



**GARLAND**

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**INTERNAL AUDIT**

**Garland Cultural Arts  
Commission Inc.**

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**Prepared By**

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## **Authorization**

We have conducted an audit of the Garland Cultural Arts Commission, Inc. (GCACI). 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**

The objective of this audit was to verify the validity of financial transactions and assess management controls.

## **Scope and Methodology**

We 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 and 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 FY 2012 and FY 2013.

While we report to the Mayor and City Council and present the results of our work to the Audit Committee, we are located organizationally outside the staff or line management functions we are auditing. Therefore, this Audit organization may be considered free of organizational impairments to independence to audit internally and report objectively to those charged with governance.

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

- Examined evidence supporting the amounts and disclosures in the financial statements.
- Examined management controls to ensure the reliability and integrity of financial information and the grant application process.
- Interviewed appropriate personnel.
- Reviewed grant application to ensure all requirements were met.
- Ensured GCAC Inc. was in compliance with their contract.
- Compared bank statements to the physical grant documentation and award letters.

To assess the reliability of data, IA performed the following: (1) Reviewed the Treasurer's Report for each quarter in the audit period, (2) Interviewed GCAC Inc.'s Treasurer, and (3) Compared the bank statements to the grant documentation for FY 2012 and 2013. Treasurer's Reports were not always accurately maintained and checks were not written off appropriately. As a result of our testing, IA could not determine that the Treasurer's Report was sufficiently reliable for the purposes of this report (See

Finding #1). The physical documentation was complete and IA was able to rely on this data.

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 5.

It should be noted that there were Administrative Findings sent to GCACI which were not included in this report. These were not considered significant to the objective of the audit but warrant the attention of management. Consequently, they do not appear in this report.

### **Overall Conclusion**

GCACI 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 process and the bank reconciliation process.

### **Background**

The Garland Cultural Arts Commission, Inc. (GCACI) is a non-profit corporation which develops, administers and creates a sub-grant program for the City and develops and administers sub-grant guidelines for the promotion of cultural arts and historical preservation by City Cultural Arts/Historic Preservation organizations. In return for operating the program, the City shall pay to GCACI an amount not to exceed 15% of the hotel occupancy tax (HOT) revenue actually received by the City during the preceding fiscal year as discussed in the Hotel Occupancy Tax Management Program Agreements for fiscal years 2012 and 2013. GCACI prepares and submits to the City an annual budget. Revenue from the HOT paid to GCACI by the City is used to promote tourism and the convention and hotel industry. The agreement also states that, "GCACI shall 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 annually by the Internal Auditor of the City."

The City remitted payment to GCACI around October 1 and January 1 of FY 2012 and around October 1 of FY 2013. GCACI's Budget was approximately \$67,000 and \$81,000 for Fiscal Years 2012 and 2013, respectively. Approximately 93% of the budget is spent on Sub Grant Programs.

GCACI'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 \$10,000 for FY 2012, \$25,000 for FY 2013).
5. List of Executive Board Members with addresses and phone numbers.
6. List of Organizational Staff and their basic responsibilities. (FY 2012 only)
7. Schedule and location of Board Meetings for upcoming year.
8. Completed budget and financial information form for performances in Garland.

Upon completion of the application package, organizations are scheduled to interview with GCACI. 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. 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 budget.

## Management Accomplishments\*

In February of 1986, the Garland City Council created the nine member Garland Cultural Arts Commission (GCAC) to serve as a liaison to the City in working with all community based arts and historic organizations.

In 1987 the GCAC, with approval of the Garland City Council, created the private non-profit organization known as the Garland Cultural Arts Commission, Inc. (GCACI). The GCACI funds and promotes local arts and historic groups through a sub-grant program and advertising.

The GCACI administers the sub-grant program through 15% of the Hotel/Motel tax funds along with additional corporate and private donations. Over one million dollars has been placed into local arts organizations since the inception of the program in 1987. The GCACI was recognized for its efforts through this grant program by receiving the Texas Recreation & Parks Society Arts and Humanities Award in 1989.

In 1988 the GCACI became the publishers of the bi-monthly *Arts in Action* Newsletter promoting all the cultural activities at the Arts Center. The *Arts in Action* mailing list has included approximately 8,000 to 14,000 names during its history, with more than two thirds of the mailing list addresses being outside of Garland. In 2009, the Granville Arts Center assumed the publishing cost of the *Arts in Action* Newsletter, through a special account designated for promotion of arts activities.

In 1989, the GCACI created a partnership with the Garland Independent School District by starting a High School Seniors Visual Arts Competition that annually honors high school artists with cash awards in eight categories.

In 1990, the GCACI created the annual Business for the Arts Award in conjunction with the Garland Chamber of Commerce, recognizing companies who have given outstanding support to the arts in Garland.

In 2001, the GCACI started a fundraising drive for the opening of the Plaza Theatre and collected \$77,350. which included a grant from the Meadows Foundation. These funds were utilized for purchasing equipment for the Plaza Theatre. Over the past 27 years the GCACI has also purchased a cyclorama, lighting equipment, follow spots, wall tapestries and box office computers and printers for the Granville Arts Center and the Plaza Theatre.

\* 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

#### Condition (The way it is)

1. Check numbers 2772 and 2785 which were both written on March 5, 2012, did not clear the bank during FY 2012. Both checks were written off the General Ledger on December 31, 2012, 301 days after originally written.
2. Check 2785 was adjusted back on the General Ledger on January 1, 2013 before it was cashed on March 29, 2013.

#### Criteria (The way it should be)

1. Written checks should clear the bank within 90 to 180 days. If not, they should be written off the General Ledger promptly after this time period has expired.
2. A stop payment should be placed on checks so that the bank will not cash them once they are written off the General Ledger.

#### Effect (So what?)

1. The overall effect is that the General Ledger will show fewer funds than actual funds in the bank. This could result in lowering GCACI's ability to provide awards to GISD students or grants to local non-profit performing arts organizations.
2. Checks that have been written off in the General Ledger can still be cashed by the bank.

#### Cause (Difference between condition & criteria)

There are no written policies and procedures in place for uncleared checks. IA confirmed with the Cultural Arts & Facilities Administrator that the check clearing procedure was discussed at a Board of Director's Meeting in January 2012. No formal procedures or written documentation was prepared to write off uncleared checks within 90-120 days as recommended during the prior audit.

#### Recommendation

GCACI should develop written procedures for canceling uncleared checks within an appropriate time frame. Checks should be written off on the General Ledger and a stop payment placed on checks with the bank.

#### Management Response

City Staff will recommend to GCACI for consideration, a written financial policy to write off uncleared checks within 120 days.

#### Action Plan

The GCACI financial policy regarding uncleared checks will be placed on the

GCACI agenda in July.

**Implementation Date**

The GCACI financial policy regarding uncleared checks will be implemented on July 22, 2014.