



MEMORANDUM

Memo 16-01

DATE: October 21, 2015

TO: Jane Chu, Chairman

Jane Chu 10.30.2015

FROM: Tonie Jones, Inspector General

[Signature]

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 2015. 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. The rationale for our perspective on each of the top challenges is outlined below.

Financial Management. NEA's top financial management challenges for FY 2016 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.

During FY 2016, the Finance Office will face the following challenges:

- Filling key staff positions. The Finance Office lost two well-trained, experienced systems accountants. Those accountants performed many of the financial reporting tasks for NEA and were familiar with both DELPHI and Treasury systems. The Director also plans to retire in early 2016.
- Fully implement reporting processes for the Government-wide Treasury Account Symbol Adjusted Trial Balance System to ensure compliance with financial reporting laws and related government-wide policies and requirements.

- 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.
- 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.

Human Capital. FY 2015 from a human capital perspective represented the completion of the physical relocation of the office facilities and the adjustment to a new office working environment for NEA staff. FY 2016 will be focused on the Office of Human Resources continuing 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. There continues to be a slight increase in recruitment as a result of attrition and as we move closer to calendar year 2016 there will possibly be an increase in the number of retirements and the issue of retaining institutional knowledge. NEA will focus on retirement data and human capital analysis to determine the correct human capital strategy as we deal with the challenges of retirement and also a change in administration as a result of the Presidential election.

Information Technology. While the *Federal Information Technology Acquisition Reform Act*¹ does not apply directly to small agencies, NEA has already adopted a number of its mandates. These include the use of cloud computing and shared services to optimize data center activities and achieve overall information technology objectives.

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 US Department of Transportation Enterprise Service Center provides NEA with the use of DELPHI, an Oracle Federal financial system. The U.S. Office of Personal Management provides the eOPF 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 2017.

New government-wide requirements for information security in recent years provide challenges to all Federal agencies, including NEA. The *Federal Information Security*

¹ Title VIII, Subtitle D of the National Defense Authorization Act (NOAA) for Fiscal Year 2015, Pub. L. No. 113-291. Further references in the text that refer to "FIT ARA" refer to these sections.

Management Act of 2002 (FISMA), as amended, 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 2015, NEA issued nearly 2,400 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 prepare for the final implementation of 2 CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* in December 2014, NEA's Grants & Contracts Office (G&C) began a series of training workshops for staff, as well as specific in person presentations and webinars for our State Arts Agency and Regional Arts Organization partners. These constituents are awarded 40% of NEA's appropriated funds and are able to subgrant these funds. To address the significant focus the *Uniform Guidance* established on these "pass through entities" responsibilities, G&C developed a second *General Terms & Conditions* (GTCs) document specifically to address these requirements. Concurrently, G&C trained NEA staff to use the new Pre-Award Risk report developed to meet 2 CFR Part 200.205. This report helps the agency maintain awareness of possible risk issues at various stages of the pre-award process. 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. Also added to this section of the website is a partner document to the GTCs: *How to Manage Your NEA Award Handbook*, which provides guidance about processes and policies in one location. NEA's G&C provides considerable technical assistance via telephone and email. Plans for FY 2016 based on the *Uniform Guidance* and experience, include creation of new sample templates for grantees to provide documentation of third-party in-kind support. 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, has also been updated to reflect the new *Uniform Guidance*.

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: Winona H. Varnon, Deputy Chairman for Management and Budget
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