Memorandum

DATE: February 21, 2014

TO: Honorable Mayor and Members of the City Council

SUBJECT: Audit of Arts and Cultural Program Funding[1]

The Office of Cultural Affairs (OCA) has designed a process to demonstrate applications for funding are evaluated objectively and available funds are distributed fairly for the two main Cultural Contracts Programs (see text box). This process includes: (1) application submission; (2) eligibility determination; (3) funding recommendations; (4) contracting; and, (4) expenditure reimbursement.

Monitoring controls, segregation of duties, and documentation for the Cultural Programs funding processes, however, can be improved to maximize efficiency and effectiveness.

Background

The OCA mission is to establish a cultural system that ensures all City of Dallas (City) citizens and visitors have an opportunity to experience the finest in arts and culture. The OCA operates in the following five core areas: (1) cultural contracts; (2) cultural facilities and centers; (3) public art; (4) arts learning and lifelong education; and, (5) classical radio.

The OCA's Cultural Services Contracts Division oversees the two main Cultural Contracts Programs: the Cultural Organization Program and the Cultural Projects Program.

In Fiscal Years (FY) 2011 and 2012, the OCA funded 72 Cultural Organization Program organizations totaling $6,480,742 and 65 Cultural Projects Program organizations totaling $239,164.

Source: OCA

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[1] We conducted an *Audit of Arts and Cultural Program Funding* under the authority of the City Charter, Chapter IX, Section 3. This audit was part of our Fiscal Year 2013 Audit Plan approved by the City Council. This performance audit was conducted 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. The audit objective was to determine the efficiency and effectiveness of OCA's funding for arts and cultural programs which includes eligibility, submitting applications within established deadlines, contracting, and reimbursement documentation. The scope of this audit was the Cultural Contracts Programs from October 1, 2010 to September 30, 2012. We interviewed OCA personnel, reviewed applicable OCA policies/procedures, judgmentally selected samples, and evaluated OCA's processes for the two main Cultural Contracts Programs.

Efficiency and Effectiveness of OCA Monitoring Processes Can Be Improved

The systems currently in place at the OCA to monitor the information organizations submit to OCA need improvement for increased efficiency and effectiveness to ensure that the organizations comply with the OCA's *Cultural Policy and Program* and Cultural Services Contract provisions. Specifically, OCA does not:

- Stamp consistently the date OCA receives required information from each organization as evidence each organization has met OCA's reporting requirements for reimbursement (see text box)

- Ensure receipt of all the required certificates of insurance and ensure audited financial statements and the certificates of insurance are received timely

- Retain the percentage for final payment that is specified in the contract until OCA receives the final report and the annual financial audit from the Cultural Organization Program organizations

- Check the mathematical accuracy and reconcile the invoices for operating expenses to reliable supporting documentation for organizations located at City owned facilities

- Reconcile planned services to the actual services performed prior to reimbursing organizations

> **Reporting Requirements for Reimbursement**
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> Organizations receiving funding from either the Cultural Organization Program or the Cultural Projects Program must submit:
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> - Final reports due no later than 30 days after completion of the services
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> Organizations receiving funding from the Cultural Organization Program must submit:
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> - Monthly performance reports due on the 15th of each month
>
> - Audited financial statements due six months after the close of the organization's fiscal year
>
> - Certificates of insurance that are current and submitted prior to contract execution
>
> **Source:** OCA

The OCA manually processes the required information noted above and records the receipt dates necessary to document compliance because the current OCA web-based system, Cultural Grants Online, is not configured to receive and extract certain information and generate reports needed for monitoring. For example:

- Monthly, OCA spends approximately three to four days uploading 36 Cultural Organization Program program/attendance reports (monthly performance reports) received via e-mail into a Microsoft Access database (During this process, OCA cannot perform other computer related responsibilities.)

- Annually, OCA receives, stamps, and records the receipt dates of 69 final reports, 36 audited financial reports, and 36 certificates of insurance

As a result, OCA personnel cannot ensure the Cultural Organization Program and the Cultural Projects Program that receive funding from the City actually satisfy the terms of the Cultural Services Contracts.

The reporting requirements stated in OCA's *Cultural Policy and Program*, approved as Council Resolution (CR) Number 02-3206, and noted in the textbox on the preceding page, are also included in the Cultural Services Contracts. In addition, for the Cultural Organization Program, the contracts require the Cultural Services Division to:

- Retain a specific percent of the funding until OCA receives: (1) the final report which is due no later than 30 days after completion of the Services; and, (2) the annual financial audit that is due no later than six months after the completion of the organizations' fiscal year

- Pay organizations a fee for services actually performed

Technology offers an opportunity to use computerized monitoring which has a high standard of objectivity (once programmed and tested) and allows for more efficient review of large volumes of data at lower costs.

The OCA Responsibilities Are Not Properly Segregated

The Program Manager performs all OCA responsibilities for the funding process (see Attachment I – Background for detailed responsibilities). As a result, there is an increased risk that errors could be made that influence funding decisions that would not be detected during the normal funding processing.

A judgmental sample of 20 Cultural Organization Program and ten Cultural Projects Program contracts showed OCA did not correctly calculate the board and staff diversity scores, compliance scores, and normalization scores for 24 of 30, or 80 percent, of the sampled organizations. (Note: normalization minimizes the impact of inconsistent scoring among Peer Review Panel members.)

Although there is an increased risk that calculation errors could impact funding decisions, the auditor determined that for the 30 sampled organizations these particular errors did not negatively impact OCA's funding decisions. The OCA spreadsheets, however, are re-used each year; therefore, the impact on the funding recommendations from calculation errors could have affected prior year's funding decisions which were beyond the scope of this audit.

Proper segregation of duties prevents fraud and errors by distributing tasks and the associated privileges for the authorization, custody, record-keeping, and reconciliations for a specific business process among multiple users. Independent review is a compensating control for organizations which have limitations to fully segregate the duties.

Documentation of the Funding Process Is Not Sufficient

Documentation of OCA's criteria and assessment of each organization's application for funding is not sufficient to demonstrate that OCA consistently follows the process design. Specifically, the OCA did not use standard checklists or other forms to:

- Document OCA's criteria and relevant comments that support OCA's assessments of each application

- Demonstrate OCA's verification that each application is complete and that the organization meets the eligibility criteria stated in the OCA's *Cultural Policies and Program*

- Formally document the Allocations Committee's funding adjustments

According to the Committee of Sponsoring Organizations (COSO)[2], documentation provides evidence of the performance of activities that are part of the system of internal control, enables proper monitoring, and supports reporting on internal control effectiveness.

In addition, the OCA did not retain the OCA Peer Review Panel members' Conflict of Interest forms for all selected Cultural Projects Program organizations. The OCA Peer Review Panel Handbook requires OCA personnel to collect Conflict of Interest disclosure forms before the first organization is scheduled to participate in the Peer Review Panel members' evaluation and inform the chair of any conflicts.

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[2] In 1992, COSO released its Internal Control-Integrated Framework (the original framework). The original framework has gained broad acceptance and is widely used around the world. It is recognized as a leading framework for designing, implementing, and conducting internal control and assessing the effectiveness of internal control.

According to the OCA's Records Retention Schedules, contracts, leases, and agreements, including reports, correspondence, performance bonds, and similar records related to OCA's negotiation, administration, renewal, or termination must be retained for at least four years after they are closed, terminated, completed, expired and settled.
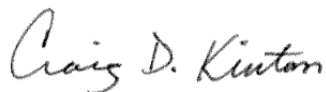
We recommend the Director of OCA:

I.   Implement improvements to the monitoring controls to ensure that organizations participating in the Cultural Organization Program and Cultural Projects Program comply with CR 02-3206 and with required contract provisions

II.   Segregate funding process responsibilities and/or implement some form of supervisory review

III.   Document OCA's funding process consistently for each Cultural Organization Program and Cultural Projects Program applicant by using a checklist or other forms

Please see Attachment II for management's response to the recommendations.

We would like to acknowledge the OCA's cooperation during this audit. If you have any questions or need additional information, please contact me at 214-670-3222 or Carol Smith, First Assistant City Auditor, at 214-670-4517.

Sincerely,

Craig D. Kinton

Craig D. Kinton
City Auditor

Attachments

C: A.C. Gonzalez, City Manager
   Joey Zapata, Assistant City Manager
   Maria Munoz-Blanco, Director – Office of Cultural Affairs
   Charla Sanderson, Program Manager – Office of Cultural Affairs

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Attachment I

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Background

The Office of Cultural Affairs (OCA) is a division of the City Manager's Office. The OCA's mission is to establish a cultural system that ensures all City of Dallas (City) citizens and visitors have an opportunity to experience the finest in arts and culture. The OCA implements its mission through a variety of programs and partnerships that support over 20,000 diverse cultural events that combined reach an audience of four million annually. The OCA operates in the following five core areas: (1) cultural contracts; (2) cultural facilities and centers; (3) public art; (4) arts learning and lifelong education; and, (5) classical radio.

The OCA's Cultural Services Contracts Division oversees the following two main Cultural Contracts Programs:

Cultural Organization Program

The Cultural Organization Program is the largest of the Cultural Services Contracts programs. The purpose of the Cultural Organization Program is to support an array of programs that include concerts, plays, exhibitions, performances, workshops, and other cultural services. The Cultural Organization Program provides operational support to established organizations with budgets over $100,000. The maximum amount that an organization can receive through the Cultural Organization Program is 25 percent of their prior year's audited expenses (the current average is under ten percent).

Cultural Projects Program

The Cultural Projects Program procures cultural services from cultural groups, educational institutions, social service organizations, and other non-profit organizations. The types of projects funded include artist residencies, collaborative projects, projects that increase the quality of the organization's cultural activities, and projects that increase the organization's administrative efficiency.

Overview of Cultural Contracts Funding Process

Cultural Affairs Commission

The Cultural Affairs Commission (Commission), comprised of 18 members appointed by the City Council, is actively engaged in OCA's core services to the community. For Cultural Services Contracts, the Commission: (1) reviews policies and procedures; (2) appoints OCA's Peer Review Panel members; and, (3) reviews and recommends annual funding levels. Each Commissioner serves for a two-year term and can serve up to four consecutive terms.

Allocations Committee

The Allocations Committee is a subcommittee of the Commission and is responsible for reviewing the Cultural Organization Program and the Cultural Projects Program contracts and making funding recommendations to the Commission.

The OCA's Peer Review Panel

The OCA's Peer Review Panel is comprised of a diverse group of artists and representatives from cultural institutions and organizations and the community at large who evaluate and score applicant proposals. Every other year the OCA's Peer Review Panel evaluates eligible applications against program specific criteria and industry best-practices and awards up to 80 points of the total application score.

The OCA's Program Manager

The Office of Cultural Affairs Program Manager has responsibility for all aspects of OCA's funding process. Specifically, the Program Manager:

- Reviews each organization's application submitted through the OCA web-based system, Cultural Grants Online, to ensure each application is completed, submitted timely, and meets the cultural program eligibility criteria

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Scoring

A total application score is the addition of OCA's scores (20 points) and total OCA's Peer Review Panel average score (80 points).

The OCA's 20 points are based on an organization's current year board and staff diversity ratios (ten points) and the organization's compliance with reporting, financial, and performance requirements (ten points). The compliance score for the most recently completed funding year is used for the current year's funding recommendation.

A normalized score is used to minimize the impact of inconsistent scoring among Peer Review Panel members.

Source: OCA

"Dallas, the That Works: Diverse, Vibrant, and Progressive."

- Processes funding recommendations, including:

  o Scoring staff and board diversity ratios (ten points of the total application score)

  o Evaluating each organization's financial, performance, and reporting compliance (ten points of the total application score)

  o Calculating the OCA's Peer Review Panel members' average score

  o Calculating each organization's normalized scores

  o Assigning recommended funding based on the normalized scores and pre-defined percentages for funding adjustments

- Monitors each organization's compliance with Cultural Organization Program and the Cultural Projects Program contracts

- Generates invoices for organizations

- Reviews the invoices approved and signed by organizations

- Approves reimbursement requests

Final funding recommendations are provided to the City Council through the City Manager's Office as part of the OCA's annual budget request and are approved or modified by the City Council. Awards are not final until the annual budget is approved by the City Council.

Methodology

- Gained an understanding of OCA's processes

- Reviewed OCA's Cultural Policy and Program and other relevant information, such as Cultural Organization Program and Cultural Projects Program Guidelines, Peer Review Panel Handbooks, Peer Review Panel Conflict of Interest forms, and applicable applications, Council Resolutions, Administrative Directives, and Cultural Services Contracts for selected Cultural Organization Program and Cultural Projects Program organizations

- Judgmentally selected 30 sample organizations for testing (20 Cultural Organization Program and ten Cultural Projects Program)

- Analyzed the following processes for the sampled Cultural Organization Program and Cultural Projects Program organizations: (1) application submission: (2) eligibility determination; (3) funding recommendations; (4) contracting; and, (5) expenditure reimbursement

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Attachment II

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Management's Response

Memorandum

RECEIVED

FEB 1 2 2014

City Auditor's Office

CITY OF DALLAS

DATE: February 11, 2014

TO: Craig D. Kinton, City Auditor

SUBJECT: Response to Audit Report: Audit of Arts and Cultural Program Funding

Our responses to the audit report recommendations are as follows:

Recommendation I

We recommend the Director of OCA implement improvements to the monitoring controls to ensure that organizations participating in the Cultural Organization Program and Cultural Projects Program comply with CR 02-3206 and with required contract provisions.

Management Response / Corrective Action Plan

Agree ☒   Disagree ☐

The department appreciates the City Auditor's recommendations to improve the effectiveness and efficiency of the existing monitoring controls to monitor the information submitted by organizations participating in the Cultural Organizations Program and Cultural Projects Program in compliance with CR-02-3206 and with required contract provisions. Upgrade to the online grant system used by the department will support the improvement to monitoring controls.

Implementation Date
9/30/2014

Responsible Manager
Assistant Director

Recommendation II

We recommend the Director of OCA segregate funding process responsibilities and/or implement some form of supervisory review.

Management Response / Corrective Action Plan

Agree ☒   Disagree ☐

Management agrees that segregation of duties is not optimal. Request one FTE for the Cultural Contracts Program contingent on the approval of the FY14-15 budget.

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Implementation Date
9/30/2015

Responsible Manager
Director

Recommendation III

We recommend the Director of OCA document OCA's funding process consistently for each Cultural Organization Program and Cultural Projects Program applicant by using a checklist or other forms.

Management Response / Corrective Action Plan
Agree ☒   Disagree ☐

Management agrees that improvements are needed in the documentation of the funding process. Improved documentation process designed and implemented for the FY14-15 Cultural Contracts cycle (cycle begins March 2014).

Implementation Date
9/30/2014

Responsible Manager
Cultural Programs Manager

Sincerely,

Maria Munoz-Blanco
Office of Cultural Affairs

Joey Zapata
Assistant City Manager

C:

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