

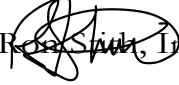


MEMORANDUM

Memo 19-01

DATE: October 31, 2018

TO: Mary Anne Carter, Acting Chairman  
National Endowment for the Arts  
National Council for the Arts

FROM:  Robert Smith, Inspector General

SUBJECT: National Endowment for the Arts Top Management Challenges

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 2018 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.

The Finance office continued to make progress institutionalizing existing system use, planning improvements to systems and processes, and implementing key procedural and control enhancements. In February 2018, the office expanded an existing service agreement with Federal Aviation Administration (FAA) to obtain full service finance processing and systems support. This further automated key operations and improved the accuracy and efficiency of the transactional processing. The Finance office continues to fine tune processes working with FAA to further streamline operations. Finance also continued to assist in developing and implementing NEA's new electronic grants management system which was implemented in October 2017, and later included an interface with the financial system.

**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. In 2018, to address workload due to staff vacancies, the Office entered into two government interagency agreements; one to provide staffing and recruiting services and one to provide personnel security and credentialing

services. The Office now must revise and institutionalize new operations working with these agencies.

**Information Technology.** NEA addressed its previous top information technology management challenge through transition to a new, more robust electronic grants management system (eGMS) in October 2017. Built on a more flexible, operationally efficient platform, the eGMS is fully integrated with NEA business processes and connects to both Grants.gov and NEA's financial system.

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 worked to address the top Administrative Services management challenge, inventory, by refining electronic inventories and reconciling against a full physical accounting of items through July 2018. Accountable property is captured in an automated inventory system and other assets are manually captured in an electronic inventory spreadsheet. 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 progress identifying missing information and capturing inventoried items in the electronic systems. The challenge to ensure accurate and complete inventory records continues into FY 2019. The scope of this challenge has shifted from establishing and performing the inventory to control of inventoried items that cross functional areas. Administrative Services Office is developing additional policies and procedures, and working closely with functional areas to better manage asset transfer, to ensure inventory accounting matches asset allocation, specifically IT assets.

**Awardee Accountability.** The NEA Grants Management Office faces 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) no written policies and procedures for managing 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: Mike Griffin, Chief of Staff  
Ann Eilers, Deputy Chairman for Management and Budget  
Jeanette Duncan, Chief Information Officer  
Nicki Jacobs, Grants Director  
Craig McCord, Human Resources Director  
Heidi Ren, Finance Director  
Gregory Gendron, Administrative Services Director  
Ned Read, Senior Advisor, Deputy Chairman for Management and Budget