



CITY OF GARLAND, TEXAS

GARLAND CULTURAL ARTS COMMISSION, INC. AUDIT

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March 20, 2008

Report 0812

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EXECUTIVE SUMMARY

OBJECTIVES:

- To verify the validity of financial transactions and assess management controls.

OVERALL CONCLUSION:

We conclude that the financial transactions of Garland Cultural Arts Commission, Inc. (GCACI) are appropriate and accurate. Except for some minor issues the assessment of management controls was satisfactory. During our audit, we found no instances of fraud, waste or abuse.

OPPORTUNITIES FOR IMPROVEMENT:

The Professional Audit Requirement for Grantees Whose Budget Exceeds \$10,000 Is Not Being Complied With.

Recommendation: We Recommend that either the professional audit provision to the grant application be removed or the policy be enforced.

Management Response:

Concur. As the GCAC, Inc. has discussed, we should eliminate the requirement for a certified audit for grantees that have a budget over \$10,000. Also as we have discussed, we should enforce the requirement for a financial statement for all grantees, for the past year, and a budget for the current year. Both should be signed by an officer of the organization.... (Howard Gay) Wording in the grant application will be changed to: Submit a Financial report prepared by a CPA.

Time Line: This change will be included in the grant application that is distributed in August, 2008

The Advertising Credit Line Requirement for Grantees is Not Being Complied With.

Recommendation: We Recommend the GCACI reevaluates the purpose of the requirement and either cease requiring it or ensure the requirement is complied with.

Management Response:

Concur. The phrase (a private non-profit arts support organization) which follows the GCAC, Inc. name as it should appear in publicity, shall be eliminated from the Grant Application.

Time Line: This change will be included in the grant application that is distributed in August, 2008.

Some Deposits are Being Mailed Instead of Being Taken to the Bank.

Recommendation: We Recommend that an officer of GCACI takes deposits to the bank and should also ensure that documentation is provided by the bank for deposits made.

Management Response:

Do Not Completely Concur.

The requirement for an officer to physically make deposits can be done, I suppose, although I don't see the necessity for it to be an officer. As long as a copy of the deposit slip is sent to the treasurer, that should be sufficient. As an alternative, we could make a copy of the checks to be deposited, and that would tie in with the deposits on the bank statements. That should be sufficient and eliminate any possibility of fraud. (Howard Gay)

Time Line: This process will begin immediately.

Three Checks That Were Written in FY 2006 Have Not Cleared.

Recommendation: We Recommend that the Treasurer should void the checks and put the money back into the GCACI account so the balance from GCACI records and the bank records can match and the funds are put back in use.

Management Response:

Concur. I had recommended that the three outstanding checks be voided. However, the bank statement balance and the general ledger account will not always be the same amount, due to occasional short-term outstanding checks or deposits that have not cleared the bank as of the end of a month.... (Howard Gay)

Time Line: This response has been completed.

We want to thank management and staff for their assistance in this audit. Their assistance was essential for the successful completion of our work.

Authorization

We have conducted an audit of the Garland Cultural Arts Commission. 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 Audit Committee of the Garland City Council.

Scope and Methodology

We conducted the 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. These included procedures assessing management controls. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Our audit covered FY07.

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 the those charged with governance.

The objectives of our audit were:

- To verify the validity of financial transactions and assess management controls.

To adequately address the audit objectives, we:

- Examined evidence supporting the amounts and disclosures in the financial statements.
- Examined management controls to ensure the reliability and integrity of financial information.
- Interviewed appropriate personnel.

Overall Conclusion

We conclude that the financial transactions of GCACI are appropriate and accurate. Except for some minor issues the assessment of management controls was satisfactory. During our audit, we found no instances of fraud, waste or abuse.

Background

The Garland Cultural Arts Commission, Inc. 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.

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.

According to the agreement with GCACI, "GCACI shall provide a written report to the City Council, through the City Manager no less than quarterly each City fiscal year listing the expenditures made by the GCACI. Additionally, on an annual basis, GCACI shall send to the City Manager a written report showing the activities conducted under the GCACI program for the preceding year. Minutes and financial reports shall be sent to the City Manager and City's Internal Audit Department after each quarterly meeting."

The agreement goes on to say that, "GCACI shall make all such books and records fully, completely and promptly available to the City through which a certified audit of all funds and activities of the Program shall be made annually by the Internal Auditor of the City."

The City remits payment to GCACI around October 1st and January 1st of each year.

GCACI's budget is approximately \$70,000 per year. Approximately 80% of the budget is spent on Sub Grant Programs.

Management Accomplishments

The Garland Cultural Arts Commission, Inc. has been quite professional in handling their fiduciary responsibilities since their inception in 1987. The GCAC, Inc. has been fortunate to have a CPA serve as Treasurer for the organization since 1995. Howard Gay has kept excellent records and these have been confirmed by annual audits by the City of Garland's Internal Audit Dept.

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.

1. The Professional Audit Requirement for Grantees Whose Budget Exceeds \$10,000 Is Not Being Complied With.

Item #3, Eligibility Policy, in the Grant Application, states, "Any organization submitting grant application(s) to the Garland Cultural Arts Commission, Inc. and whose annual budget exceeds \$10,000 shall be required to submit a professional audit at the end of fiscal year for which funding is obtained." GCACI, Inc. had three major affiliate Arts Groups during the audit period. These three groups were provided grants of at least \$10,000. No professional audit was found for any of these.

The cause of this situation is that it is difficult for an arts group to pay for a professional audit. Most if not all are non-profit corporations. Their sources of funds are limited. The GCACI has not enforced the professional audit policy.

The effect of not providing a professional audit is minimal to the arts community. However, from a financial viewpoint the GCACI will not be able to determine if the information received from the sub-grantees is reliable. This may influence whether an organization receives any funds and/or the amount of grant.

We Recommend that either the professional audit provision to the grant application is removed or the policy is enforced.

Management Response:

Concur. As the GCAC, Inc. has discussed, we should eliminate the requirement for a certified audit for grantees that have a budget over \$10,000. Also as we have discussed, we should enforce the requirement for a financial statement for all grantees, for the past year, and a budget for the current year. Both should be signed by an officer of the organization... (Howard Gay) Wording in the grant application will be changed to: Submit a Financial report prepared by a CPA.

Time Line: This change will be included in the grant application that is distributed in August, 2008.

2. The Advertising Credit Line Requirement for Grantees is Not Being Complied With.

Item #12 of the Grant Guidelines states, "Grantee organization shall include in the printed program, as well as all promotions, publicity, and advertising, whether written or verbal, the following credit line: "This organization is funded in part by the Garland Cultural Arts Commission, Inc. (a private non-profit arts support organization)". We found advertisements that lacked this exact wording; in particular, the parenthetical expression was missing on all advertisements. The cause for this omission is management oversight or the lack of importance of requiring such a statement. Grant guidelines should be adhered to. The effect may not be significant. In that case the requirement should be reevaluated.

We Recommend the GCACI reevaluate the purpose of the requirement and either cease requiring it or ensure the requirement is complied with.

Management Response:

Concur. The phrase (a private non-profit arts support organization) which follows the GCAC, Inc. name as it should appear in publicity, shall be eliminated from the Grant Application.

Time Line: This change will be included in the grant application that is distributed in August, 2008.

3. Some Deposits are Being Mailed Instead of Being Taken To The Bank

During our review of documentation provided by GCACI we found that we did not have all the supporting documentation for all the deposits made. After inquiring from Granville Arts Center staff and the Treasurer of GCACI, we found that the Treasurer does not take all deposits to the bank but instead mails them out. While it is convenient and saves money on gas to not have to drive to the bank, the risk is that a deposit may get lost in the mail. Also, when the Treasurer mails the deposits, no supporting documentation is provided by the bank but if they are taken to the bank personally, the bank does provide supporting documentation that a deposit was made. Deposits should be made promptly and preferably in person (particularly on substantial amounts).

We Recommend that an officer of GCACI takes deposits to the bank and should also ensure that documentation is provided by the bank for deposits made.

Management Response:

Do not Completely Concur. The requirement for an officer to physically make deposits can be done, I suppose, although I don't see the necessity for it to be an

officer. As long as a copy of the deposit slip is sent to the treasurer, that should be sufficient. As an alternative, we could make a copy of the checks to be deposited, and that would tie in with the deposits on the bank statements. That should be sufficient and eliminate any possibility of fraud. (Howard Gay)

Time Line: *This process will begin immediately.*

4. Three Checks That Were Written in FY 2006 Have Not Cleared.

While working on the reconciliation of all checks that were issued in FY 2007 and comparing it to the bank statements and supporting documentation, we found that there were still 3 outstanding checks that were issued in FY 2006 that have not cleared through the bank yet. The check numbers are 2408 for \$250, 2433 for \$100 and 2440 for \$50 for a total of \$400. The bank balance and GCACI's balance is off by \$400 which is from the uncleared checks. The checks have gone uncleared for two fiscal years. A lack of monitoring and follow-up caused this issue. Outstanding checks should be monitored periodically for time outstanding. There is no good business reason for having checks that far outstanding.

We Recommend that the Treasurer should void the checks and put the money back into the GCACI account so the balance from GCACI records and the bank records can match and the funds are put back in use.

Management Response:

Concur. I had recommended that the three outstanding checks be voided. However, the bank statement balance and the general ledger account will not always be the same amount, due to occasional short-term outstanding checks or deposits that have not cleared the bank as of the end of a month.... (Howard Gay)

Time Line: *This response has been completed.*