




MEMORANDUM

Memo 13-01

DATE: October 31, 2012

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 2012. 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 2012, 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. In response to the agency's new strategic plan, modifications were made in the automated process that addressed the expense distribution methodology.

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. In addition, 100 percent of its net awarded ARRA funds have been disbursed. As of September 30, 2012, there have been some additional decreases in awards attributable to grantees unable to use part or all of their award funds, resulting in a cumulative total of \$19,088.66 that will be returned to the General Fund. NEA continues to collaborate with other agencies supported by DOT-ESC in anticipation of the Federalized Version of Oracle 12i. The main emphasis in FY 2013 is the global vendor cleanup efforts that will allow a better transition to the new version.

Human Capital. Maintaining the right combination of technical knowledge and subject matter expertise continues to be essential to NEA achieving its mission. During FY 2013, the agency will be challenged with replacing key long-standing officials. Primarily, the Deputy Chairman for Management & Budget position, which represents a major component of the agency and nearly one-third of the agency work-force. Other key positions becoming vacant due to upcoming retirements and attrition must also be filled. Filling these positions may be further challenged by a possible climate of Presidential transition.

The agency will be relocating to another building during FY 2014, so we anticipate major aspects of the move having human capital implications in addition to working with the NEA bargaining unit to ensure a smooth move. The Office of Human Resources will also be researching the possible implementation of an automated Performance Management System for GS employees in FY 2013.

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, 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), and time and attendance systems are all sourced through larger Federal agencies. The Transportation Department's Enterprise Services Center provides NEA with the use of DELPHI, an Oracle Federal financial system. The Office of Personnel Management provides the e-OPF system (Official Personnel File) and the US Department of Agriculture provides the National Finance Center's electronic time and attendance system (webTA). These shared service arrangements have proven to be both cost-effective and responsive to NEA's needs.

Following a pilot project in 2011, NEA is extending its use of its GrantsOnline™ system (NEA-GO), a cloud-based electronic application review system. Developed and provided through an agreement with the Western States Arts Federation (WESTAF), this system enables NEA applicants to upload their application work samples electronically. Work samples such as music and image files are paired with the materials that applicants submit via Grants.gov. NEA piloted the use of NEA-GO over three panels within the Presenting Arts discipline. Given the success of the pilot program, in the spring of 2012, NEA instituted the use of NEA-GO to review of all grant applications for the *Art Works* and the *Challenge America Fast-Track* grant programs. Panelists have the ability to

review, comment on, and score all of the application materials online in advance of the Panel meeting in Washington. The use of this new technology is having a substantial impact on NEA's panel review processes as additional grant programs transition to the NEA-GO system.

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 has begun, with the first module completed 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. 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 2,300 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 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 via 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. 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 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 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 (time sheets) 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.

This year ARRA work was completed. All final Quarterly and Financial reports were received and approved by the agency and any unused funds will be returned to the Treasury as previously noted. A summary of all NEA ARRA activity was prepared and shared with senior agency staff. The agency has and may continue to deobligate ARRA funds as a result of future audit findings by the OIG that identifies unallowable costs charged to Recovery Act awards.

New OMB-approved final descriptive reports (FDR), developed to obtain information related to our strategic plan, were implemented with the agency's FY 12 awards. In addition, the final report material (FDR and FFR) are submitted to a dedicated Final Reports email box where the data is uploaded into a database. This allows the 3-person final reports team to review narrative, financial, and other detailed data concurrently to better assess grantee compliance. The final reports team will meet with the Office of Research & Analysis in early FY 13 to propose 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 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
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