

GARLAND CULTURAL ARTS COMMISSION, INC. AUDIT

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EXECUTIVE SUMMARY

OBJECTIVES:

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

OVERALL CONCLUSION:

The Garland Cultural Arts Commission, Inc. carries out a valuable function for the citizens of Garland. Our audit specifies two opportunities for improvement.

OPPORTUNITIES FOR IMPROVEMENT:

1. The Garland Cultural Arts Commission, Inc. lacks segregation of duties. (Reference Page 5)

Recommendation: We Recommend GCACI ensure that the person who reconciles the bank statements to the general ledger is different than the person who issues checks and makes deposits. Having an independent person prepare the reconciliation helps establish segregation of duties and deters fraud and prevents errors.

Management Response:

The Arts Center Staff will inform the GCACI that it is necessary to revise their procedures so that the person who reconciles the bank statements to the general ledger is different than the person who issues checks and makes deposits.

2. The Hotel Occupancy Tax Management Program Agreement needs to be modified.

(Reference Page 5)

Recommendation: We Recommend GCACI and the City make modifications to the Hotel Occupancy Tax Program Management Agreement Section 5 (B) stating that an operational audit will be made by the City Auditor. GCACI and the City should also make modifications to Section 2 to reflect the proper fiscal years in which the hotel tax revenue is being appropriated to GCACI.

Management Response:

These suggested changes will be made in the next agreement later this year.

Authorization

We have conducted an audit of the Garland Cultural Arts Commission, 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.

Scope and Methodology

We conducted the audit in accordance with Generally Accepted Government Auditing Standards, with the exception that no peer review has been performed on this audit entity in the past three years. 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, such as examining checks and the support for them, reading the minutes of Board of Directors meetings, and reviewing grant guidelines and application processes. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Our audit covered FY08.

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.

The objective of our audit was:

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

To adequately address the audit objectives, we:

- Obtained financial statements, cancelled checks, bank statements, grant applications, grant guidelines and supporting invoice documentation from GCACI.
- Examined the checkbook register, bank statements, bank reconciliations, invoices. Verified the validity of the financial statements.
- Read the agreement between the City of Garland and the GCACI.
 Judgmentally selected and reviewed grant applicant documents for accuracy.
- Assessed the adequacy of internal controls.
- Reviewed GCACI Audit Report #0812. For those findings that have been implemented, we provided proof of compliance.

Overall Conclusion

The Garland Cultural Arts Commission, Inc. carries out a valuable function for the citizens of Garland. Our audit specifies two opportunities for improvement.

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. Garland Cultural Arts Commission (GCAC), an advisory board to the City, incorporated the Commission for the purposes of financially benefiting the arts.

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. GCACI prepares and submits to the City an annual budget. Revenue from the HOT paid to GCACI by the City is used to promote the arts in Garland which then enhances 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 currently states 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." However, we are recommending the agreement be modified to reflect a performance of an "operational audit" due to the independence issue between the Internal Audit Department and a component unit 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. The remaining funds are spent on promotion and advertising. GCACI's total revenue for FY08 was \$72,777.18 and the total expenses were \$69,726.61. Additionally, \$25,000 was appropriated to GCACI by Council and is located in a City account for the use of GCACI advertising related expenses.

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.

This was followed in 1987, with the creation by the City Council and Commission of the private, non-profit organization known as the Garland Cultural Arts Commission Inc. The GCAC Inc. funds and promotes local arts and historic groups through a sub-grant program.

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

In 1988 the Garland Cultural Arts Commission Inc. 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 27 year history, with approximately two thirds of the mailing list address outside of Garland. The GCAC Inc. also supports local arts groups by advertising in numerous Metroplex newspapers and various publications.

In 1989 The GCAC Inc. 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 awards in seven categories.

In 1990 The Garland Cultural Arts Commission, Inc. created the annual Business for the Arts Award in conjunction with the Garland Chamber recognizing companies who have given outstanding support to the arts.

In 2001 the GCAC, Inc. 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 GCAC, Inc. has also purchased a cyclorama, lighting equipment, followspots, wall tapestries and computer/printers for the Arts Center facilities.

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 Garland Cultural Arts Commission, Inc. lacks segregation of duties.

Garland Cultural Arts Commission, Inc. has an accountant that issues checks, makes deposits, and reconciles the bank statements. Garland Cultural Arts Commission, Inc. should have duties such as check writing, deposit functions and account reconciliations separate.

Having segregation of duties is an important internal control that prevents or detects errors and irregularities by assigning to separate individuals responsibility for initiating and recording transactions and custody of assets to separate individuals. GCACI is a small non-profit corporation and has very detailed and consistent documentation. They have not made segregation of duties a high priority because they have no cash handling and have a reliable accountant.

Recommendation: We Recommend GCACI ensure that the person who reconciles the bank statements to the general ledger is different than the person who issues checks and makes deposits. Having an independent person prepare the reconciliation helps establish segregation of duties and deters fraud and prevents errors.

Management Response:

The Arts Center Staff will inform the GCACI that it is necessary to revise their procedures so that the person who reconciles the bank statements to the general ledger is different than the person who issues checks and makes deposits.

2. The Hotel Occupancy Tax Management Program Agreement needs to be modified.

The Hotel Occupancy Tax Program Management Agreement between the City and GCACI states:

- "A certified audit of all funds and activities of the Program shall be made annually by the Internal Auditor of the City."
- "The City shall pay to GCACI an amount not to exceed fifteen per-cent (15%) of the hotel occupancy tax revenue actually received in hand by the City during the preceding fiscal year."

A certified audit is prepared by an independent Certified Public Accountant and provides some assurance that the financial statements have been verified and they are reliable. The purpose of the internal audit department is to perform quality audits and related services which provide independent assessments of the reliability and effectiveness of the City's operations and business practices in accordance with Generally Accepted Government Auditing Standards. GCACI is a component unit of the City and their Board of Directors are selected by the City; therefore, there would be an independence issue if the City Auditor conducted a certified audit. In previous years this audit was performed as a certification of GCACI's financial statements; however, Deloitte had independence concerns with the City certifying an audit conducted for a component unit of the City. The Internal Audit Department began performing an operational audit for this entity during the 2008 fiscal year.

According to the agreement, the 15% revenue GCACI received from the Hotel/Motel Tax during FY08 should be based on the occupancy tax revenue from FY07. The agreement is misleading by asserting that a percentage of the Hotel/Motel tax revenue is given to GCACI based on the preceding year's revenue. The 15% Hotel/Motel tax money given to GCACI during FY08 is based on the Hotel/Motel revenue from FY06, not FY07 as the agreement indicates. The actual Hotel/Motel tax revenue for the preceding fiscal year is not determined until December; therefore, the money GCACI receives is actually coming from two prior fiscal years due to a timing issue.

Recommendation: We Recommend GCACI and the City make modifications to the following sections of the Hotel Occupancy Tax Program Management Agreement:

- Section 5 (B) stating that an operational audit will be made by the City Auditor.
- Section 2 to reflect the proper fiscal year in which the hotel tax revenue is being appropriated to GCACI.

Management Response:

These suggested changes will be made in the next agreement later this year.