MEMORANDUM

Memo 14-01

DATE: November 12, 2013

TO: Joan Shigekawa, Senior Deputy 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 December 2013. 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.   We also acknowledge that overall the Agency's programs and operations will experience management and performance challenges as a result of relocating to new offices in early 2014. The rationale for our perspective on each of the top challenges is outlined below.

Financial Management. NEA's top financial management challenges for FY 2014 will be to keep pace with the various government-wide modernization efforts and regulatory changes, while maintaining accounting operations and improving efficiency and effectiveness of NEA work procedures, systems and staff cross-training.

In FY 2013, 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. The process was modified in FY 2012 to address a new strategic plan and the corresponding expense distribution methodology. In FY 2013, additional integrity data checks were built in to identify any incorrect or missing data, and to address US Office of Management and Budget (OMB) Circular A-136 annual modifications. The NEA has successfully completed 10 years of independent audits with unqualified opinions.

During FY 2014, the Finance Office will face the following challenges:

- Implement a check reading system to allow NEA to "deposit checks" without going to the bank.
- Streamline the number of required Discoverer reports and set up a library for all Finance staff to access the same versions of the reports, which will maintain data integrity.
- Implement the Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS), which will replace the functionality of four Treasury reporting systems, namely, the Federal Agencies' Centralized Trial-Balance System I (FACTS I), the Federal Agencies' Centralized Trial-Balance System II (FACTS II), the Intragovernmental Fiduciary Confirmation System (IFCS), and the Intragovernmental Reporting and Analysis System (IRAS).
- Setting up the Finance Office in NEA's new location.
- Implement the upgrade of the US Department of Transportation - Enterprise Services Center (DOT-ESC) "DELPHI" financial system to the Federalized Version of Oracle 12i, currently scheduled for May 2014.

Human Capital. We anticipate aspects of NEA's relocation having human capital implications. Ensuring a smooth transition in regards to work functionality, employee comfort, technology capability and an overall philosophy change in terms of workplace environment are some of the primary human capital issues. Also, during FY 2013, the Agency procured the services of an outside contractor to conduct a comprehensive workflow analysis that will precede the physical relocation of the Agency in February 2014; it is scheduled for completion by the end of November. The results of the analysis may have some human capital information for consideration and analysis that will serve the Agency in a positive way. Maintaining the right combination of technical knowledge and subject matter expertise continues to be essential to NEA achieving its mission. The Office of Human Resources will continue to work with management as the work of the Agency becomes more clearly defined to ensure that recruitment efforts are targeted and effective in attracting people with the right competencies and skills to serve NEA's mission.

Information Technology (IT). While the Federal Chief Information Officer's "25-Point Implementation Plan to Reform Federal Information Technology Management" does not apply directly to small agencies[1], NEA has already adopted a number of its mandates. These include the use of shared services and a "cloud first" policy for new systems.

NEA has made significant strides with shared services. The agency's finance, electronic official personnel files (eOPF), payroll, and time and attendance systems are all sourced through larger Federal agencies. The DOT-ESC provides NEA with the use of DELPHI, an Oracle Federal financial system. The Office of Personnel Management provides the e-OPF system and the US Department of Agriculture provides the National Finance

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[1] http://www.whitehouse.gov/sites/default/files/omb/assets/egov_docs/25-point-implementation-plan-to-reform-federal-it.pdf

Center's electronic time and attendance system (webTA) and its payroll services. These shared service arrangements have proven to be both cost-effective and responsive to NEA's needs.

NEA's top information technology management challenge continues to be the need to transition to a new, more robust grants management system (GMS). This need is being addressed through an OMB-approved partnership with the National Endowment for the Humanities (NEH) to jointly develop a new shared system. Work on this cloud-based system began in September 2012. The new GMS, built on a more flexible, operationally efficient platform, will be fully integrated with NEA business processes and seamlessly connected to both Grants.gov and the DELPHI financial system. NEA expects to transition to the system in FY 2015.

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. Although we have identified improvement opportunities in the information security program, NEA continues to make 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. In FY 2013, the NEA issued about 2,200 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.

In September 2013, the NEA's Grants & Contracts Office (G&C) presented its first "Ask the Grants Office" Webinar. The webinar attendance was the largest to date since the NEA began its webinar program. Posted on the website, it is currently one of the most popular webinars being viewed. In FY 2014 G&C plans to expand or enhance guidance for its grantees based on the questions that came in during the webinar.

The agency continues to assist grantees by updating the *General Terms and Conditions for Grants and Cooperative Agreements to Organizations (General Terms),* the *OIG Financial Management Guide for Non-Profit Organizations (Financial Management*

Guide) and other guidance documents on the agency's website. 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. To help grantees manage their requirements, *My grant at a glance* is the "go to" section of the website that provides all grantees with general information on the status of their grant – including amount awarded, grant period, amount disbursed, due dates for final reports, and more. 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 G&C office and referred to the OIG for audit or review. Upon evaluating these organizations, the OIG has identified these five most common findings: (1) not accounting for costs separately by grant award; (2) not reporting actual costs incurred on the final Federal Financial Report (FFR); (3) not maintaining personnel activity reports (timesheets) prorating the actual time charged to NEA grants; (4) not maintaining a Section 504 self-evaluation at the organization; and (5) not ensuring that contractors and recipients are not debarred or suspended from receiving Federal funds prior to the payment or award of Federal funds.

We acknowledge and encourage 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.

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.

cc: Winona H. Varnon, Deputy Chairman for Management and Budget
        Jamie Bennett, Chief of Staff
        Mike Burke, Chief Information Officer
        Nicki Jacobs, Grants and Contracts Director
        Marisa E. Marinos, Civil Rights/EEO Director
        Craig McCord, Human Resources Director
        Ned Read, Special Assistant, Deputy Chairman for Management and Budget
        Sandy Stueckler, Finance Director
        Monica Waters, Auditor, Office of Inspector General