ART WORKS.
arts.gov

MEMORANDUM

Memo 12-01

DATE: October 31, 2011

TO: Rocco Landesman, Chairman

FROM: Tonie Jones, 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 2011. 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 on 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 2011, 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, and the cost accounting methodology was improved to report on expenses by goal.

NEA was appropriated an additional $50 million through the American Recovery and Reinvestment Act of 2009 (ARRA). The agency successfully created ARRA programs, processed applications, awarded grants and obligated 100 percent of its ARRA funds by the required September 30, 2010 deadline. As of September 30, 2011, there have been some decreases in awards attributable to grantees unable to use part or all of their award funds, resulting in $17,699.66 that will be returned to the General Fund. In addition, 99 percent of net awarded funds have been disbursed.

Although the NEA continues to collaborate with other agencies supported by DOT-ESC in anticipation of the Federalized Version of Oracle 12i, the efforts are being scaled back and/or delayed by DOT-ESC in response to the current economic climate.

Human Capital. Maintaining the right combination of technical knowledge and subject matter expertise continues to be essential to the NEA achieving its mission. The NEA has initiated the major hiring reforms mandated by the current Presidential administration. These hiring reforms focused 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 implemented an automated staffing tool (USAStaffing) that has significantly eased the hiring process and ensured that the NEA is in full compliance with the U.S. Office of Personnel Management requirements.

The Office of Human Resources has also implemented an automated time and attendance system (webTA, October 2011) that will significantly improve the reporting capabilities and reduce the amount of paper currently utilized during time and attendance activities.

The Office of Human Resources, in collaboration with senior staff, continues to assess human capital vulnerabilities agency-wide and will 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 analyses.

Information Technology (IT). Federal technology continues to change at a rapid pace. Last year the Federal Chief Information Officer released the "25 Point Implementation Plan to Reform Federal Information Technology Management." While this plan does not apply directly to small agencies, there are several points that NEA has pursued to its benefit. These are the use of shared services, adopting light technology, and shift to a "Cloud first" policy for new systems.

NEA has made significant strides with shared services. For example, in the last few years the finance, electronic official personnel files (eOPF), and time and attendance systems have been sourced through other government agencies. The Transportation Department provides the Oracle Federal Financial System (DELPHI) through its Enterprise Services Center. The Office of Personnel Management provides NEA with their e-OPF system and the electronic time and attendance system (using the webTA time and attendance system) is being provided by the National Finance Center beginning in FY 2012. These shared service arrangements have proven to be responsive to NEA needs.

NEA has also embarked on a light technology, cloud-based pilot project of an electronic application review system. The Presenting Art Works August deadline was met when applicants successfully uploaded work samples to the system. Panelists will have the ability to review application material (including work samples), score and comment online in advance of panel meetings. This new technology will have a substantial impact on panel meetings of the future.

NEA's top information technology management challenge continues to be the need to transition to a new, more robust grants management system (GMS). NEA has established

an OMB sanctioned partnership with the National Endowment for the Humanities. The NEA had been on a course to transition to NEH's Grants Management System but was delayed to support the American Recovery and Reinvestment Act grant program. The transition was further delayed due to inconsistent contractor support.

These delays have actually provided NEA with an opportunity to transition to a shared cloud solution. NEA has decided to pursue the new NEH eGMS cloud-based system in lieu of the original system. Requirements gathering will begin shortly and the system will take about three to five years to complete. The result will be a system that is better integrated with NEA business processes, seamlessly connected to both Grants.gov and the Delphi Financial System, and built on a more flexible, operationally efficient platform.

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 issued nearly 2,500 awards. The supported organizations vary considerably in size and financial management experience, 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 has identified these four most common findings: (1) not accounting for costs separately by grant award; (2) not reporting actual costs incurred on the final Federal Financial Report[1]; (3) not maintaining personnel activity (time sheets) reports prorating the actual time charged to NEA grants; and (4) not maintaining a Section 504 self-evaluation at the organization.

Work on ARRA activities continued through this year. A team of eight employees were initially assigned to ARRA activities, four from other programs and four from the Grants & Contracts Office. As of the end of September, only seven of the 701 ARRA grants awarded are still active. Therefore, after the January 2011 reporting period only two of the Grants & Contracts employees remain assigned to ARRA activities.

In January 2011, the policies for the review and approval of grant progress and final reports were revised. A final reports team was established in the Grants & Contracts Office. This three-person team now reviews and approves almost 100% of grantee final reports (previously, many reports were reviewed by program staff). In addition, part of the final descriptive report – data related to the types, locations and dates of project activities – is now submitted on-line. This has allowed the final reports team to review narrative, financial, and more detailed data concurrently to better assess grantee compliance. Based on the first nine months, the team will be proposing new tips and technical guidance for grantees to encourage greater understanding and accountability, which will be provided on the NEA Web site.

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 will, in our opinion, improve the likelihood of grantee compliance.

cc: Joan Shigekawa, Senior Deputy Chairman
      Jamie Bennett, Chief of Staff
      Larry Baden, Deputy Chairman for Management and Budget
      Nicki Jacobs, Grants and Contracts Director
      Sandy Stueckler, Finance Director
      Mike Burke, Chief Information Officer
      Angelia Richardson, Civil Rights/EEO Director
      Craig McCord, Human Resources Director
      Monica Waters, Auditor

---

[1] Formerly, the Financial Status Report.