



NATIONAL
ENDOWMENT
FOR THE
HUMANITIES

PERFORMANCE & ACCOUNTABILITY REPORT

FISCAL YEAR 2021

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NATIONAL
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THE CHAIRMAN

Message from the Chairman

I am pleased to present the Performance and Accountability Report for the National Endowment for the Humanities (NEH) for fiscal year (FY) 2021. The report sets forth the agency's goals and objectives for the fiscal year just concluded. The report provides communication on the Endowment's performance, operations, and financial information.

NEH is an independent federal agency created by an act of Congress in 1965 with the overarching goal to advance knowledge and understanding of the humanities in the United States. We are also committed to providing national leadership in promoting the humanities in American culture by awarding grants that encourage and support excellence in scholarship, education, and public programming in the humanities.

The Endowment's programs received more grant applications this fiscal year than in previous years and all of them 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.

In March 2021, NEH received \$135 million through supplemental funding from the American Rescue Plan (ARP) Act to assist cultural institutions and individuals affected by the coronavirus pandemic. Within weeks of receiving the funds, NEH obligated approximately \$52.6 million to its state and jurisdictional partners, the humanities councils, to support local cultural nonprofits and educational programming across the nation. In April 2020, NEH announced two new grant funding opportunities to distribute approximately \$87.8 million in ARP funding to cultural organizations and educational institutions adversely affected by the pandemic. NEH awarded \$59 million through the first funding opportunity, NEH ARP: Humanities Organizations, which provided grants of up to \$500,000 to 292 humanities institutions and organizations to preserve thousands of jobs at museums, archives, historic sites, and colleges and universities that are vital to our nation's cultural life and economy. Through the second funding opportunity, NEH ARP: Humanities Grantmaking, \$28.8 million was awarded to 13 organizations to administer competitive grantmaking programs to support humanities activities undertaken by organizations or individuals.

The financial and performance data contained in this report are, to the best of my knowledge, reliable, accurate, and complete. NEH's FY 2021 financial statement audit yielded a 15th consecutive unmodified (clean) audit opinion. While implementation of an Enterprise Risk Management (ERM) was again identified as an area for improvement, NEH has made significant progress by establishing implementation plans. The agency established an ERM governance structure and a detailed road map for implementation through FY 2023. NEH is fully committed to resolving areas identified for improvement as recommended.

<Adam Wolfson>

Adam Wolfson
Acting Chair

I. Management's Discussion and Analysis

Mission and Organizational Structure

The National Endowment for the Humanities serves and strengthens our nation by supporting high-quality projects and programs in the humanities and by making the humanities available to all Americans.

--NEH Mission Statement

In the 1965 legislation that established the National Endowment for the Humanities (NEH), the Congress of the United States declared that "encouragement and support of national progress . . . in the humanities . . . while primarily a matter of private and local initiative, is also an appropriate matter of concern to the Federal Government." Acknowledging the federal government's interest in "promoting progress in the humanities," Congress expressed this interest in a single, powerful observation: "Democracy demands wisdom and vision in its citizens." The Endowment helps Americans develop "wisdom and vision" by supporting humanities projects and programs that expand knowledge of history, thought, and culture. NEH provides grants to the nation's museums, archives, libraries, colleges, universities, and public television and radio stations, as well as other educational and cultural institutions. The agency also provides grants to individuals to undertake advanced research and scholarship 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. The agency has received notification President Biden announced the nomination of [Ms. Shelly Lowe](#) as Chair of the Endowment and currently awaiting confirmation from the Senate. Adam Wolfson has been serving as acting Chair capacity to ensure continuity of operations until the confirmation process is complete.

The agency's programmatic operations are divided into divisions under which conduct grant making on behalf of major agency programs and initiatives; Federal/State Partnership, Public Programs, Preservation & Access, Research, Education Programs, Digital Humanities and Challenge Grants as further discussed in the Performance Section.

Advising the Endowment's Chairman 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 twice annually to advise the NEH Chair. The Chair considers the advice provided by the review process and, by law, makes all funding decisions.

Peer reviewers in the grant application review process represent a diversity of disciplinary, institutional, regional, and cultural backgrounds. They are experts in the field with relevant knowledge and expertise in the types of project activities identified in the applications. NEH instructs reviewers to evaluate applications according to the published review criteria and must comply with federal ethics and conflicts of interest requirements. NEH staff comment on fact or significant issues and makes recommendations to the National Council on the Humanities.

Performance Goals and Results

NEH revised its strategic plan in 2018 for fiscal years 2018 through 2022. The goals established priorities on expanding access to the humanities for under-served communities and veterans, reducing bureaucracy, realigning agency programs to its founding legislation, and coordinating cultural initiatives within the federal government through re-focusing resources toward existing programs. The metrics and goals presented in the performance section, though not directly linked to the financial statements and data in section 1 below, provide a snapshot overview of awards made to support previously established goals.

NEH grant making programs and award cycles cross multiple fiscal years to realize full performance results, and thus the data presented may not represent the full scope of previously established programmatic activity and COVID-related initiatives. In FY 2021, the agency awarded 10 grants with the remaining available CARES Act funding and 66 grants related to America Rescue Plan funding.

As NEH establishes and matures its Enterprise Risk Management (ERM) framework and associated metrics, in concert with developing its new strategic plan for 2023 and beyond, the agency is committed to presenting a robust evidence-based presentation of performance results.

Financial Statements Overview & Analysis

The audited financial statements are prepared to report the financial position, financial conditions 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 federal entities in accordance with federal generally accepted accounting principles (GAAP) and Federal Accounting Standards Advisory Board (FASB) 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 should be read with the intent that the agency is a component of the U.S. Government and dollar amounts represent M (millions).

NEH carried over supplemental appropriations of \$7.4M (million) from FY2020 as part of Congress enacting the Coronavirus Aid, Relief, and Economic Security Act (CARES) with only \$0.096M remaining. The Endowment continued to provide emergency relief to organizations working in the humanities that have been affected by the coronavirus pandemic. In March of FY2021, Congress enacted the American Rescue plan resulting in an additional \$135M in supplemental appropriation with approximately \$60.1M unobligated as of September 30, 2021.

The following is a brief summary of the agency financial statements. The amounts described are in millions of dollars.

Balance Sheet (BS)

The balance sheet presents the amounts of assets owned and liabilities owed by NEH for FY2021 as compared to FY2020. Their difference determines the net position as of September 30, 2021. Total assets are \$370.6M for FY2021. The Endowment's 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 2021 and 2020, the Endowment FBWT amounts were \$364.1M and \$254.7M, respectively. The increases are primarily due to receipt of the supplemental America Rescue Plan Act of 2021 (ARP) increasing total assets reported.

Advances and prepayments increased to \$2.9M from \$1.2M primarily due to increased advances issued as a result of ARP related activity.

Total liabilities on the balance sheet are \$52.9M. The majority of NEH's estimated grant liability (accrual) is with the public. The accrual for unreimbursed grantee expenses increased to \$48.9M from \$41.1M and is primarily due to increased unclaimed grant expenses reflected in the accrual calculation and increased grant obligations from ARP. Additionally, Federal Employee Benefits payable increased to \$2.0M from \$1.8M. Intragovernmental liability balance changes are primarily due to Other liabilities of \$0.3M and Advances from Others and Deferred Revenues of \$0.1M and reductions in Advances and Deferred Revenue down to \$0.1M from \$0.6M in 2021 and 2020 respectively.

Statement of Net Cost (SNC)

The Statement of Net Cost (SNC), contained in financial statements of this report, provides cost information by responsibility segment, namely, the program offices and divisions within NEH, along with previously established initiatives. The reported performance goal metrics and measures used in this report are established in NEH's performance plan driven by the NEH Annual Report to Congress, but not directly linked to the agency strategic plan or seamlessly linked with agency financial statements.

The net cost of operations represents gross cost incurred by the Endowment less any exchange revenue activity earned. Disclosure of gross and net cost of the Endowment's programs, the SNC provides information correlating to program activity outputs. For fiscal years 2021 and 2020, net cost of operations was \$199.7M and \$178.4M, respectively and largely due to increased grant liability and additional appropriations from ARP.

Statement of Changes in Net Position (SNCP)

The statement of changes in net position displays the components of the unexpended appropriations and cumulative results of operations representing comparative changes in balances. For fiscal years 2021 and 2020, NEH's net position of \$317.6M and \$213.4M, respectively, are primarily due to increases in unexpended appropriations balances due to ARP supplemental appropriations received.

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 funds appropriated by the U.S. Congress. For fiscal years 2021 and 2020, budgetary resources were \$340.5M and \$262.6M, respectively. The increase is primarily due to appropriations received from the ARP in 2021. Distributed offsetting receipts decreased due to less donations and program income to the agency. Detailed budgetary resource information of CARES Act and America Rescue Plan for NEH are disclosed in the footnotes¹ of the financial statements.

¹ Footnote: 16 Covid Activity

Analysis of Systems, Controls and Legal Compliance

Management Assurances

National Endowment for the Humanities (NEH) management is responsible for managing risks and maintaining effective internal control to meet the objectives of Sections 2 and 4 of the *Federal Managers' Financial Integrity Act 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, 2021.

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.

There are no other component or subsidiary entities that are combined or consolidated for presentation in this document.

NEH continues to make progress in implementing an Enterprise Risk Management framework, to address audit results and management challenges to ensure accountability and transparency in stewardship of taxpayer dollars through enhancement of program management.

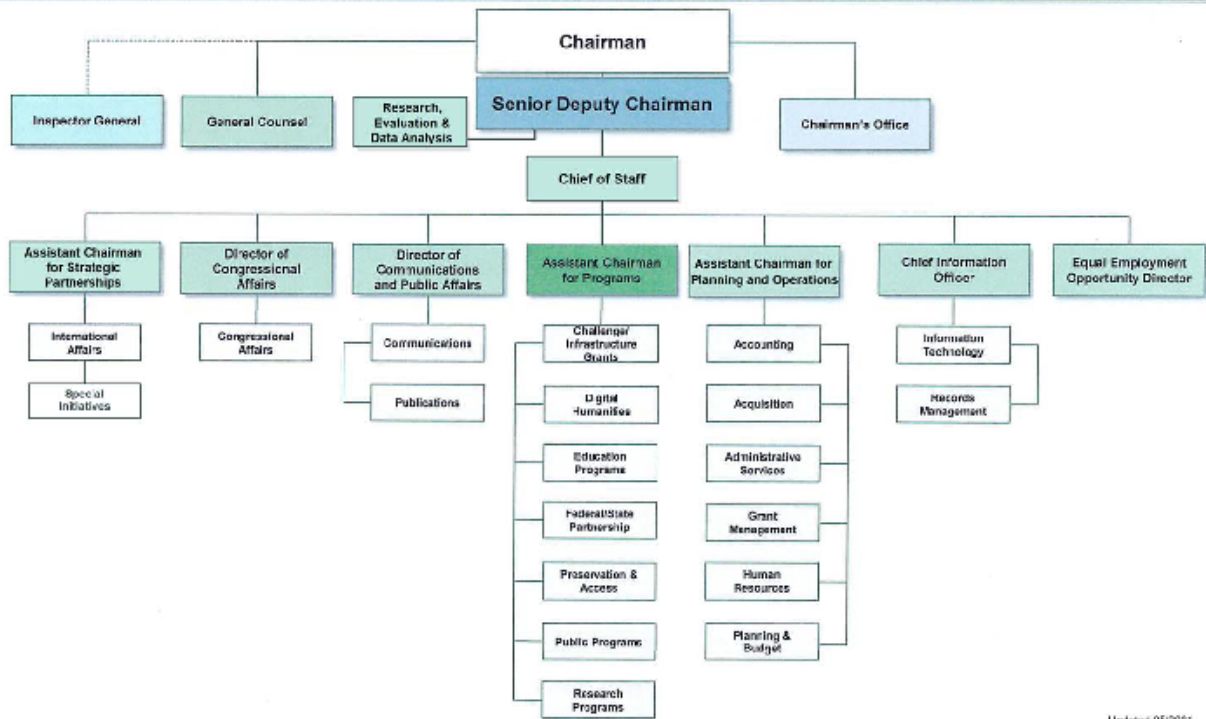
<Adam Wolfson>

Adam Wolfson
Acting Chair

Organizational Structure



National Endowment for the Humanities



Update: 05/2021

II. Performance Information

Fiscal Year 2021 Performance Report

Introduction

The purpose of this section of is to present performance activity with the performance outcomes achieved during the year. Goals and indicators noted are referenced to the NEH Strategic Plan dated 2018 to 2022. The performance goal metrics and measures presented in this report are established in NEH's annual performance plan and driven by the NEH Annual Report to Congress, but not directly linked to the agency strategic plan or financial statements. As NEH works to fully implement Enterprise Risk Management, future performance metrics will result in closer alignment to budgetary resources, net costs, and to the agency strategic plan.

The results projected in the NEH Performance Plan may occur over multiple years. The volume of applications received by NEH as compared to program and grant categories typically fluctuates from year to year. In addition, because grants are awarded through a highly competitive and necessarily contingent application review process, the numbers of grants awarded during a given year may differ significantly from the numbers of awards projected for the year.

Performance Goals and Activities

A: To facilitate basic research and original scholarship in the humanities.

- 1) *Provide support for fellowships and stipends that enable scholars—both those affiliated with educational institutions and those working independently—to devote a concentrated period of time to research and writing on significant subjects in all fields of the humanities.*
 - **FY 2021:** Support was provided for 235 individual scholars to make significant progress on important humanities research projects through fellowships and stipends.
- 2) *Support collaborative research projects on significant subjects in the humanities.*
 - **FY 2021:** Support was provided for 40 important long-term collaborative projects in the humanities such as scholarly editions, translations, archaeological excavations and analyses and other complex, large-scale undertakings. In addition, 35 previously awarded grants received ongoing support through NEH matching funds.
- 3) *Encourage international scholarly collaboration in the humanities.*
 - **FY 2021:** Awards for 28 humanities fellowship programs at independent research institutions are supporting the work of 70 humanities scholars who are making significant contributions to scholarship in the humanities.

4) *Encourage the use of digital technologies in scholarly research and the dissemination of research findings.*

- **FY 2017-2021:** Applicants in all Research programs were encouraged to harness the vast potential of advanced digital technology in the conduct and dissemination of their research.

5) *Work in partnership with the National Science Foundation to support projects to record, document, and archive endangered languages worldwide, with a special emphasis on endangered Native American languages.*

- **FY 2021:** 6 fellowship projects were supported through the Endowment's multi-year funding partnership with the National Science Foundation to provide awards to scholars engaged in recording and archiving key languages before they become extinct.

6) *Support humanities scholarship and related course development by faculty at Historically Black Colleges and Universities, Hispanic-Serving Institutions, and Tribal Colleges and Universities.*

- **FY 2021:** Support was provided to 16 individual scholars who teach at historically black colleges and universities, at Hispanic-serving institutions, and at tribal colleges and universities to make significant progress on important scholarly projects in the humanities through faculty research awards.

The Endowment supports research by individual scholars; long-term, complex projects carried out by teams of scholars; and focused, individual projects that draw upon the collections and expertise of leading humanities institutions and overseas research centers. Support for humanities research is a long-term investment, and the full impact of NEH grants is often realized well after grant funds are spent. The awards made in FY 2021 will help to shape the understanding of scholars and the larger public for years to come.

B: Strengthen teaching and learning in the humanities in elementary and secondary schools and institutions of higher education.

1) *Provide professional development opportunities for teachers at all levels of the nation's educational system to renew and deepen their knowledge of the humanities.*

- **FY 2021:** Support for 20 NEH summer institutes will enable 250 college teachers and 250 schoolteachers to revitalize their knowledge and teaching of the humanities. College teachers participating in seminars and institutes during the summer of 2022 will reach approximately 43,750 students annually; schoolteacher participants will reach approximately 31,250 annually.

The "Landmarks of American History and Culture" program was temporarily suspended for FY 2017; it was reintroduced for FY 2018, to support workshops taking place in the summer of 2019.

- **FY 2021:** Support for 14 Landmarks of American History and Culture workshops to take place in the summer of 2023 will enable approximately 1000 schoolteachers to revitalize their knowledge and teaching of American history and culture, particularly as it relates to the relationship between specific sites and the episodes in history, the writers, and/or the artists associated with that location. These teachers would annually reach approximately 126,000 students.

Dialogues on the Experience of War

- **FY 2021:** Made 9 awards in the Dialogues on the Experience of War program, which is specifically concerned with veterans and active service members.
- 2) *Strengthen efforts to enhance the availability and quality of humanities teaching and learning in the nation's community colleges, especially the study of diverse cultures and historical perspectives.*
- **FY 2021:** Support for 18 Humanities Connections Planning projects and 8 Humanities Connections Implementation projects are enabling faculty at community colleges, colleges, and universities to enhance undergraduate humanities education, to forge links between the humanities and other fields, and to engage undergraduate students in expanded experiential education opportunities. This program funds curricular enhancement projects that help strengthen connections among humanities programs and fields outside the humanities. In addition, support for 6 Humanities Initiatives at Community Colleges projects are supporting community colleges' commitment to educating students on a variety of educational and career paths. This program funds curricular and faculty development projects that help strengthen humanities programs and/or incorporate humanistic approaches in fields outside the humanities.
- 3) *Support efforts of faculty at Historically Black Colleges and Universities, Hispanic Serving Institutions, and Tribal Colleges and Universities to deepen their knowledge in the humanities and strengthen their humanities offerings.*
- **FY 2021:** Humanities Initiatives at Minority Serving Institutions provided 10 grants to support faculty professional development activities for improvement in humanities instruction, as well as other capacity building activities at these institutions.
- 4) *Develop and support NEH's EDSITEment web portal as a means of enriching online teaching and learning resources available to teachers, students, and parents.*
- **FY 2017-2021:** Special encouragement was provided for projects that will produce materials for inclusion on EDSITEment, the Endowment's nationally recognized website for K-12 teachers seeking rich humanities resources on the Internet.

C: To preserve and increase the availability of cultural and intellectual resources essential to the American people.

- 1) *Support is provided to preserve and create intellectual access to humanities collections and resources. Supported activities include digitizing collections; arranging and describing archival and manuscript collections; cataloging collections of printed works, photographs, recorded sound, moving image, art, and material culture; preservation reformatting; preserving and improving access to humanities resources in “born digital” form; creating research tools and reference works; and developing technical standards, best practices, and tools for preserving and enhancing access to humanities collections.*
 - **FY 2021:** 28 projects will preserve and/or provide access to 3,051 audio, video, and film recordings; 1,397 linear feet of archival documents; and 356,510 items of books, documents, and other print and photographic materials; and 83,721 works of art and artifacts.
- 2) *Work in partnership with other institutions, such as the Library of Congress, to digitize and make more accessible historic U.S. newspapers, including newspapers printed in languages other than English. Decreases year over year show the project approaching completion resulting in less newspapers remaining to be digitized.*
 - **FY 2021:** Supported projects will digitize 1 million pages of microfilm pages of historic newspapers.
- 3) *Support the creation of research tools and reference works of major importance to the humanities.*
 - **FY 2021:** Grants were made to 7 projects to begin or continue work on the preparation of dictionaries, atlases, encyclopedias, and textbases central to knowledge and understanding of the humanities.
- 4) *Work in partnership with the National Science Foundation to support projects to record, document, and archive endangered languages worldwide, with a special emphasis on endangered Native American languages.*
 - **FY 2021:** 2 projects were supported for the creation of tools—such as bilingual dictionaries, grammars, and text collections—that document languages threatened with extinction.
- 5) *Support research that leads to new digital tools, technologies, national standards, best practices, and other methodologies for the preservation of collections and cultural resources.*
 - **FY 2021:** 6 projects are supporting the creation of new digital tools, technologies, national standards, best practices, and other methodologies for the preservation of collections and cultural resources.
- 6) *Support the training of staff from the nation's cultural repositories in the appropriate procedures for preserving and enhancing access to humanities collections.*

- **FY 2021:** 11 awards were made for state, regional and national education programs that are providing training for approximately 3,521 people in U.S. museums, libraries, archives, and historical organizations.
- 7) *Provide support for basic preservation activities to small and mid-sized libraries, archives, museums, and historical organizations.*
- **FY 2021:** Projects supported are assisting in preserving collections at 71 institutions in 37 states and territories. Approximately 30% of the awards would go to first-time NEH grantees.

D: To provide opportunities for Americans to engage in lifelong learning in the Humanities.

- 1) *Support efforts by museums and historical organizations to produce interpretive exhibitions and educational materials that convey significant humanities themes and topics.*
- **FY 2021:** 40 grants are supporting exhibitions, web-based programs, and other public education programs that will employ various delivery mechanisms at museums and historical organizations across the country.
- 2) *Support substantive documentary films, radio programs, and online media presentations that advance public understanding of the humanities and promote citizen engagement in consideration of humanities issues and themes.*
- **FY 2021:** 20 grants for television/radio projects will draw a cumulative audience of approximately 40 million people.
- 3) *Support humanities projects that make creative use of new technologies to enhance the quality and reach of public humanities programming.*
- **FY 2021:** 25 digital projects are producing online and mobile games and virtual environments, innovative interpretive websites, mobile applications, virtual tours, and other digital formats to engage citizens in thoughtful reflection on culture, identity, and history.

E: Maintain and strengthen partnerships with the state humanities councils.

- 1) *Support state council efforts to develop locally initiated humanities programs for the people in each state.*
- **FY 2021:** Support from NEH enabled 15,000 in-person and virtual subrecipient-conducted activities.
- 2) *Encourage high-quality, council-conducted humanities programs in the various states.*
- **FY 2021:** Support enabled 9,000 in-person and virtual council conducted activities.

3) *Encourage state humanities councils in their efforts to create and support humanities-rich websites and digital projects.*

- **FY 2021:** Support enabled 40 humanities councils (74%) to conduct council-led activities with the primary purpose of delivering information through humanities-rich websites and digital projects, and 45 humanities councils (83%) to conduct council-led activities with the primary purpose of facilitating audience engagement through humanities-rich websites and digital projects. Support enabled 40 humanities councils (74%) to support subrecipient-conducted activities with the primary purpose of delivering information through humanities-rich websites and digital projects, and 50 humanities councils (93%) to support subrecipient-conducted activities with the primary purpose of facilitating audience engagement through humanities-rich websites and digital projects.

4) *Support state humanities councils in ongoing collaborations with colleges and universities, museums, libraries, historical societies, and other institutions.*

- **FY 2021:** Support enabled 9,000 partnerships with colleges and universities, museums, libraries, historical societies, and other institutions.

5) *Recognize and encourage council activities that promote civil discussion, particularly of issues that divide Americans.*

- **FY 2021:** Support enabled 50 humanities councils (93%) to conduct council-led activities, and 51 humanities councils (93%) to support subrecipient-conducted activities.

F: Provide a focal point for development of the digital humanities.

1) *Provide national leadership in spurring innovation and best practices in the digital humanities.*

- **FY 2021:** 33 Digital Start-Up projects and Digital Humanities Implementation Grants will set the pace for innovation within humanities research and education. These projects would receive extensive media coverage and have a national and international impact on how new scholarship is conducted.

G: Strengthen the institutional base of the humanities through financial incentives provided by matching challenge grants.

1) *Encourage efforts of cultural and educational institutions to attract and increase nonfederal contributions to their humanities resources and activities.*

- **FY 2021:** By FY 2026, 38 NEH Challenge Grants awarded in FY 2021 will leverage at least an expected \$54 million of nonfederal donations to recipient institutions in support of their humanities activities.

2) Support the efforts of cultural and educational institutions to use digital technologies, where appropriate, in their humanities activities

- **FY 2021:** The efforts of cultural and educational institutions to use digital technologies will be encouraged.

H: Stimulate third-party support for humanities projects and programs.

1) *Encourage and support efforts of educational and cultural organizations to secure nonfederal sources of funding in support of humanities projects and programs.*

- **FY 2021:** Fund-raising by recipients of an NEH matching award generated more than \$2.0 million in third-party support for humanities projects.

2) *Leverage the private sector contributions of the nation's businesses, foundations, and philanthropic-minded individuals on behalf of humanities projects and programs.*

- **FY 2021:** NEH partnerships with the private-sector will generate support for exemplary activities in the humanities. As a condition of their award, recipients of an NEH matching or Challenge grant must provide this agency regular reports as to the progress of their fund-raising efforts. Also, NEH collaborates closely with its partner organizations in public/private efforts such as those described below. The terms of this information sharing relationship are stipulated in a formal cooperative agreement.

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 2021. 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 fifteenth consecutive year, indicating the Endowment's commitment to the careful stewardship of the taxpayer dollars.

The Accounting Office faces significant challenges in the federal accounting environment to ensure further alignment with future U.S. Department of Treasury strategic and compliance initiatives. The development of requirements and plans to improve processes and streamline the delivery of information to agency stakeholders will be of primary focus. During this reporting period, we continued use of digital solutions to records management and focused on analyzing accounting operations and financial reporting with the aim of continuing to implement strategic initiatives in the coming year.

In FY 2021 we began developing an accounting operations strategy to further improve and streamline operations and financial reporting. Currently, we are preparing the accounting strategy for alignment with the NEH's overall strategic planning and Enterprise Risk Management structure and framework to develop defined and measurable long-term goals.

We continue to mature the inclusion of risk-based approaches and corrective actions to strengthen internal controls, enhance customer-facing services and engage agency culture in the accounting driven stewardship activities of taxpayer funding.

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

Cora Shepherd
November 15, 2021

Audited Financial Statements Fiscal Year 2021



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BALANCE SHEETS

As of September 30, 2021 and 2020

(in US Dollars)

	2021	2020
ASSETS		
Intragovernmental:		
Fund Balance with Treasury (Note 2)	\$ 364,129,195	\$ 254,716,298
Advances and Prepayments (Note 18)	2,930,156	1,229,904
Total intragovernmental	<u>367,059,351</u>	<u>255,946,202</u>
Other than Intragovernmental/With the Public:		
Receivables, Net (Note 3)	144,270	127,240
Property and equipment, net (Note 4)	481,570	728,900
Advances and Prepayments (Note 18)	2,866,826	1,599,662
Total other than intragovernmental/with the public	<u>3,492,666</u>	<u>2,455,802</u>
TOTAL ASSETS	<u><u>370,552,017</u></u>	<u><u>258,402,004</u></u>
LIABILITIES (Note 13)		
Intragovernmental:		
Advances from Others and Deferred Revenue	137,053	643,749
Other Liabilities (Note 6)	291,205	229,235
Total intragovernmental	<u>428,258</u>	<u>872,984</u>
Other than Intragovernmental/With the Public:		
Accounts payable	503,011	223,105
Federal Employee and veteran benefits payable (Note 6)	2,004,271	1,825,664
Other Liabilities (Note 6)		
Accrued Grant Liabilities (Note 17)	48,880,633	41,138,411
Other	1,177,389	922,975
Total other than intragovernmental/with the public	<u>52,565,304</u>	<u>44,110,155</u>
TOTAL LIABILITIES	<u><u>52,993,562</u></u>	<u><u>44,983,139</u></u>
NET POSITION		
Unexpended appropriations - funds other than those from dedicated collections	318,172,624	213,630,343
Total unexpended appropriations	<u>318,172,624</u>	<u>213,630,343</u>
Cumulative results operations - funds from dedicated collections	842,733	1,011,034
Cumulative results operations - funds other than those from dedicated collections	(1,456,902)	(1,222,512)
Total cumulative results of operations	<u>(614,169)</u>	<u>(211,478)</u>
TOTAL NET POSITION	<u>317,558,455</u>	<u>213,418,865</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 370,552,017</u></u>	<u><u>\$ 258,402,004</u></u>

The accompanying notes are an integral part of these statements.



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NATIONAL ENDOWMENT FOR THE HUMANITIES

STATEMENTS OF NET COST
For the Years Ended September 30, 2021 and 2020
(in US Dollars)

	<u>2021</u>	<u>2020</u>
PROGRAM COSTS (Notes 1, 9, 10, & 15)		
GROSS PROGRAM COSTS		
Gross costs	\$ 201,284,628	\$ 179,690,229
Less: earned revenue	<u>(1,602,022)</u>	<u>(1,287,015)</u>
Net program costs	199,682,606	178,403,214
A More Perfect Union		
Gross costs	2,069,014	751,196
Less: earned revenue	<u>(5,090)</u>	<u>(2,158)</u>
Net costs	2,063,924	749,038
Challenge Grants		
Gross costs	5,747,214	7,480,027
Less: earned revenue	<u>(14,052)</u>	<u>(21,487)</u>
Net costs	5,733,162	7,458,540
Digital Humanities		
Gross costs	8,838,624	7,282,339
Less: earned revenue	<u>(396,069)</u>	<u>(353,286)</u>
Net costs	8,442,555	6,929,053
Education		
Gross costs	20,708,309	15,143,499
Less: earned revenue	<u>(501,992)</u>	<u>(363,506)</u>
Net costs	20,206,317	14,779,993
Federal/State Partnership		
Gross costs	81,484,262	83,823,276
Less: earned revenue	<u>(200,238)</u>	<u>(240,495)</u>
Net costs	81,284,024	83,582,781
Preservation and Access		
Gross costs	25,857,855	21,546,522
Less: earned revenue	<u>(63,078)</u>	<u>(61,134)</u>
Net costs	25,794,777	21,485,388
Program Development		
Gross costs	91,722	52,989
Less: earned revenue	<u>(226)</u>	<u>(152)</u>
Net costs	91,496	52,837
Public		
Gross costs	27,999,969	21,232,597
Less: earned revenue	<u>(68,283)</u>	<u>(60,249)</u>
Net costs	27,931,686	21,172,348
Research		
Gross costs	26,392,277	20,178,213
Less: earned revenue	<u>(347,839)</u>	<u>(178,230)</u>
Net costs	26,044,438	19,999,983
Treasury Funds		
Gross costs	1,959,160	1,722,534
Less: earned revenue	<u>(4,820)</u>	<u>(4,948)</u>
Net costs	1,954,340	1,717,586
Special Initiatives*		
Gross costs	136,222	477,037
Less: earned revenue	<u>(335)</u>	<u>(1,370)</u>
Net costs	135,887	475,667
NET COST OF OPERATIONS	<u>\$ 199,682,606</u>	<u>\$ 178,403,214</u>

The accompanying notes are an integral part of these statements.

* Special Initiatives comprises Bridging Cultures, Common Good, and We the People programs.



NATIONAL
ENDOWMENT
FOR THE
HUMANITIES

STATEMENTS OF CHANGES IN NET POSITION
For the Years Ended September 30, 2021 and 2020
(in US Dollars)

	2021			2020		
	Funds from Dedicated Collections (Note 8)	All Other Funds	Total	Funds from Dedicated Collections (Note 8)	All Other Funds	Total
<u>UNEXPENDED APPROPRIATIONS</u>						
Beginning balances	\$ -	\$ 213,630,343	\$ 213,630,343	\$ -	\$ 152,413,192	\$ 152,413,192
Beginning balances, as adjusted	-	213,630,343	213,630,343	-	152,413,192	152,413,192
Appropriations received	-	302,500,000	302,500,000	-	237,250,000	237,250,000
Appropriations used	-	(197,957,719)	(197,957,719)	-	(176,032,849)	(176,032,849)
Net Change in Unexpended Appropriations	-	104,542,281	104,542,281	-	61,217,151	61,217,151
Total Unexpended Appropriations: Ending	-	318,172,624	318,172,624	-	213,630,343	213,630,343
<u>CUMULATIVE RESULTS OF OPERATIONS</u>						
Beginning balances	1,011,034	(1,222,512)	(211,478)	1,215,951	(639,488)	576,463
Beginning balances, as adjusted	1,011,034	(1,222,512)	(211,478)	1,215,951	(639,488)	576,463
Appropriations used	-	197,957,719	197,957,719	-	176,032,849	176,032,849
Donations	35,428	-	35,428	153,183	-	153,183
Imputed financing (Note 15)	-	1,286,767	1,286,767	-	1,034,055	1,034,055
Net cost of operations (Note 15)	(203,729)	(199,478,877)	(199,682,606)	(358,100)	(177,649,928)	(178,008,028)
Net change in cumulative results of operations	(168,301)	(234,391)	(402,692)	(204,917)	(583,024)	(787,941)
Cumulative Results of Operations: Ending	842,733	(1,456,903)	(614,170)	1,011,034	(1,222,512)	(211,478)
<u>NET POSITION</u>	\$ 842,733	\$ 316,715,721	\$ 317,558,454	\$ 1,011,034	\$ 212,407,831	\$ 213,418,865

The accompanying notes are an integral part of these statements.



STATEMENTS OF BUDGETARY RESOURCES
For the Years Ended September 30, 2021 and 2020
(in US Dollars)

	<u>2021</u>	<u>2020</u>
Budgetary Resources:		
Unobligated Balance from Prior Year Budget Authority, Net	\$ 36,902,507	\$ 24,042,624
Appropriations (discretionary and mandatory)	302,535,428	237,403,183
Spending authority from offsetting collections (discretionary and mandatory)	1,082,617	1,120,349
Total budgetary resources	<u>340,520,552</u>	<u>262,566,156</u>
Status of Budgetary Resources:		
New obligations and upward adjustments (total)	251,345,592	230,411,618
Unobligated balance, end of year:		
Apportioned, unexpired accounts	88,618,459	30,933,437
Unapportioned, unexpired accounts	556,501	1,221,102
Unexpired unobligated balance, end of year	<u>89,174,960</u>	<u>32,154,539</u>
Unobligated balance, end of year (total)	<u>89,174,960</u>	<u>32,154,539</u>
Total budgetary resources	<u>340,520,552</u>	<u>262,566,157</u>
Outlays, Net:		
Outlays, net (total) (discretionary and mandatory)	193,122,530	159,685,156
Distributed offsetting receipts (-)	(83,048)	(329,397)
Agency outlays, net (discretionary and mandatory)	<u>193,039,482</u>	<u>159,355,759</u>
Disbursements, net (total) (mandatory)	<u>\$ 14,965,366</u>	<u>\$ 366,407</u>

The accompanying notes are an integral part of these statements.

National Endowment for the Humanities
Notes to the Financial Statements
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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 therefore some assets and liabilities reported may be eliminated for government-wide reporting due to offsets by other government entities.

B. Basis of Presentation and Accounting

The audited financial statements are generated to meet the requirements of the Government Management Reform Act 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 SFFAS 47 Reporting Entity. 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.

C. Significant Changes to Accounting Policy

NEH revised its methodology in fiscal year (FY) 2021 for estimating its grant liability accrual. See note 17.

D. Fund Balance with Treasury (FBWT)

Funds balances with the 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 for additional information.

National Endowment for the Humanities
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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, 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 American Rescue Plan (ARP) Public Law 117-2, enacted on March 11 2021.

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. The multi-year appropriation for COVID-19 emergency response funds is used for grant programs only.

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 Chairman to incur representation and reception expenses. NEH also earns revenue by providing cost sharing or reimbursable services to other Federal agencies through interagency agreements.

F. 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 18.

G. General 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.

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H. 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.

I. Accounts Payable

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

J. Accounts Receivable

NEH uses the specific identification method to recognize an allowance for uncollectible accounts receivable and related bad debt expenses.

K. 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.

L. 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.

M. 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

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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.

N. Use of Estimates

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

O. 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, 2021.

P. Rounding

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

Note 2 – Fund Balance with Treasury

	<u>2021</u>	<u>2020</u>
Status of fund balance with Treasury:		
Unobligated Balance - Available	\$ 88,618,459	\$ 30,933,437
Unobligated Balance - Unavailable	556,501	1,221,102
Unfilled customer orders without advance	(744,853)	(762,911)
Obligated Balance not yet Disbursed	<u>275,699,088</u>	<u>223,324,671</u>
Total	<u>\$ 364,129,195</u>	<u>\$ 254,716,299</u>

Fund Balance with Treasury is the aggregate amount of NEH's accounts with the

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U.S. Treasury from which NEH is authorized to incur obligations and make expenditures to pay liabilities. The trust fund includes amounts donated to NEH. Some of these funds are restricted for intended purposes.

*See Note 1 and 16 as related to CARES Act and American Rescue Plan.

Note 3 – Accounts Receivable

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.

	2021	2020
Receivables from the public	144,270	127,240
Receivables	\$ 144,270	\$ 127,240

Note 4 – General Property, Plant, and Equipment, Net

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

Major Class	Service Life and Method	Cost	Accumulated Amortization/Depreciation	2021 Net Book Value	2020 Net Book Value
Leasehold Improvements	10 years/Straight	\$ 168,722	\$ (122,324)	\$ 46,398	\$ 63,271
Office Equipment	5 years/Straight	295,541	(248,861)	46,680	82,238
Software - Internal Use	3 years/Straight	2,928,234	(2,636,683)	291,551	583,392
Software - In Development	Not Applicable	96,941	-	96,941	-
Total Property, Plant, & Equipment		\$ 3,489,438	\$ (3,007,868)	\$ 481,570	\$ 728,901

Note 5 – Liabilities Not Covered by Budgetary Resources

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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. Treasury and are not available for agency use.

	<u>2021</u>	<u>2020</u>
Intragovernmental		
Accrued unfunded FECA	\$ 50,010	\$ 49,326
Total intragovernmental	<u>50,010</u>	<u>49,326</u>
Actuarial FECA	299,442	283,296
Accrued unfunded leave	1,704,828	1,542,368
Total liabilities not covered by budgetary resources	<u>2,054,280</u>	<u>1,874,990</u>
Total liabilities covered by budgetary resources	50,939,282	43,108,149
Total Liabilities	<u>\$ 52,993,562</u>	<u>\$ 44,983,139</u>

*See Note 1 and 16 as related to CARES Act and American Rescue Plan.

National Endowment for the Humanities
Notes to the Financial Statements
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Note 6 – Other Liabilities

	2021	2020
Intragovernmental:		
Accrued Unfunded FECA	\$ 50,010	\$ 49,326
Employee contributions & payroll taxes payable	217,528	179,909
Unemployment and workers' compensation liability	23,667	-
Total Intragovernmental	291,205	229,235
With the Public:		
Accrued funded payroll	1,177,389	922,975
Actuarial FECA liability	299,442	283,296
Accrued unfunded leave	1,704,829	1,542,368
Accrued liabilities due - non-Government	48,880,633	41,138,411
Total Liabilities with the Public	52,062,293	43,887,050
Total Liabilities	\$ 52,353,498	\$ 44,116,285

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 2024. The estimate for the annual lease costs for future fiscal years are as follows:

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	<u>Office Space</u>
<u>Future payments due:</u>	
Fiscal year 2022	3,085,314
Fiscal year 2023	3,120,140
Fiscal year 2024*	1,284,920
Total Future Lease Payments	<u>\$ 7,490,374</u>

* Current lease expires in February 2024

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 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 Chairman 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." And must be used for a purpose consistent with the agency's mission and authorizing legislation.

National Endowment for the Humanities
Notes to the Financial Statements
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Note 8 – Funds from Dedicated Collections – (continued)

Balance Sheet, as of September 30th	2021		2020	
	Funds from Dedicated Collections	Total Funds from Dedicated	Funds from Dedicated Collections	Total Funds from Dedicated
Assets				
Fund Balance with Treasury	\$ 889,247	\$ 889,247	\$ 1,004,442	\$ 1,004,442
Other Assets - Intragov't Advances	26,096	26,096	63,416	63,416
Total Assets	915,343	915,343	1,067,858	1,067,858
Liabilities				
	72,610	72,610	56,825	56,825
Cumulative Results of Operations	842,733	842,733	1,011,034	1,011,034
Total Liabilities and Net Position	915,343	915,343	1,067,859	1,067,859
Statement of Net Cost, for the year ended September 30th				
Gross Program Costs	203,729	203,729	358,100	358,100
Less Earned Revenues	-	-	-	-
Net Program Costs	203,729	203,729	358,100	358,100
Costs not Attributable to Program Costs	-	-	-	-
Less Earned Revenues not Attributable to Program Costs	-	-	-	-
Net Cost of Operations	203,729	203,729	358,100	358,100
Statement of Changes in Net Position, for the year ended				
Net Position, Beginning of Period	1,011,034	1,011,034	1,215,951	1,215,951
Non-Exchange Revenue	35,428	35,428	153,183	153,183
Net Cost of Operations	203,729	203,729	358,100	358,100
Change in Net Position	(168,301)	(168,301)	(204,917)	(204,917)
Net Position, End of Period	\$ 842,733	\$ 842,733	\$ 1,011,034	\$ 1,011,034

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Note 9 – Suborganization Program Costs

Matching Grants - Challenge Grants and Treasury Fund Grants

Matching awards entail an offer of NEH funding that is conditioned on an equivalent amount of fund-raising by the recipient and uses these two types of matching grants.

Challenge grants projects may involve building and renovating structures such as museums and libraries, and updating the infrastructure that undergirds humanities work. Successful applicants will be awarded matching funds, intended to stimulate additional private, state, and local support for humanities infrastructure. Recipients must raise cash contributions from nonfederal third parties and have them certified by NEH before matching funds are released.

Treasury Fund grants are appropriated funds used to match non-federal contributions in support of humanities projects; non-federal donations on a one-to-one basis proven to be an effective mechanism for leveraging the contributions of businesses, foundations, and individuals on behalf of the humanities.

A More Perfect Union – In preparation for commemorating the upcoming 250th anniversary of the founding of the United States, this initiative provides funding opportunities across the agency's seven 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 three programs: Bridging Cultures, Common Good, and We the People. These programs were consolidated on the Statement of Net Costs for formatting purposes.

Note 10 – Exchange Revenues for Reimbursable Services Activities

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

Note 11 – 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. For NEH, these imputed costs and revenues relate specifically to employee benefits that are administered by the Office of Personnel Management.

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Note 12 – Undelivered Orders at the End of the Period

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

	2021	2020
Federal Undelivered Orders:		
Unpaid	\$ 889,785	\$ 893,399
Paid	2,930,156	1,229,904
Total Federal Undelivered Orders	3,819,941	2,123,303
Non-Federal Undelivered Orders:		
Unpaid	224,007,075	179,966,871
Paid	2,866,826	1,599,662
Total Non-Federal Undelivered Orders	226,873,901	181,566,533
Total, Undelivered Orders at the End of the Period	\$ 230,693,842	\$ 183,689,836

Note 13 – 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 2021 has not been published. Actual numbers for fiscal year 2021 will be included in the President’s Budget for fiscal year 2023, which will be published in February 2022.

There are no material differences in amounts reported in the FY 2020 Statement of Budgetary Resources and the 2020 actual amounts reported in the Budget of the United States Government. Any differences in the table below are due to the rounding.

FY 2020 (in millions of dollars)	Budgetary Resources Available for Obligation	New Obligations & Upward Adjustments (Total)	Distributed Offsetting Receipts	Net Outlays
Budget of the US Government	\$ 262	\$ 230	\$ -	\$ 160
Statement of Budgetary Resources	263	230	-	160
Differences (due to rounding)	\$ 1	\$ -	\$ -	\$ -

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Note 14 – 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. Treasury at the end of the fiscal year.

	2021	2020
Collections for NEH projects funded in previous years	\$ 47,620	\$ 176,214
Total cash collections	47,620	176,214
Disposition of collections:		
Return to Treasury (general fund)	47,620	176,214
Net custodial collection activity	\$ -	\$ -

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Note 15 – Reconciliation of Net Cost to Net Outlays

	2021			2020		
	Intra- governmental	With the Public	Total	Intra- governmental	With the Public	Total
Net Operating Cost (SNC)	\$ 8,720,036	\$ 190,962,570	\$ 199,682,606	\$ 8,289,915	\$ 170,113,299	\$ 178,403,214
Components of Net Operating Cost Not Part of the Budgetary Outlays						
Property, plant, and equipment depreciation	-	(387,860)	(387,860)	-	(451,311)	(451,311)
Other	-	140,529	140,529	-	272,436	272,436
Increase/(Decrease) in assets:						
Accounts receivable	-	17,030	17,030	(24,636)	(15,580)	(40,216)
Other assets	1,700,252	1,267,164	2,967,416	236,149	(207,027)	29,122
Investments						
(Increase)/Decrease in liabilities not affecting Budget Outlays						
Accounts payable	506,695	(279,905)	226,790	211,714	(14,741)	196,973
Salaries and benefits	(61,286)	(254,414)	(315,700)	(52,820)	(135,993)	(188,813)
Other liabilities (Unfunded leave, unfunded FECA, actuarial FECA)	(684)	(7,920,829)	(7,921,513)	(2,387)	(17,104,621)	(17,107,008)
Other financing sources						
Federal employee retirement benefit costs paid by OPM and imputed to agency	(1,286,767)	-	(1,286,767)	(1,034,055)	-	(1,034,055)
Total Components of Net Operating Cost Not Part of the Budget Outlays	858,210	(7,418,285)	(6,560,075)	(666,035)	(17,656,837)	(18,322,872)
Components of the Budget Outlays That Are Not Part of Net Operating Cost						
Other	(47,620)	(35,428)	(83,048)	(176,214)	(153,183)	(329,397)
<i>Total Components of the Budgetary Outlays That Are Not Part of Net Operating Cost</i>	(47,620)	(35,428)	(83,048)	(176,214)	(153,183)	(329,397)
Net Outlays	<u>\$ 9,530,626</u>	<u>\$ 183,508,857</u>	<u>\$ 193,039,483</u>	<u>\$ 7,447,666</u>	<u>\$ 152,303,279</u>	<u>\$ 159,750,945</u>
Related Amounts on the Statement of Budgetary Resources						
Outlays, net			193,122,530			159,685,156
Distributed offsetting receipts			(83,048)			(329,397)
Agency Outlays, Net			<u>\$ 193,039,482</u>			<u>\$ 159,355,759</u>

National Endowment for the Humanities
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Note 16 – 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 2021	CARES Act 2020	American Rescue Plan 2021
Budgetary Resources			
Appropriation	\$ -	\$ 75,000,000	\$ 135,000,000
Balance Brought Forward	<u>7,429,420</u>	<u>-</u>	<u>-</u>
Budgetary Resources Used			
Programs or Activities Funded			
Chairman's Grants	-	(30,000)	-
Challenge Grants	-	-	(2,500)
Digital Humanities	(160,173)	(3,850,204)	(3,750)
Education	137,990	(11,616,562)	(9,750)
Federal/State Partnership	-	(30,465,685)	(52,615,000)
Preservation and Access	(9,296)	(6,139,421)	(7,000)
Public Programs	(11,713)	(14,023,176)	(7,250)
Research	<u>(7,290,473)</u>	<u>(1,445,532)</u>	<u>(21,493,758)</u>
Administrative*	<u>-</u>	<u>-</u>	<u>(785,008)</u>
Total Budgetary Resources Used	<u>(7,333,665)</u>	<u>(67,570,580)</u>	<u>(74,924,016)</u>
Unobligated Balance	<u>\$ 95,754</u>	<u>\$ 7,429,420</u>	<u>\$ 60,075,984</u>

*Administrative costs were not a part of the CARES Act appropriation. ARP administrative costs comprised payroll and information technology support expenses

National Endowment for the Humanities
Notes to the Financial Statements
As of and for the Period Ended
September 30, 2021 and 2020
(In Dollars)

Note 17 – 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 to ensure the grant accrual is 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.

Upon analysis, the existing methodology needed to be refined to be inclusive of supplemental appropriation trends and to further ensure estimates are closer to actuals. In FY20, NEH received supplemental appropriations of \$75M from the Coronavirus Aid, Relief, and Economic Security Act (CARES) and in FY21 received \$135M from the America Rescue Plan Act. The look back analysis calculates a 5-year average percentage for estimating accrual amounts by analyzing payment trends. The changes made include; (1) reviewing the last 5 fiscal years data instead of last 3 fiscal years; (2) dropping the oldest data and adding current fiscal year data; (3) the analysis will be performed annually instead of every five years.

The grant accrual was \$48,880,633 and \$41,138,411 as of September 30, 2021 and September 30, 2020. Changes in accrual methodology had an immaterial impact on the FY20 financial statements.

National Endowment for the Humanities
Notes to the Financial Statements
As of and for the Years Ended
September 30, 2021 and 2020
(In Dollars)

Note 18 – Advances and Prepayments

	<u>2021</u>	<u>2020</u>
To federal agencies:		
Advances to federal agencies	\$ 2,930,156	\$ 1,229,904
To the public:		
Advances to grantees	2,866,826	1,599,662
Net	<u>\$ 5,796,982</u>	<u>\$ 2,829,566</u>

Audit Report Fiscal Year 2021



Independent Auditor's Report

Mr. Adam Wolfson
Acting Chairman
National Endowment for the Humanities

Ms. Laura Davis
Inspector General
National Endowment for the Humanities

In our audits of the fiscal years 2021 and 2020 financial statements of the National Endowment for the Humanities (NEH), we found:

- NEH's financial statements as of and for the fiscal years ended September 30, 2021, and 2020, 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
- one reportable noncompliance for fiscal year 2021 with provisions of applicable laws, regulations, contracts, and grant agreements we tested.

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

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

²The RSI consists of Management's Discussion and Analysis and Performance Information, which are included with the financial statements.

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

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Report on the Financial Statements

In accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 21-04, *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, 2021, and 2020; 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.

We conducted our audits in accordance with auditing standards generally accepted in the U.S.; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 21-04. We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinions.

Management's Responsibility

NEH management is responsible for (1) the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; (2) preparing, measuring, and presenting the RSI in accordance with U.S. generally accepted accounting principles; (3) preparing and presenting other information included in documents containing the audited financial statements and auditor's report, and ensuring the consistency of that information with the audited financial statements and the RSI; and (4) maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. U.S. generally accepted auditing standards, U.S. generally accepted government auditing standards, and OMB Bulletin No. 21-04 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. We are also responsible for applying certain limited procedures to RSI and other information included with the financial statements.

An audit of financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the auditor's assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit of financial statements also involves evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audits also included performing such other procedures as we considered necessary in the circumstances.

Opinion on Financial Statements

In our opinion, NEH's financial statements present fairly, in all material respects, NEH's financial position as of September 30, 2021, and 2020, and its net cost of operations, changes in net position, and budgetary resources for the fiscal years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles issued by the Federal Accounting Standards Advisory Board (FASAB) require that the RSI be presented to supplement the financial statements. Although the RSI is not a part of the financial statements, FASAB considers this information to be an essential part of financial reporting for placing the financial statements in appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with U.S. generally accepted government auditing standards, which consisted of inquiries of management about the methods of preparing the RSI and comparing the information for consistency with management's responses to the auditor's inquiries, the financial statements, and other knowledge we obtained during the audits 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. We read the other information included with the financial statements in order to identify material inconsistencies, if any, with the audited financial statements. Our audit was conducted for the purpose of forming an opinion on NEH's financial statements. We did not audit and do not express an opinion or provide any assurance on the other information.

Report on Internal Control over Financial Reporting

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

Management's Responsibility

NEH management is responsible for maintaining effective internal control over financial reporting, including the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

In planning and performing our audits of NEH's financial statements as of and for the year ended September 30, 2021, in accordance with U.S. generally accepted government auditing standards, we considered the NEH's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the NEH's internal control over financial reporting. Accordingly, we do not express an opinion on the NEH's internal control over financial reporting. We are required to report all deficiencies that are considered to be significant deficiencies⁴ or material weaknesses. We did not consider all internal controls relevant to operating objectives, such as those controls relevant to preparing performance information and ensuring efficient operations.

Definition and Inherent Limitations of Internal Control over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, the objectives of which are to provide reasonable assurance that (1) transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition, and (2) transactions are executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the financial statements.

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

Results of Our Consideration of Internal Control over Financial Reporting

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

As discussed in *Appendix I*, our audit identified a deficiency in NEH's controls pertaining to the agency's lack of an effective Enterprise Risk Management (ERM) program, that represents a significant deficiency in NEH's internal control over financial reporting. This deficiency was mentioned in our FY 2020 report. *Appendix II* presents our assessment of the current status of the prior year significant deficiencies and the noncompliance matter.

Intended Purpose of Report on Internal Control over Financial Reporting

The purpose of this report is solely to describe the scope of our consideration of the NEH's internal control over financial reporting and the results of our procedures, and not to provide an opinion on the effectiveness of the NEH's internal control over financial reporting. This report is an integral

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

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 responsibility discussed below. We caution that noncompliance may occur and not be detected by these tests. We performed our tests of compliance in accordance with U.S. generally accepted government auditing standards.

Management's Responsibility

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

Auditor's Responsibility

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

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 one instance of noncompliance for fiscal year 2021 related to the implementation of an effective ERM program to comply with all requirements of OMB Circular A-123 that would be reportable under U.S. generally accepted government auditing standards. The noncompliance matter is 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.

In addition to the ERM noncompliance, we identified another control deficiency in NEH's compliance that we do not consider reportable. Nonetheless, this deficiency warrants NEH management's attention. We have communicated this matter to NEH management in a separate letter.

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

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

Agency Comments

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

Williams, Arley & Company-DC, LLP

Washington, DC
November 12, 2021

Appendix I – Significant Deficiency in Internal Control and Related Noncompliance Matter

21-01: Lack of Agency-wide Risk Assessment Procedures (Updated Repeat Finding)

The National Endowment for the Humanities (NEH) has not fully implemented an effective Enterprise Risk Management (ERM) program to comply with all requirements set forth in the Office of Management and Budget (OMB) Circular A-123, “*Management’s Responsibility for Enterprise Risk Management and Internal Control*” (OMB A-123) and OMB Circular A-136, “*Financial Reporting Requirements*” (OMB A-136).

During fiscal year 2021, we determined that NEH dedicated specific resources to implement the requirements of OMB A-123. Specifically, NEH acquired the services of an outside consultant and in partnership with the consulting firm, NEH developed an ERM implementation plan and project plan. NEH has also developed an ERM Board (ERMB) Charter, which contains guidance for the establishment of an agency Board, the scope, policies, roles and responsibilities of the Board and outlines the ERM oversight responsibilities for the NEH. While NEH has made progress towards implementing its ERM program, due to the length of time required to implement an ERM program, NEH has not fully implemented an effective ERM as of September 30, 2021. Additionally, upon review of NEH’s Performance & Accountability Report (PAR) for compliance with OMB A-136, we determined that the Performance Goals listed in the “Fiscal Year 2021 Performance Report” section of the PAR were not supported by data from NEH’s financial or grant’s management systems; rather, it was populated based on information provided by each division.

OMB A-123 requires agencies to integrate risk management and internal control functions. OMB A-123 also establishes an assessment process based on the Government Accountability Office’s (GAO) Standards for Internal Control in the Federal Government (known as the Green Book). Management must implement those processes in order to properly assess and improve internal controls over operations, reporting, and compliance.

OMB A-123 requires agencies to implement an ERM capability coordinated with the strategic planning and strategic review process established by the Government Performance and Results Act Modernization Act and the internal control processes required by the Federal Managers’ Financial Integrity Act and the Standards for Internal Control in the Federal government, as issued by the Comptroller General of the United States.

OMB Circular A-136 requires that a (PAR) must contain, as required supplementary information (RSI), a section on Management Discussion & Analysis (MD&A). As part of this MD&A section, and to help the reader assess the efficiency and effectiveness of major programs, the MD&A should summarize procedures management has established to provide reasonable assurance that performance information is relevant and reliable.

NEH personnel stated the agency does not currently have procedures in place to ensure performance data and information is supported by information in their financial and grants management systems. While the agency has undertaken efforts to initiate an ERM, NEH personnel stated this deficiency occurred due to inadequate resources to stand up a full-fledge ERM program across the agency to comply with the requirements of OMB A-123.

Appendix I – Significant Deficiency in Internal Control and Related Noncompliance Matter

Without a dedicated ERM program, NEH will not be able to adequately identify risks to the agency or determine the effectiveness of operations and the control environment, leaving the agency ill prepared to face any failures of controls that may arise. Also, without an effective ERM program NEH cannot ensure the supportability of other information presented in the “Performance” section of its PAR. Additionally, without supportable data for performance metrics and goals in the PAR, NEH cannot ensure a material misstatement of fact does not exist or the other information is not misleading.

Implementing ERM requires the full engagement and commitment of senior leaders, which advances the role of leadership in the agency goal setting process, tracking and monitoring performance initiatives and metrics. It also demonstrates to agency staff the importance of ERM. As ERM is a dynamic and iterative process, NEH must provide the necessary resources to increase its focus to mature its ERM processes. This focus will help ensure that program and function risk assessments are fully accomplished and used to inform all stakeholders of risks across the agency, and improve the overall quality of strategic decision-making.

We recommend that the NEH:

1. Implement the outstanding phases as of September 30, 2021 of its ERM project plan, including developing and maintaining a risk register and risk profiles across the agency.
2. Develop procedures and controls to ensure performance information reported in the PAR is in accordance with OMB A-136 by utilizing information from NEH’s financial and grants management systems.

Appendix II - Status of Prior Year Findings and Recommendations

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

Prior Year Finding	Current Year Status
20-01: Insufficient Documentation for Grant and Procurement Awards (Significant Deficiency)	Closed. NEH has developed documentation sufficient to support its procurement and grant awarding process.
20-02: Lack of Agency-wide Risk Assessment Procedures (Noncompliance/Significant Deficiency)	Open. Finding has been updated and repeated in Appendix I as 21-01.

IV. Other Accompanying Information

NEH Inspector General's Summary of Management Challenges

Management and Performance Challenges for the

National Endowment for the Humanities

FY 2021

Information Technology Security

Risks to Federal government information and communication systems include insider threats from disaffected or careless employees and business partners; escalating and emerging threats from around the globe; the ease of obtaining and using hacking tools; the steady advance in the sophistication of attack technology; the emergence of new and more destructive attacks; and a myriad of issues with supply chain 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. Such dependence makes the agency's core information systems potentially vulnerable to cyber-based threats. 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 institutionalize those policies and procedures. However, full implementation of an effective information security program remains an ongoing challenge for the NEH.

The NEH has not fully implemented information security continuous monitoring. The NEH *Security Program and Risk Management Plan* (the "Plan") outlines the agency-wide strategy for managing information security and risk. A purpose of the Plan is to promote the concept of near real-time management and ongoing information system authorization through the implementation of robust continuous monitoring processes. Pursuant to the Plan, the NEH has instituted many of the fundamental components of information security continuous monitoring; however, completion and compliance testing of individual CMPs for core information management systems remain a work-in-progress. Risk awareness and assessment is foundational in facilitating thoughtful and purposeful cyber defense strategies. Documented continuous monitoring plans facilitate ongoing awareness and assessment of information security vulnerabilities and threats to NEH systems and information.

NEH leadership has committed personnel and budgetary resources to support the updated assessment and authorization¹ (A&A) of two core information management systems. Upon completion of the A&A process and being granted the authorization to operate, the information management system will be placed into the NEH information security continuous monitoring program, which will maintain ongoing awareness of information security, vulnerabilities, and threats to the system. The A&A process for the first information management system is in progress, with an expected completion date prior to the end of December 2021.

¹ The A&A process is a comprehensive assessment of information system policies, technical/non-technical security components, documentation, vulnerabilities, and supplemental safeguards. The A&A process establishes the extent to which a particular design and implementation meet a set of specified security requirements defined by the NEH, Federal government guidelines, and Federal mandates.

Considering the evolving nature of cyber-based intrusions and attacks on Federal systems, as well as other challenges related to the implementation of remote work policies precipitated by the COVID-19 pandemic, it is critical that NEH continue its focus on maintaining an effective information security program.

Reporting and Data Integrity

The use of data is transforming society, business, and the economy. Therefore, the Federal Government must report high quality data to maintain the trust placed in it by the American people. The passage of the *Digital Accountability and Transparency Act of 2014* (DATA Act) and the focus on open data transparency has prioritized the goal of producing and publishing quality spending data. The quality of information published depends on implementation of effective internal control over reporting, specifically concerning the input and validation of agency data submitted to USASpending.gov.

Appendix A to OMB Circular A-123, *Management of Reporting and Data Integrity Risk*², includes a specific requirement for Federal agencies to develop and maintain a data quality plan that considers the incremental risks to data quality in Federal spending data and any controls that would manage such risks. This plan was to be developed by fiscal year 2019 and assessed annually for three years or until the agency determines that sufficient controls are in place to achieve the reporting objective.

The passage of the DATA Act in 2014 and continued focus on open data transparency has directed governance bodies, awarding agencies, and other stakeholders toward the common goal of producing quality spending data. The quality of NEH spending information published in compliance with the DATA Act is conditioned upon the establishment and maintenance of effective internal control over the input and validation of agency data submitted to USASpending.gov. NEH management has not developed and implemented a data quality plan. Accordingly, this area remains a management challenge.

Enterprise Risk Management

Risk is the effect of uncertainty on objectives and is unavoidable in carrying out an organization's mission. Government organizations exist to deliver services that are in the public interest and this work is surrounded by uncertainty – which poses threats to success as well as offers opportunity for increasing value to the American people. 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 provides an enterprise-wide, strategically-aligned portfolio view of organizational challenges that informs decisions concerning the priority of resource allocations to ensure successful mission delivery. 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 process established by the Government Performance and Results Act Modernization Act and the internal control processes required by the *Federal Managers' Financial Integrity Act* and the *Standards for Internal Control in the Federal Government*, as issued by the Comptroller General of the United States. Agency management should establish and sustain a governance structure to effectively implement, direct, and oversee implementation of OMB Circular A-123 and all the provisions of a robust process of risk management and internal control.

² OMB Memorandum M-18-16 dated June 6, 2018

The NEH has undertaken efforts to initiate an ERM program. In partnership with a consulting firm, the NEH has developed an ERM implementation plan and ERM Board Charter³.

Since ERM is a dynamic and iterative process, NEH leadership must remain focused on maturing processes and procedures to manage risk, ensuring that program and operational risk assessments are fulsome and used to inform the quality of strategic decision-making.

³ The ERM Board Charter contains guidance for the establishment of the Board and outlines the scope, policies, roles and oversight responsibilities of the Board.

Chairman's Response to Inspector General Management Challenges



NATIONAL
ENDOWMENT
FOR THE
HUMANITIES

THE CHAIRMAN

Date: November 15, 2021

To: Laura Davis
Inspector General

From: Adam Wolfson
Acting Chairman

Thank you for your assessments of the significant management challenges facing NEH in FY 2021. Our responses to your specific concerns are detailed below.

Information Technology Security

NEH acknowledges OIG's assessment that escalating and emerging global IT risks constitute an increased risk to NEH's mission and is committed to completing the Assessment and Authorization (A&A) process as described in the management and performance challenges. Thank you for acknowledging the progress NEH has made to fully commit personnel and FY21 budgetary resources towards the A&A effort. The assessment package will include Continuous Monitoring Plans which are assessed and approved by the CIO. Progress includes the creation of a draft CMP document for the General Support System which has an authorization target date of December 2021. The eGMS security documentation has already started and is actively being worked on to include the Continuous Monitoring Plan. The eGMS has a completed authorization target date in FY22. NEH's CISO will provide semi-annual updates to the OIG regarding our A&A progress.

Enterprise Risk Management

We acknowledge this challenge and understand the importance of a comprehensive, agency-wide approach to enterprise risk management (ERM) and compliance through the development of the detailed corrective action and project plans to directly address the audit findings for ERM. NEH implemented an enterprise governance structure and continues to work through implementation plans to develop supporting work product structures including appendices compliance and application. NEH looks to ensure that specific, dedicated resources and manpower are allocated to ensure agency ERM maturity and full compliance with OMB Circular A-123.

Reporting and Data Integrity

We acknowledge this challenge in addressing the OIG's review findings. As NEH continues to mature its Enterprise Risk Management structure and framework through agency-wide implementation efforts, it will directly address the requirements as defined by OMB Circular A-123 Appendix C and ensure compliant reporting processes.

<Adam Wolfson>

Adam Wolfson
Acting Chair

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 FY2021.

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 FFMA 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, 2021

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, 2021

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)						
*Not Applicable to Non-CFO Act Agencies per OMB Circular A-127 Sec. 8D						
	Agency			Auditor		
1. System Requirements	X			X		
2. Accounting Standards	X			X		
3. USSGL at Transaction Level	X			X		

Management Accountability for Internal Controls

Existing control processes and continued Enterprise Risk Management implementation of the revised OMB Circular A-123 requirements continue to ensure that NEH's internal controls over financial reporting and systems. In turn, improved internal controls enhance safeguards against improper payments, fraud, waste, and abuse better ensure that the taxpayer dollars continue to be used effectively and efficiently to meet NEH's program objectives.

Agency Information Systems and Other Infrastructure

NEH believes that its current internal control, human capital, information systems and other infrastructure resources are sufficient to maintain the goals of safeguarding personally identified information. As the agency continues to implement and mature ERM activities, further alignments within the NEH risk framework are currently underway. believes that continued reviews and strengthening of internal controls are necessary to address new and evolving risks that emerge with the stewardship of taxpayer resources.

Enterprise Risk Management (ERM)

In FY2020, ERM was originally identified from the annual financial statement audit and as a repeat finding In FY2021. The NEH continues to make significant progress as noted in the audit report for implementation activities this year including; instituting an Enterprise Risk Management governance board, developing policies to adopt risk compliance and evolve agency risk culture into agency planning and decisions processes.

OIG Management Challenges

OIG identified several areas as challenges for management to address with respect to Information Technology security, Enterprise Risk Management and establishing a Data Quality Plan. The acting chairman addressed actions and commitment to areas identified in management responses as the agency works to envelop requirements into the agency ERM framework.

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 GAO¹ are: “Any payment that should not have been made or made in an incorrect amount”. Further defined by OMB and U.S. Department of Treasury²: “...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 underpayments 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 which annual carry-over authority is granted by OMB. The agency received supplemental funding as related to CARES and ARP in 2020 and 2021 respectively.

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.

Administrative Program Funds (210)

The majority of NEH administrative program costs consist of payroll representing approximately \$23.9M in outlays or 76% 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 process and system access and roles controls and multi-layered segregation of duties are in place before outlays occur. NEH has deemed this program as not susceptible to improper payment risk.

Other programs categories within the administrative fund, such as employee travel and other employee payments, vendor, panel, and credit card purchase card transactions, individually fall beneath the 1.5 percent, \$10 million threshold for determination as 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 is grant program funds reported as the 225 fund. Annual outlays were identified as \$98.6M in Fy2021. There were 540 payments identified (over \$50,000); 34 were randomly sampled and audited for a total of \$3.7M. No improper payments were found and NEH has deemed this program as not susceptible to significant improper payments.

¹ [Government Accountability Office-Improper Payments](#)

² [Payment Accuracy.gov](#)

The Matching Grants program was not included in the agency's risk assessment because the criteria for determining programs that are susceptible to significant improper payments are those programs whose potential improper payment rate exceeds both 1.5 percent of program outlays and \$10 million for all program or activity payments made during the fiscal year. For FY21, total outlays as of September 30, 2021 were \$6.1 million, which does not meet the \$10 million threshold. NEH determined the Matching Grants program is 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 \$38.8M in FY2021. There were 260 payments identified (over \$50,000); 23 randomly sampled and audited for a total of \$1.9M. No improper payments were found and NEH 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 \$14.2M in Fy2021. There were 46 payments (over \$50,000); 8 randomly sampled and audited for a total of \$0.94M. No improper payments were found and NEH deemed this program as not susceptible to significant improper payments.

Summary

The NEH risk assessments resulted in a FY 2021 IPIA reporting error rate of zero percent for 210, 225, 226, 227 funds, demonstrating NEH has adequate internal controls over its payment processes. To maintain a zero percent testing and error rate, NEH continues to improve internal controls, conduct continuous internal monitoring of possible improper payments, use centralization of accounting functions, and improve communication and follow-up prior to payment authorization to reduce the potential for error.

Statistical Sampling Process

NEH maintains the same payment certification process for all payments made by the agency. For these 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 NEH accounting system.

In FY2021, NEH expanded the sample universe of transactions and performed outlay analysis for payment integrity and improper payment susceptibility to ensure inclusion of supplemental appropriations associated with the receipt Coronavirus Aid, Relief and Economic Security Act (CARES) and the America Rescue Plan Act of 2021 (ARP). The revision was to ensure the full population of agency transactions, outlays and resulting cycle changes are captured in sampling and risk assessments.

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

NEH recovers 100% of funds identified as an improper payment and a root cause analysis 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.

Fraud Reduction Report

Each federal agency must include a report on its fraud reduction efforts undertaken in FY 2021. 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

As the NEH continues to implement and ERM requirements and mature the agency's ERM structure, it is committed to identifying and implement best practices to identify and minimize risks and vulnerabilities to fraud. Further development of risk assessment processes will supplement current processes to include additional controls exist in communication of susceptibility of the agency's significant business processes and financial transactions to fraud are reported.

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 \$0 balances	0	0	5
Number of Grants/Cooperative Agreements with undisbursed balances	77	74	285
Total Amount of Undisbursed Balances	\$1,255,647.46	\$1,020,729.26	\$1,513,649.49

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. In FY 2021, NEH closed 486 grant awards.

NEH continues to take steps to improve the closeout process and address challenges preventing and delaying closeout. The agency is updating internal policy and procedure to align with the new timelines in 2 CFR §200.344, published in November of 2020. The updated regulatory guidance now allows NEH to pursue unilateral closeout actions for older awards and for non-responsive recipients. Limited resources, due to the prioritization of emergency appropriation awards, prevent closing awards in a timely manner. NEH is committed to shifting additional resources towards closeout in the coming year. Manual reconciliation between the Oracle payment system, the Electronic Grant Management System (eGMS), and the Final Federal Financial Report (FFR) is labor and time intensive. To address this challenge, NEH is taking steps to integrate data across the payment system and grant system to improve access to financial information and reduce processing time.

As required by OMB Circular A-136, Financial Reporting Requirements, the “Expired Federal Grants and Cooperative Agreements Summary” above shows 441 awards totaling \$3,790,026.21 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, 2021 (i.e., on or before September 30, 2019).

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 2021, NEH had no ADA violations to report