



MEMORANDUM

Memo 18-01

DATE: October 31, 2017

TO: Jane Chu, Chairman
National Council for the Arts

FROM:  Ron Still, Inspector General

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

The Consolidated Reports Act of 2000 and Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements*, require that the Office of Inspector General provide the agency head with a summary of the top management and performance challenges facing the agency. It is our assessment that the areas of financial management, human capital, information technology, administrative services, and awardee accountability represent the top management and performance challenges for the National Endowment for the Arts (NEA). Following is a discussion of each challenge area.

Financial Management. NEA's top financial management challenge for FY 2017 and beyond includes keeping pace with government-wide modernization efforts and regulatory changes, while improving efficiency and effectiveness of NEA accounting and finance policy and procedures, systems, and staff cross-training.

During FY 2016, NEA filled key positions in the Finance office, including the Finance Director position. More than a year later, the Finance office has made good progress learning existing systems, planning improvements to these systems and processes, and implementing key procedural and control enhancements. For example, the Finance office established routine reviews to identify funds that could be de-obligated and made available for use by the agency. They also continue to assist in developing and implementing NEA's new electronic grants management system that requires an interface with the financial system.

Notwithstanding this progress, the Finance office continues to be challenged to comply with regulatory changes and modernization requirements -- the most recent being the Digital Accountability and Transparency Act (Public Law No. 113-101) that established new financial reporting requirements for all Federal agencies.

Human Capital. NEA's top human capital challenge includes ensuring an effective human capital strategy to work with hiring managers to attract candidates with the right skills, ability and knowledge to replace retiring employees. This will need to be done while maintaining high quality service in other human capital areas, such as training and development, and performance management. This challenge is even greater now and for the foreseeable future as the Human Capital team has had two staff members leave the agency in the past six months, and all agencies are facing a budget climate focused on shrinking government employment.

Information Technology. NEA's top information technology management challenge includes the transition to a new, more robust electronic grants management system (eGMS). This need is being addressed through an OMB-approved partnership with the National Endowment for the Humanities to jointly develop a new shared system. Built on a more flexible, operationally efficient platform, the eGMS should be fully integrated with NEA business processes and connected to both Grants.gov and NEA's financial system. NEA has made significant progress to transition to this system during FY 2017, and it expects efforts to fully implement the new system will continue into FY 2018.

Another challenge for NEA is the Federal Information Security Modernization Act of 2014 (FISMA) that 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. Through our annual reviews of NEA compliance with FISMA, we continuously identify ways for NEA to enhance security and NEA continually makes progress in complying with the ever increasing information system security requirements.

Yet another challenge for NEA is the E-Government Act and Privacy Act that provide legislative guidance for the control and dissemination of personal information and personally identifiable information. In light of data theft at several Federal agencies, a review of agency protection of Privacy Act data has been included as part of the FISMA evaluation and reporting process. This area will require NEA's ongoing attention as information security requirements are ever changing and increasingly important.

Administrative Services. NEA's top Administrative Services management challenge includes inventory. The challenge is for the Administrative Services team to coordinate capture of all accountable property in an automated inventory system and to develop policy and procedures to maintain the inventory system. During FY 2017, Administrative Services became responsible for maintaining all inventory and developing related policy and procedures. Since receiving responsibility for inventory management, Administrative Services has made good progress identifying missing information. The challenge to ensure accurate and complete inventory records will continue into FY 2018.

Awardee Accountability. The NEA Grants and Contracts office and Program offices face the challenge, along with the rest of the Federal community, to help awardees fully implement and comply with the accountability requirements of 2 CFR Part 200: *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal*

Awards (Uniform Guidance). This challenge includes helping awardees comply with NEA General Terms and Conditions for its awards.

Our audits continue to identify awardees that have not complied with all applicable Federal award requirements. These awardees are typically identified through our annual planning, hotline allegations, or referrals from the NEA's Office of Grants and Contracts. Based on audits of these awardees, following are the five most common findings:

- (1) failing to ensure that contractors and sub-award recipients have not been debarred or suspended from receiving Federal assistance prior to paying or awarding them 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 supporting documentation for costs charged to NEA grants; and
- (5) not maintaining a Section 504 self-evaluation at the organization.

We acknowledge and encourage NEA's continuous efforts to identify opportunities to improve awardee compliance with Federal requirements. Continued development and implementation of web-based tools and technical assistance efforts by NEA, and the results of our audits will, in our opinion, help to improve awardee compliance. As grant making is the primary mission of the NEA, this area will continue to be an important challenge.

We have experienced strong support from NEA management in identifying and tracking these challenges. We look forward to continuing our work to help NEA deliver its mission with excellence and integrity.

cc: Mary Anne Carter, Senior Deputy Chairman
Mike Griffin, Chief of Staff
Ann Eilers, Deputy Chairman for Management and Budget
Jeanette Duncan, Chief Information Officer
Nicki Jacobs, Grants & Contracts Director
Craig McCord, Human Resources Director
Heidi Ren, Finance Director
Meghan Jugder, Acting Administrative Services Director
Ned Read, Senior Advisor, Deputy Chairman for Management and Budget