



MEMORANDUM

Memo 15-01

DATE: November 15, 2014

TO: Jane Chu, Chairman

FROM: Tonie Jones, Inspector General

A handwritten signature in blue ink, appearing to read "Jones", is written over the printed name "Tonie Jones".

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

The National Endowment for the Arts (NEA) is required to submit an Annual Financial Report (AFR) to the Office of Management and Budget (OMB) in November 2014. The AFR contains a number of sections that address financial management and, to a lesser extent, performance issues. 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 NEA. We also acknowledge that 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 2015 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 2014, NEA implemented a check reading system to allow NEA to "deposit checks" electronically; completed a major upgrade of the U.S. Department of Transportation - Enterprise Services Center (DOT-ESC) "DELPHI" financial system to the Federalized Version of Oracle 12i; and set up the Finance Office in NEA's new location at Constitution Center.

NEA uses an automated process to create the agency's financial statements that was modified in FY 2012 to address a new strategic plan and the corresponding expense distribution methodology. Data is entered into the trial balance and automatically mapped to each statement, as applicable. NEA has now successfully completed 12 years of independent audits with unqualified opinions.

During FY 2015, the Finance Office will face the following challenges:

- Fill two key staff positions – the team leader/systems accountant and an operating accountant.
- Complete the implementation for the Government-wide Treasury Account Symbol Adjusted Trial Balance System, which replaces the functionality of four Treasury reporting systems, namely, the Federal Agencies' Centralized Trial-Balance System I, the Federal Agencies' Centralized Trial-Balance System II, the Intragovernmental Fiduciary Confirmation System, and the Intragovernmental Reporting and Analysis System.
- Work with the National Endowment for the Humanities (NEH), as a cross-servicer, to develop eGMS grants and panel processes that will interface with the financial system. The current target date for implementation is FY 2016.
- Streamline the number of required DELPHI Discoverer reports and set up a library for all Finance staff to access the same versions of the reports, which will maintain data integrity.
- Work with service provider, DOT-ESC, to develop and implement travel system under E-Gov Travel Service 2 requirements.

Human Capital. FY 2014 represented an era of unprecedented changes within NEA beginning with the physical relocation of the Agency to a new facility. From a human capital perspective, it has been a smooth transition with minor issues that are common place when conducting a major move. NEA is further challenged with relatively high turnover and maintaining the right combination of technical knowledge and subject matter expertise, which is essential to NEA achieving its mission. The Office of Human Resources continues to work with management to ensure that recruitment efforts are targeted and effective in attracting people with the right competencies and skills to serve NEA's mission.

During FY 2013, the Agency procured the services of an outside contractor to conduct a comprehensive workflow analysis. In FY 2015 the next phase of the workflow analysis will begin. The Office of Personnel Management (OPM) will lead the analysis of the actual work being performed by Agency employees. The information gained from this analysis will provide senior management with valuable information in order to make informed and insightful decisions regarding human capital planning for the future.

Information Technology. While the Federal Chief Information Officer's "25-Point Implementation Plan to Reform Federal Information Technology Management" does not apply directly to small agencies¹, NEA has already adopted a number of its mandates. These include the use of shared services and a "cloud first" policy for new systems.

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

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. DOT-ESC provides NEA with the use of DELPHI, an Oracle Federal financial system. OPM provides the e-OPF system and the U.S. Department of Agriculture provides the National Finance 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 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 2016.

New government-wide requirements for information security in recent years provide challenges to all federal agencies, including 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.

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 2014, NEA 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.

In September 2013, NEA's Grants & Contracts Office (G&C) presented its first "Ask the Grants Office" Webinar, and during the subsequent year expanded and enhanced guidance for its grantees based on the questions that came in during the webinar.

In December 2013, OMB issued final guidance for 2 CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal*

Awards. Besides adopting Title 2 CFR Part 200 in regulation, staff are updating NEA's General Terms & Conditions, FY 16 funding opportunity text, and other materials to reflect changes that will be part of the new guidance. In particular, the agency has been preparing a pre-award application risk assessment plan (Part 200.205) that will be implemented at various stages of the pre-award process. Another key item that will be implemented includes the Agency's definition of (financial) conflict of interest policies for award recipients to follow. The *Financial Management Guide*, which is implemented by NEA Office of Inspector General (OIG) and provides practical information on what is expected from grantee organizations in terms of fiscal responsibility, will also be updated to reflect the new Part 200. To help grantees manage their requirements, "*My grant at a glance*" is the 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. NEA's G&C 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 NEA's G&C and referred to NEA OIG for audit or review. Upon evaluating these organizations, NEA OIG has identified the following five most common findings: (1) not ensuring that contractors and recipients are not debarred or suspended from receiving Federal assistance prior to the payment or award of Federal funds; (2) not having written policies and procedures for the management of Federal awards; (3) not reporting accurate and allowable costs incurred on the Federal Financial Report; (4) not maintaining a Section 504 self-evaluation at the organization, and (5) not maintaining supporting documentation for costs charged to NEA grants.

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.

NEA 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: National Council on the Arts
Winona H. Varnon, Deputy Chairman for Management and Budget
Mike Griffin, Chief of Staff
Carolyn Sanders, 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