



**GARLAND**

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**INTERNAL AUDIT**

**Garland Cultural Arts  
Commission Inc.**

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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 objectives for this audit were:

- To verify the validity of financial transactions and assess management controls.
- To follow-up on previous audit recommendations.

## **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 and a follow-up on previous audit recommendations. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Our audit covered Fiscal Years 2009, 2010 and 2011.

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.

To adequately address the audit objectives, we:

- Examined evidence supporting the amounts and disclosures in the financial statements (Obj. 1).
- Examined management controls to ensure the reliability and integrity of financial information and the grant application process (Obj. 1).
- Interviewed appropriate personnel (Obj. 1).
- Reviewed previous audit recommendations (Obj. 2).

## **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. GCACI fully implemented the previous audit recommendations.

## **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 2009, 2010 and 2011. 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 remits payment to GCACI around October 1st and January 1st of each year. GCACI's Budget was \$73,218, \$70,378 and \$72,546 for Fiscal Years 2009, 2010 and 2011, respectively. Approximately 80% of the budget is spent on Sub Grant Programs. GCACI is allocated \$25,000 in additional funds for its Arts in Action Newsletter. GCACI had requested additional funds from the City for promoting the arts since the City exempted Hotels on Highway 190 from payment of Hotel/Motel tax for 15 years.

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 Bylaws.
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).
5. List of Executive Board Members with addresses and phone numbers.
6. List of Organizational Staff and their basic responsibilities.
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.

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. Over 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. In 2009, the Granville Arts Center assumed the publishing cost of the Arts in Action Newsletter through a special account designated to assist the GCAC in promotion of arts activities. 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.

Since meeting with the Auditors in 2012, the Garland Cultural Arts Commission, Inc. plans to make two changes in the yearly contract with the City. Under Section 2. the wording shall be changed to: The City shall remit payment of Program funds to GCACI once during the fiscal year. The first payment to be made on or before October 1. Under Section 5. Paragraph (B) the wording shall be changed to: 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 every two years by the Internal Auditor of the City.

## 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 #	Condition (The way it is)	Criteria (The way it should be)	Cause (Difference between condition & criteria)	Effect (So what?)
1 (Obj. 1)	<p>A. Grant applicant appeared to have received 85% of its submitted budget.</p> <p>B. There were various Grant documentation discrepancies for all three years audited. Organizations did not submit the following:</p> <ul style="list-style-type: none"> <li>• 1 – By-Laws</li> <li>• 4 – IRS letter</li> <li>• 2 – Signed application</li> <li>• 8 – Financials</li> <li>• 12 – Financials prepared by CPA.</li> <li>• 1 – Board members</li> <li>• 2 – List of Org. staff</li> <li>• 2 - List of board meetings and locations</li> <li>• 2 – Budget</li> </ul>	<p>A. According to GCACI Grant Application package, a recipient will receive no more than 50% of the applicant's proposed budget.</p> <p>B. For GCACI to properly evaluate applicants who wish to receive grant funds, each organization is required to meet specific criteria which can be found in GCACI's application package.</p>	<p>A. GCACI did not compare the amount given against the criteria and the budget submitted by the applicant.</p> <p>B. GCACI did not properly verify that all documentation was included in each grant application.</p>	<p>A. By providing an applicant with more than 50% of its proposed budget, GCACI risks showing favoritism to an applicant as well as a reduction in the available funds to other applicants who may be equally qualified.</p> <p>B. Appropriate documentation for Grant Application speaks to equity. By collecting appropriate documentation for each application, GCACI is ensuring that applicants are qualified.</p>

Recommendation	Management Response	Action Plan	Implementation Date	Auditor's Comment
<p>A. Internal Audit recommends that the Commission analyze each grant amount given against the applicant's proposed budget to ensure that no more than 50% of the budget is provided to any one applicant.</p> <p>B. Internal Audit recommends that once an application is approved for a grant and prior to sending the approval letter to the applicant, GCACI review each package for complete and appropriate documentation.</p>	<p>A. This item has been presented to the GCAC, Inc. during their January 2012 meeting and they have created a plan to help them prevent this from happening during the distribution of funds in the future.</p> <p>B. This item was presented to the GCAC, Inc. during their January 2012 meeting and they have developed a plan to assist them in their grant review process.</p>	<p>A. The GCAC, Inc. Treasurer will list the budget for each applicant on the review sheet during the distribution of funds so they will not award more than 50% of an organization's budget to any applicant.</p> <p>B. During the 2012-2013 Grant application process, the GCAC, Inc. is going to create their own checklist for reviewing each application and check off every item they have requested. This way they will be aware if an organization has not turned in the requested documents.</p>	<p>A. Implementation will be during the 2012-2013 Grant process which begins in August of 2012 and concludes the end of October 2012.</p> <p>B. Implementation will be during the 2012-2013 Grant process which begins in August of 2012 and concludes the end of October 2012.</p>	

<b>Finding #</b>	<b>Condition (The way it is)</b>	<b>Criteria (The way it should be)</b>	<b>Cause (Difference between condition &amp; criteria)</b>	<b>Effect (So what?)</b>
2 (Obj. 1)	Check number 2554 written March 11, 2008 never cleared the bank. Inquiry revealed that the check was carried over until the quarter ending June 30, 2009. The check was cancelled 450 days after it was written. Check number 2722 for \$50 did not clear any of the bank statements for FY2011. Internal Audit inquired with GCACI and found that the check had not cleared in FY2012 either.	Written checks should clear the bank within 90 to 180 days. In this case, the check had not cleared within 450 days for check number 2554 and 270 days for check number 2722.	Lack of written procedures and criteria for canceling checks that have not cleared the bank.	The overall effect is that the General Ledger will show fewer funds than what is 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.
<b>Recommendation</b>	<b>Management Response</b>	<b>Action Plan</b>	<b>Implementation Date</b>	<b>Auditor's Comment</b>
GCACI should prepare written procedures for canceling uncleared checks within an appropriate time frame.	The GCAC, Inc discussed this item during their January 2012 meeting.	The GCAC, Inc. Treasurer decided they would have a procedure to write off checks that had not cleared after 6 months.	Immediate	

## Follow-up

The following is a follow-up of the report "GCACI Audit" issued on March 24, 2009. The follow-up audit was not intended to be a detailed study of every relevant system, procedure and transaction. Accordingly, the Follow-up section presented in this report may not be all-inclusive of areas where improvement might be needed.

The following results for each finding are as follows:

Finding #	Finding	Recommendation	Management Response	Follow-up	Implementation
1 (Obj. 1)	GCACI lacks segregation of duties.	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, deters fraud and prevents errors.	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	Internal Audit determined through document examination that the transfer of check writing and bank deposit responsibilities took place in April of 2009, immediately following the issuance of the Audit Report dated March, 24, 2009.	Implemented
2 (Obj. 2)	The Hotel Occupancy Management Program Agreement needs to be modified.	We recommend GCACI and the City make modifications to the Hotel Occupancy Tax Program 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.	These suggested changes will be made in the next agreement later this year.	Internal Audit determined through document examination that these changes were implemented in the contract dated September 20, 2009.	Implemented