

NATIONAL ENDOWMENT FOR THE ARTS (NEA)

**Performance Audit of the Agency's
Compliance with DATA Act of 2014
FY 2017 - Quarter 2**

November 3, 2017



NATIONAL ENDOWMENT FOR THE ARTS (NEA)

**Performance Audit of the Agency's
Compliance with DATA Act of 2014
FY 2017 - Quarter 2**

Table of Contents

EXECUTIVE SUMMARY 4
BACKGROUND..... 5
RESULTS OF AUDIT 5
APPENDIX A - Summary of DATA Act Results A.1
APPENDIX B - Objectives, Scope, and Methodology B.1
APPENDIX C - Management Comments to the Draft Report..... C.1



November 3, 2017

Ned Read
Senior Advisor to the Deputy Chairman for Management & Budget
National Endowment for the Arts

**Report on the National Endowment for the Arts Compliance with DATA Act for FY 2017
Quarter 2**

Williams, Adley & Company-DC, LLP conducted a performance audit of the National Endowment for the Arts (NEA) Compliance with the Digital Accountability and Transparency Act of 2014 (DATA Act) for FY 2017 Quarter 2. The audit was performed in accordance with the *Inspector General's Guide to Compliance Under the DATA Act*, dated February 27, 2017. This report presents the results of the audit, and includes recommendations to help improve NEA's compliance with the DATA Act.

Our audit was conducted in accordance with applicable *Government Auditing Standards*, 2011 revision. The audit was a performance audit, as defined by Chapter 2 of the *Standards*. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We appreciate the opportunity to have conducted this audit. Should you have any questions or need further assistance, please contact Kola A. Isiaq, Partner at (202) 371-1397.

Sincerely,

Williams, Adley & Company-DC, LLP
Washington, District of Columbia

EXECUTIVE SUMMARY

We conducted a performance audit of the National Endowment for the Arts' (NEA) compliance with the Digital Accountability and Transparency Act of 2014 (DATA Act) for FY 2017, Quarter 2. Our audit was performed in accordance with generally accepted Government Auditing Standards (GAGAS) using the methodology described in the *Inspector General's Guide to Compliance Under the DATA Act*, issued February 27, 2017. Accordingly, our audit included examining, on a test basis, evidence about the completeness, timeliness, quality, and accuracy of the data sampled and the implementation and use of the Government-wide financial data standards by NEA related to its FY 2017 Quarter 2 (Q2) submission.

Overall, we determined that NEA was substantially in compliance with the DATA Act for FY 2017 Q2. Quarter 2 data was submitted timely and over 95 percent of its data was submitted accurately, completely, and in accordance with government-wide data standards. However, we noted six procurement awards included in File C that were not listed in File D1. These transactions were erroneously included in File C due to timing issues and a misunderstanding about what types of transactions should be included. These six files represent 2.3% of the sample tested.

We recommend that NEA enforce the validations required by the Standard Operating Procedures (SOP) to ensure all obligations in File C correspond to the award data in File D1. Moreover, NEA should update their DATA Act SOP to reflect the type of awards that should be excluded and/or included from DATA Act reporting.

BACKGROUND

The Digital Accountability and Transparency Act of 2014 (DATA Act) was signed into law in May 2014 in an effort to increase the transparency of federal spending data by making it more accessible, searchable, and reliable to taxpayers. The DATA Act expanded on the requirements of the Federal Funding Accountability and Transparency Act of 2006 (FFATA) by requiring Federal agencies to report financial and award data in accordance with Government-wide financial data standards. In May 2015, the Office of Management and Budget (OMB) and Treasury published 57 data definition standards and required Federal agencies to report financial data in accordance with these standards for DATA Act reporting, beginning January 2017. Once submitted, the data is displayed on USASpending.gov for taxpayers and policy makers.

The DATA Act also require Inspectors General to review a statistically valid sample of the spending data submitted by its Federal agency and to submit to Congress a publicly available report assessing the completeness, timeliness, quality, and accuracy of the data sampled and the implementation and use of the Government-wide financial data standards by the agency. In February 2017, Treasury issued the *Inspectors General Guide to Compliance Under the DATA Act* (OIG-CA-17-012) to provide IGs with a common methodological and reporting approach to use when performing this mandated work. NEA OIG contracted with Williams Adley to conduct an audit of NEA's Q2 submission to satisfy this requirement.

NEA uses the Enterprise Service Center's (ESC) Delphi software as its accounting system and uses it to produce its File C. NEA then submits this spending data into the DATA Act broker. NEA has assigned the Senior Advisor to the Deputy Chairman for Management & Budget as the Senior Accountable Officer (SAO) to review and certify the quarterly submission.

RESULTS OF AUDIT

The objective of our audit was to assess the completeness, timeliness, quality, and accuracy of the data sampled and the implementation and use of the Government-wide financial data standards by NEA as it relates to its Q2 submission. Further details regarding the audit scope, objective, and methodology can be found in [Appendix B](#).

Overall we noted that the information submitted for inclusion in USASpending.gov for FY 2017 Q2 was accurate, timely, complete, and in accordance with data standards. However, we did note one finding related to the accuracy of data in File C as described below.

Awards from File C Not Reflected in File D1

Per our detail testing of award linkages, we noted that File C contained six (6) procurement awards as identified by the Procurement Instrument Identifier Numbers (PIIDs) that weren't included in File D1. These awards totaled \$168,606.

Based on inquiries of NEA personnel, the following reasons caused the variances:

- Four variances (totaling \$160,606) are due to timing difference between USASpending and Delphi. The contracts were signed in December 2016 although the obligation was created in January 2017. Per NEA, in USASpending, the obligation date is the date when the contract was signed, therefore, it was not included in File D1 created for the second quarter.
- One variance was due to the interpretation of the guidance regarding micro-purchase thresholds. NEA's management initially believed awards for \$3,500 and above were to be included in DATA Act. However, they later received internal guidance, that corresponds with the government-wide micro-purchase limit in FAR 2.101, that only awards for *greater than* \$3,500 were to be reported in DATA Act. NEA's management did not have a clear understanding of what the threshold requirements were, therefore this award was erroneously included in File C.
- A variance of \$4,500 was created due to the interpretation of the guidance regarding gift funds. Initially, NEA's Finance Office did not have specific guidance on excluding gift funds, so an award was included in File C. However, they later received more precise internal guidance from the contract office to exclude gift funds from DATA Act reporting, causing the award not to be reflected in File D1. NEA's management did not have a clear understanding if gift funds were required to be reported in DATA Act.

Not having a clear understanding of when awards should be reported in DATA Act may prevent NEA from following a consistent process when reviewing and submitting awards in DATA Act. Additionally, not submitting required awards in DATA Act may cause NEA's File C to be inaccurate. Specifically, based on our sample testing, File C was overstated by \$168,606.

OMB Memorandum 15-12, Section IV.3 states: "Currently, pursuant to FFATA, Federal agencies report, at least bi-weekly, transactions related to prime awards \$25,000 or greater. Agencies will be required to submit specific programmatic information about all financial assistance and procurement prime awards greater than the micropurchase threshold (as defined by FAR 2.101) to USASpending.gov within two years of the date of this Memorandum. Agencies currently report **all procurement awards above the micropurchase threshold** to FPDS-NG, which are made available via USASpending.gov, in accordance with current policy."

FAR 2.101 defines the term "Micro-purchase threshold" as \$3,500.

Section II of the NEA standard operating procedure (SOP) for DATA Act states the following: "A System Accountant ensures that all grant requests sent to Finance Department during the month have been obligated properly through financial interface by the end of each month in the Delphi.

An accountant obligates the contracts in Delphi. In the month after each quarter ends (around 10th), a System Accountant downloads grants and contracts data from USASpending and uploads the data into Delphi. The System Accountant runs the query “DSC-DATA Act AP Analysis and Reconciliation” and does the preliminary analysis to ensure that all the obligations submitted in USA Spending are properly obligated and all the obligations recorded in Delphi are reported in USASpending. We emphasize preliminary analysis because this query tool in Delphi is still evolving and being modified.

If there is any discrepancy, the System Accountant needs to do research to reduce the discrepancy. If the discrepancy is due to inconsistency of Procurement Instrument Identification Number (PIID) or Federal Aid Identification Number (FAIN), the System Accountant needs to update the PIID or FAIN number in Delphi by using “Maintain Award Info” function in the PO module in Delphi. If the discrepancy is due to timing difference, the System Accountant needs to document the information. Given the calendar established between Finance and Grants and Contracts office, most timing differences are by default prevented.”

Furthermore, Section III.2 of the SOP notes that a preliminary analysis (reconciliation) is performed for the DATA Act that focuses on cross validating File C with Files D1 and D2.

Recommendations:

We recommend that NEA’s management:

1. ensure that they perform a validation check (i.e. tracing File C to File D1) as required by their SOP. This will help to ensure that all obligations in File C correspond to the award data in File D1; and
2. update their DATA Act SOPs to reflect the types of awards that should be included and/or excluded from DATA Act reporting. This documentation should specify the reporting requirements based on the awards’ amount (threshold) and the type of awards (gift-funds, etc.) to be included or excluded.

Management Response:

NEA management concurred with the recommendations. NEA stated that they will continue to perform a validation check to help ensure that File C corresponds to the award data in File D1. Additionally, NEA stated that they will update the DATA Act SOP to reflect the types of awards that should be included and/or excluded from the DATA Act Reporting, specifically addressing both thresholds and fund types. See the complete response in Appendix C.

Auditor Analysis:

We believe that the proposed actions are sufficient to close the recommendations if properly implemented during FY2018.

APPENDIX A - Summary of DATA Act Results

Summary of DATA Act Results National Endowment for the Arts 2nd Quarter, Fiscal Year 2017

Section 1: Results of Assessment of Internal Controls over Source Systems			
Control Objectives	Controls Properly Designed to Achieve Control Objective? (Yes/No)	Controls Implemented to Achieve Control Objective? (Yes/No)	Controls Operating Effectively to Achieve Control Objective? (Yes/No)
Overall Conclusion	Yes	Yes	Yes
Internal controls over data management to ensure the integrity and quality of the data.	Yes	Yes	Yes
Internal controls over data reporting to ensure that the data reported are complete, accurate, timely, and of quality.	Yes	Yes	No
*Auditors Note: If selected "No" in any columns above, include details in section 3.			
Section 2: Results of Assessment of Internal Controls over Data Management and Processes (DATA Act Submission)			
Control Objectives	Controls Properly Designed to Achieve Control Objective? (Yes/No)	Controls Implemented to Achieve Control Objective? (Yes/No)	Controls Operating Effectively to Achieve Control Objective? (Yes/No)
Overall Conclusion	Yes	Yes	Yes
Internal controls over data management to ensure the integrity and quality of the data.	Yes	Yes	Yes
Internal controls over data reporting to ensure that the data reported are complete, accurate, timely, and of quality.	Yes	Yes	No
*Auditors Note: If selected "No" in any columns above, include details in section 3.			
Section 3: Summary of Control Deficiencies and Impact on Completeness, Timeliness, and Accuracy			
Description of Control Deficiency	Impact of Control Deficiency		
	Completeness¹	Timeliness²	Accuracy³
Per our detail testing of award linkages (section 440 of the Inspector General Guide to Compliance Under the Data Act), we noticed the following elements: A variance existed between File C and File D1. Specifically, we noticed that File C contained five (6) procurement awards as identified by the Procurement Instrument Identifier Numbers (PIIDs) that weren't	No	No	Yes

listed in File D1. These awards totaled \$168,605.69			
Section 4: Results of Sample Tests Performed at the Award-Level Transactions			
Description of Attribute Testing	Completeness¹	Timeliness²	Accuracy³
Error Rate ⁴	0%	0%	2.3% (6 errors/262 samples)
Sampling Error (margin of error)	5%	5%	5%
Source of Sample (File C, D1, D2)	File C	File C	File C
Population Size (# and \$ of each type of transactions for grants, loans, contracts, and others)	#815 \$583,645.23 (contracts); \$21,467,218.60 (grants)	#815 \$583,645.23 (contracts); \$21,467,218.60 (grants)	#815 \$583,645.23 (contracts); \$21,467,218.6 (grants)
Type of Statistical Sampling Methodology Used ⁵	Random	Random	Random
Confidence Level	95%	95%	95%
Expected Error Rate	50%	50%	50%
Sample Precision	+/-5%	+/-5%	+/-5%
Sample Size	262	262	262
Section 5: Overall Assessment of Implementation and Use of Data Standards⁶			
Overall, NEA is effectively implementing data standards. Six errors in accuracy were noted during our audit pertaining to certain timing differences, and a misunderstanding about what types of information should be excluded from File C. These errors in accuracy represented 2.3% of out sample.			

¹Completeness is measured as the percentage of transactions containing all data elements required by the DATA Act.

²Timeliness is measured as the percentage of transactions reported within 30 days of quarter end.

³Accuracy is measured as the percentage of transactions that are complete and agree with the systems of record or other authoritative sources.

⁴Error Rate - Error rate is displayed as the percentage of transactions tested that were not in accordance with policy.

⁵Type of statistical sampling methodology used could include dollar unit sampling, classical variables estimation, classical probability proportional to size, or random.

⁶Agency's implementation and use of data standards is assessed as part of the tests for completeness of summary-level data and award-level transaction data.

APPENDIX B - Objectives, Scope, and Methodology

Objectives:

Our objectives were to:

1. obtain an understanding of any regulatory criteria to report financial and award data;
2. assess agency's systems, processes, and internal controls in place over data management;
3. assess the general and application controls pertaining to the financial management systems from which the data elements were derived and linked;
4. assess NEA's internal controls in place over the financial and award data reported to USASpending.gov;
5. assess the completeness, accuracy, timeliness, and quality of the financial and award data sampled; and
6. assess the agency's implementation and use of the 57 data definition standards.

Scope and Methodology:

Our audit was performed in accordance with generally accepted Government Auditing Standards (GAGAS) using the methodology described in the *Inspector General's Guide to Compliance Under the DATA Act*, issued February 27, 2017. Our audit involved obtaining an understanding of internal controls over DATA Act reporting, assessing the reliability of the agency's source system, and testing NEA's DATA Act submission for the 2nd Quarter of FY 2017 (January 1, 2017 to March 31, 2017).

Our fieldwork was performed between June 1, 2017 and October 30, 2017 at NEA's headquarters in Washington DC.

To evaluate completeness, quality, timeliness and accuracy of the FY 2017 Q2 submission, we inspected NEA's Q2 submission to evaluate data elements and summary transactions. We selected a statistical sample based on the formula provided in the *Inspector General's Guide to Compliance Under the DATA Act*¹. Because the recommended sample size of 385 represents more than 5% of the population, we reduced the sample size by applying the finite correction factor as provided by the *Inspector General's Guide to Compliance Under the DATA Act*, section 430.02, resulting in a sample size of 262 transactions. See the table below for the sample size calculation

¹ The *Inspector General's Guide to Compliance under the DATA Act* states the following: For agencies with a smaller population, where the recommended sample size of 385 represents 5 percent or more of the population, the IG may reduce the sample size by applying the finite correction factor using the following formula to determine the recommended sample size: $385/[1+(385/N)]$, where "N" represents the population size.

Sample Size Determination	
Population	815
Formula	$385 / [1 + (385/N)]$, where "N" represents the population size.
Calculation of sample size	261.4791667 (rounded out to 262)
% of Population tested	32%

We measured completeness in two ways (1) all transactions that should have been recorded were recorded in the proper reporting period and (2) the percentage of transactions containing all applicable data elements required by the DATA Act. Accuracy was measured as the percentage of transactions that were complete and in agreement with the record systems. Timeliness was measured as the percentage of transactions reported appropriately within the period and submitted within 30 days of quarter end. We measured quality by considering utility, objectivity, and integrity of information displayed for NEA on www.USAspending.gov and reviewed system support information.

APPENDIX C - Management Comments to the Draft Report



November 2, 2017

Mr. Kola A. Isiaq, CPA
Managing Partner
Williams Adley & Company, LLP
1030 15th Street, NW
Suite 350 West
Washington, DC 20005

Dear Mr. Isiaq:

This is the NEA's response to your Notice of Finding and Recommendation (NFR) #2017-04: *Awards from File C Not Reflected in File D1*.

We were pleased that you noted that our information submitted for inclusion in USAspending.gov for FY 2017 Q2 was accurate, timely, complete and in accordance with Data Act standards. Regarding your testing of award linkages, where there were six procurement awards listed on file C and not on file D, four of these difference were due to timing. As Treasury DATA Act certification notices indicate, for DATA Act submissions there are certain timing differences that are customary. This is due to Treasury updates in its DATA Act data pull rule, which can cause timing differences. Regarding the one micro purchase, NEA's understood the DATA Act requirements; however preliminary guidance received was that purchases at \$3,500 should be included in file C. This same interpretation was used for the gift funds given guidance did not address this type of funds causing some uncertainty on their treatment. Since March 31 was the first quarter for DATA Act submission, it is not surprising that there were certain grey areas in the general guidance. NEA has since worked through those areas.

Overall the exceptions did not impact the quality of the reporting and the exception rate is very low, with the total number of records in file C at 815 and the dollar value at \$22,050,864. The auditor tested a sample of 262 records resulting in an exception rate of 0.76% in comparing record count if the 4 timing differences are excluded and also .76% if the entire exception of \$168,605.69 is used.

NEA will continue to perform a validation check to help ensure that File C corresponds to the award data in File D1. NEA will also update its DATA Act SOP to reflect the types of awards that should be included and/or excluded from DATA Act reporting, specifically addressing both thresholds and fund types.

Sincerely,

A handwritten signature in blue ink that reads "Ann C Eilers".

Ann C. Eilers
Deputy Chairman for Management and Budget
National Endowment for the Arts

400 7th Street, SW • Washington DC 20506