



GARLAND

INTERNAL AUDIT

Garland Cultural Arts Commission, Inc.

June 28, 2017

Report 201704

City Auditor:

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Overall Conclusion

Garland Cultural Arts Commission, Inc. (GCAC, Inc.) is a valuable asset to the City of Garland by providing avenues to support the Arts for the community and various non-profit performing arts organizations. While our Audit found most financial transactions and management controls to be designed appropriately and operating effectively, some improvements could enhance the grant application, reporting, and the bank reconciliation process.

Authorization

We have conducted an audit of the GCAC, Inc. This audit was conducted under the authority of Article VII, Section 5 of the Garland City Charter and in accordance with the Annual Audit Plan approved by the Garland City Council.

Objective(s)

The objectives of this audit are to:

1. Verify GCAC, Inc. distributes Hotel Occupancy Tax (HOT) funds in accordance with the HOT program management agreement and provides timely reports to the City;
2. Verify the validity of financial transactions and assess management controls.

Scope and Methodology

IA conducted this performance audit in accordance with Generally Accepted Government Auditing 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.

The scope of the audit covers October 1, 2013 – September 30, 2016, with some bank reconciliation process dating up to December 31, 2016.

In order to meet the audit objectives and to describe the scope of our work on internal controls, IA performed the following:

- Obtain and review financial statements, transactions and records; Grant agreements and applications; Hotel Occupancy Tax Management Program Agreement; and management controls (Obj. 1 & 2)
- Conduct walkthroughs of the grant application process (Obj. 1)
- Reconcile General Ledger account with bank statements. (Obj. 2)
- Perform Grant Distribution Analysis (Obj. 1)

To ensure data reliability of GCAC Inc.'s General Ledger, Financial Reports, and the City's payments report we reviewed copies of written checks and third party sources such as Bank Statements and sub grant applications. As a result of our testing, IA determined that all the above data were sufficiently reliable for the purposes of this report.

Based on the audit work performed, any deficiencies in internal control that are significant within the context of the audit objectives and based upon the audit work performed are stated in the Opportunities for Improvement section starting on page 6.

Background

In February 1986, the Garland City Council created the nine member Garland Cultural Arts Commission to serve as a liaison between the City and all community-based arts and historic organizations. The Commission's primary goal is the increased visibility of the Arts in Garland. In 1987, the Commission created the private, non-profit organization known as the GCAC, Inc. to pursue various sources of revenue in order to fund meritorious arts and historic groups through a sub-grant program.⁽¹⁾ Each commissioner is appointed by Council Members from District 1-8 and the mayor and has a 2 year term limit, which coincides with their elected councilmember. See *exhibit C* for list of the current commissioners.⁽⁴⁾

The GCAC, Inc. has supported local arts groups through advertising and promotional campaigns. The Arts In Action newsletter, which was originally begun in 1982 by the PAC Guild, was published by the GCAC, Inc. from 1989 until 2008. Arts In Action is currently published by the Granville Arts Center and the Garland Cultural Arts Commission, Inc. and is distributed to approximately 15,500 patrons. The GCAC also places ads promoting Garland arts events in numerous Metroplex newspapers. All projects of the GCAC promote current events produced year round by the affiliate arts organizations. Through these major programs, the GCAC, Inc. continues to fulfill their goal of "increasing the visibility of the Arts in Garland."⁽¹⁾

The GCAC, Inc. also sponsors a visual arts juried competition with Garland ISD Seniors each year. Cash prizes are presented by the Commission during a reception hosted by the GCAC.⁽¹⁾

The GCAC, Inc. administers the sub-grant program through 15% of the hotel/motel tax funds given to by the city along with additional corporate and private donations. According to the HOT program management agreement, revenue from hotel occupancy taxes paid to GCAC, Inc. by the City shall be used only to promote tourism and the convention and hotel industry.

GCAC, Inc. prepares and submits to the City an annual budget. GCAC, Inc. is also required to make all such books and records fully, completely and promptly available to the City through which an operational audit of all funds and activities of the Program shall be made biennially by the Internal Auditor of the City.⁽²⁾

The City typically remits payment to GCAC, Inc. around the first week of the Fiscal Year. Actual sub-grant rewarded during Fiscal Year 2014 through 2016 totaled approximately \$258,000. *See exhibit B.*

Financial Year	City Payment to GCAC, Inc. (5)	Actual Sub Grant Payments (6)
FY14	\$87,341	\$81,000
FY15	\$95,657	\$86,500
FY16	\$103,748	\$90,100
Total	\$286,746	\$257,600

Most of the remaining balances from each fiscal year were expended on other allowable expenditures such as visual arts competition prize reward, art center sculpture, and marketing expenses.

GCAC, Inc.'s sub-grant program is offered to local non-profit performing arts organizations. To be eligible for a grant, applicants are required to provide specific documentation as follows:

1. Organizational By-Laws.
2. IRS Letter of Determination of the 501(c)(3) status.
3. Grant applications with authorized signatures on all copies.
4. Detailed and Comprehensive Financial Statements for previous year in addition to proposed budget for coming year (prepared by CPA if over \$25,000)
5. List of Executive Board Members with addresses and phone numbers.
6. Schedule and location of Board Meetings for upcoming year.
7. Completed budget and financial information form for performances in Garland.

(3)

Upon completion of the application package, organizations are scheduled to interview with GCAC, Inc. Each commissioner on the board reviews and scores the applications privately. The Commission Chair tabulates the scores and the Commission Treasurer then creates a form which shows the ranking for each applicant based on the total scores. The Commission then meets and determines the amount to be awarded to each applicant. (4) Under specific guidelines outlined in the application package, a recipient will not receive more than 35% of the total available funds for the year given or more than 50% of its proposed annual budget.

(3)

Sources:

1. GCAC Inc. Homepage - <http://www.garlandtx.gov/gov/eg/arts/about/gcac/default.asp>
2. Hotel Occupancy Tax Program Management Agreement
3. Sub Grant Agreement/Application

4. Cultural Arts Director
5. City Finance System
6. Grant reward letters and copies of grant reward checks.

Management Accomplishments*

In October of 2014, the Garland Cultural Arts Commission, Inc. appointed a Visual Arts Committee to search for an artist to create a unique bronze sculpture for the newly designed entryway to the Granville Arts Center. The GCAC, Inc. believed that a destination sculpture would increase the awareness and visibility of the Arts and also play a vital role in the economic development of downtown Garland.

After an extensive search, renowned Dallas artist Barvo was selected to design a three dimensional expression of their vision, “a diverse community in celebration of dance, music, theatre and the visual arts.” Barvo created the magnificent “Vision of the Arts”, which was unanimously approved by the Visual Arts Committee and GCAC, Inc. in July of 2015.

Barvo’s interpretation of the GCAC, Inc. vision will be in the form of a bronze sculpture. The small scale “maquette” was presented to Garland City Council in January and approved in February 2016. This maquette is a conceptualization of the sculpture, approximately 17-ft. in height and 8-ft. in diameter... a signature piece which will be located outside at the south main entry of the Granville Arts Center.

The budget for the “Vision of the Arts” Sculpture is \$300,000. The City of Garland has contributed \$100,000 and the GCAC, Inc. is committed to funding the other \$200,000. The GCAC, Inc. has raised over \$120,000 in the past year for this monumental project. The “Vision of the Arts” sculpture is slated for installation in August of 2017.

The GCAC, Inc. just hosted their 30th Annual Visual Arts Reception for all the winners in their 2017 Visual Arts Competition which is held in conjunction with the GISD. Over \$4,400 was given in cash prizes to Senior winners at the reception.

The Annual Business for the Arts Awards during the past three years were presented at the Annual Garland Chamber Banquet to: Patty Montagno – The Sachse News (2013); Garland Water Utilities (2014); and Sue Watkins – longtime supporter of the Arts and former writer for The Dallas Morning News (2015)

The GCAC, Inc. partners with the Granville Arts Center in publishing the Arts In Action newsletter. Since the 2013-2014 fiscal year, the Granville Arts Center has experienced exponential growth in the number of “Arts in Action” newsletter and email subscribers. This growth has translated into \$53,000 in additional ticket sales within the past three years. The most significant growth was seen in the “Arts in Action” newsletter subscribers, which grew by nearly 5,000 recipients in three years (10,676 to 15,500).

*Please note that “Management Accomplishments” are written by the audited entity and that Internal Audit did not audit or verify its accuracy.

Opportunities for Improvement

During our audit we identified certain areas for improvement. Our audit was not designed or intended to be a detailed study of every relevant system, procedure, and transaction. Accordingly, the Opportunities for Improvement section presented in this report may not be all-inclusive of areas where improvement might be needed.

FINDING #1 – INCOMPLETE/INACCURATE BANK RECONCILIATIONS (OBJ. #2)	
CONDITION (THE WAY IT IS)	<p>1. As of FY17 December 31, 2016, quarterly bank reconciliations are not being performed.</p> <p>2. 7 out of 12 bank reconciliations performed during the period FY14 through FY16 were either incomplete or inaccurate.</p>
CRITERIA (THE WAY IT SHOULD BE)	Leading business practice recommends bank reconciliation should be performed appropriately on a quarterly basis.
CAUSE (DIFFERENCE BETWEEN CONDITION & CRITERIA)	The person performing the bank reconciliations passed away in January 2017. GCAC, Inc. currently does not have the resources on staff to perform this function properly.
EFFECT (SO WHAT?)	<p>1. Control weaknesses and inefficiencies in the reconciliation process may lead to mistakes on the balance sheet and overall inaccuracies in the financial close.</p> <p>2. In one instance, control weakness in the reconciliation process resulted in the following off book transactions (i.e. not recorded in the General Ledger) to go undetected during the month of December 2015:</p> <ul style="list-style-type: none"> • Second half grant payment to Puritan Production - \$500 • Second half grant payment to Lakeshore Symphonic Winds - \$500 • Advertising expense paid to Executive Press - \$4,298.33 <p>An adjustment was made to the January 2016 beginning GL Balance to offset these unrecorded transactions. As a result, the December 31, 2015 balance did not match the January 1, 2016 balance in the General Ledger. The quarterly account reconciliation did not account for these adjustments.</p> <p>3. In other instances, the account reconciliation performed was not reconciled to the bank statements.</p>

RECOMMENDATION	GCAC, Inc. should have a process and dedicated resources in place to perform quarterly reconciliations.
MANAGEMENT RESPONSE	Concur
ACTION PLAN	The GCAC, Inc. has voted to hire a CPA to perform the quarterly reconciliations.
IMPLEMENTATION DATE	June 2017

FINDING #2 -Ability to Recover Unused Grant Funds (OBJ #1)	
CONDITION (THE WAY IT IS)	Current grant agreement between GCAC, Inc. and grant recipient does not include written stipulation that allows GCAC, Inc. to recover unused grant funds.
CRITERIA (THE WAY IT SHOULD BE)	Grant agreements clearly state GCAC, Inc. has the ability to recover any unspent grant funds rewarded.
CAUSE (DIFFERENCE BETWEEN CONDITION & CRITERIA)	Written stipulation to allow GCAC, Inc. to recover unused funds was not considered in the original agreement.
EFFECT (SO WHAT?)	Unspent grant money may result in noncompliance with sec. 351.101 of the Texas Tax Code, which requires "revenue from municipal hotel occupancy tax may be used only to promote tourism and the convention and hotel industry..."
RECOMMENDATION	GCAC, Inc. should work with the City Attorney to update the grant agreement to include a stipulation that allows GCAC, Inc. to recover unused funds.
MANAGEMENT RESPONSE	Concur
ACTION PLAN	GCAC, Inc. will work with the City Attorney to add additional wording to the grant application that states that the GCAC, Inc. will have the right to recover any unused funds allocated to an arts organization.
IMPLEMENTATION DATE	July, 2017

Exhibit A – Sampling Methodology

Grant Applications Review

We obtained all grant applications for the period FY14 through FY16. From this population (33 applications), we judgmentally selected a sample of items based on the following criteria for detail review:

- Sample to include at least 80% of total Grant reward amount.
- Each group is selected at least one time.
- Sample to cover 3 year period.

The resulting sample size based on the above criteria was 16 applications. See *exhibit B* below for samples of selected for review. We believe this sample can be projected to the population.

Exhibit B – Grant Distribution

#	Applicants	FY	Amount Awarded
1	Achievement Center of Texas	2014	\$3,600.00
2	Alpine Dancers	2014	\$1,700.00
3	Company of Rowlett Performers	2014	\$3,000.00
4	Dallas Ballet Company	2014	\$6,500.00
5	Garland Civic Theater	2014	\$19,000.00
6	Garland Summer Musicals	2014	\$21,500.00
7	Lake Cities Chorale	2014	\$0.00
8	Lakeshore Symphonic Winds	2014	\$1,600.00
9	Texas Winds Musical Outreach Inc.	2014	\$2,100.00
10	The Garland Landmark Society	2014	\$2,000.00
11	The Garland Symphony Orchestra	2014	\$20,000.00
12	Achievement Center of Texas	2015	\$4,000.00
13	Alpine Dancers	2015	\$2,000.00
14	Company of Rowlett Performers	2015	\$3,500.00
15	Dallas Ballet Company	2015	\$7,000.00
16	Garland Civic Theater	2015	\$21,000.00
17	Garland Summer Musicals	2015	\$22,700.00
18	Lakeshore Symphonic Winds	2015	\$1,800.00
19	Texas Winds Musical Outreach Inc.	2015	\$2,100.00
20	The Garland Landmark Society Inc.	2015	\$2,400.00
21	The Garland Symphony Orchestra	2015	\$20,000.00
22	Achievement Center of Texas	2016	\$4,000.00
23	Alpine Dancers	2016	\$2,000.00
24	Breitling Youth Theater	2016	\$0.00
25	Company of Rowlett Performers	2016	\$4,000.00
26	Dallas Ballet Company	2016	\$7,000.00
27	Garland Civic Theater	2016	\$21,000.00
28	Garland Summer Musicals	2016	\$23,000.00
29	Lakeshore Symphonic Winds	2016	\$1,000.00
30	Puritan Productions	2016	\$1,000.00
31	Texas Winds Musical Outreach Inc.	2016	\$2,100.00
32	The Garland Landmark Society	2016	\$4,000.00
33	The Garland Symphony Orchestra	2016	\$21,000.00
Total grant rewarded for the period FY2014-2016:			\$257,600.00
Total grant rewarded from sample selected:			\$210,700.00
			81.79%

Exhibit C – GCAC, Inc. Commissioners

Appointed By	Commissioners
Mayor	Joann Traylor
District 1	Harlan Seagren
District 2	Claudia Porras
District 3	Vacant
District 4	Blanca Sanchez
District 5	Reta Day
District 6	Craig Wright
District 7	DeAnne Driver
District 8	Sheri Stevens