




The Nancy Hanks Center
1100 Pennsylvania Avenue NW
Washington, DC 20506-0001
202/682-5400
www.arts.gov

MEMORANDUM

Memo 08-01

DATE: October 2, 2007

TO: Dana Gioia, Chairman

FROM: Daniel L. Shaw, Inspector General 

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

The National Endowment for the Arts is required to submit a Performance and Accountability Report (PAR) to the Office of Management and Budget in November 2007. The PAR contains a number of sections that address issues ranging from performance to financial management. OMB Circular A-136 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 (NEA). The rationale for our perspective on each is outlined below.

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

Financial Management. Since October 2004, the NEA has contracted with the Enterprise Services Center of the Department of Transportation (DOT-ESC) to provide the Agency with its first Office of Federal Financial Management (OFFM)-compliant system. The prior one did not fully comply with all of the requirements of the Joint Financial Management Improvement Program (the predecessor to the OFFM), and was identified as a material weakness during the Agency's fiscal year (FY) 2003 audit.

During FY 2007, the NEA has progressed in its knowledge and understanding of the Oracle Federal Financial System, underwent an upgrade to Version 11i.5.10, instituted documented operating procedures accompanied with staff training, and completed the reconciliation of the remainder of the conversion issues. Changes in the federal financial

arena have created the need to reassess various workflows, including the accounting for leases and interagency activities. The Agency has responded to both and is in the process of formalizing the changes, which will be completed in FY 2008.

Human Capital. Maintaining the right mix of technical knowledge and expertise is essential to the NEA completing its mission. Just like many other federal agencies, the NEA will be facing the potential retirement of a substantive number of its staff within the next several years. This includes our own Office of Inspector General where two of the three staff members will be eligible to retire within the next year. Now is the time for the NEA to meet the challenge and determine which offices will be impacted, how new staff will be recruited and trained, and the impact of staff transitions to the Agency's workload and mission.

Information Technology. The rapid changes in information technology and Federal requirements provide an ongoing challenge to all Federal agencies. The *E-Government Act of 2002* addressed various aspects of Federal 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.

NEA's move to e-grants represents an important opportunity. The NEA has been an active participant in Grants.gov since its inception and employs a team effort to work with this initiative.

As the NEA receives more applications and reports electronically, the challenge is to develop procedures and policies for handling electronic data and paper concurrently, while moving toward accepting all data electronically. This will likely change what people do and certainly change how they do it. In addition, the awards database system is outdated (a Wang design) and not constructed to easily transition to integrate with Grants.gov, nor will the system handle the increasingly sophisticated demands of electronic grants processing. The Agency is caught in a balancing act between developing "work-around" systems, while waiting for another E-Government initiative -- the Grants Management Line of Business (GMLoB) - to set parameters and timelines instituting government-wide "cradle to grave" systems. The Office of Management and Budget has mandated that agencies select a system used by the Department of Education, the Department of Health and Human Services, or the National Science Foundation. If the system used by any of those three is not suitable, agencies may request an exemption, but must provide an alternative solution. The NEA is partnering with other cultural agencies and the National Archives to review GMLoB at the Departments of Education and Health and Human Services.

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* 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 required 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.

New in 2006 was the requirement to report on privacy compliance. Increased oversight has been sought in light of the occurrence of several instances of data theft and loss 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.

We acknowledge and encourage the NEA to continue its commitment to the e-government initiatives.

Grantee Accountability. As the nation's largest public funding provider for the arts, NEA awards approximately 2,300 grants and cooperative agreements annually. The organizations supported vary considerably in size and in 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 copy of or 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 Office of Management and Budget 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. In addition, since 2003, the NEA's Grants and Contracts Office has provided considerable technical assistance through its *Grantee Technical Assistance Program*, which is directed at grantees identified during the grant process in greatest need of such help.

There continues to be a limited number of organizations that have not complied with all applicable federal grant requirements. These organizations are typically identified by the Agency'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: failure to comply with the requirement that costs be accounted for separately by grant award, that requested funds must be expended within 30 days after receipt, that actual costs incurred be reported on the final Financial Status Report, and that a Section 504 self-evaluation be on file. Occasionally, the OIG finds that some grantees are not maintaining personnel activity (time sheets) reports prorating the actual time charged to NEA grants.

We acknowledge and encourage the NEA's efforts to continue identifying opportunities to improve grantee compliance with government-wide grant requirements. Implementation of Web-based and technical assistance programs, we believe, will improve the likelihood of grantee compliance, irrespective of past experience in managing Federal awards.

Cc: Eileen Mason, Senior Deputy Chairman
Larry Baden, Deputy Chairman for Management and Budget
Nicki Jacobs, Grants and Contracts Officer
Sandy Stueckler, Accounting Officer
Mike Burke, Chief Information Officer
Angelia Richardson, Director, Civil Rights/EEO
Craig McCord, Director, Human Resources
Anthony Premici, Assistant Inspector General