. Government; however, the presentation of information in this report is as its own entity. NEH is directed by a Chair, who is appointed by the President of the United States and confirmed by the U.S. Senate for a term of four years. President Biden announced the nomination of Shelly Lowe, who was confirmed by the U.S. senate as twelfth Chair of the Endowment in February of 2022. Anthony Mitchell was appointed as NEH's Senior Deputy Chair in August of 2022.

[1] FY2022-2026 NEH Strategic Plan Framework

Advising the Endowment’s Chair is the National Council on the Humanities, a board of 26 distinguished private citizens who are appointed by the President and confirmed by the Senate. National Council members serve staggered six-year terms. The National Council on the Humanities meets at least three times annually to advise the NEH Chair. The Chair considers the advice provided by the review process and, by law, makes all funding decisions.

The agency’s programmatic operations are divided into seven divisions and offices that conduct grant making on behalf of major agency programs and initiatives. These divisions and offices include Federal/State Partnership, Public Programs, Preservation & Access, Research Programs, Education Programs, Digital Humanities and Challenge Programs. The program divisions are supported by several administrative offices, which are reflected in the organization chart below.

Organizational Chart



Organizational Summary

The Office of Federal/State Partnership is the liaison between NEH and the nonprofit network of state and jurisdictional humanities councils. This division provides general operating support awards to the states and jurisdictions to bring humanities education, lifelong learning, and public humanities programming to communities across the country. This partnership also serves to advance public understanding of the humanities, while enhancing public awareness of, access to, and support for the humanities on a local, grassroots level.

The Division of Public Programs supports a wide range of public humanities programming that reaches large and diverse public audiences and makes use of a variety of formats including exhibits, public programs, film, radio, and digital media. Supported projects include those that bring the ideas and insights of the humanities to life for general audiences as well as interpret and analyze humanities content in primarily digital platforms and formats, such as websites, mobile applications and tours, interactive touch screens and kiosks, games, and virtual environments.

The Division of Preservation and Access supports projects that preserve and create intellectual access to collections and cultural heritage resources of importance for research, education, and public programming in the humanities. This division supports projects that preserve cultural and heritage materials in diverse formats of materials that are threatened by factors inherent in their physical structures or by the environments in which they are housed.

The Division of Research Programs supports scholarly research and writing in all disciplines of the humanities and humanistic social sciences. Through annual funding opportunities, awards are made to scholars, including individuals, collaborative teams, and institutions working on research projects that advance knowledge and understanding of the humanities.

The Division of Education Programs supports projects that strengthen teaching and learning in the humanities through innovative curricular programs and professional development for K-12 and higher education faculty. Projects supported include intensive reading and discussion summer programs featuring recognized scholars, programs that support broad institutional endeavors and integrative curricular projects at two- and four-year post- secondary institutions between various disciplines, and a veterans-centered program supporting institutions exploring experiences of war and military service.

The Office of Digital Humanities supports projects advancing development of and training in digital tools, methods, and best practices for humanities research, teaching and learning, public engagement, and scholarly communications. Another major goal of ODH is to increase the capacity of the humanities in applying digital methods. The office also works closely with the scholarly community and other funding agencies in the United States and abroad to encourage collaboration across national and disciplinary boundaries.

The Office of Challenge Programs supports projects that transform and strengthen humanities institutions and organizations through federal matching grants to fund construction and improvements to facilities and equipment. Supported projects include building and renovating structures such as museums and libraries and comprehensive organizational assessments leading to climate-informed strategic plans to reduce operational costs, increase resilience, and support organizational health.

Treasury Matching Funds are utilized to match nonfederal contributions in support of humanities projects. These funds are awarded in most programs, and NEH funding is conditioned on an equivalent ratio amount of funds being raised by the recipients. NEH Treasury matching funds aims to leverage the contributions of the nation's businesses, foundations, and individuals on behalf of the humanities.

Peer Panel Review is a hallmark of the NEH grant application review process. NEH instructs reviewers to evaluate applications according to the published review criteria and in compliance with federal ethics and conflicts of interest requirements. Peer reviewers come from diverse disciplinary, institutional, regional, and cultural backgrounds. They are experts in their respective fields with relevant knowledge and expertise in the types of project activities identified in the grant funding applications submitted to the agency. Based on the peer review and their individual experience, NEH staff provide comments and make recommendations for funding to the National Council on the Humanities and the Chair of NEH. The National Council on the Humanities provides recommendations to the Chair, who makes the final funding decisions.

The Annual Performance Report is due in February of each fiscal year and will be available on the agency website.

Performance Goals, Objectives, and Results

NEH's strategic plan framework sets forth the structure for how the agency's goals, objectives and measures are highlighted in achieving the agency's mission through results. The topics further discussed in subsequent sections attempt to integrate elements of enterprise risk management as well as provide insight into how each goal is defined and structured to the mission of the agency.

The agency continues to evolve its Enterprise Risk Management (ERM) program implementation and the integration of data to support evidenced-based decision making. In the current year, NEH has made tremendous progress in addressing its risks, its data infrastructure and how results are measured and presented.

Risk

In spring 2021, NEH initiated implementation of an Enterprise Risk Management (ERM) program. Since that time, the agency created a Chief Risk Officer (CRO) position; established a governance structure; adopted a governance charter and administrative directive; created the agency's risk appetite statement; and developed a comprehensive risk register that aligns to the strategic framework and documents mitigation efforts.

The agency has evolved its implementation strategy in the current year to internalize the functional work through the process of hiring a Risk Analyst. As a full-time federal employee, the Risk Analyst will be responsible for working with the CRO to sustain the ERM program, maintain work products, and collaborate across the agency to integrate ERM, strategic planning, internal controls, and performance.

During the development of the risk register, the agency identified several risks related to its outdated financial system such as (1) the procurement system for requisitions and the agency's financial system are not linked; (2) manual processes for payments, accruals, and travel; (3) data is compiled outside of the financial system for reporting; and (4) non-compliance with federal requirements set by the U.S. Treasury and Office of Management and Budget. To mitigate these risks, NEH is working with the Department of Treasury's Administrative Resource Center (ARC) to transition NEH to their shared service platform. This transition will remediate some of the agency's risks and automate processes that are currently manual. NEH anticipates the transition to the shared services system to occur in calendar year 2024.

Across the agency, both in the programmatic divisions and administrative offices, staffing was also identified as a cross-cutting risk, contributing to other identified risks. Hiring additional staff will assist in remediating and/or mitigating risks such as: (1) lack of standard operating procedures or outdated procedures; (2) segregation of duties; (3) lack of a data infrastructure; and (4) delays in the grant lifecycle.

Delays in receiving full year appropriations and future uncertainty about agency appropriations contribute to hiring delays. To ensure current and future year sustainability of positions, the hiring of any position requires routing and approval through the Director of Planning and Budget and the Senior Deputy Chair.

Financial Statements Overview & Analysis

The audited financial statements are prepared to report the financial position, financial condition and results of operations of the National Endowment for the Humanities (Endowment), pursuant to the requirements of 31 U.S.C. § 3515(b). The financial statements are prepared from records of the agency in accordance with federal generally accepted accounting principles (GAAP) and Federal Accounting Standards Advisory Board (FASAB) as per the formats prescribed by OMB A-136 Financial Reporting Requirements. Reports used to monitor and control budgetary resources are prepared from the same records. The financial statements users should be advised the agency statements are a component of the U.S. Government. The following is a summary of the agency financial statements and Dollar amounts represent millions (M) unless otherwise stated.

The Endowment continued to provide emergency relief to organizations working in the humanities affected by the coronavirus pandemic through disbursing existing obligations of supplemental appropriations from the American Rescue Plan Act of 2021 and Coronavirus Aid, Relief, and Economic Security Act of 2020 (CARES). NEH's net outlays for FY2023 was $46.8M and $4.6M respectively.

Balance Sheet (BS)

The Balance Sheet presents the amounts of assets owned and liabilities of NEH for the current fiscal year and prior fiscal year. Their difference determines the net position as of September 30, 2023.

Total assets are $296.7M for FY2023. The most significant asset is the Fund Balance with the U.S. Treasury (FBWT) which represents grant funds to be disbursed in future years. For fiscal years 2023 and 2022, FBWT amounts were $286.9M and $328.8M, respectively. The decrease is primarily due to receipt of the supplemental funding in the prior fiscal years as compared to no supplemental funding received in the current fiscal year. Increases to Advances and Prepayments from the current year compared to prior year are primarily due to an $4M inter-agency agreement advance to the Department of Interior.

Total liabilities are $55.7M for FY2023. The majority of NEH's Other than-intragovernmental liability is due to the estimated grant liability (accrual). The accrual expense increased to $51.6M in the current year from $43.8M in the prior year, primarily due to fluctuation in calculation factors in the accrual methodology.

Statement of Budgetary Resources (SBR)

The Statement of Budgetary Resources displays how budgetary resources were made available to the Endowment and the status of resources at the end of the reporting period. NEH budgetary resources are derived primarily from no year funds appropriated by the U.S. Congress.

For fiscal years 2023 and 2022, total budgetary resources were $255.2M and $274.9M, respectively. The decrease is primarily due to reduced unobligated balances of supplemental appropriations received in prior years compared to 2023. Regular appropriations increased to $26.7M in 2023 compared to 2022. Status of Resources decreased in FY2023 compared to FY2022 due to reduced new obligations.

NEH had increased net outlays to $248.6M in 2023 from $215.2M due to increased disbursements and an increase in the grant liability accrual amount.

Statement of Net Cost (SNC)

The Statement of Net Cost presents cost information by responsibility segment, namely, the program divisions within NEH, along with previously established initiatives. The net cost of operations represents gross cost incurred less any exchange revenue activity earned. Disclosures of gross and net cost provide information which correlates to program activity outputs. For fiscal years 2023 and 2022, net cost of operations increased to $255.4 from $211.9M due to increased grant disbursements and liability accrual.

Statement of Changes in Net Position (SNCP)

The Statement of Changes in Net Position display the components of the unexpended appropriations and cumulative results of operations representative of comparative changes to balances. For fiscal years 2023 and 2022, net position was $240.9M and $287.3M respectively. The decrease is primarily due to decreased beginning balances and increases in net cost of operations.

Analysis of Systems, Controls and Legal Compliance

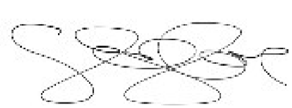
Management Assurances

NEH management is responsible for managing risks and maintaining effective internal controls to meet the objectives of Sections 2 and 4 of the *Federal Managers' Financial Integrity Act of 1982* (FMFIA). NEH conducted its assessment of risk and internal control in accordance with OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Based on the results of the assessment, the agency can provide reasonable assurance that internal control over operations, reporting, and compliance were operating effectively as of September 30, 2022.

The *Federal Financial Management Improvement Act of 1996* (FFMIA) requires agencies to implement and maintain financial management systems that substantially comply with federal financial management system requirements, federal accounting standards and the United States General Ledger. NEH conducted its evaluation of financial management systems for compliance and based on assessment can provide reasonable assurance that financial management systems substantially comply with the FFMIA, Section 4. Detailed information is provided in the Other Accompanying Information section of this report.

There are no other component or subsidiary entities that are combined or consolidated for presentation in this document. Through sustained effort, NEH is committed to maintaining compliance with applicable laws.

NEH is committed to and continues making progress toward the integration of risk management, internal controls, and strategic planning.



Shelly C. Lowe (Navajo)
Chair

II. Performance Information

Introduction

NEH's discussion of general operational process cycles provide context into how goals and objectives are structured and how goals can be achieved. The agency operates within three general procedural concepts:

- NEH grant programs and award cycles cross multiple fiscal years. Agency awards cycle occurs approximately three times per year in March, July, and November. During the pandemic, additional cycles were added to support supplemental COVID funding awarded to the agency. NEH cycles and periods of performance do not align with the financial fiscal year so they may not currently demonstrate full performance results. Therefore, the data disclosed in this report may not present the full scope of previously established programmatic activity.

- The volume of applications received by NEH typically fluctuates year over year. This is dependent on many factors, including but not limited to, the availability of appropriations, administrative and operational priorities and grant line programs available.

- Grant applications are evaluated through a highly competitive peer-review panel process and a review by the National Council on the Humanities. These recommendations are presented to the agency Chair, who weighs the recommendations and information provided and ultimately makes final funding decisions. Due to this rigorous selection process, the numbers of grants awarded during a given year may differ significantly from the numbers of awards projected for the year or applications received.

Forward Looking Information

In support of evidenced based decision making and maturing the development of a performance metric framework across the agency, NEH has established the Office of Data and Evaluation to understand and develop a data framework to develop hierarchies in support of the integration of operational and financial data.

Additionally, the implementation of the ARC shared service platform supports this integration through the realignment of the financial data hierarchy and its correlation to data within the grant management system. NEH will continue to implement these concepts to support future data, performance measures and their alignment. Therefore, currently presented metrics will be adapted and matured across NEH's statutory reporting requirements.

Strategic Goals and Objectives

The goals and objectives outlined in this section align directly with the agency strategic plan framework. Measures and outcomes to these goals are further discussed in subsequent sections of this report.

Strategic Goal 1: Preserve, advance, and expand awareness of the Humanities.

NEH strives to present a forum in which the role of the humanities continues to expand its footprint. NEH recognizes its ongoing responsibility to ensure all peoples benefit from the expanded reach of what the humanities can and will provide to society, now and in the future.

Strategic Objective 1: Strengthen the Role of and Institutional Base of the Humanities

- Provide national leadership in spurring innovation and encouraging best practices in the humanities.
- Broaden participation in the humanities.
- Enhance preservation of and access to humanities resources

Strategic Objective 2: Strengthen the Nation's democracy through education and civic engagement.

- Strengthen civics and humanities education and learning.
- Support investment in projects that examine threats to democracy.
- Provide increased opportunities for Americans to engage in lifelong learning in the humanities.

Strategic Objective 3: Increase Exploration of Impacts of Climate Change on the Nation's Cultural Heritage

- Support climate resilience in the nation's cultural and educational sectors.

Strategic Objective 4: Bolster NEH's profile as a Research Agency

- Support robust humanities research.
- Increase collaboration with external partners on a variety of research and developmental opportunities.

Strategic Goal 2: Advance Equity and Support for Historically Underserved Communities

President Biden's Executive Order on *Advanced Racial Equity and Support for Underserved Communities* (E.O. 13985) takes a "Whole-of-Government" approach to advance equity for all, including people of color and others who have been historically underserved, marginalized, and adversely affected by persistent poverty and inequality. Executive Order 13985 has informed NEH equity planning efforts including putting a robust data collection system in place, enhancing its outreach, and branding strategies, and simplifying the grants application process.

Strategic Objective 1: Reduce barriers to NEH programs and funding.

- Simplify the grant application processes.
- Embed a culture of program and funding accessibility.
- Develop communication strategies that promote NEH programs and funding opportunities to underserved communities.

Strategic Objective 2: Increase engagement with underserved communities.

- Provide greater assistance to small organizations and first-time applicants.
- Collaborate with entities to increase the agency's engagement with underserved stakeholders.
- Increase collaborations with Tribal Nations, veterans, Historically Black Colleges and Universities (HBCUs), Hispanic Serving Institutions (HSIs), Tribal Colleges and Universities (TCUs), and community colleges.

Strategic Goal 3: Fortify the management of NEH Resources

NEH stakeholders contemplated how to best manage and carry out the agency mission within finite and limited resources (i.e., people, budget, etc.) and how to best allocate these resources. Planning and thought leadership are essential in bringing together ideas and best practices on effective and efficient operations. NEH recognizes the tremendous value each of our divisions and offices contribute to the accomplishment of our vision and mission and look capitalize these strengths nearly 60 years in the making as we move toward a future forward approach.

Strategic Objective 1: Increase NEH's data collection capacity and scope

- Develop an agency data-driven framework for Agency funding and operations.
- Establish a data driven evidence-based culture to support decision making.

Strategic Objective 2: Expand NEH's procurement opportunities.

- Attract, identify, and utilize partners from underserved communities.

Strategic Objective 3: Further integrate risk analysis into NEH's decision making process.

- Integrate ERM into organizational culture, process, and decision making.

Strategic Goal 4: Expand NEH's organizational capacity and capability.

At NEH, organizational capacity is defined as our potential to ensure our growing and changing operations continue to be efficient, productive, and effective. NEH defines its assets from both a tangible perspective (i.e., financial and budgeting) and from an intangible perspective (i.e., institutional and thought knowledge, leadership, and internal and external relationships.) Capacity focuses on our potential, capability refers to existing and future personnel, ensuring tools are available to maximize roles and responsibilities at NEH.

Strategic Objective 1: Enhance cultivation of an inclusive and high performing workforce.

- Continue to recruit, hire, and retain a diverse agency workforce.

- Expand NEH professional developmental opportunities.
- Support career paths for a diverse generation of humanities professionals.

Strategic Objective 2: Foster a culture of communication and collaboration.

- Provide collaborative leadership training and development opportunities for managers and supervisors.
- Capitalize on working group efforts for cross-unit collaboration.

Strategic Objective 3: Modernize NEH's operational systems and processes.

- Enhance integration of NEH systems and processes.
- Develop, monitor, and implement updated policies and procedures.

Performance Goals, Metrics and Measures

The purpose of this section is to present performance activity for the current fiscal year and the outcomes achieved during the year. The data and narratives discussed below are in alignment with the strategic plan framework. As NEH continues to fully implement its data infrastructure, future performance measures will be adapted and matured for continued alignment across NEH's statutory reporting requirements.

NEH's total administrative costs of $40.9M are associated with all four major strategic goals. Administrative costs represent agency supporting activities, including staff salary and benefits, administrative services, travel, interagency agreements with federal partners, IT related expenses, training and conferences, panelist honoraria payments, supplies, invoice accruals, and depreciation.

The program costs included within Strategic Goal 1 and Strategic Goal 2 below represent multiple divisions' grant activities and do not include the associated administrative costs.

Outcomes for Strategic Goal 1: Preserve, advance, and expand awareness of the Humanities.

As the only federal agency dedicated to funding the humanities, NEH recognizes its ongoing responsibility to ensure all people can benefit from the humanities. As our nation grapples with existential threats to our democracy, the persistent scourge of systemic racism, and the ongoing climate crisis—the humanities are more vital than ever. NEH plays a core role in advancing federally funded research and development (R&D), preservation, and educational and public programming to foster a strong, resilient, and thriving democracy; build a more just and equitable society; and protect our cultural resources from the effects of climate change. NEH-supported projects bring the past into sharper focus, thereby bringing about, as its founding legislation affirms, "a better analysis of the present and a better view of the future."

In fiscal year 2023, the net cost of Strategic Goal 1 represented $150.6M inclusive of the activities of the seven programmatic divisions and offices: Challenge Programs, Digital Humanities, Education Programs, Federal/State Partnership, Preservation and Access, Public Programs, Research Programs. These costs represent over sixty (60) different grant line programs across the programmatic areas. Costs for Treasury Matching Funds and special initiatives programs like the agency-wide American Tapestry: Weaving Together Past, Present, and Future are included within the underlying grant activity presented for this goal and aligned to with the Statement of Net Costs.

NEH will continue to mature and integrate its data hierarchy and infrastructure to refine future metrics and measures.

Outcomes for Strategic Goal 2: Advance Equity and Support for Historically Underserved Communities

In 2022, in response to Executive Order 13985, NEH released an ambitious Equity Action Plan to remove barriers to full and equal participation in the agency's programs and opportunities.

In 2023, NEH implemented its Equity Action Plan by:

- Creating an Office of Data and Evaluation and building a robust data collection system to analyze the effectiveness of NEH programs and policies and determine whether, and to what extent, they advance equity and support for underserved communities;

- Creating an Office of Outreach and refining and developing plans to refine the agency's branding to increase engagement with communities and institutions that have been historically underserved by NEH, such as Tribal Nations, veterans, HBCUs, HSIs, TCUs, and community colleges; and

- Exploring ways to simplify the agency's grant application processes and funding opportunity notices. NEH also continued to support programs and projects that build capacity, expand access and inclusivity, and amplify untold stories of historically underserved groups through American Tapestry: Weaving Together Past, Present, and Future, NEH's special initiative.

For fiscal year 2023, the net cost of Strategic Goal 2 represented $63.9M inclusive of the activities of the seven programmatic divisions: Challenge Programs, Digital Humanities, Education Programs, Federal/State Partnership, Preservation and Access, Public Programs, Research Programs. These costs represent over sixty (60) different grant line programs across the programmatic divisions. Costs for Treasury Matching Funds and special initiatives programs are included within the underlying grant activity presented for this goal and aligned to with the Statement of Net Costs.

NEH will continue to mature and integrate its data hierarchy and infrastructure to refine future metrics and measures.

Outcomes for Strategic Goal 3: Fortify the management of NEH Resources

Strategic Objective 1: Increase NEH's data collection capacity and scope

In 2023, NEH established an Office of Data and Evaluation (ODE) to ensure the equitable distribution, reach, and impact of NEH funds through 1) analyses of awards and their impacts, as well as of awardees and panelists; 2) systematic program and agency evaluations; and 3) broad humanities data gathering.

Since the office's first Director on-boarded in January 2023, the office has hired a full-time staff member and is in the process of hiring additional staff members, established a program data working group with representation from all NEH's programmatic divisions as well as the Office of Grant Management. This was to allow a broad coalition of NEH staff to collaborate on goals related to grantmaking data and evaluation, reviewed best practices at similar organizations such as the National Endowment for the Arts, Institute of Museum and Library Services, and the National Science Foundation, and participated in further refining performance metrics for the agency.

Strategic Objective 2: Expand NEH's procurement opportunities.

For purchases and procurements, NEH continues to encourage competition wherever possible to ensure that a fair and reasonable price is obtained from the vendor that is selected. NEH also supports the use of priority sources, such as General Services Administration (GSA) supply sources or vendors with GSA contracts. When these sources cannot provide the services or supplies required, NEH turns to commercial sources in the open market. For open market purchases over $10,000, NEH generally requires employees to obtain quotations from at least three sources to ensure adequate competition.

NEH also continues to encourage underserved communities to participate in our acquisition program, including veterans, women owned small businesses, small/ disadvantaged businesses, and 8(a) firms. In addition, NEH continues to provide resources to staff involved in ongoing and future solicitations regarding vendor diversity. In 2023, we also continued to restaff and rebuild our acquisition function, and as NEH continues to rebuild, we intend to hold vendor forums and conduct expanded outreach regarding our procurement opportunities as a part of our supplier diversity work.

Strategic Objective 3: Further integrate risk analysis into NEH's decision making process.

In 2023, NEH continued implementation of the ERM program through various activities which include:

- Regular meetings of the NEH Enterprise Risk Management Board that provided training as well as review and adoption of work products;
- The adoption of a revised governance chart that was signed by the Chair;

- The adoption of an administrative directive that outlines roles and responsibilities, definitions, and authorities for the ERM program;
- The adoption of the first comprehensive risk register for the agency that reflects alignment with the agency's strategic framework and documents risk mitigation efforts;
- The adoption of the agency's risk appetite statement; and
- Agency-wide all-staff training on ERM topics.

Additionally, NEH also performed a current statement assessment of its internal controls program and compliance with OMB Circular A-123 and its appendices. The agency will use this information to further integrate ERM, internal controls, data requirements, and performance.

Outcomes for Strategic Goal 4: Expand NEH's organizational capacity and capability.

Strategic Objective 1: Enhance cultivation of an inclusive and high performing workforce.

In response to Executive Order 14035, Diversity, Equity, Inclusion, and Accessibility in the Federal Workforce, NEH developed a DEIA Strategic Plan that outlines steps to recruit and retain a workforce that draws from the full diversity of the nation.

NEH is in the process of appointing a Chief Diversity Officer and creating an Office of DEIA to (1) establish a whole-of-agency, data-driven DEIA program at NEH that enables the agency to hire and promote the nation's best talent and build a diverse and representative workforce through an open and fair process consistent with merit systems principles; (2) implement recruitment and hiring policies and practices at NEH that strategically integrate DEIA goals, explore opportunities to achieve more equitable outcomes, and actively work to mitigate the effects of systemic bias on underserved communities; (3) increase professional development opportunities for NEH staff that create an inclusive, engaged, and high-performing workforce; and (4) embed accessibility as a core design component of NEH facilities, digital spaces, website services, and programs so that all people, including people with disabilities, can fully and independently use them.

NEH continued to refine its methodology to measure organizational health, pursuant to OMB Memorandum M-23-15, Measuring, Monitoring, and Improving Organizational Health and Organizational Performance in the Context of Evolving Agency Work Environments.

NEH developed its new telework and remote work policies to promote workplace transformation and maximize the agency's organizational performance and organizational health. The new policies also support NEH's Strategic Workforce Planning and DEIA efforts to retain essential skills and knowledge deemed critical among staff, and to support a more competitive and inclusive workplace.

Strategic Objective 2: Foster a culture of communication and collaboration.

NEH utilizes many working groups, task forces, and committees that include staff from across the agency to provide developmental leadership opportunities for management and staff and enhance cross-unit collaboration. For example, in 2023, the NEH Equity Task Force, comprised of staff from across the agency and led by managers from various units, completed its detailed report to the Chair recommending actions for implementation of the NEH Equity Action Plan. This task force intentionally included staff and managers from both the programmatic and administrative offices and divisions.

NEH also currently has 3 cross unit working groups focused on outreach and technical assistance to underrepresented populations, including Historically Black Colleges and Universities (HBCUs), Hispanic-Serving Institutions (HSIs), and Native Americans and Tribal Colleges and Universities (TCUs).

In addition, NEH maintains several groups that focus on various areas of our work, including the Awards Committee, who advise and recommend on staff and manager award nominations throughout the year; the Combined Federal Campaign (CFC) Committee, whose members outreach to the agency regarding CFC; the Future of Work Group, who provided recommendations to the Chair's Office regarding workplace flexibilities; Telework and Remote Work Policy implementation team, who worked across the agency to finalize NEH's policies and provided technical assistance and outreach to agency staff; and the Special Observances Committee, which include staff from across NEH well as staff from NEA.

NEH also conducts quarterly Town Halls for all staff, and every includes a presentation from staff and managers from different units within the agency. Individual units also facilitate regular working groups with other agency components for improved operations. For example, the Office of Accounting conducts recurring working groups with the Office of Planning and Budget, Office of Grants Management, Human Resources, Acquisitions, and Office of Information Resources Management.

With respect to data and performance, as discussed above, the agency also established the Program Data Working Group and the Performance Metrics Working Group to utilize expertise in various units and divisions to further implement robust data infrastructure.

All of these collaborative teams include staff and managers from across the agency and provide opportunities for cross-unit collaboration and leadership training and development. In FY2023, NEH offered a 360-degree feedback training for first line managers to further foster collaboration and communication throughout the agency.

Strategic Objective 3: Modernize NEH's operational systems and processes.

In 2023, NEH continued to prioritize information technology (IT) modernization and cybersecurity and made significant progress in implementing guidance from CISA's Zero-Trust Maturity Model. The Office of Information Resources Management (OIRM) completed PAAS (Platform as a Service) modernization and adopted Okta to allow secure authentication for NEH staff. Okta leverages PIV credentials for staff to access NEH systems. NEH also successfully adopted Login.gov for the eGMS system, the NEH grants management system, to improve security and user experience when recipients and reviewers interact with NEH.

The Office of Accounting, in conjunction with other administrative offices, undertook official engagement activities with the U.S. Department of Treasury's Administrative Resource Center (ARC) to upgrade its financial management system to a shared services system and service platform. Phase 1 of a modernized payment requests processes by converting the agency's manual banking information collection to an electronic process facilitated within the agency grants management system, interfaced to the financial management system.

NEH completed implementation of GovTA and enhanced analytical and data capabilities through the hiring of the Director of Data and Evaluation, who also serves as the agency's Chief Data Officer (CDO).

III. Financial Information

A Message from the Director, Office of Accounting

On behalf of the National Endowment for the Humanities (Endowment), I present the agency's audited financial statements for fiscal year 2023. The independent auditor, Williams Adley, LLP has rendered an unmodified (clean) opinion on the agency financial statements. The Endowment has obtained an unmodified opinion on the agency's financial statements for the seventeenth consecutive year, indicating the Endowment's commitment to the careful stewardship of the taxpayer dollars.

The Office of Accounting operates within general government-wide challenges in the federal accounting and financial reporting compliance environment. As the U.S. Department of Treasury continues to implement their strategic and federal financial reporting goals within their strategic plan, NEH continues to work to ensure the agency is prepared and maintaining a future forward perspective to meet those objectives.

During this reporting period, the office began leading the agency through the implementation of Treasury's Administrative Resource Center (ARC) shared services solution. This entails our financial management system of systems, financial management processes and the underlying infrastructure inclusive of data relationships. As we continue work through engagement and planning activities for this migration while working collaboratively across the agency, the aim is to support a smooth transistion of this large, scaled project.

The contribution and efforts of the Accounting Staff and all NEH colleagues to receiving an unmodified opinion supports that the Endowment's financial statements are fairly presented and demonstrates steadfast commitment to responsible execution of fiduciary responsibilities.

Cora Shepherd

Audited Financial Statements Fiscal Year 2023

NATIONAL ENDOWMENT FOR THE HUMANITIES

BALANCE SHEETS
As of September 30, 2023 and 2022
(in US Dollars)

ASSETS	2023	2022
Intragovernmental:		
Fund Balance with Treasury (Note 2)	$ 286,997,256	$ 328,894,834
Accounts Receivable, Net (Note 3)	7,648	2,472
Advances and Prepayments (Note 15)	6,331,561	2,787,973
Total intragovernmental	293,336,465	331,685,279
Other than Intragovernmental:		
Accounts Receivable, Net (Note 3)	90,693	208,690
Property and equipment, net (Note 4)	553,712	510,278
Advances and Prepayments (Note 15)	2,742,116	2,669,506
Total other than intragovernmental	3,386,521	3,388,474
TOTAL ASSETS	296,722,986	335,073,753
LIABILITIES		
Intragovernmental liabilities:		
Advances from Others and Deferred Revenue	139,194	75,774
Other Liabilities (Note 6)		
Benefit contributions payable	329,949	311,210
Total intragovernmental liabilities	469,143	386,984
Other than intragovernmental liabilities:		
Accounts Payable	130,619	147,640
Federal Employee and veteran benefits payable (Note 6)	2,159,672	2,029,659
Other Liabilities (Note 6)		
Accrued Grant Liabilities (Note 14)	51,601,331	43,874,670
Accrued Funded Payroll (Note 6)	1,381,665	1,307,660
Total other than intragovernmental liabilities	55,273,287	47,359,629
TOTAL LIABILITIES	55,742,430	47,746,613
NET POSITION		
Unexpended Appropriations - Funds from Other than dedicated collections	242,115,993	288,007,773
Total Unexpended Appropriations (Consolidated)	242,115,993	288,007,773
Cumulative Results Operations - Funds from dedicated collections	542,882	764,055
Cumulative Results of Operations - Funds from Other than dedicated collections	(1,678,319)	(1,444,688)
Total Cumulative Results of Operations (Consolidated)	(1,135,437)	(680,633)
TOTAL NET POSITION	240,980,556	287,327,140
TOTAL LIABILITIES AND NET POSITION	$ 296,722,986	$ 335,073,753

The accompanying notes are an integral part of these statements.

NATIONAL ENDOWMENT FOR THE HUMANITIES

STATEMENTS OF BUDGETARY RESOURCES
As of September 30, 2023 and 2022
(in US Dollars)

	2023	2022
Budgetary Resources		
Unobligated Balance from Prior Year Budget Authority, Net (Note 10)	$ 46,944,883	$ 93,440,079
Appropriations (discretionary and mandatory)	207,024,611	180,335,507
Spending authority from offsetting collections (discretionary and mandatory)	1,256,549	1,209,057
Total budgetary resources	255,226,043	274,984,643
Status of Budgetary Resources		
New obligations and upward adjustments (total)	217,355,438	233,112,784
Unobligated balance, end of year:		
Apportioned, unexpired accounts	36,514,036	40,527,330
Unapportioned, unexpired accounts	1,187,739	1,199,850
Unexpired unobligated balance, end of year	37,701,775	41,727,180
Expired unobligated balance, end of year	168,830	144,679
Unobligated balance, end of year (total)	37,870,605	41,871,859
Total budgetary resources	255,226,043	274,984,643
Outlays, Net, and Disbursements, Net		
Outlays, net (total) (discretionary and mandatory)	248,922,190	215,569,869
Distributed offsetting receipts (-)	(233,486)	(357,072)
Agency outlays, net (discretionary and mandatory)	248,688,704	215,212,797
Disbursements, net (total) (mandatory)	$ 47,184,185	$ 61,214,852

The accompanying notes are an integral part of these statements.

NATIONAL ENDOWMENT FOR THE HUMANITIES

STATEMENTS OF NET COST
As of September 30, 2023 and 2022
(in US Dollars)

	2023	2022
GROSS PROGRAM COSTS (Notes 1 & 12)		
Gross costs	**$ 256,761,369**	**$ 213,010,399**
Less: earned revenue	**(1,263,898)**	**(1,043,923)**
Net program costs	**255,497,471**	**211,966,476**
A More Perfect Union		
Gross costs	5,872,293	4,746,028
Less: earned revenue	(15,286)	(12,492)
Net program costs	5,857,007	4,733,536
Challenge Grants		
Gross costs	15,802,140	6,700,890
Less: earned revenue	(40,739)	(17,386)
Net program costs	15,761,401	6,683,504
Digital Humanities		
Gross costs	12,218,012	9,297,261
Less: earned revenue	(481,414)	(268,972)
Net program costs	11,736,598	9,028,289
Education		
Gross costs	30,173,020	22,662,704
Less: earned revenue	(77,521)	(58,974)
Net program costs	30,095,499	22,603,730
Federal/State Partnership		
Gross costs	79,480,747	87,380,447
Less: earned revenue	(206,534)	(229,740)
Net program costs	79,274,213	87,150,707
Preservation and Access		
Gross costs	35,125,281	24,328,175
Less: earned revenue	(90,482)	(63,430)
Net program costs	35,034,799	24,264,745
Public Programs		
Gross costs	29,143,915	19,863,015
Less: earned revenue	(74,906)	(51,601)
Net program costs	29,069,009	19,811,414
Research		
Gross costs	45,631,054	36,137,848
Less: earned revenue	(268,387)	(336,342)
Net program costs	45,362,667	35,801,506
Treasury Matching Funds		
Gross costs	2,488,655	1,502,558
Less: earned revenue	(6,478)	(3,955)
Net program costs	2,482,177	1,498,603
Special Initiatives*		
Gross costs	826,252	391,473
Less: earned revenue	(2,151)	(1,031)
Net program costs	824,101	390,442
NET COST OF OPERATIONS	$ 255,497,471	$ 211,966,476

The accompanying notes are an integral part of these statements.

* Special Initiatives comprises Bridging Cultures, Common Good, We the People, and Program Development costs.

NATIONAL ENDOWMENT FOR THE HUMANITIES

STATEMENTS OF CHANGES IN NET POSITION
As of September 30, 2023 and 2022
(in US Dollars)

	2023			2022		
	Funds from Dedicated Collections (Note 8)	Funds from Other than Dedicated Collections	Total	Funds from Dedicated Collections (Note 8)	Funds from Other than Dedicated Collections	Total
UNEXPENDED APPROPRIATIONS:						
Beginning balances	$ -	$ 288,007,773	$ 288,007,773	$ -	$ 318,172,624	$ 318,172,624
Beginning balances, as adjusted	-	288,007,773	288,007,773	-	318,172,624	318,172,624
Appropriations received	-	207,000,000	207,000,000	-	180,000,000	180,000,000
Other Adjustments - Rescissions	-	(188,597)	(188,597)	-	-	-
Appropriations used	-	(252,703,183)	(252,703,183)	-	(210,164,851)	(210,164,851)
Net Change in Unexpended Appropriations	-	(45,891,780)	(45,891,780)	-	(30,164,851)	(30,164,851)
Total Unexpended Appropriations	-	242,115,993	242,115,993	-	288,007,773	288,007,773
CUMULATIVE RESULTS OF OPERATIONS:						
Beginning balances	764,055	(1,444,688)	(680,633)	842,733	(1,457,330)	(614,597)
Beginning balances, as adjusted	764,055	(1,444,688)	(680,633)	842,733	(1,457,330)	(614,597)
Appropriations used	-	252,703,183	252,703,183	-	210,164,851	210,164,851
Donations	213,208	-	213,208	335,507	-	335,507
Imputed financing	-	2,126,277	2,126,277	-	1,400,082	1,400,082
Net cost of operations (Note 12)	(434,380)	(255,063,091)	(255,497,471)	(414,185)	(211,552,291)	(211,966,476)
Net change in cumulative results of operations	(221,172)	(233,631)	(454,803)	(78,678)	12,642	(66,036)
Total Cumulative Results of Operations	542,882	(1,678,319)	(1,135,437)	764,055	(1,444,688)	(680,633)
NET POSITION	$ 542,882	$ 240,437,674	$ 240,980,556	$ 764,055	$ 286,563,085	$ 287,327,140

Eliminations represent zero balances in FY 2023 and 2022 for all lines
The accompanying notes are an integral part of these statements.

NATIONAL ENDOWMENT FOR THE HUMANITIES

Notes to the Financial Statements

As of and for the Period Ended
September 30, 2023 and 2022
(In Dollars)

Contents

The following Notes include the disclosure requirements contained in the Office of Management and Budget (OMB) Circular A-136, “Financial Reporting Requirements” and the Federal Accounting Standards Advisory Board (FASAB) “Statements of Federal Financial Accounting Standards” (SFFAS).

Note 1 – Significant Accounting Policies

A. Reporting Entity

The National Endowment for the Humanities (NEH) was established as an independent agency by the National Foundation on the Arts and the Humanities Act of 1965 and is the largest funder of programs supporting cultural institutions, research and public programs in the humanities. NEH financial statements are defined as a component entity of the U.S. Government. For this reason, some of the assets and liabilities reported by NEH may be eliminated for government-wide reporting because they are offset by assets and liabilities of another U.S. Government entity. These financial statements should be read with the realization that they are for a component of the U.S. Government.

B. Basis of Presentation, Accounting, and Formatting

The audited financial statements are generated to meet the requirements of the Government Management Reform Act of 1994 and Accountability of Tax Dollars Act of 2002. The statements consist of the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and related footnotes and disclosures.

NEH performs accrual based accounting in alignment with federal budget and reporting cycles as a consolidation entity included in the governmentwide financial statements as per the SFFAS 47 Reporting Entity guidance. Revenues are recognized when earned, and expenses are recognized when liabilities are incurred. Congress provides budgetary authority to NEH through appropriations to incur obligations in support of agency programs.

The Office of Management and Budget (OMB) issues circular A-136, Financial Reporting Requirements, on an annual basis. This document defines presentation format requirements for financial statements and footnotes, which can change annually.

C. Significant Changes to Accounting Policy

NEH did not have any significant changes to accounting policy in this fiscal year.

D. Fund Balance with Treasury (FBWT) and Funds from Dedicated Collections

Funds balances with the U.S. Department of the Treasury is an asset of NEH, a liability of the General Fund and primarily represent appropriated funds available to incur obligations and finance disbursements. See Note 2, Fund Balance with Treasury and Note 8, Funds from Dedicated Collections, for additional information. See information about donations in Note 1E

E. Revenues and Other Financing Sources

NEH receives funding through annual Congressional appropriations from the budget of the United States under a no year appropriation, and previously a multi-year appropriation from the Coronavirus Aid, Relief and Economic Security Act (CARES Act) Public Law 116-136, enacted on March 27, 2020, and the no year American Rescue Plan (ARP) Public Law 117-2, enacted on March 11, 2021. The multi-year appropriation for COVID-19 emergency response funds was used for grant programs only. The no year appropriation for COVID-19 emergency funds was used for grant program and administrative costs.

Appropriations are recognized as revenues when the warrant is received and expended as program or administrative expenses are incurred. Appropriations expended for capitalized property and equipment are recognized as expenses when assets are consumed in operations.

NEH was founded with the authority to receive donations and to invest in interest-bearing accounts. Accounts are maintained for restricted and unrestricted funding and observes federal guidelines for the appropriate use and apportionment of donated funds. This authority also allows the Chair to incur representation and reception expenses. NEH also earns revenue by providing cost sharing or reimbursable services to other Federal agencies through interagency agreements.

NEH sets prices to recover the full costs incurred unless otherwise noted in the interagency agreement when providing goods and services. Imputed financing represents benefit costs to OPM.

F. Budgetary Terms

The purpose of Federal budgetary accounting is to control, monitor, and report on funds made available to Federal agencies by law and help ensure compliance with the law.

The following budget terms are commonly used:

Appropriation means a provision of law (not necessarily in an appropriations act) authorizing the expenditure of funds for a given purpose. Usually, but not always, an appropriation provides budget authority.

Budgetary resources mean amounts available to incur obligations in a given year. Budgetary resources consist of new budget authority and unobligated balances of budget authority provided in previous years.

Gross outlays are disbursements and *net outlays* are disbursements (net of refunds) minus reimbursements collected.

Offsetting collections mean payments to the Government that, by law, are credited directly to expenditure accounts and deducted from gross budget authority and outlays of the expenditure account, rather than added to receipts. Usually, offsetting collections are authorized to be spent for the purposes of the account without further action by Congress. They usually result from business-like transactions with the public, including payments from the public in exchange for goods and services, reimbursements for damages, and gifts or donations of money to the Government and from intragovernmental transactions with other Government accounts. The authority to spend offsetting collections is a form of budget authority.

Offsetting receipts mean payments to the Government that are credited to offsetting receipt accounts and deducted from gross budget authority and outlays, rather than added to receipts. Usually they are deducted at the level of the agency and subfunction, but in some cases they are deducted at the level of the Government as a whole. They are not authorized to be credited to expenditure accounts. The legislation that authorizes the offsetting receipts may earmark them for a specific purpose and either appropriate them for expenditure for that purpose or require them to be appropriated in annual appropriations acts before they can be spent. Like offsetting collections, they usually result from business-like transactions with the public, including payments from the public in exchange for goods and services, reimbursements for damages, and gifts or donations of money to the Government, and from intragovernmental transactions with other Government accounts.

Obligation means a binding agreement that will result in outlays, immediately or in the future. Budgetary resources must be available before obligations can be incurred legally.

Outlay means a payment to liquidate an obligation (other than the repayment of debt principal or other disbursements that are "means of financing" transactions). Outlays generally are equal to cash disbursements but also are recorded for cash-equivalent transactions, such as the issuance of debentures to pay insurance claims, and in a few cases are recorded on an accrual basis such as interest on public issues of the public debt. Outlays are the measure of Government spending.

Rescission are provisions of law that cancel budget authority previously provided to federal agencies before it would otherwise expire and is a tool used by Congress to reduce federal spending.

For further information about budget terms and concepts, see the "Budget Concepts" chapter of the *Analytical Perspectives* volume of the President's Budget: Analytical Perspectives | OMB | The White House.

G. Advances and Prepayments

The Endowment's payments to other Federal agencies are recorded as an advance when funds are disbursed prior to expenditure. As work is performed, the expenditures or revenues are reported by the trading partner, at which time the advance is reduced, and the expense/revenue is recognized. Advances to the public, are payments to grantees while work is being performed. See Note 15: Advances and Prepayments.

H. Property, Plant, and Equipment

NEH policy is to depreciate property, plant, and equipment over the estimated useful life of the asset. The capitalization threshold is $50,000 for individual purchases and $50,000 for bulk purchases with a minimum of $10,000 per item. The capitalization threshold for leasehold improvements is $50,000 for individual items with a useful life of two years or more. The capitalization threshold for internal use software is $250,000 or above for aggregate costs. Additional information is provided in Note 4: General Property, Plant and Equipment, Net.

I. Liabilities

Liabilities represent transactions or events which have occurred for which NEH will likely pay since no absolute certainty exists that appropriations will be enacted and can be rescinded by the Government acting in its sovereign capacity. For additional information, see Note 5: Liabilities not Covered by Budgetary Resources, and Note 6: Other Liabilities.

J. Accounts Payable

Accounts payable consists of amounts owed to grantees, commercial vendors, and federal trading partners. Accounts payable to commercial vendors are expenses for goods and services received but not yet paid by NEH.

K. Accounts Receivable

Accounts receivable comprises amounts due from others when the right to receive funds accrues. This may result from the performance of services, the delivery of goods, court ordered assessment, or amounts due from vendors or grant recipients. This account does not close at yearend. NEH uses the specific identification method to recognize an allowance for uncollectible accounts receivable and related bad debt expenses.

L. Annual, Sick, and Other Leave

Annual leave is accrued as it is earned and reduced as leave is used. Annually, accrued leave balances are adjusted to reflect changes in current rates and balances figures. If current appropriations are not available to fund annual leave earned but not used, funding will be obtained from future financing sources. Sick leave and other types are expensed as used.

The accrued payroll liability represents amounts for salaries and benefits owed for the amount of time since the payroll was last paid through the end of the reporting period. Total accrued payroll is composed of amounts to be paid to employees as well as the related intragovernmental payable for employer contributions and payroll taxes. The annual leave liability is the amount owed to employees for unused annual leave as of the end of the reporting period. At the end of each quarter, the balance in the accrued annual leave account is adjusted to reflect current balances and pay rates. Sick leave and other types of non-vested leave are expensed as taken.

M. Pension and Other Imputed Benefit Costs

Pension and other benefits (life insurance, and health care) expense are recognized at the time the employees' services are rendered. The expense is equal to the actuarial present value of benefits attributed by the pension plan's benefit formula, less the amount contributed by the employees. An imputed cost is recognized for the difference between the expense and contributions made by and for employees.

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

The agency's employees participate in the Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS). On January 1, 1987, FERS went into effect pursuant to Public Law 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, could elect to either join FERS and Social Security or remain in CSRS.

The Thrift Savings Plan (TSP) is a tax-deferred retirement savings and investment plan that offers Federal employees the same type of savings and tax benefits that many corporations offer their employees under 401(k) plans. By participating in the TSP, federal employees have the opportunity to save part of their income for retirement, receive matching agency contributions, and reduce their current taxes. For employees under FERS, the NEH contributes an amount equal to one percent of the employee's basic pay to the TSP and matches employee contributions up to an additional four percent of pay. FERS and CSRS employees can contribute a portion of their gross earnings to the plan up to Internal Revenue Service limits; however, CSRS employees receive no matching agency contributions.

N. Federal Employees' Compensation Act (FECA) Actuarial Liability

The Federal Employees' Compensation Act (FECA) provides wage replacement and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. The FECA program is administered by the U.S. Department of Labor (DOL), which initially pays valid claims and subsequently seeks reimbursement from the Federal agencies employing the claimants. DOL provides the actuarial liability for claims outstanding at the end of each fiscal year. This liability includes the estimated future costs of death benefits, workers' wage replacement, medical, and miscellaneous costs for approved compensation cases.

O. 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.

P. Commitments and Contingencies

The NEH records commitments and contingent liabilities for legal cases in which payment has been deemed probable and for which the amount of potential liability has been estimated. There were no contingent liabilities as of September 30, 2023.

Q. Rounding

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

R. Suborganization Program Costs

Program Grants – The Statement of Net Costs presents costs associated with specific NEH program divisions. The amounts shown represent both programmatic and administrative gross costs less earned revenue for each program office. Special initiative costs are not assigned to a specific program office and are further explained below.

Matching Grants - Challenge and Treasury Fund Grants are matching awards entailing an offer of NEH funding conditioned on a recipient raising an equivalent amount of funds in ratios from one-to-one and up to one-to-four matching "gifts" in support of humanities projects. These non-federal donations are a mechanism for leveraging the contributions of businesses, foundations, and individuals.

A More Perfect Union – An agency wide initiative established in 2019, commemorating the upcoming 250th anniversary of the founding of the United States for the U.S. Semi-quincentennial in 2026. This provides funding across all the agency's grantmaking divisions for humanities projects that promote a deeper understanding of American history and culture and that advance civic education and knowledge of our core principles of government

Special Initiatives – Comprises several programs: Bridging Cultures, Common Good, We the People, and Program Development costs. These provide funding across all the agency's grantmaking divisions and were consolidated on the Statement of Net Costs for formatting purposes.

S. Reconciliation of Net Costs to Net Outlays (Budget to Accrual Reconciliation)

The purpose of the reconciliation of net outlays, presented on a budgetary basis, and the net cost, presented on an accrual basis, is to provide an explanation of the relationship between budgetary and financial accounting information. The Note 12: Reconciliation of Net Cost to Net Outlays illustrates the reconciliation by listing key differences between Net Cost and Net Outlays.

Net Cost of Operations is derived from the Statement of Net Cost.

Components of net cost that are not part of net outlays are most commonly (a) the result of allocating assets to expenses over more than one reporting period (e.g., depreciation) and the write- down of assets (due to revaluations), (b) the temporary timing differences between outlays/receipts and the operating expense/revenue during the period, and (c) costs financed by other entities (imputed inter-entity costs).

Components of net outlays that are not part of net cost are primarily amounts provided in the current reporting period that fund costs incurred in prior years and amounts incurred for goods or services that have been capitalized on the balance sheet (e.g., plant, property and equipment acquisition and inventory acquisition).

Net Outlays is the summation of the above amounts and equals the Statement of Budgetary Resources net outlays amount.

T. Rescission

NEH was issued a warrant for a rescission in July of FY 2023 in the amount of $188,597 as a result of Public Law 118-5, Division B of the Fiscal Responsibility Act of 2023; PL 118-5 137 STAT 30 Sec. 77. The original funding was authorized in FY2021, from the American Rescue Plan Act (Public Law 117-2), which was mandatory in the same Treasury Account Fund Symbol as our discretionary, indefinite regular appropriation.

The rescission is reflected in the financial statements and the footnotes.

(In Dollars)

Note 2 – Fund Balance with Treasury

	2023	2022
Status of Fund Balance with Treasury:		
Unobligated Balance		
Available	$ 36,506,388	$ 40,524,858
Unavailable	478,898	390,316
Obligated Balance not yet Disbursed	250,011,970	287,979,660
Non-Budgetary Fund Balance with Treasury	-	-
Total	$ 286,997,256	$ 328,894,834

Fund Balance with Treasury is the aggregate amount of NEH's accounts with the U.S. Department of Treasury of which NEH is authorized to incur obligations and make expenditures to pay liabilities. The trust fund includes amounts donated to NEH, some which are restricted for specific purposes. There are no differences between NEH's ledger accounts and FBWT reported amounts.

See Note 1e and 13 as related to CARES Act and American Rescue Plan. See Note 1b for formatting changes.

Note 3 – Accounts Receivable, Net

NEH uses a specific method to recognize allowance for uncollectable account. All receivables are reported at net cost and expected to be collected when due with no allowance for doubtful account needed.

	2023	2022
Receivables from services to federal agencies	7,648	2,472
Receivables from the public	90,693	208,690
Total Receivables	$ 98,341	$ 211,162

(In Dollars)

Note 4 – Property, Plant, and Equipment, Net

Property, plant, and equipment, net, consists of the following:

2023

Major Class	Service Life and Method	Cost	Accumulated Amortization/Depreciation	Net Book Value
Leasehold Improvements	10 years/Straight	$ 168,722	$ (156,068)	$ 12,654
Office Equipment	5 years/Straight	295,541	(295,541)	-
Software - Internal Use	3 years/Straight	3,546,783	(3,005,725)	541,058
Software - In Development	Not Applicable	-	-	-
Total Property, Plant, & Equipment		**$ 4,011,046**	**$ (3,457,334)**	**$ 553,712**

2022

Major Class	Service Life and Method	Cost	Accumulated Amortization/Depreciation	Net Book Value
Leasehold Improvements	10 years/Straight	$ 168,722	$ (139,196)	$ 29,526
Office Equipment	5 years/Straight	295,541	(284,418)	11,123
Software - Internal Use	3 years/Straight	2,971,461	(2,818,342)	153,119
Software - In Development	Not Applicable	316,510	-	316,510
Total Property, Plant, & Equipment		**$ 3,752,234**	**$ (3,241,956)**	**$ 510,278**

See Note 1H for capitalization threshold information.

(In Dollars)

Note 5 – Liabilities Not Covered by Budgetary Resources

Liabilities not covered by budgetary resources represent liabilities requiring future Congressional appropriation to pay. Liabilities not requiring budgetary resources represent custodial collections due to the General Fund of the U.S. Department of Treasury and are not available for agency use.

	2023	2022
Intragovernmental		
Other accrued unfunded FECA	$ 44,621	$ 50,995
Total intragovernmental	44,621	50,995
Federal employee and veteran benefits payable		
Actuarial FECA	264,230	305,760
Accrued unfunded leave	1,895,442	1,723,899
Total federal employee and veteran benefits payable	2,159,672	2,029,659
Other		
Total liabilities not covered by budgetary resources	2,204,293	2,080,654
Total liabilities covered by budgetary resources	53,538,137	45,665,959
Total Liabilities	$ 55,742,430	$ 47,746,613

Note 6 – Other Liabilities

Intragovernmental liabilities:	2023	2022
Other current liabilities - Benefit contributions payable	$ 329,949	$ 311,210
Liability to the General Fund for custodial & other non-entity	-	-
Total Intragovernmental liabilities	329,949	311,210
Other than Intragovernmental liabilities:		
Accrued funded payroll	1,381,665	1,280,161
Actuarial FECA liability	264,230	305,760
Accrued unfunded leave	1,895,442	1,723,899
Grant accrual liability	51,601,331	43,874,670
Invoice accrual liability	-	27,499
Total Liabilities Other than Intragovernmental liabilities	55,142,668	47,211,989
Total Other Liabilities	$ 55,472,617	$ 47,523,199

(In Dollars)

Note 7 – Leases

The NEH occupies office space in the Constitution Center Building at 400 7th Street in the District of Columbia. The occupancy agreement with the General Services Administration (GSA) is accounted for as a non-cancellable operating lease. The current lease agreement expires in 2027. The estimate for the annual lease costs for future fiscal years are as follows:

Future fiscal year payments due:	
FY 2024 through February 2024*	1,308,002
FY 2024 March -September 2024**	1,865,572
FY 2025	3,225,902
FY 2026	3,264,108
FY 2027 through February 2027***	1,352,028
Total Future Lease Payments	$ 11,015,612

* Initial agreement expires in February 2024

** Extension of the Term From March 2024 to February 2027

*** Extension expires 2027

Note 8 – Funds from Dedicated Collections

Funds from dedicated collections are financed by specifically identified revenues, provided to the government by non-federal sources which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits or purposes and are accounted for separately from the government's general revenues.

There are two types of donations accepted by the Endowment: unrestricted and restricted gifts. An unrestricted gift is made to the Endowment with no limitations on how the gift is to be used whereas restricted gifts explicitly state how the gift is to be used.

Pursuant to authority set forth in its authorizing statute, the NEH is authorized to solicit, accept and invest money and other property donated to the agency and authorizes the Chair of the NEH, with the recommendation of the National Council on the Humanities, to "receive money and other property donated, bequeathed, or devised to [the] Endowment with or without condition or restriction." Donated funds must be used for a purpose consistent with the agency's mission and authorizing legislation. Eliminations represent zero balances in FY 2023 and 2022 for all lines, and those columns are not shown in presentation in the table below and SCNP.

See Note 1b for formatting changes.

Notes to the Financial Statements

As of and for the Period Ended
September 30, 2023 and 2022
(In Dollars)

Note 8 – Funds from Dedicated Collections – (continued)

	2023			2022	
Balance Sheet, as of September 30th	**Funds from Dedicated Collections Donations & Gifts**	**Total Funds from Dedicated Collections**		**Funds from Dedicated Collections Donations & Gifts**	**Total Funds from Dedicated Collections**
Intragovernmental					
Fund Balance with Treasury	$ 534,003	$ 534,003		$ 702,717	$ 702,717
Other Assets	-	-		-	-
Total Intragovernmental Assets	534,003	534,003		702,717	702,717
Other than Intragovernmental					
Other Assets	39,670	39,670		81,548	81,548
Total Other than Intragovernmental	39,670	39,670		81,548	81,548
Total Assets	573,673	573,673		784,265	784,265
Intragovernmental	-	-		-	-
Total Intragovernmental Liabilities	-	-		-	-
Other than Intragovernmental					
Other Liabilities	30,790	30,790		20,210	20,210
Total Other than Intragovernmental	30,790	30,790		20,210	20,210
Total Liabilities	30,790	30,790		20,210	20,210
Unexpended Appropriations	-	-		-	-
Cumulative Results of Operations	542,882	542,882		764,055	764,055
Total Liabilities and Net Position	573,672	573,672		784,265	784,265
Statement of Net Cost, for the year ended September 30th					
Gross Program Costs	434,380	434,380		414,185	414,185
Less Earned Revenues	-	-		-	-
Net Program Costs	434,380	434,380		414,185	414,185
Costs not Attributable to Program Costs	-	-		-	-
Less Earned Revenues not Attributable to Program Costs	-	-		-	-
Net Cost of Operations	434,380	434,380		414,185	414,185

(In Dollars)

Statement of Changes in Net Position, for the year ended September 30th					
Unexpended Appropriations					
Beginning balance	-	-		-	-
Changes in accounting principles	-	-		-	-
Corrections of errors	-	-		-	-
Beginning balance, as adjusted	-	-		-	-
Appropriations received	-	-		-	-
Appropriations used	-	-		-	-
Total Unexpended Appropriations	-	-		-	-
Cumulative Results of Operations:					
Beginning balance	764,055	764,055		842,733	842,733
Changes in accounting principles	-	-		-	-
Corrections of errors	-	-		-	-
Beginning balance, as adjusted	764,055	764,055		842,733	842,733
Appropriations used	-	-		-	-
Donations and forfeitures of cash & property	213,208	213,208		335,507	335,507
Imputed financing	-	-		-	-
Net cost of operations	(434,380)	(434,380)		(414,185)	(414,185)
Net change in Cumulative Results of Operations	(221,172)	(221,172)		(78,678)	(78,678)
Total Cumulative Results of Operations	542,883	542,883		764,055	764,055
Net Position, end of period	$ 542,883	$ 542,883		$ 764,055	$ 764,055

Note 9 – Inter-Entity Costs

Goods and services are received from other Federal entities at no cost or at a cost less than the full cost to the providing Federal entity. Consistent with accounting standards, certain costs of the providing entity that are not fully reimbursed by NEH are recognized as imputed costs in the Statement of Net Cost, and are offset by imputed revenue in the Statement of Changes in Net Position. NEH imputed costs and revenues represent employee benefits and the agency does not have unreimbursed costs of goods and services other than imputed.

(In Dollars)

Note 10 – Statement of Budgetary Resources

Undelivered Orders at the End of the Period

On the Statement of Budgetary Resources, the obligated balance, net, end of period includes the following:

	2023	2022
Federal Undelivered Orders:		
Unpaid	$ 1,083,601	$ 1,436,106
Paid	6,331,561	2,787,973
Total Federal Undelivered Orders	7,415,162	4,224,079
Non-Federal Undelivered Orders:		
Unpaid	195,529,426	240,953,368
Paid	2,742,116	2,669,506
Total Non-Federal Undelivered Orders	198,271,542	243,622,874
Total, Undelivered Orders at the End of the Period	$ 205,686,704	$ 247,846,953

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

The President's Budget, which includes actual numbers for fiscal year 2022, has not been published. The Budget with actual amounts for fiscal year 2023 will be published at a later date at President's Budget - OMB - The White House.

There are no material differences in amounts reported in the Statement of Budgetary Resources and actual amounts reported in the Budget of the United States Government.

Note 11 – Incidental Custodial Collections

NEH collects funds, such as program income generated from NEH-funded projects, on behalf of the federal government. These collections, called custodial collections, are not available for NEH use and must be returned to the U.S. Department of Treasury at the end of the fiscal year.

	2023	2022
Collections for NEH projects funded in previous years	$ 20,278	$ 21,565
Total cash collections	20,278	21,565
Disposition of collections:		
Return to Treasury (general fund)	20,278	21,565
Net custodial collection activity	$ -	$ -

(In Dollars)

Note 12 – Reconciliation of Net Cost to Net Outlays

	2023			2022		
	Intra-governmental	**Other than Intra-governmental**	**Total**	**Intra-governmental**	**Other than Intra-governmental**	**Total**
Net Operating Cost (SNC)	$ 11,800,724	$ 243,696,747	$ 255,497,471	$ 10,232,798	$ 201,733,679	$ 211,966,477
Components of Net Operating Cost Not Part of the Budgetary Outlays						
Property, plant, and equipment depreciation	-	(215,379)	(215,379)	-	(234,089)	(234,089)
Other	-	258,812	258,812	-	262,797	262,797
Increase/(Decrease) in assets:						
Accounts receivable	5,176	(117,997)	(112,821)	2,472	64,420	66,892
Other assets	3,543,588	72,611	3,616,199	(142,183)	(197,320)	(339,503)
(Increase)/Decrease in liabilities not affecting Budget Outlays						
Accounts payable	(63,420)	17,021	(46,399)	61,280	355,371	416,651
Salaries and benefits	(25,113)	(101,503)	(126,616)	(19,020)	(102,772)	(121,792)
Other liabilities (Unfunded leave, unfunded FECA, actuarial FECA)	6,374	(7,829,174)	(7,822,800)	(557)	4,953,075	4,952,518
Other financing sources						
Federal employee retirement benefit costs paid by OPM and imputed to agency	(2,126,277)	-	(2,126,277)	(1,400,082)	-	(1,400,082)
Total Components of Net Operating Cost Not Part of the Budget Outlays	1,340,328	(7,915,609)	(6,575,281)	(1,498,090)	5,101,482	3,603,392
Components of the Budget Outlays That Are Not Part of Net Operating Cost						
Other	(20,278)	(213,208)	(233,486)	(21,565)	(335,507)	(357,072)
Total Components of the Budgetary Outlays That Are Not Part of Net Operating Cost	(20,278)	(213,208)	(233,486)	(21,565)	(335,507)	(357,072)
Net Outlays	$ 13,120,774	$ 235,567,930	$ 248,688,704	$ 8,713,143	$ 206,499,654	$ 215,212,797
Related Amounts on the Statement of Budgetary Resources						
Outlays, net			248,922,190			215,569,869
Distributed offsetting receipts			(233,486)			(357,072)
Agency Outlays, Net			$ 248,688,704			$ 215,212,797

*See Note 1S: Reconciliation of Net Costs to Net Outlays

(In Dollars)

Note 13 – COVID-19 Activity

The table below represents the status of resources from supplemental appropriations received from the Coronavirus Aid, Relief and Economic Security Act (CARES Act) Public Law 116-136, enacted on March 27, 2020 and the American Rescue Plan (ARP) Public Law 117-2, enacted on March 11 2021. CARES Act appropriations expired September 30, 2021.

	CARES Act 2023	CARES Act 2022	American Rescue Plan 2023	American Rescue Plan 2022
Budgetary Resources				
Appropriation	$ -	$ -	$ -	$ -
Balance Brought Forward Oct 1	144,679	95,754	512,163	60,075,984
Unobligated Balance	24,152	48,925	635,236	-
Carry Forward and Unobligated Balances, Net	168,831	144,679	1,147,399	60,075,984
Rescissions/Other changes to budgetary resources			(188,597)	
Budgetary Resources Used				
Programs or Activities Funded				
Chair's Grants	-	-	-	(83)
Challenge Grants	-	-	-	-
Digital Humanities	-	-	-	(6,678,565)
Education	-	-	-	(14,546,743)
Federal/State Partnership	-	-	-	-
Preservation and Access	-	-	-	(13,447,857)
Public Programs	-	-	-	(13,029,466)
Research	-	-	(505,000)	(11,190,774)
Administrative*	-	-	-	(670,333)
Total Budgetary Resources Used	-	-	(505,000)	(59,563,821)
Unobligated Balance	$ 168,831	$ 144,679	$ 453,802	$ 512,163
Outlays, Net	$ 4,621,768	$ 4,686,280	$ 46,802,263	$ 60,692,815

Administrative costs were not a part of the CARES Act appropriation. ARP administrative costs comprised payroll and information technology support expenses
This note impacts notes 2 and 5

Note 14 – Grant Accrual 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 Endowment's grants and cooperative agreements expenses are 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 as a request for reimbursement from agency. The Federal Accounting Standards Advisory Board (FASAB) Technical Release (TR12) "Accrual Estimates for Grant Programs" addresses preparation of accrual estimates for grant programs.

TR12's guidance on internal control procedures is to ensure the grant accrual estimates are reasonable, based on "comparing the estimates with subsequent grantee reporting."

NEH has historically performed a review via the "look back" analysis for estimating accruals for grant liabilities. Requests for payments may be received several months after grantee expenses are incurred. When a grant is due for payment but has not yet been disbursed, an adjustment entry is needed to recognize accrued liability. The look back analysis calculated a 5-year average percentage for estimating accrual amounts by analyzing payment trends by quarter and prior year periods of performance.

In 2022, the existing methodology from 2021 was analyzed and it was determined that a change in methodology was needed because the estimates calculated for prior years produced variances much greater than actual grant liability. This was primarily due to changes in the timing of the grant award cycle and disbursement patterns of the two covid related supplemental appropriations. The changes made were to use prior FY actual liability figures, calculate the rates of change in unliquidated obligations balances from PY and CY and add/subtract the amounts to the total of prior year actual liability. If the change rate is a positive percentage, then the amount would be added, conversely if the rate is negative, then be subtracted. In the event that this methodology would not apply, then the unliquidated obligations balance would be pro-rated based on period of performance.

Accrual adjustment postings are performed in Q4 of the current year and Q1 of the subsequent fiscal year using calculated rates generated on the lookback analysis of the current fiscal year payment data. If at any point in the fiscal year, payment requests were processed earlier than expected causing abnormal balances within general ledger accounts, we will reverse these entries to maintain Generally Accepted Accounting Principles (GAAP). For September 2023, the prorate method was applied to Covid funding due to decreasing unliquidated obligation balances in the lookback analysis calculations.

The grant liability accrual increased in FY23 to $51.6M from $43.8M in FY22 primarily due to higher amounts of unliquidated obligations (ULO) in grant programs which is a calculation factor in the accrual methodology.

Additionally, NEH applied the prorate method to ARP funds instead of the standard accrual calculation in the current year due to 79.5%decrease in the ULO balances for

(In Dollars)

ARP funds. This resulted in a slightly higher amount for the ARP portion of grant liability.

Note 15 – Advances and Prepayments

	2023	2022
To federal agencies:		
Advances to federal agencies	$ 6,331,561	$ 2,787,973
To the public:		
Advances to grantees	2,742,116	2,669,506
Net	$ 9,073,677	$ 5,457,479

The increase in advances to federal agencies in 2023 as compared to 2022 is due to an interagency agreement with the Department of the Interior.

See Note 1G for additional information.

Audit Report Fiscal Year 2023

Independent Auditor's Report

Ms. Shelly Lowe
Chair
National Endowment for the Humanities

Ms. Laura Davis
Inspector General
National Endowment for the Humanities

In our audits of the fiscal years 2023 and 2022 financial statements of NEH, we found:

- NEH's financial statements as of and for the fiscal years ended September 30, 2023, and 2022, 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 2023 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, required supplementary information (RSI)[2] and other information included with the financial statements[3]; (2) our report on internal control over financial reporting; and (3) our report on compliance with laws, regulations, contracts, and grant agreements.

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[1] A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.
[2] The RSI consists of Management's Discussion and Analysis and Performance Information, which is included with the financial statements.
[3] Other information consists of information included with the financial statements, other than the RSI and the auditor's report.

Report on the Financial Statements

<u>Opinion</u>
In accordance with *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Bulletin No. 24-01, *Audit Requirements for Federal Financial Statements*, we have audited NEH's financial statements. NEH's financial statements comprise the balance sheets as of September 30, 2023, and 2022; 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. In our opinion, NEH's financial statements present fairly, in all material respects, NEH's financial position as of September 30, 2023, and 2022, 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.

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

<u>Responsibilities of Management for the Financial Statements</u>
NEH management is responsible for

- the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles;
- preparing, measuring, and presenting the RSI in accordance with U.S. generally accepted accounting principles;
- preparing and presenting other information included in NEH's Performance and Accountability Report**,** and ensuring the consistency of that information with the audited financial statements and the RSI; and
- designing, implementing, and maintaining effective internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

<u>Auditor's Responsibilities for the Audit of the Financial Statements</u>
Our objectives are to (1) obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and (2) issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of the financial statements conducted in accordance with U.S. generally accepted government auditing standards will always detect a material misstatement or a material weakness when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered to be material if there is a substantial likelihood that, individually or in aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.

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

- Obtain an understanding of internal control relevant to our audit of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of NEH's internal control over financial reporting. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Perform other procedures we consider necessary in the circumstances.

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

Required Supplementary Information

U.S. generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board (FASAB) require that the RSI be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by FASAB, which considers it to be an essential part of financial reporting for placing the financial statements in appropriate operational, economic, or historical context.

We have applied certain limited procedures to the RSI in accordance with U.S. generally accepted government auditing standards. These procedures consisted of (1) inquiring of management about the methods of preparing the RSI and (2) 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

NEH's other information contains a wide range of information, some of which is not directly related to the financial statements. This information is presented for purposes of additional analysis and is not a required part of the financial statements or the RSI. Management is responsible for the other information included in NEH's Performance and Accountability Report. The other information comprises the Message from the Director and the information included within Section four of the Performance and Accountability Report. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Report on Internal Control over Financial Reporting

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

Results of Our Consideration of Internal Control over Financial Reporting

Our consideration of internal control was for the limited purpose described below and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies[4] or to express an opinion on the effectiveness of NEH's internal control over financial reporting. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Our 2022 audit identified a deficiency in NEH's controls pertaining to the agency's lack of an effective Enterprise Risk Management (ERM) program, that represented a significant deficiency. As discussed in *Appendix I,* we determined that this deficiency remains in fiscal year 2023, but we no longer consider it to be a significant deficiency. Nonetheless, this deficiency warrants NEH management's attention. We have communicated this matter to NEH management and have reported on it separately.

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

We performed our procedures related to NEH's internal control over financial reporting in accordance with U.S. generally accepted government auditing standards and Office of Management and Budget audit guidance[5].

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

[5] Office of Management and Budget (OMB) Bulletin No. 24-01, *Audit Requirements for Federal Financial Statements*, issued on October 19, 2023. According to the guidance, for those controls that have been suitably designed and implemented, the auditor should perform sufficient tests of such controls to conclude on whether the controls are operating effectively (i.e., sufficient tests of controls to support a low level of assessed control risk). OMB audit guidance does not require the auditor to express an opinion on the effectiveness of internal control.

Responsibilities of Management for Internal Control over Financial Reporting
NEH management is responsible for designing, implementing, and maintaining effective internal control over financial reporting relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for Internal Control over Financial Reporting
In planning and performing our audit of NEH's financial statements as of and for the fiscal year ended September 30, 2023, in accordance with U.S. generally accepted government auditing standards, we considered NEH's internal control relevant to the financial statement audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of NEH's internal control over financial reporting. Accordingly, we do not express an opinion on NEH's internal control over financial reporting. We are required to report all deficiencies that are considered to be significant deficiencies or material weaknesses. We did not consider all internal controls relevant to operating objectives, such as those controls relevant to preparing performance information and ensuring efficient operations.

Definition and Inherent Limitations of Internal Control over Financial Reporting
An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that:

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

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

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

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

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

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

Our tests for compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance for fiscal year 2023 that would be reportable under U.S. generally accepted government auditing standards. The noncompliance matter identified in the FY 2022 audit has been downgraded to a deficiency, as explained further in *Appendix I*. However, the objective of our tests was not to provide an opinion on compliance with laws, regulations, contracts, and grant agreements applicable to NEH. Accordingly, we do not express such an opinion.

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

We performed our tests of compliance in accordance with U.S. generally accepted government auditing standards.

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

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

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

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

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

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

Williams, Adley & Company-DC, LLP

Washington, District of Columbia
November 13, 2023

Appendix 1 – Status of Prior Year Finding and Recommendations

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

Prior Year Finding	Current Status
21-01: Lack of Agency-wide Risk Assessment Procedures (Noncompliance/Significant Deficiency)	**Closed.** Because of improvements made the finding has been downgraded from a significant deficiency and noncompliance to a deficiency and has been communicated to management separately.

IV. Other Accompanying Information

Summary of Financial Statement Audit and Management Assurances

The following provides a summary of the negative reports of material weaknesses and all items corrected for FY2023.

Management's Responsibility for Internal Control and Compliance

NEH's management is responsible for (1) evaluating the effectiveness of internal control over financial reporting based on criteria established under FMFIA, (2) providing a statement of assurance on the overall effectiveness of internal control over financial reporting, (3) ensuring NEH financial management systems are in substantial compliance with FFMIA requirements, and (4) ensuring compliance with other applicable laws, regulations, contracts, and grant agreements.

The Federal Financial Management Improvement Act (FFMIA) is designed to improve financial and program managers' accountability, provide better information for decision-making, and improve the efficiency and effectiveness of Federal programs. FFMIA requires that financial management systems provide reliable, consistent disclosure of financial data in accordance with generally accepted accounting principles and standards. These systems must also comply with (1) Federal Financial Management System requirements, (2) applicable Federal accounting standards, and (3) the U.S. Standard General Ledger (USSGL) at the transaction level.

Material weaknesses and financial system conformance, as related to management's assurance for the Federal Managers' Financial Integrity Act (FMFIA) and the certification for the Federal Financial Management Improvement Act (FFMIA) are summarized below.

Table 1 - Summary of Financial Statement Audit for the Year Ending September 30, 2023

Audit Opinion	Unmodified				
Restatement	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
No items to report	0	-	-	-	0
Total Material Weaknesses	0	-	-	-	0

Table 2 - Summary of Management Assurances for the Year Ending September 30, 2023

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance	Unmodified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
No items to report						
Total Material Weaknesses	0	-	-	-	-	0
Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	Unmodified					

Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
No items to report	0	-	-	-	-	0
Total Material Weaknesses	0	-	-	-	-	0
Conformance with Federal Financial Management System Requirements (FMFIA § 4)						
Statement of Assurance		Systems conform to financial management system requirements				
Non-conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
No items to report	0	-	-	-	-	0
Total Material Weaknesses	0	-	-	-	-	0

Compliance with Section 803 (a) Federal Financial Management Improvement Act (FFMIA)		
	Agency	Auditor
1. Federal Financial Management System Requirements	No lack of substantial compliance noted.	No lack of substantial compliance noted.
2. Applicable Accounting Standards	No lack of substantial compliance noted.	No lack of substantial compliance noted.
3. USSGL at Transaction Level	No lack of substantial compliance noted.	No lack of substantial compliance noted.

Management Accountability for Internal Controls

Existing internal control processes continue to ensure that NEH's internal controls over financial reporting and systems are effective. Improved internal controls enhance safeguards against improper payments, fraud, waste, and abuse better ensure proper stewardship of taxpayer dollars continue to be used effectively and efficiently to meet NEH’s program objectives. In the current year, NEH continued to implement the Enterprise Risk Management (ERM) program and completed its internal control program current state assessment of OMB Circular A-123 requirements. Continued implementation and maturity of the ERM program and its integration with internal controls and strategic planning aim to align risk, internal controls and strategic planning through evidence-based decision making.

Agency Information Systems and Other Infrastructure

The NEH agency financial management system is Oracle Financial Systems (OFS) platform, which is supported internally, hosted in a cloud environment and nested within the NEH information technology network and security architecture. OFS is the agency’s source system of financial records and supported by complimentary, internally developed systems such as eGMS for grant awards, requisition system for administrative obligations, panelist payment system for peer review process management and U.S. Department of Treasury system interfaces. These systems provide source information, system controls and interface data with OFS to maintain the agency’s financial information, serving as the source system of financial transactions and records for compilation of the agency finanical statements and reports.

During the fiscal year, the agency began engagement activities for implementation of the U.S. Department of Treasury’s shared services solution for financial management systems and services, Administrative Resource Center (ARC). This effort aims to upgrade the financial management system of systems environment to strengthen data infrastructure, internal and system controls and sustain current and future compliance requirements.

NEH believes its current internal control, human capital, information systems and other infrastructure resources are sufficient to maintain the goals of safeguarding personally identified information and maintain internal controls for financial operational processes.

Enterprise Risk Management (ERM)

The NEH greatly expanded the scope of the original finding in 2022,to be inclusive of a federal compliant strategic planning process and a current state assessment of internal controls and compliance with OMB Circular A-123 requirements.

For 2023, the NEH strategic planning framework highlights the specific ERM Strategic Goal 3: *Fortify the management of NEH Resources*, Strategic Objective 3: *Further integrate risk analysis into NEH's decision making process* discussed in Section II: Performance Information of this document.

Office of Inspector General (OIG) Management Challenges Report

The OIG identified challenges areas for management to address with respect to Information Technology and Enterprise Risk Management. The Chair addresses these recommendations and emphasizes commitment to support resolutions for identified areas through management responses in this report further below.

NEH Inspector General’s Summary of Management Challenges

NATIONAL ENDOWMENT FOR THE HUMANITIES

OFFICE OF INSPECTOR GENERAL

October 31, 2023

Shelly C. Lowe, Chair
Members of the National Council on the Humanities
National Endowment for the Humanities
Washington, DC 20506

Dear Chair Lowe and Members of the National Council on the Humanities:

In accordance with the Reports Consolidation Act of 2000 (Public Law 106-531), I am submitting the annual statement summarizing what the Office of Inspector General considers to be the most serious management and performance challenges facing the National Endowment for the Humanities (NEH). This assessment is based on OIG reviews and inspections, as well as a general knowledge of NEH operations.

The OIG has identified two management and performance challenges for inclusion in the NEH Fiscal Year 2023 Performance and Accountability Report (PAR).

1. Information Security
2. Enterprise Risk Management

The Reports Consolidation Act of 2000 permits agency comment on the Inspector General's statements. Agency comments, if applicable, are to be included in the final version of the PAR that is due by November 15, 2023.

Laura Davis

Laura Davis
Inspector General

Attachment

cc: Anthony Mitchell, Senior Deputy Chair
Kelsey Coates, Chief of Staff
Pranita Raghavan, Assistant Chair for Planning and Operations

400 7th STREET, SW, WASHINGTON, DC 20506 | P 202.606.8350 | F 202.606.8329 | www.neh.gov/about/oig
OIG Hotline: (877) 786-7598

Management and Performance Challenges for the

National Endowment for the Humanities

Fiscal Year 2023

Information Security

The National Endowment for the Humanities (NEH) relies on information management systems to carry out the agency's mission and operations, and to process, maintain, and report essential information. Implementing a robust information security program within the Federal government is challenging. NEH leadership must contend with constantly changing technology, an array of compliance requirements, increasing complexity of information security, escalating and emerging cyber threats (both insider and from around the globe), a myriad of issues with technology supply chain security, retention and development of information security staff, and budget constraints. The *Federal Information Security Modernization Act of 2014* (FISMA) requires each Federal agency to develop, document, and implement an agency-wide program to provide information security and develop a comprehensive framework to protect the government's information, operations, and assets. NEH leadership has committed to the maintenance of information security policies and procedures consistent with FISMA and National Institute of Standards and Technology (NIST) requirements and continues to undertake efforts to refine those policies and procedures to effectively support the agency's mission, goals, and objectives. Considering the increasingly sophisticated and malicious cyber campaigns that threaten Federal agencies, full implementation of an effective information security program will continue to be a challenge for the NEH.

To further reinforce the Federal Government's defense against increasingly sophisticated and persistent threat campaigns, agencies are required to meet specific cybersecurity standards and objectives by September 30, 2024. In May 2021, President Biden issued Executive Order (EO) 14028, *Improving the Nation's Cybersecurity*, initiating a sweeping Government-wide effort to ensure that baseline security practices are in place to migrate the Federal Government to a "zero trust" architecture, and to realize the security benefits of cloud-based infrastructure while mitigating associated risks. Transition to a "zero trust" approach to security provides a defensible architecture for the current threat environment. The foundational tenet of the "zero trust" model is that no actor, system, network, or service operating outside or within the security perimeter is trusted. All access attempts must be verified. This strategy places significant emphasis on stronger enterprise identity and access controls, including multi-factor authentication. This strategy also sets a new baseline for access controls across the Government that prioritizes defense against sophisticated phishing and directs agencies to consolidate identity systems so that protections and monitoring can be consistently applied.

During fiscal year 2023, the NEH adopted a new enterprise authentication system which enforces centralized multi-factor authentication rules on user accounts. Currently, this authentication approach only applies to the agency's cloud-based services. The agency has not fully implemented strong authentication requirements concerning all system access attempts. Considering the evolving nature of cyber-based intrusions and attacks on Federal systems, as well as other challenges related to the implementation of "zero trust" cybersecurity principles, NEH leadership must continue to focus on strengthening the effectiveness of the agency's information security practices and program.

Enterprise Risk Management

Enterprise Risk Management (ERM) is an effective agency-wide approach to addressing an organization's external and internal risks through an understanding of the combined impact of risks as an interrelated portfolio, rather than addressing risks only within silos. ERM programs emphasize risks and opportunities that could have negative or positive impacts to the agency's reputation, its ability to achieve mission objectives, and the public trust in government. ERM practices support decision making processes, such as policy and program development and implementation (including information security programs), program performance reviews, strategic and tactical planning, human capital planning, capital investment planning, and budget formulation. OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, requires agencies to implement an ERM capability coordinated with the strategic planning and strategic review processes established by the *Government Performance and Results Act Modernization Act of 2010* and the internal control processes required by the *Federal Managers' Financial Integrity Act of 1982* and the *Standards for Internal Control in the Federal Government*, as issued by the Comptroller General of the United States. Agency management must sustain an integrated governance structure to effectively direct and oversee implementation of OMB Circular A-123 and all the provisions of a robust process of risk management and internal control.

NEH leadership has undertaken efforts to design and formalize a sustainable ERM program. Key and foundational risk determinations have been completed and documented. NEH leadership must maintain the commitment to support and engage in recurring risk assessment and risk management activities, thereby evolving and maturing the NEH risk culture. A fully functional and integrated ERM program aptly informs risk-aware decisions that impact prioritization, performance, and resource allocation.

Chair's Response to Inspector General Management Challenges

NATIONAL ENDOWMENT FOR THE HUMANITIES

THE CHAIR

Date: November 15, 2023

To: Laura Davis
Inspector General

From: Shelly C. Lowe (Navajo)
Chair

Thank you for your assessments of the significant management challenges facing NEH in FY 2023. Responses to your specific concerns are detailed below.

Information Technology Security

NEH agrees leadership must continue to focus on strengthening the effectiveness of the agency's information security practices and program. To that end, in the budget submitted to Congress, NEH included funding requests for information security to continue to implement Executive Order 14028, OMB M-22-09 and CISA's Zero-Trust Maturity Model. Funding for future fiscal years will allow the Office of Information Resources to: (1) hire an additional cybersecurity expert; (2) Replace outdated devices and to lower its technology debt by providing improved mobility through secure wireless access; (3) Acquire new capabilities to centrally manage inventories and detect rogue devices; (4) Transition to a protective Domain Name System service; and (5) Implement data categorization.

NEH has adopted Okta as the centrally managed authentication platform. Okta has enabled the use of PIV card login to cloud resources. In conjunction with this new capability, the Office of Human Resources established in-house PIV enrollment to expedite issuance of PIV cards to continue work toward 100% PIV issuance to employees as the preferred by the government. PIV card authentication on government furnished equipment is a goal for NEH and several technological solutions are being considered. The Okta Desktop multi-factor authentication (MFA) client recently became available and used enforce MFA access across the enterprise. NEH has also begun the adoption of Zscaler as a security tool to support controls and monitoring of agency IT systems. NEH made significant progress in 2023 and the opportunities planned for continued improvement in 2024.

Enterprise Risk Management (ERM)

NEH agrees leadership must maintain their commitment to support and engage in recurring risk assessment and risk management activities, thereby evolving and maturing the NEH risk culture. When the ERM program began in early 2021, the agency evolved its implementation strategy to internalize the functional work from external contractor to a full-time federal resource. The agency is in the process of hiring a federal Risk Analyst, who will support the Chief Risk Officer to sustain the ERM program deliverables, outcomes and to collaborate agency-wide in the integration of risk management, strategic planning, internal controls, and performance. The agency's ERM governance body will continue to meet to guide the implementation process, advise on sustainment activities and provide direct support to the Chair and Senior Deputy Chair on the mitigation of identified risks to the agency.

Payment Integrity Information Act of 2019

The Payment Integrity Information Act of 2019 (PIIA) repealed and reorganized several existing improper payment statutes for reducing improper payments. The Improper Payments Information Act of 2002, as amended by the Improper Payments Elimination and Recovery Act of 2010 and the Improper Payments Elimination and Recovery Improvement Act of 2012. PIIA requires federal agencies to review programs and activities, identify those most susceptible to significant improper payments, estimate amounts of improper payments and establish reporting requirements. For high-risk programs, agencies must estimate the amount of improper payments, establish reduction targets, and develop and implement corrective actions.

Improper payments are defined by GAO[1] are: *"Any payment that should not have been made or made in an incorrect amount"*. Further defined by OMB and U.S. Department of Treasury[2]:
"…consists of two main components (1) improper payments resulting in a monetary loss to the Government and (2) improper payments that do not result in a monetary loss to the Government. Monetary loss occurs when payments are made to the wrong recipient and/or in the wrong amount. Improper payments that do not result in a monetary loss include under-payments and payments made to the right recipient for the right amount, but the payment was not made in strict accordance with statute or regulation".

A program determined to be susceptible to significant improper payments is referred to as a high-risk program within the agency having a 1.5 percent improper payment rate and at least $10 million in improper payments or exceeds $100 million in improper payments (regardless of rate). Readers can obtain more detailed information on improper payments and information published at here.

Program Descriptions & Risk Assessment Summary

NEH typically receives no-year funding in its regular appropriation in which annual carry-over authority is granted by OMB. The agency received supplemental 2-year appropriation as related to CARES Act in 2020 and supplemental no-year appropriation America Rescue Plan in 2021.

Risk assessments help determine risk of significant improper payments for each fund category through identification of improper payment risk factors, mechanisms to identify risks, management's analysis of the risk effects, and the controls developed to address identified risks and to determine whether the risk of erroneous payments is significant. Dollar amounts represent millions (M) unless otherwise stated.

The agency does not perform recovery audits because it has a %100 recovery policy should an improper payment be identified through the course of operations, audits, risk assessments and/or sampling.

[1] Government Accountability Office-Improper Payments
[2] Payment Accuracy.gov

Administrative Program Funds (210)
The majority of NEH administrative program costs consist of payroll representing approximately $28M in outlays or 77.1% of the administrative budget; related to personnel compensation. Outlays of payroll funds follow strict payroll policies, procedures, and system controls maintained by our payroll service provider, who disburses funds to agency employees on behalf of NEH. Agency processes and system access & roles controls along with a multi-layered segregation of duties across several offices are in place before outlays occur. NEH has deemed this program as not susceptible to improper payment risk.

Other programs categories represent $8.2M in outlays or 22.9% of costs from vendor payments, intragovernmental payments, employee travel and other employee payments, panelists for peer review, and credit card purchase card transactions. These costs fall below the 1.5 percent, $10 million threshold representing determination of being susceptible to significant improper payments. As a result, the agency determined that the non-payroll Administrative Fund program is not susceptible to significant improper payments.

Definite Grant Program Funds (225)
NEH's recurring annual appropriation are grant program funding reported in this fund. Annual outlays were identified as $138.8M in FY 2023. For sampling of payments over $50 thousand or greater, 756 representing $90.1M were identified and 50 were audited representing a total of $5.9M. No issues were noted in sample audits and NEH has deemed this program as not susceptible to significant improper payments.

CARES Act (226)
NEH received $75M in FY2020 in supplemental appropriations from the Coronavirus Aid, Relief and Economic Security Act (CARES) in which expired September 30, 2021. Annual outlays were $4.6M in FY2023. For sampling of payments over $50,000 thousand or greater, 17 transactions representing $4.4M were identified and 3 were audited representing a total of $2.2M. No issues were noted in sample audits and NEH has deemed this program as not susceptible to significant improper payments.

American Rescue Plan (227)
NEH received $135M in FY2021 in supplemental appropriations from the America Rescue Plan Act of 2021 (ARP) as no-year funding. Annual outlays were $46.8M in FY 2023. For sampling of payments over $50 thousand or greater, 251 representing $38.8M were identified and 11 transactions were audited representing a total of $2.6M. No issues were noted in sample audits and NEH has deemed this program as not susceptible to significant improper payments.

Treasury Matching and Challenge Grant Program Funds (255/254)
The Treasury Matching Grants program funds 255 annual outlays were identified as $12.3M in FY 2023. For sampling of payments over $50 thousand or greater, 52 representing $11.3M were identified and 4 were audited representing a total of $1.6M. No issues were noted in sample audits and NEH has deemed this program as not susceptible to significant improper payments.

Challenge Grant Program (254) outlays were $2M and fell below the threshold criteria. Improper payment rate must exceed both 1.5 percent of program outlays and $10M for all program or activity payments made during the fiscal year. NEH determined the Challenge Grants program is not susceptible to significant improper payments.

Summary
The NEH risk assessments resulted in a FY 2023 IPIA reporting error rate of zero percent for 210, 225, 226, 227, 254, 255 funds, demonstrating NEH has sufficient internal controls over its payment processes. To maintain a zero percent testing and error rate, NEH continues implement its Enterprise Risk Management (ERM) program and analyze internal controls through assessments, continuous internal monitoring of possible improper payments, centralization of accounting functions and roles, improve systems and processes for efficiency and compliance purposes. The Office of Inspector General's report assessing the agency's prior year submission determined NEH was in compliance for prior year reporting.

Statistical Sampling Process

NEH maintains the same payment certification process for all payments made by the agency. For all agency programs, potential payments are reviewed to ensure that; (1) an approved obligation exists in the agency's accounting system; (2) invoices are properly signed and approved; (3) payment is being sent to the correct vendor and bank account; (4) payment amount is accurate; (5) payment was charged to the correct obligation in the accounting system.

NEH performs outlay analysis and sampling for payment integrity and improper payment susceptibility. Supplemental appropriations for Coronavirus Aid, Relief and Economic Security Act (CARES) in 2020 and America Rescue Plan Act of 2021 were included within sampling to maintain consistency in this document and for federal reporting requirements.

Summary, Root Causes & Drivers, Corrective Action Plans, Recovery of Improper Payments & Recapture Audits

NEH recovers 100% of funds identified as an improper payment. A root cause analysis and corrective action is performed for each instance. There are no current corrective action plans active with respect to improper payments. Due to the low amounts of improper payments for all agency funds, post-payment reviews and recapture audits would not be cost effective for the agency.

While sampling during the current year did not present instances of an improper payment, one improper payment was identified through the course of operational work due to process not being followed. The payment was recovered 100% in full, and staff were trained on the root cause and proper procedure.

Summary of Expired Federal Grants and Cooperative Agreements

Category	2-3 Years	3-5 Years	More than 5 Years
Number of Grants/Cooperative Agreements with Zero Dollar Balances	0	0	0
Number of Grants/Cooperative Agreements with Undisbursed Balances	111	41	22
Total Amount of Undisbursed Balances[3]	**$1,498,680.84**	**$432,709.11**	**$303,309.86**

NEH is committed to making closeout a priority in promoting and ensuring financial accountability of grant awards. NEH staff review final reports to administratively and financially close out the award. Per regulation, financial closeout begins 120 days after the period of performance expiration date.

Since last year's report, NEH has continued taking steps to close out its backlog of open awards. In FY 2023, NEH closed 1,102 grant awards, a 14% increase from FY 2022. We have continued using the unilateral closeout policy established in FY 2022 in our daily operations. We have also increased our focus on and tracking of award closeout using an internal tracking and progress reporting sheet.

As required by OMB Circular A-136, Financial Reporting Requirements, the "Expired Federal Grants and Cooperative Agreements Summary" above shows 174 awards totaling $2,234,699.81 for which closeout has not yet occurred, but for which the period of performance has elapsed by two years or more prior to September 30, 2023 (i.e., on or before September 30, 2021). Sixty-four percent of the reported awards have periods of performance that ended in the past 2-3 years, indicating that NEH mainly needs to focus on addressing more recent awards.

In the next fiscal year, NEH will continue Closeout Project Team activities. NEH's biggest challenge in addressing the backlog is staff capacity. Three years ago, NEH authorized additional awards under the Coronavirus Aid, Relief, and Economic Security (CARES) Act with the support of temporary hires. Departures of temporary appointments before completion of the grants lifecycle have resulted in CARES awards awaiting closeout. Fourteen percent of the open awards from the 2–3-year time frame are CARES-funded awards.

[3] excludes negative balances of four awards.

Fraud Reduction Report

Each federal agency must include a report on its fraud reduction efforts undertaken in FY 2023. The report must include information on the agency's:

- Implementation of (1) financial and administrative controls established pursuant to the *Fraud Reduction and Data Analytics Act of 2015* (Pub. L. 114-186, 32 U.S.C. §3321 note), (2) the fraud risk principle in the *Standards for Internal Control in the Government* (the Green Book), and (3) *Management's Responsibility for Enterprise Risk Management and Internal Control* (OMB A-123) with respect to leading practices for managing fraud risk;
- Identification of risks and vulnerabilities to fraud (including with respect to payroll, beneficiary payments, grants, large contracts, and purchase and travel cards); and
- Establishment of strategies, procedures, and other steps to curb fraud.

As required by the Office of Management and Budget and OMB A-123, the NEH continues to implement and mature fraud risk management into its Enterprise Risk Management (ERM) program and framework to effectively identify, assess, analyze, prioritize, document responses to, and monitor fraud risks of its operational and grant making processes and activity.

NEH is committed to its responsibility as a steward of taxpayer resources. Fraud can take many forms, such as:

- Intentional misstatement, misapplications or omissions in financial data, statements, notes, and other reports
- Theft of agency assets
- Illegal acts of agency staff, such as bribery
- Waste and abuse of agency resources or authority

Financial and Administrative Controls:

NEH has conducted implementation activities related to a risk identification and an assessment of management internal control processes, to consolidate and analyze the types of threats to assets, projects, and stakeholders the agency faces. An entity wide risk appetite statement was developed and approved for the agency. Continued implementation activities will also enable evaluation of the agency's risk capacity, risk tolerance, and risks to support management decisions on to achieve planned goals.

- *Fraud Risk Principle (Green Book):* Principle 8 of GAO's Standards for Internal Control in the Federal Government requires the agency to consider the potential for fraud and types of fraud that can occur (including waste and abuse). These standards also require management to leverage fraud risk factors and to identify fraud risks to the agency. Each federal agency should analyze and respond to the identified fraud risks for effective mitigation. NEH is developing a comprehensive Fraud Risk Framework, once implemented, will meet the Green Book fraud consideration requirements listed within Principle 8.

- *Identification of risks and vulnerabilities to fraud:* The NEH Fraud Risk Framework, contains entity-level and process-level risk assessments capturing agency risks and vulnerabilities to related to fraud through a 'top-down' and 'bottom-up' approach to identification.

- *Establishment of strategies, procedures, and other steps to curb fraud: NEH* established the Enterprise Risk Management Board (ERMB) as the governance body to: (1) oversee its ERM implementation efforts and eventual oversight (2) assess its fraud risk mitigation strategies; (3) provide entity wide ERM and Internal Controls guidance; and (4) advocate for the design and implementation of efforts to mitigate fraud risks.

- *OMB Circular A-123:* NEH is developing and implementing a compliant future-state process at the entity-level, process-level, and transaction-level for each of the appendices inclusive of the acquisition assessment. The agency is also facilitating a current-state assessment of its internal controls program and each appendix to serve as a roadmap to create internal infrastructures of process to further strengthen the annual Statement of Assurance process.

Anti-deficiency Act (ADA)

Title 31 U.S. Code (U.S.C.) Section 1517 states that an officer or an employee of the United States Government may not make or authorize an expenditure or obligation exceeding an apportionment or an amount permitted by regulations as prescribed by Title 31 U.S.C. Section 1514. NEH continues to implement and mature ERM requirements inclusive of fraud risk into the overall agency risk framework and internal controls assessments. In FY 2023, NEH had no ADA violations to report.