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ENDOWMENT
FOR THE ARTS

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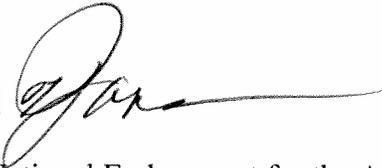
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MEMORANDUM

Memo 10-02

DATE: October 31, 2009

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 2009. 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 (OFFM)-compliant system.

During FY 2009, the NEA automated its financial statements. Data is entered once 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 entry. A more efficient cost accounting methodology was also developed to report on expenses by goal, which was incorporated for FY 2009 (and comparatively for FY 2008).

The NEA continues to work with the DOT-ESC agencies 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.

The NEA received an additional \$50 million appropriation through the American Recovery and Reinvestment Act of 2009 (ARRA) that requires the agency to obligate all funds by September 30, 2010. The agency successfully created ARRA programs, processed applications, selected panels, and awarded (obligated) 99 percent of funding by August 2009 to preserve jobs in the arts. As of September 30, 2009, 17 percent of that funding was 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 transitioning to a new administration which presents a number of challenges in the human capital arena such as recruiting new staff, re-organizing current offices and revising strategic and programmatic objectives. The Office of Human Resources (OHR) will educate political appointees on the various human capital rules, regulations and flexibilities. The OHR 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. NEA's IT staff developed an interface between the Grants.gov system and NEA's grants database, plus various tools for use by NEA staff in working with e-application materials. 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. Work then came to a halt earlier this year so NEA could focus all agency resources on its American Recovery and Reinvestment Act grant program. As a result, the new GMS project is behind schedule. Transition to the new system is now unlikely to occur before FY2011. Key transition tasks will include identifying and addressing "gaps" between the NEH core system and NEA-specific processes; and re-engineering not only

the current interface with Grants.gov, but also the entire suite of tools developed for working with e-applications. The anticipated end result, however, 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 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.

Privacy reporting has been made 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 approximately 2,300 grants and cooperative agreements annually. The arts 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 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 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. The NEA's Grants and Contracts Office also provides considerable technical assistance via telephone.

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 three common findings: failure to comply with the requirement that costs be accounted for separately by grant award; that actual costs incurred be reported on the final Financial Status Report; and that a Section

504 self-evaluation be on file at the organization. Occasionally, the OIG finds that some grantees are not maintaining personnel activity (time sheets) reports prorating the actual time charged to NEA grants.

This year an additional level of effort has been vital to meet and manage the requirements of the American Recovery and Reinvestment Act of 2009 (Recovery Act, or ARRA). The \$50 million NEA was awarded is to “support the preservation of jobs that are threatened by declines in philanthropic and other support during the current economic downturn.” Agencies were directed to meet a number of requirements, including issuing grant opportunity announcements and making awards in a very short time frame. NEA awarded 693 grants. A new, part-time grants specialist was hired to help guide the implementation and monitoring of the ARRA program’s requirements. In addition, a staff person was reassigned to the Grants & Contracts office in July, 2009, and four other staff persons have been delegated to specifically work on the ARRA program. The Grants & Contracts staff, in conjunction with the additional staff members, have developed and are implementing plans to assist the grantees to maintain compliance with the *ARRA Special Terms and Conditions*, as well as the standard *NEA General Terms and Conditions*.

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 efforts in our opinion will improve the likelihood of grantee compliance, irrespective of past experience in managing Federal awards.

cc: Joan Shigekawa, Senior Deputy Chairman
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