

MIAMI BEACH

INTERNAL AUDIT REPORT

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TO: Jimmy L. Morales, City Manager
VIA: Mark D. Coolidge, Interim Internal Auditor MDC
FROM: Jessica Romero, Auditor JRL

DATE: January 28, 2019
AUDIT: Miami Beach Cultural Arts Council Audit
PERIOD: October 1, 2016 to September 30, 2017

We have completed the regularly scheduled audit of the Miami Beach Cultural Arts Council (CAC) as required by Section 2-64 of the City Code for the period of October 1, 2016 through September 30, 2017. This audit was performed to determine whether the CAC complied with the provisions set forth in Chapter 2, Article III, Division 6 of the City Code titled "Cultural Arts Council," and to determine whether grants were awarded in accordance with the Program Guidelines and Eligibility Requirements. During the audit period, \$850,055.24 in grant monies were awarded to 55 eligible applicants as approved by City Resolution No. 2016-29579.

INTRODUCTION

The City Commission passed Ordinance No. 97-3075 on March 5, 1997 thereby creating the Miami Beach Cultural Arts Council (CAC). The CAC consists of 11 members appointed at large by a majority vote of the Mayor and City Commission. The CAC was created to develop, coordinate, and promote the performing and visual arts in the City for the enjoyment, education, cultural enrichment, and benefit of both residents and visitors. Since the program's inception, the City has awarded approximately \$14 million in cultural grants.

Staff from Cultural Affairs, a division of the City's Tourism, Culture and Economic Development Department, in conjunction with the CAC has the primary responsibility of reviewing applications received for the Cultural Arts Grant Program on an annual basis, ensuring that applicants meet the eligibility criteria, and providing award recommendations to City Administration.

To qualify for the grant program, applicants must be non-profit, 501(c)(3) cultural organizations, or cultural departments within an institution of higher learning (college or university) with tax-exempt status under other subsections of 501(c)(3), wishing to present or produce cultural and artistic events in the City of Miami Beach. In addition, they must complete the required application and provide the documentation (i.e. IRS Form 990, organizational chart, etc.) by the established grant program deadlines.

The grant program currently offers three (3) different categories including Anchors, Cultural Presenters and Artistic Disciplines. Awarded amounts may vary up to \$35,000 depending on such factors as the grant program category, the annual organizational budget of the applicant, etc. A brief description of each of the three categories is as follows:

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1. Anchors: major preeminent and smaller art institutions physically based in the City, whose primary mission is year-round artistic and cultural programming that contributes significantly to the cultural life of the City.
 - a) \$25,000 for annual organizational budgets below \$750,000
 - b) \$30,000 for annual organizational budgets between \$750,000 and \$3.5 million
 - c) \$35,000 for annual organizational budgets at or above \$3.5 million
2. Cultural Presenters: organizations whose primary mission is to produce and present cultural and artistic productions.
 - a) \$10,000 for proposed project budgets under \$100,000
 - b) \$20,000 for proposed project budgets at or above \$100,000
3. Artistic Disciplines: arts and cultural organizations whose primary mission is to create and present work in dance, music, theater, film and visual arts categories.
 - a) \$10,000 for proposed project budgets under \$100,000
 - b) \$20,000 for proposed project budgets at or above \$100,000

CAC program grants are fully funded via Resort Tax revenues. In fiscal year 2014/15, the City Commission accepted the recommendations of the Finance and Citywide Projects Committee to modify the split of the Resort Tax funds to allocate fifteen percent to funding for arts (i.e. CAC). This funding is distributed in the year after it is collected as this commitment provided a new permanent funding source that sustains cultural programming long term. During the twelve-month audit period, October 1, 2016 through September 30, 2017, a total of \$1,679,000 was appropriated to the CAC. Of these monies, \$850,055.24 was awarded to 55 applicants during the 2016/17 fiscal year through the City Commission's subsequent ratification of Resolution No. 2016-29579.

OVERALL OPINION

This audit was initially started in February 2018, but testing was unable to be completed until September 2018 due to repeated delays in receiving needed requested documents. The Cultural Affairs Division apologized for the delays which they stated was caused by the Grants and Operations Administrator position being vacant for eight months prior to being filled in November 2017 and the need of the newly hired individual to focus primarily on the awarding of 2018/19 fiscal year grants.

Regardless of the cause, the Office of Internal Audit has become increasingly frustrated over the lack of completeness and accuracy of the grantee files and the increasingly late full grant payments issued. The Cultural Affairs Division has not been accurately following the guidelines established by the City as to their purpose. Grantees were awarded monies without fully complying with the terms of the grant agreement.

Despite the countless hours spent by Cultural Affairs Division and/or Office of Internal Audit staff to work with the grantees, review all the required documentation and to make determinations as to its accuracy; any identified deficiencies are merely communicated to the grantees which is permitted to submit additional documentation to justify receiving full payment of the grant awards. Unless the terms in the guidelines are strictly enforced and some or all the grant monies are not paid if the stated requirements are not timely met, then there is little or no repercussions to these grantees other than delays in receiving that fiscal year's funding. Meanwhile, the audit adds little

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value and the workload for all pertinent Cultural Affairs Division personnel has increased exponentially as the reimbursement process is inefficient and can take two or more fiscal years to complete.

Based on the results of our audit, we noted that certain procedures and internal controls require enhancements due to the following deficiencies:

1. Documentation provided by grantees was not in compliance with the requirements of the Program Guidelines and Application Instructions.
2. Procedures for the reimbursement of grants were not properly applied, resulting in under/overpayments to grantees.
3. Grant agreements were not fully executed by the City of Miami Beach.
4. Lack of supporting documentation and improper review of grantees' final reports resulted in a reduction of grant awards.
5. Funds were disbursed to grantees for the 2017/18 fiscal year without validation of compliance with the 2016/17 fiscal year 's grant agreement's terms.
6. The accrual journal entry for unpaid grant awards for the 2016/17 fiscal year was not recorded in the City's Financial System.
7. An error in the information published in the Environmental Scan 2017 plus the Active Strategy performance management software has not been updated since the 2014/15 fiscal year.
8. Prior audit follow-up showed that several previously identified findings have still not been resolved to date.

SCOPE, OBJECTIVES, AND METHODOLOGY

The scope of the audit was to evaluate whether the Miami Beach Cultural Arts Council (CAC) complied with the provisions set forth in Chapter 2, Article III, Division 6 of the City Code titled "Cultural Arts Council," and determine whether grants were awarded in accordance with the Program Guidelines and Eligibility Requirements. The audit covered the period October 1, 2016 through September 30, 2017, and selected transactions prior and subsequent to this period. In general, the audit focused on the following objectives:

- To determine whether the CAC complied with the provisions set forth in Chapter 2, Article III, Division 6 of the City Code.
- To determine whether the applicants selected satisfied the eligibility requirements of the grant category for which they applied.
- To determine whether the CAC properly reimbursed grantees an amount within the maximum allowed for their organization type, and not to exceed the City Commission approved total.
- To determine whether the tested grantees complied with the final report requirements set forth in the grant agreement.
- To ensure that awarded grant payments were properly recorded in the City's Financial System.
- To determine whether deficiencies noted in the prior audit have been corrected.

We conducted this performance audit in accordance with the Standard Operating Procedures of the City of Miami Beach Office of Internal Audit as well as internal audit best practices. Those 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. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The audit methodology included the following:

- Reviewed applicable provisions within the City Charter and Code of Ordinances, and City policies and procedures;
- Interviewed and made inquiries of staff to gain an understanding of the internal controls (relative to the award of CAC grants), assess control risk, and plan audit procedures;
- Performed substantive testing consistent with the audit objectives, including but not limited to examination, on a sample basis, of applicable transactions and records;
- Drew conclusions based on the results of testing, made corresponding recommendations, and obtained auditee responses and corrective action plans; and,
- Performed other audit procedures as deemed necessary.

FINDINGS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

The names of the grantees in the findings below were intentionally omitted from this audit report; however, they are available upon request.

1. Finding: *Documentation Provided by Grantees was not in Compliance with the Eligibility Requirements of the Program Guidelines and Application Instructions*
The City's Cultural Affairs Division is a component of the Tourism, Culture and Economic Development Department. Among other duties, their staff is responsible for ensuring that grantees meet the eligibility requirements of the Cultural Arts Grant Program set forth in the Program Guidelines and Application Instructions and comply with the terms of the executed Grant Agreement. As per the City's Cultural Affairs Grant Program Guidelines and Application Instructions-Eligibility Requirements, only non-profit organizations with a 501(c)(3) tax exempt status, or cultural departments within an institution of higher learning (college or university) with tax-exempt status under other subsections of 501(c)(3), are eligible to apply. As part of the application process, applicants must meet all requirements and deadlines and submit/comply with the following:
 - a) Organization's 501(c)(3) tax-exempt status letter dated within the past two (2) years.
 - b) Most recent IRS Form 990 (Return of Organization Exempt from Income Tax), signed.
 - c) Organizational Chart (for Anchors only).
 - d) Current board membership (with contact information) and staff lists with brief biographies.
 - e) All itemized in-kind contributions. In-kind contributions may not exceed 25% of the total organizational budget and total cash project budget.
 - f) Minimum \$1 to \$1 funding match, through cash, in-kind, or a combination of both.
 - g) Project must be presented in the City during the period of 10/01/16 and 09/30/17.

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- h) Project must be accessible to the public.
- i) City logo must be displayed when project is presented to the public.
- j) Submit sample surveys by Survey Monkey (for Anchors only).

Applications are submitted online, through the City's Cultural Affairs Program On-Line Application Web Site, at which time applicants must attach the required documentation (i.e. signed IRS Form 990, current board membership, etc.), and complete their financial information (i.e. organizational budget, itemized project and grant award budget, in-kind contributions, etc.).

Eighteen (18) of the 55 Miami Beach Cultural Arts Council (CAC) grantees who were awarded \$262,442.42 of the \$850,055.24 total (30.87%) during the 2016/17 fiscal year were reviewed to determine their compliance with the grant program eligibility requirements. A review of these grantees' files identified the following deficiencies:

- a. For sixteen (16) grantees there was no electronic record of the receipt of their applications and any physical copies retained were not time/date stamped. As a result, the Office of Internal Audit was unable to determine whether the initial grant applications were received timely.
- b. Two (2) grantees did not submit their application corrections by the required due date as each were received two (2) days late. Furthermore, for two (2) additional grantees there was no electronic record of the receipt and the physical copies of the application corrections were not time/date stamped. As a result, the Office of Internal Audit was unable to determine whether the corrections were received timely.
- c. Four (4) grantees 501(c)(3) Tax Exempt Status letters provided were not dated within the allowed two-year period (dated after October 1, 2014) as they were dated between September 2006 and December 2012.
- d. Eleven (11) grantees did not comply with the Internal Revenue Service (IRS) Form 990 requirements, as follows:
 - Ten (10) grantees provided the form; however, it was not signed.
 - One (1) grantee did not provide their IRS Form 990.
- e. Four (4) grantees did not provide the required staff lists with brief biographies. One (1) grantee provided the required current board membership, however, it was outdated (2014/15).
- f. One (1) grantee did not provide the required organizational chart.
- g. Four (4) of the five (5) sampled Anchor grantees (80%) did not provide the required sample surveys recorded by Survey Monkey.
- h. For one (1) grantee, the in-kind contribution was greater than the 25% maximum as it was 27.52% of the total cash project budget.
- i. Five (5) Anchor grantees did not provide the \$1 to \$1 funding match as required on the Program Guidelines and Application instructions.

These exceptions occurred due to a lack of proper supervisory oversight over the grant award review process. Not adhering to the program guidelines could result in an improper award and disbursement of grant funds. As it relates to the \$1 to \$1 matching requirements, per discussion with Cultural Affairs Division staff, such requirement does not apply to Anchors; however, that is not indicated in the program guidelines.

Recommendation(s):

The City's Cultural Affairs Division should adhere to its established internal controls procedures to ensure that applicants comply with all the Program Guidelines and Application Instructions and the terms of the executed Grant Agreement before any awarded monies are issued.

In addition, Cultural Affairs Division staff should evaluate the need to require Anchors to utilize only Survey Monkey to obtain feedback from program participants as other types of surveys provided by the grantee should be sufficient support to meet the requirements of the grant agreement.

Furthermore, the "Signed IRS Form 990" requirement under the Staff Consultation portion of the Grant Program Guidelines and Application Instructions-Eligibility Requirements should be updated to require the organization's IRS Form 990 be filed within a two-year period, similar to the requirements of the 501(c)(3) requirement, as indicated in the Application Checklist portion, since applicants may have only retained unsigned taxpayer's copies of the IRS Form 990 provided by their accountant. Lastly, it is recommended that all documents received by grantees are time/date stamped to help verify their timeliness.

Management's Response (Cultural Affairs Division):

- Timestamps were not created via the previous online grants software; however, the new grants software (beginning in January 2018) creates easily viewable submission timestamps, which will assist staff in documenting adequate proofs of grant application submission dates/times.
- As per the required grant attachments for the grant agreements, current Division staff members were not employed at the time that grant applications were submitted/reviewed for compliance and are unsure why supplemental documentations were not completed correctly and/or not submitted altogether; however, with the newly hired manager and administrator, stricter oversight of the aforementioned items was implemented beginning in January 2017 to ensure that these errors were not repeated in the current fiscal year.
- Current Division staff members were not employed at the time that grant applications were submitted and reviewed for compliance of 1-to-1 matching funds; however, beginning in Fiscal Year 17/18, all submitted grant agreements were required to contain an attached proof of 1-to-1 funding match.
- Current Division staff members were not employed at the time that grant applications were submitted and reviewed for compliance of the 25% in-kind ceiling.

Implementation Date: December 2018

2. Finding: *Procedures for the Reimbursement of Grants were not Always Properly Applied Resulting in Under/Overpayments to Grantees*

As per the City's Cultural Affairs Program Guidelines and Application Instructions, the CAC has established maximum grant award amounts per grant category (i.e. Anchors, Cultural Presenters, and Artistic Disciplines) as follows:

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 - a) \$10,000 for proposed project budgets under \$100,000
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As per City Resolution 2016-29579, a total of \$850,055.24 was awarded to 55 grant applicants. Awards are to be disbursed in two (2) payments as follows:

- First-half payment (50% of the award) is to be issued upon receipt of grantees signed and completed agreements.
- Second-half payment (additional 50% of the award) is to be issued upon receipt and approval of their Final Report and the required supporting documentation (i.e. invoices, cancelled checks). Final Reports are to be submitted by the grantee within 45 days after the project end date, or November 15th for projects ending on September 30th. The second-half payment may also include an additional \$2,000 Fresh Air Bonus given to grantees that held approved outdoor events in the City during the designated period.

Although 55 applicants received grant awards, three (3) did not sign the grant agreement and were therefore ineligible to receive grant monies. It was verified that neither of these three (3) applicants received any monies. Testing was performed on the 52 remaining approved grantees to determine whether the reimbursement amounts were within the maximum allowed per grant category and to verify that they did not exceed the total approved by the City Commission upon which the following deficiencies were noted:

- a. It was determined that the forty (40) payments addressed below were not issued timely by the Cultural Affairs Division:
 - For one (1) grantee, the first-half payment was not issued timely, said payment was dated February 2018, 129 days after September 30, 2017 end of the grant year.
 - For 17 grantees, the second-half payments were not issued timely, said payments were dated between January 2018 and August 2018, which is 123 to 335 days after the September 30, 2017 end of the grant year.
 - As of August 17, 2018, 20 grantees had not been issued the second half payments totaling \$173,948.30.
 - For one (1) grantee, the second-half payment of the 2014/15 fiscal year was issued on May 9, 2017 or 587 days after closing of the September 30, 2015 grant period. Further research found that the same grantee's 2015/16

- fiscal year second-half payment was never issued which means that the first-half payment of fiscal year 2016/17 should not have been approved until the grantee had satisfied all the requirements of the prior fiscal years.
- One (1) grantee received full grant payment in the amount of \$17,767.64 for grant year 2015/16 on June 14, 2018 or 622 days after the closing of the September 30, 2016 grant year. During the prior year audit, it was confirmed via email on 03/17/17 (almost one year after all first-half payments had been issued for grant year 2015/16) by the previous Grants and Operations Administrator that the grant agreement had not been returned by the grantee and therefore, forfeited. First-half payments (50% of award) are due immediately upon receipt of signed and completed contracts. The auditor's review of the grantee's file, email confirmation, and the fact that no payments had been issued to the grantee a year after the contracts were due, corroborated that the grantee had never returned the contract and as a result, was not entitled to receive grant funds. Upon inquiry during the current audit regarding the payment issued, Cultural Affairs Division staff provided an executed grant agreement and documentation indicating that the proposed performances had taken place and therefore, payment had been issued to grantee. However, it was noted that the agreement had just been executed by the City on May 17, 2018, 594 days after the closing of the 2015/16 grant year. Based on the documentation reviewed, grantee should have not received grant payment for grant year 2015/16.
 - b. One (1) grantee was awarded \$3,312 over the allowable award amount per grant program guidelines.
 - c. Two (2) grantees were incorrectly paid resulting in a total overpayment of \$95.00.

These exceptions may have occurred due to the new employee transition process as well as a lack of proper supervisory oversight over the grant payment disbursement process.

Recommendation(s):

It is recommended that Cultural Affairs Division staff issue the first-half payment due to the grantees as soon as each grant agreement is executed. In addition, staff should ensure that the Final Reports are reviewed and approved timely so that the second-half payment can be remitted and recorded within the same fiscal year, or by December 31st for those completing the projects by September 30th whenever possible. Furthermore, to avoid missing or issuing additional payments to grantees, it is recommended that an independent staff member be tasked with reconciling the grant payments recorded in the City's Financial System to the applicable City Resolution to better ensure their completeness and accuracy.

Management's Response (Cultural Affairs Division):

- Of the 18 audited grantees, 15 were paid their first payment by the previously employed administrator. The current administrator began employment with the Division on August 21, 2017. Of the three first-payments classified as "untimely," all were paid within 60 days of the new administrator's hire.
- The administrator position was vacant for the majority of FY 16/17, which caused an unpreventable backlog of Final Report reviews and approvals. Upon entering the position, the administrator was also responsible for commencing FY 17/18

grant agreements. Closing a nearly 8-month backlog of overdue final payments in conjunction with opening a new grant program caused the delay in FY 16/17 closeouts.

- As of November 27, 2018, six grantees are pending their second payment. Of the six, one grantee never submitted their Final Report, and the remaining five grantees' Final Reports have been reviewed and are missing documentation that is required to close their files.
- For the aforementioned severely delayed payments, MUNIS shows multiple payments issued to these grantees, all (with the exception of the most recent payments) of which were never cleared. Upon correspondence and in-person meetings with these agencies, it was deemed that these grantees never received their checks. The current administrator had no record of FY 15/16 correspondences between her predecessor and the aforementioned grantee expressing that the FY 15/16 contract was forfeited.
- The current manager and administrator were not employed by the City of Miami Beach during the review of the FY 16/17 grant agreements; therefore, the error in awarding a grantee more than it was allotted in the grant guidelines was not under their oversight. However, the current grant application guidelines for Cultural Presenters does not have award ceilings that are dependent upon annual operating budgets. Therefore, the likelihood of this error occurring in the future has been eliminated.
- The current administrator and manager were aware of the duplicate payment to one of the agencies. Due to close communication with the grantee, the grantee never cashed the duplicate payment.

Implementation Date: December 2018

3. Finding: *Grant Agreements were not Fully Executed by the City of Miami Beach*

As per the legal dictionary, an executed contract is a legal document that has been signed off by the people necessary for it to become effective. Contracts often specify that one party will provide a service or goods to the other and are not fully effective until all parties involved have signed. The basics of executing a contract begins with reading and understanding all the contract's provisions, including any fine print, and portions of the contract stated to be on another document. If the contract binds the individual or entity to a significant expense or service, it is often worth the time and expense to have an attorney review the contract before signing.

The program guidelines and application instructions state that upon final approval of the grant awards, grantees are required to complete and sign a grant contract. It is also explained that 50% of grants funds are to be distributed upon receipt of signed and completed contracts by the stated deadline.

As per discussions with a Deputy City Attorney, it is best practice that an executed contract/agreement first be reviewed and signed by the City Attorney's Office to ensure that is correct. Then the Mayor's signature is the one that binds the agreement. Finally, the City Clerk signs the agreement and registers it on the City's records and uploads it to Laserfiche (the City's document management system). The agreement must contain all three (3) of these City signatures to be executed in addition to the grantee's signature.

It was noted that 51 of the 52 agreements awarded during the 2016/17 fiscal year or 98% were not executed by the City, although they were signed and returned by the grantees. As a result, the payments corresponding to all 51 grantees were issued without an executed contract/agreement.

- One (1) agreement was signed by the grantee, the Mayor and registered by the City Clerk; however, it was not signed by the City Attorney.
- Three (3) of the agreements were signed by the grantees and the Mayor; however, they were not signed by the City Attorney or registered by the City Clerk.
- The remaining 47 agreements were signed only by the grantees.

Recommendation(s):

It is recommended that the Cultural Affairs Division adhere to its established internal control procedures to ensure that applicants comply with the Program Guidelines and Application Instructions and the process to execute the grant agreements. In addition, it is recommended that once the grant agreement is signed by all parties and executed, a copy of the signed document should be sent to the grantees.

Management's Response (Cultural Affairs Division):

- The administrator position was vacant for the majority of FY 16/17. Upon the current administrator's hire (just over 30-days before FY 16/17 ended), the current administrator noticed that the majority of first payments were issued for FY 16/17 and some second payments were issued for FY 16/17—without fully executed grant agreements. It was determined that in reviewing incoming FY 16/17 Final Reports from agencies that completed their grant-funded, Reso-approved programming that the most efficient way to close FY 16/17 grant programs was to proceed with payments. The current grants and operations administrator has resolved this issue moving forward in FY 2017/18.
- In preparation for FY 17/18, the manager and administrator presented a Mandatory Grants Workshop to grantee representatives, distributed each the grant agreements to grantee representatives that morning, gave them two weeks to return their signed/notarized contracts to the City, and fully executed all agreements submitted by the deadline within 60 days. This practice continued into FY 18/19.
- For FY 17/18 and FY 18/19 (during which the current manager and administrator have been employed by the Division), grant agreements have been fully executed before any payments are issued to the grantees.

Implementation Date: December 2018

4. Finding: *Lack of Supporting Documentation and Improper Review of Grantee's Final Report Resulted in a Reduction of Grant Awards*

Article II of the Cultural Affairs Division's Program Grant Agreement, titled "General Conditions," states that the grantee may only use the grant for the purposes that are specifically described in the Project Description. Line item changes to the Project Budget shall not exceed ten percent (10%) per category, and shall, in no event, exceed the total amount of grant funds. Amendments to the itemized Grant Award Budget shall not be permitted without the prior written consent of the Cultural Affairs Program Manager. In addition, it states that for the grantee to demonstrate that the grant has fulfilled its purpose,

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the grantee must provide the Cultural Affairs Program Manager with a written Final Report, which shall document the grantee's satisfaction of all requirements (i.e. copies of all receipts, invoices, cancelled checks and proof of expenditures of grant monies, invoices and checks must be dated within the fiscal year for which grant was awarded, etc.) The Final Report must be received by the Cultural Affairs Program Manager within 45 days of the project's completion. Grantees completing their project by the end of the fiscal year, or September 30, must submit their Final Reports no later than November 15. Said reports, and the supporting documents are reviewed and signed off by the Cultural Affairs Division staff (i.e. Grants and Operations Administrator, Program Manager and the Senior Administrative Manager) prior to issuing payment to help ensure compliance with all the grant requirements before monies are disbursed.

Furthermore, as discussed in finding 2 above, grantees receive 50% of the award upfront (first-half payment) and the remaining 50% (second-half payment) plus the Fresh Air Bonus (if awarded) at the end of the project, upon submission and approval of the Final Report. It is possible that a grantee could receive upfront monies for which inadequate support is later provided, in which case originally budgeted expenses would be unsupported, consequently disallowed, and thus monies owed to the City.

Eighteen (18) of the 52 grantees' Final Reports (35%) were tested to determine whether they complied with the requirements set forth in the grant agreement and that reviewed grant expenses were allowable and appropriately paid whereby the following deficiencies were identified:

Grantee #	Program	Did grantee submit final report in a timely manner?	Did grantee spend grant monies within the budget category indicated in agreement?	Were expenses provided by the grantee allowable expenses?	Were expenses provided by the grantee supported by invoices, receipts and proof of payment?	Were the invoices, receipts, and canceled checks dated within FY 16/17 (10/1/2016 to 9/30/2017)?	Amount Disallowed by Internal Audit
1	Anchors	Y	Y	Y	N	Y	\$ (27,495.16)
2	Anchors	Y	Y	Y	N	N	\$ (8,994.58)
3	Anchors	N	Y	Y	N	Y	\$ -
4	Anchors	Y	Y	Y	Y	Y	\$ -
5	Anchors	Y	Y	Y	N	N	\$ (5,560.80)
6	Cultural Presenters	Y	Y	Y	Y	Y	\$ -
7	Cultural Presenters	N	Y	Y	Y	Y	\$ -
8	Cultural Presenters	N	Y	Y	Y	Y	\$ -
9	Cultural Presenters	N	N	Y	Y	N	\$ (313.00)
10	Cultural Presenters	Y	Y	Y	N	Y	\$ (749.80)
11	Cultural Presenters	N	Y	Y	Y	Y	\$ -
12	Artistic Disciplines	Y	N	Y	N	Y	\$ (6,124.18)
13	Artistic Disciplines	N	N	Y	N	Y	\$ (1,350.88)
14	Artistic Disciplines	N	Y	Y	N	Y	\$ (5,590.46)
15	Artistic Disciplines	N	Y	Y	Y	Y	\$ -
16	Artistic Disciplines	Y	Y	Y	Y	Y	\$ -
17	Artistic Disciplines	N	Y	N	Y	Y	\$ (300.00)
18	Artistic Disciplines	Y	Y	Y	Y	Y	\$ -
		9	3	1	8	3	\$ 56,478.86
		18	18	18	18	18	\$ 262,442.42
		50%	17%	6%	44%	17%	22%

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- Nine (9) grantees (or 50%) submitted their Final Reports late, ranging from 21 days to 281 days late, for an average of 90 days late.
- Three (3) grantees (or 17%) had changes to the line items of the original grant budget, which were not approved by CAC, as required.
- One (1) grantee expended money on an unidentified item. The submitted \$300 expenditure was labeled Perfect Pitch Strings and there was no additional supporting documentation provided but, yet the monies were reimbursed.
- Eight (8) grantees (or 44%) did not provide sufficient evidence to support the expenses (i.e. invoices, receipts and proof of payment).
- Three (3) grantees (or 17%) had instances in which either invoices, receipts or cancelled checks were dated outside the 2016/17 fiscal year.
- Nine (9) grantees had unsubstantiated expenditures resulting in \$56,478.86 (or 22% of the sample) overpaid by the City.

These exceptions occurred due to inadequate scrutiny of grantees' Final Reports and lack of proper supervisory oversight over the grant payment disbursement process.

Recommendation(s):

The Cultural Affairs Division should adhere to its established internal control procedures to ensure adequate scrutiny of grantees' Final Reports and disbursement of the grants payments. As a result of the disallowed expenditures, it is recommended that the Cultural Affairs Division collect any monies due; and reduce or not issue 2017/18 fiscal year second half payments to the grantees noted above accordingly, unless additional support (i.e. invoices, cancelled checks) is submitted to satisfy the requirements of the Final Report.

Management's Response (Cultural Affairs Division):

- The current administrator was not employed during 11-months of the 12-month FY 16/17 grant year, and no records of correspondences between the previous administrator and the funded agencies were shared with the current administrator; therefore, the current administrator is unaware if deadline reminders were distributed to the grantees or not. However, because of the inability of a grants program to operate without an administrator for the majority of a grant's year due to the position's vacancy, flexibility in Final Report submissions was required to be exercised by the current administrator in order to effectively close a tremendously back-logged fiscal year of grants administration.
- The check approved for payment to *Perfect Pitch Strings* was dated on April 15, 2017 (the same date as the grantee's *Mozart on the Move* event, which (according to the Final Report's included marketing materials) occurred at the 1100 Block Outdoor Stage). The director wrote on the check (in the notes section) that it was for the "1100 Block Concert: Scott O'Donnell". The administrator approved this payment for this viola artist (Scott O'Donnell), because it was paid within the fiscal year and on the date of the performance that occurred in Miami Beach at an event open and free to the public.
- Some payments made outside the fiscal year were for performance venue rentals that required upfront payments to reserve the spaces; these upfront reservations of Miami Beach venues were at times paid by grantees before the beginning of FY 16/17; however, the Miami Beach venues were used for performances during FY 16/17. Other payments made outside the fiscal year had adjoining invoices and performance dates for artists/performances that occurred within the fiscal year.

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- Grantee #1 expended their entire \$27,495.16 on dancers' salaries, which is an allowable expense under grant guidelines. The grantee provided ADP Payroll Registers, which provided dancers' names, gross earnings, and payment dates (which corresponded to FY 16/17 dates). The administrator and manager accepted this as proof of payment.

Implementation Date: December 2018

Internal Audit Observation:

The guidelines clearly state that the invoices and the grantees' payments both have to occur during the fiscal year in which the funding was awarded as it does not address any exceptions for upfront payments. If these types of invoices and/or payments are to be approved going forward, then they should be properly vetted and the signed grant agreement revised to reflect as such.

Although ADP Payroll reports are supporting documentation, they do not provide sufficient evidence that the actual checks were issued and paid to the designated individuals associated with the specified Miami Beach performances. Therefore, bank statements with cancelled checks should always be received to ensure that the 501(c)3 organization is compliant and should receive the corresponding grant reimbursement from the City.

5. Finding: *Funds were Disbursed to Grantees for Fiscal Year 2017/18 without Validation of Compliance with Fiscal Year 2016/17 Grant Agreement*
As per the Cultural Affairs Division's Program Guidelines and Application Instructions-Eligibility Requirements, organizations which received prior year grant funding and did not comply with the grant agreement and/or other requirements pursuant to same are ineligible to apply. In addition, prior year recipients must submit a complete Final Report no later than the day indicated in their current grant, to be eligible to receive next year's award.

To determine whether grantees were eligible to receive grant funds for the 2017/18 fiscal year, Internal Audit reviewed and compared those grantees who were awarded funds during the 2016/17 fiscal year. In doing so, it was noted that a total of 37 of the 55 grantees from the 2016/17 fiscal year were also awarded funds during the 2017/18 fiscal year, as indicated in Resolution #2017-29966. All 37 grantees payments were reviewed, noting that 22 grantees received the first-half payment of the 2017/18 fiscal year without the second-half payment of the 2016/17 fiscal year being issued. Therefore, the CAC did not have evidence to support that the grantee had complied with the terms of the agreement during the 2016/17 fiscal year at the time of the award and consequently should have not awarded any funds to said grantees.

Failure to adhere to the program guidelines could result in improper award and disbursement of grant funds. It was noted that many of these exceptions occurred due to a lack of proper supervisory oversight over the grant award review process. In addition, it was noted that the application deadlines as indicated in the Grant Program Guidelines and Application Instructions overlap with the running award year. In other words, performances may have not yet taken place and therefore, final reports were not due yet, when the application period for the following grant year had already started. Thus, it is

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impossible for the CAC to determine the compliance of the grantees with the prior year award in these instances.

Recommendation(s):

It is recommended that the City's Cultural Affairs Division adhere to its established internal controls procedures to ensure that applicants comply with the Program Guidelines and Application Instructions and the terms of the executed grant agreement. In addition, the application deadlines should be reviewed to help avoid the disbursement of funds prior to ensuring compliance during the current grant year. Also, Cultural Affairs Division staff should ensure that no current year grant payments are issued until all prior years' grants have been satisfied and they should not allow the 501(c)3 organization to be considered for future funding.

Management's Response (Cultural Affairs Division):

Grantee contracts are administered for one full fiscal year (October 1-September 30). In order to eliminate the likelihood of late final report submissions, beginning FY 17/18 staff required submission of final reports by November 15th, or 45 days following the end of the contract. Staff is continuing to refine the application deadlines and shorten the final report submission timeline to October 15th, or 15 days following the end of the contract. This was implemented to ensure that all final reports are reviewed and approved before the next fiscal year payments are distributed.

Implementation Date: December 2018

6. Finding: *The Accrual Journal Entry for Unpaid Grant Awards for the 2016/17 Fiscal Year was not Recorded in the City's Financials.*

The Government Accounting Standards Board (GASB), which is recognized as the official source of generally accepted accounting principles (GAAP) for state and local governments, establishes modified accrual accounting standards. A governmental entity is focused on current-year obligations, and the modified accrual basis focuses mainly on short-term financial assets and liabilities. Using the modified accrual method, an accountant adjusts for obligations that are incurred during an accounting period for which no payments have been made. The accruals must be added via adjusting journal entries, so that the financial statements report these amounts.

It was noted that during the 2016/17 fiscal year that, \$471,785.70 of the total \$850,055.24 awarded, was not yet disbursed to grantees. However, after an account inquiry and confirmation from the City's Finance Department, it was determined that the required journal entry to record the liability accrual for the unpaid grant monies at the September 30, 2017 year-end was not done. As a result, the reported expenditures were understated, and they will be overstated as of the September 30, 2018 year-end. However, it was confirmed that the rollover for FY 2016/17 was requested by TCED and completed by the Office of Budget and Performance Improvement.

Recommendation(s):

Cultural Affairs Division staff should ensure that the corresponding accrual journal entry is accurately completed each year.

Management's Response (Cultural Affairs Division):

The Office of Tourism, Culture and Economic Development completes an annual approved budget rollover form which is submitted to the City's Budget Department. Within this form are pending 2nd half grants due to grantees. Due to the schedule of the grantee's performances or events, the final report is sometimes submitted to the TCED office in-between fiscal year. The Office of Tourism, Culture and Economic Development assumed the rollover form was sufficient for transfer of funds from fiscal years and did not require an Accrual Year End Journal Entry. After meeting with the Finance Department and receiving further clarification, the TCED office will, now, submit an Accrual Journal Entry along with its annual budget rollover list.

Implementation Date: December 2018

7. Finding: *An Error in the Information Published on the Environmental Scan 2017 plus the Active Strategy Performance Measurement Software has not been Updated since the 2014/15 Fiscal Year.*

The Miami Beach Excellence Model is a strategic, performance-based model for continuous improvement in the City. It is driven by the City's vision, with priorities established at the strategic level based on customer input and environmental scan data including demographics, socio-economic statistics, department workload data, etc. Through the annual budget process, resources are allocated in support of these strategic priorities, and performance monitoring is used to track progress and adjust for further improvement. The Office of Budget and Performance Improvement (OBPI) is the primary facilitator for the City's Excellence Model.

The Environmental Scan, updated annually since 2004, contains demographic, economic, and financial conditions within the city as well as departmental work load data. This information is used as input for updates to the City's Strategic Plan and is used annually to update the citywide initiatives in the annual City of Miami Beach workplan.

It was noted that the information published on the Environmental Scan 2017 under International Center for Tourism and Business related to Cultural Grants Awarded during the 2015/16 fiscal year was incorrect. The information published as number of grants awarded (55) and Grant Award amounts (\$860,000) are related to the 2016/17 fiscal year. The correct amount for the 2015/16 fiscal year was 47 for the number of grants awarded and \$798,000 for the grant award amounts.

Lastly, the Tourism, Culture and Economic Development (TCED) Scorecard in the Active Strategy performance measurement software has not been updated since the 2014/15 fiscal year.

Recommendation(s):

The information in the City's published documents should be as accurate as possible. As no one is infallible, any discovered inaccuracies should be promptly corrected. Finally, the TCED Scorecard should be promptly updated and going forward it should be timely entered.

Management's Response (Office of Budget and Performance Improvement):

The management of the Environmental Scan data was transferred to the City Manager's Office during FY 2018, and this information has been relayed to the relevant manager so that the corrected data will be published in the next Environmental Scan (or replacement document) which is expected to be published during FY 2020.

With regard to TCED's outdated scorecard, "We have asked departments to continue to update in Active Strategy until we launch a new software".

Implementation Date: December 2018

8. Prior Audit Follow-Up of Identified Findings

In addition, as part of our follow-up to determine whether the CAC had corrected the deficiencies noted during previous years audits, the following was found:

- a. The 2014/15 fiscal year audit identified four (4) grantees which did not provide the required documentation to satisfy disbursement of the grant monies awarded. Testing indicated that no additional documentation had been received so \$3,008 is due to the City from these four (4) grantees.
- b. The 2015/16 fiscal year audit regarding:
 - 25 grantees that as of February 2017 were not issued the second-half payments totaling \$240,963 (or 64% of the second-half payments awarded). As of August 17, 2018, six (6) grantees 2015/16 second-half payments have not been issued totaling \$54,665.75.
 - The total amount accrued at the end of the 2015/16 fiscal year was understated by \$18,571; the journal entry made should have been for a total of \$367,892 rather than the recorded amount of \$349,321. This deficiency has not been corrected as of September 6, 2018.

EXIT CONFERENCE

An exit conference was held with Cultural Affairs Program Manager Brandi Reddick, Grants and Operations Administrator Catherine Houlihan, Senior Administrative Manager Luis Wong, Deputy Finance Director Allison Williams, Interim Internal Auditor Mark Coolidge and Auditor Jessica Romero. Audit findings and recommendations were discussed, as were management responses, which are included herein. Several other meetings have been held at various times to further discuss the audit findings and recommendations as well as management responses. For those occasions where a consensus could not be reached, an Internal Audit Observation was added further clarifying our position.

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cc: Kathie G. Brooks, Assistant City Manager
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Heather Shaw, Tourism and Culture Department Assistant Director
Brandi Reddick, Cultural Affairs Program Manager
John Woodruff, Chief Financial Officer