MEMORANDUM   Memo 11-01

DATE: October 31, 2010

TO: Rocco Landesman, Chairman

FROM: Tonie Jones, Acting Inspector General

SUBJECT: Top Management Challenges for the National Endowment for the Arts

The National Endowment for the Arts (NEA) is required to submit a Performance and Accountability Report (PAR) to the Office of Management and Budget (OMB) in November 2010. The PAR contains a number of sections that address issues ranging from performance to financial management. OMB Circular A-136, *Financial Reporting Requirements,* requires that the Inspector General provide the agency head with a summary of the top management and performance challenges facing the agency.

After careful analysis, it is our assessment that the areas of Financial Management, Human Capital, Information Technology, and Grantee Accountability represent the top management and performance challenges for the National Endowment for the Arts. The rationale for our perspective on each is outlined below.

The Office of Inspector General (OIG) has strong support from NEA management and looks forward to working with you as we address matters of mutual interest. We also welcome any comments to our assessment.

Financial Management. Since October 2004, the NEA has contracted with the Department of Transportation's Enterprise Services Center (DOT-ESC) to provide NEA with its first Office of Federal Financial Management compliant system.

In FY 2010, NEA continued to use the automated process developed in FY 2009 to create the agency's financial statements. Data is entered into the trial balance and that data is automatically mapped to each statement, as applicable. Integrity data checks were built in to identify any incorrect or missing data, the cost accounting methodology was improved to report on expenses by goal.

The NEA continues to collaborate with other agencies supported by DOT-ESC on a multi-year business process review of accounting codes, transactional flows, reporting and information sharing, in anticipation of the Federalized Version of Oracle 12i. DOT-ESC is also working with Oracle to provide insight and direction for this future major upgrade.

NEA was appropriated an additional $50 million through the American Recovery and Reinvestment Act of 2009 (ARRA). The agency was required to obligate all funds by September 30, 2010. The agency successfully created ARRA programs, processed applications, awarded grants and obligated 100 percent of its ARRA funds by the September 30, 2010 deadline. In addition, 91 percent of those funds have been disbursed.

Human Capital. Maintaining the right combination of technical knowledge and expertise continues to be essential to the NEA completing its mission. The NEA is in the midst of initiating major hiring reforms mandated by the current Presidential administration. These hiring reforms focus on easing the initial application process for new applicants and maintaining effective and efficient timeframes for hiring new staff. In light of this, the NEA has begun implementation (October 2010) of an automated staffing tool (USAStaffing) that will significantly ease the hiring process and ensure that the NEA is in full compliance with the U.S. Office of Personnel Management requirements. The Office of Human Resources will also, in collaboration with senior staff, continue to assess human capital vulnerabilities agency-wide and try to address these areas through the most effective and efficient manner possible. These assessments will include utilizing the results of employee surveys and in-house data analysis.

Information Technology (IT). The rapid changes in both information technology and Federal requirements provide an ongoing challenge to all Federal agencies. The *E-Government Act of 2002* addressed various aspects of Federal IT management and the promotion of electronic government services. It also required improvements in the methods by which government information, including information on the Internet, is organized, preserved, and made accessible to the public.

In recent years, NEA successfully adapted its application management processes to accommodate electronic applications submitted through Grants.gov. The IT staff developed an interface between the Grants.gov system and the grants database, including various tools for use by NEA's staff in working with e-application materials. The IT staff also developed the means for reporting on the agency's grant awards to USAspending.gov, as required by the Federal Financial Accountability and Transparency Act (FFATA).

NEA's top information technology management challenge continues to be the need to transition to a new, more robust grants management system (GMS). In 2007, OMB approved NEA's plan to partner with National Endowment for the Humanities (NEH) on a new GMS under the Grants Management Line of Business (GMLoB) initiative. After negotiating a service level agreement with NEH, work on the project commenced in 2008. The work was postponed in 2009 so that NEA could focus all agency resources on its American Recovery and Reinvestment Act grant program. As a result, the new GMS

project has been delayed from the original schedule. Work started again in late fall, 2010. The estimated completion date for transition to the new system is summer FY 2011. Key transition tasks during 2010 included completing the identification of "gaps" between the NEA-specific processes and NEH's core system; writing specifications for addressing them, and working closely with the NEH IRM office to develop and test solutions to some of the most critical areas. The current interface with Grants.gov and the entire suite of tools developed for the NEA's e-applications and the back end interface with the DELPHI system will also be re-engineered. The anticipated end result will be improved efficiencies in application, grant processing and services to Agency constituents.

New government-wide requirements for information security in recent years provide challenges to all federal agencies, including the NEA. The *Federal Information Security Management Act of 2002* (FISMA) requires each Federal agency to develop, document, and implement an agency-wide information security program to provide information security over the operations and assets of the agency. As noted in the OIG's evaluations of information security during the past few years, the NEA has made significant progress to comply with these requirements despite limited resources to devote to this effort.

Privacy reporting has been included as part of the FISMA reporting process in light of the occurrence of data theft and losses at several Federal agencies. The E-Government Act and Privacy Act provide legislative guidance for the control and dissemination of personal information and personally identifiable information. While NEA complies with these laws and has revised its privacy policy to improve guidance and control, this will continue to be an area requiring attention.

Grantee Accountability. As the nation's largest public funding provider for the arts, NEA awards thousands of grants and cooperative agreements annually. This year, NEA has made nearly 2,800 awards. The supported art organizations vary considerably in size and experience in financial management, particularly as they relate to Federal financial management requirements. The continuing challenge, facing each Federal grant-making agency, is to ensure that recipients adhere to and comply with the applicable fiscal requirements.

To assist grantees in these efforts, the NEA provides either a hard copy or a website reference to the *General Terms and Conditions for Grants and Cooperative Agreements to Organizations (General Terms)* and the *OIG Financial Management Guide for Non-Profit Organizations (Financial Management Guide)*. The *General Terms* incorporate OMB requirements, Federal laws, rules, regulations, and Executive Orders that apply to grants and cooperative agreements. The *Financial Management Guide* provides practical information on what is expected from grantee organizations in terms of fiscal responsibility. The NEA enhances its communication with grantees through a Web-based program that provides all grantees with general information on the status of their grant – including amount awarded, grant period, amount disbursed, and the status of required final report submission. The NEA's Grants and Contracts Office also provides considerable technical assistance via telephone and email.

There continues to be a limited number of grantees that have not complied with all applicable federal grant requirements. These organizations are typically identified by the NEA's Grants and Contracts Office and referred to the OIG for audit or review. Upon evaluating these organizations, the OIG generally has four common findings. The grantees are not: (1) accounting for costs separately by grant award; (2) reporting actual costs incurred on the final Financial Status Report; (3) maintaining personnel activity (time sheets) reports prorating the actual time charged to NEA grants; and (4) maintaining a Section 504 self-evaluation at the organization.

This year an additional level of effort has been vital to meet and manage the requirements of the ARRA. During 2010, an ARRA Reporting and Payment team monitored more than 700 ARRA grants. The team included four people from outside the Grants & Contracts Office who were trained to evaluate the grantees' quarterly reports to Federalreporting.gov, as well as progress reports provided to the NEA in conjunction with payment requests.

To provide significant guidance to ARRA grantees, a special web page was set up on the NEA website. Step-by-step reporting instructions and documents, such as, how to calculate and report the number of jobs created or saved by ARRA funding are available on the web page. Also included are policy updates from the Recovery Accountability and Transparency Board and OMB, which are sent directly to the grantees through email blasts. Outreach has been extensive, especially around reporting time. To promote compliance with ARRA requirements, the ARRA team worked closely with the Office of the Inspector General to review financial and personnel activity reports throughout the year.

We acknowledge and encourage the NEA's efforts to continue identifying opportunities to improve grantee compliance with government-wide grant requirements. Continued development and implementation of web-based tools and technical assistance efforts in our opinion will improve the likelihood of grantee compliance.

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