

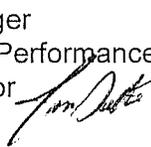


MIAMIBEACH

BUDGET AND PERFORMANCE IMPROVEMENT
Internal Audit Division

INTERNAL AUDIT REPORT

TO: Jorge M. Gonzalez, City Manager
VIA: Kathie G. Brooks, Budget and Performance Improvement Director
FROM: James J. Sutter, Internal Auditor



DATE: July 24, 2009
AUDIT: Miami Beach Cultural Arts Council Audit
PERIOD: October 1, 2007 to September 30, 2008

This regularly scheduled audit of the Miami Beach Cultural Arts Council (CAC) covering the 2007/08 fiscal year was performed in compliance with the annual audit requirements specified by City Code Section 2-64.

INTRODUCTION

On March 5, 1997, the City Commission passed City Ordinance No. 97-3075 thereby creating the Miami Beach Cultural Arts Council (CAC) to develop, coordinate, and promote the performing and visual arts in Miami Beach for the enjoyment, education, cultural enrichment, and benefit of both residents and visitors. Since that time, the City has awarded almost \$6,000,000 in cultural art grants, supporting thousands of performances, exhibits and other cultural activities in Miami Beach.

On June 3, 1998 the City Commission approved the Miami Beach Cultural Arts Council Master Plan through Resolution No. 98-22760. The Master Plan process began in October of 1997 and was the result of a series of public town meetings held in cultural venues throughout Miami Beach. At these sessions, Council members heard directly from members of the City's cultural community and from other municipal agencies and boards with a stake in the City's cultural future. The Master Plan included the program areas of Cultural Grants Program, Joint Marketing, Cultural Facilities, Advocacy and Planning, and Revenue Development; each with individual objectives.

In fiscal year 2004/05, the City Commission authorized expanding the allocation of the 50% of the 1% Resort Tax previously equally distributed to North Beach, Middle Beach and South Beach, to including funding for the arts. This funding is distributed in the year after it is collected. As a result, the 1% resort tax revenues collected in FY 2006/07 totaling \$865,981.56 were appropriated to North Beach, Middle Beach South Beach and the Arts in FY 2007/08. This commitment of funding for arts and culture provided a new permanent funding source that sustains cultural programming long term

In an effort to address the needs of the arts community, CAC staff annually reviews each of the grants programs (currently Cultural Anchors; Cultural Heritage; Artistic Disciplines, Arts & Cultural Education, Cultural Presenters; and Cultural Tourism). A summary of each grant program follows:

- Cultural Anchors provide grants to the major preeminent arts institutions physically based in Miami Beach, whose primary mission is year round artistic and cultural programming that contributes significantly to the City's cultural life. Organizations must have minimum organizational budget levels of \$750,000 and the monies received may be used towards operational expenses in association with the annual cultural programming described in the application. In addition, this year had "Junior" Cultural Anchors which meet all the same criteria as Cultural Anchors except they have organizational budget levels below \$750,000.

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- Cultural Heritage provides project specific grants for arts programming to not-for-profit 501c(3) Miami Beach based institutions devoted to promoting and protecting the diverse heritage, traditions and culture of Miami Beach. Grants may be used for presentation of visual and performing arts, arts programs and workshops, and other projects which emphasize the artistic experience and are accessible to a broad audience.
- Artistic Disciplines funding is limited to arts and cultural organizations whose primary mission is to create and present work in one of the following artistic disciplines; Dance, Music Theater, Film and Visual Arts. Proposed projects should be for work that is new or has never before been presented in Miami Beach.
- Arts & Cultural Education provides grants to cultural organizations whose primary mission is to provide support for rich and challenging arts learning opportunities for children and adults in Miami Beach schools and neighborhoods. Grants may be used for workshops, lectures/demonstrations, and other projects designed to increase skills and awareness of the arts.
- Cultural Presenters provide grants to organizations whose primary mission is to produce and present cultural and artistic productions.

Suggestions and ideas are received from grantees, grants' panelists, members of the CAC and other granting organizations through orientation meetings held at the beginning of each grant period, consultations with grantees, public application and proposal reviews, public meetings held at the end of the review cycle, the Grants Task Force, and through staff, so that the programs can continually be improved. Program application periods and relevant deadlines are announced in January via press releases, electronic mail, on its website and in area newspapers. Program guidelines, applications and instructions are created in Microsoft Word format and made available on the website in both English and Spanish.

Eligible organizations must be non-profit, 501c(3) cultural organizations and cultural departments within an institution of higher learning (college or university) with tax-exempt status under subsections of 501c(s) wishing to present or produce cultural and artistic events in the City of Miami Beach. Furthermore, any applying organization that satisfies one of the following criteria is not entitled to receive funding:

- applied through a fiscal agent
- received prior CAC grant funding and did not comply with the Grant Agreement and/or other requirements
- did not include the City of Miami Beach logo and required credit line in all publications related to the grant
- received funding from the Miami Beach Visitor and Convention Authority (VCA) during the same fiscal year.

A total of \$1,130,000 was requested in grant monies by sixty-one organizations for the 2007/08 fiscal year. Each grant applicant must follow an extensive multi-level public review process which includes a general orientation for all applicants and required consultations with CAC staff to determine eligibility and appropriate programs. Applicants must meet all application requirements, including deadlines, or be disqualified.

Applications were scored by the CAC at a series of publicly noticed panel meetings. Applicants should attend their panel meeting where they will be permitted to respond to panelists' questions.

For fiscal year 2007/08, the panelists' evaluation sheets were condensed from fifteen questions

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down to four questions with the intention of providing greater ease and simplicity. Specifically, scoring changed from 0 to 100 (maximum possible) to 0 -20 (maximum possible) with the applicant needing to exceed 80% or 16 to be eligible to receive funding.

While this new scoring method was adopted specifically to eliminate a larger number of the weaker applications, it had the unexpected effect of also eliminating a number of applicants that a majority of CAC members felt worthy of funding. Consequently, this scoring system will be revisited during the CAC's annual grants process review.

The City was able to allocate an additional \$50,000 in interest earned from the Convention Development Tax revenue which was originally projected to cease to exist plus an extra \$22,000 in Quality of Life funding. This additional funding assisted the City and the CAC in increasing available funding for the cultural grants program thus allowing grant awards to the next eleven highest ranked organizations that scored below the initial minimum threshold of 16.

As a result, the City Commission through the passage of Resolution No. 2007-26661 awarded grants totaling \$630,000 to thirty-six eligible organizations for the 2007/08 fiscal year. The largest awards of \$35,000 each were given to the New World Symphony, Wolfsonian-FIU and Miami City Ballet while the lowest amounts of \$5,000 was given to South Beach Chamber Ensemble, Miami Children's Chorus, Culture in the City and Fantasy Theater Factor. These authorized grant recipients receive half their funding upon submittal and approval of the required documents with the remaining half upon completion from the City.

Resolution No. 2007-26661 also included three programs (Brazilian Film Festival, Miami Gay & Lesbian Film Festival and International Hispanic Ballet Festival) whereby the CAC partnered with the VCA for Cultural Tourism grants that support cultural events with documented tourism benefits. The City's agreed upon payment of \$35,000 was made to the VCA through check number 2358 dated 12/01/07. These authorized grant recipients receive half their funding upon submittal and approval of the required documents with the remaining half upon completion from the VCA.

Program revenues, expenditures and fund balances for the fiscal years as presented in the City's General Ledger were as follows:

	FY 07/08
Beginning Fund Balance	\$2,800,717
Actual Revenues	\$1,169,733
Actual Expenditures	\$984,970
Ending Fund Balance *	\$2,985,481

* CAC grant recipients often receive the second half of their funding in the next fiscal year following the submittal and approval of the required documents. Therefore, each fiscal year's beginning and ending fund balances are overstated by these timing balances. For example, the \$2,800,717 ending fund balance includes \$137,500 in grant funds awarded during the 2007/08 fiscal year that were actually paid in 2008/09.

The CAC budget does not include a contribution towards the City's Cultural Endowment for the 2007/08 fiscal year due to budget constraints. However, the endowment's 09/30/08 balance held in a restricted cash account increased by \$256,050.09 to \$1,476,050.09 from the prior fiscal year's ending balance of \$1,220,000. This increase was due to the interest earned by the endowment since the 1998/99 fiscal year which the City's Finance Department properly calculated and recently added to the account balance as a result of last year's audit report.

Under Resolution No. 99-23228, the City Commission approved the appropriation of \$220,000 from the CAC budget to provide matching funds in the form of a non-interest bearing loan to fund a portion of the Colony Theatre Improvements. Since the City was able to obtain the maximum grant award from the State's Cultural Arts Facilities Grant Program, the loan has been reduced to \$165,000. The City will repay the loan to the Cultural Arts Council from the 70% recapture of the Colony Theatre Café revenues. As of September 2008, the total amount in the Colony Theater Trust account was \$143,139.82 with no payments made during the 2006/07 and 2007/08 fiscal years.

OVERALL OPINION

The Cultural Arts Council (CAC) has properly followed the guidelines established by the Miami Beach City Commission as to their purpose in the City. It has established a master plan for the arts, and developed and established criteria and guidelines for review and funding for qualified not-for-profit organizations. The active CAC is comprised of eleven Miami Beach residents and business owners who routinely meet once a month to plan the organizations' future. Program files were well organized for each tested vendor. Documentation was present confirming that funded programs were properly staged and written final reports were received before grant payments were authorized for reimbursement. Finally, grantee payments were made timely and were recorded correctly in the City's Financial System.

However, the following findings were identified which are in need of corrective action:

- One grantee, the Miami Design Preservation League, inadvertently received three payments of \$7,500 during the 2007/08 fiscal year when they were only entitled to two. This was the only incorrect payment noted and represented 1.19% (\$7,500/\$630,000) of all monies paid to grantees.
- The \$143,139.82 balance remains unnecessarily in the Colony Theatre Trust Account 601-7000-229220 to pay back a loan that was not made.
- Grantee submitted documents were not time/date stamped by Cultural Affairs to better indicate the date received. In addition, the due date of 45 days following the program's completion is not strictly adhered to so as a result many of the grantee's final payments are occurring in the next fiscal year.

As the result of our verification of departmental measures detailed in finding #4, we noted that there were inaccuracies in some of the measures reported in the City's performance management software and adopted budget book. These measures should be changed to reflect the data supported by the department's records.

PURPOSE

To determine whether the Cultural Arts Council complied with tested requirements set forth by the City Commission during the 2007/08 fiscal year, which includes the timely distribution of approved grant funds in the correct amount to qualified eligible not-for-profit organizations; properly reported all grant payments in the City's Financial System; accurately reported data in the City's performance management software.

SCOPE

1. Confirm that the Cultural Arts Council has developed, established and adhered to criteria and guidelines for review and funding of qualified not-for-profit arts organizations.
2. Confirm that the Cultural Arts Council consists of eleven members, who are appointed for three-year terms and no more than six consecutive years, are residents or own businesses on Miami Beach.
3. Confirm that Cultural Arts Council meetings are held once a month (excluding August) and that one public hearing before the City Commission is held annually.
4. Confirm that grant payments were correctly recorded in the City's Financial System.
5. Select a sample of grants awarded, ensuring that all grant categories are represented, and confirm that funds paid for grants were for approved programs, meeting the criteria set forth by the Cultural Arts Council.
6. Confirm that departmental measurement data reported on the City's performance management system is accurately calculated and properly supported by source documentation.

FINDINGS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

1. Finding – Grant Payments
Thirty-six grantees were issued monies totaling \$630,000 for the 2007/08 fiscal year by the City Commission's ratification of Resolution No. 2007-26661. These authorized grant recipients are to receive half their funding upon submittal and approval of the required documents with the remaining half upon completion. The Grants and Operations Administrator approves the submitted documentation for sufficiency before a Request for Direct Payment is prepared authorizing the City's Finance Department to issue a check to the grantee.

The Grants and Operations Administrator maintains an Excel spreadsheet to record all Cultural Arts Council or CAC grant payments. Among other information, it lists the grant program, amount awarded, the date the check is requested and the amount of the two payments. Internal Audit compared this spreadsheet's data with the actual payments recorded in the City's Financial System (general ledger account number 140-6080-000349) for all grantees and found that one grantee, the Miami Design Preservation League, received the following three grant payments:

<u>Check Number</u>	<u>Check Date</u>	<u>Amount</u>
2339	11/21/07	\$ 7,500
2561	11/20/08	\$ 7,500
2527	12/04/08	<u>\$ 7,500</u>
Total		\$22,500

Cultural Affairs was notified and concurred that the Miami Design Preservation League was overpaid by \$7,500 for the 2007/08 fiscal year. Furthermore, this third payment did not appear on the aforementioned Excel spreadsheet.

Recommendation(s)

The Grants and Operations Administrator's maintained Excel spreadsheet should accurately reflect each grant payment made to eligible organizations. In addition, someone other than the Grants and Operations Administrator, who is independent of the reviewing and approving process, should annually reconcile this Excel spreadsheet with the payments recorded in the City's Financial System and investigate any differences. Finally, the City should determine the desired method to recover the \$7,500 overpayment (prepare a City Bill, withhold the Miami Design Preservation League's second \$7,500 grant payment for the 2008/09 fiscal year, etc.).

Management's Response

Management acknowledges the oversight. Once this was brought to Management's attention, Cultural Affairs staff proposed, and MDPL agreed, to allow the overpayment to serve as the second and final payment for MDPL's 2008/09 grant, dependent on the City's acceptance of the required final report. Tourism & Cultural Development staff sent back-up documentation to the City's Finance Department for their files confirming MDPL acceptance of the aforementioned terms.

2. Finding – Colony Theatre Café/Segafredo Loan Repayments

Under Resolution No. 99-23228, the City Commission approved the appropriation of \$220,000 from the CAC budget to provide matching funds in the form of a non-interest bearing loan to fund a portion of the Colony Theatre Improvements. Since the City was able to obtain the maximum grant award from the State's Cultural Arts Facilities Grant Program, the loan was subsequently reduced to \$165,000. The City was to repay the loan to the CAC from the 70% recapture of the Colony Theatre Café/Segafredo rental revenues.

Monies received from the rental revenues were placed into the Colony Theatre Trust Account 601-7000-229220 through 09/30/05 as the balance grew to \$143,139.82. However, no additional monies were put into this trust account during the 2006/07 and 2007/08 fiscal years despite continuing to collect rental revenues and not yet reaching the \$165,000 desired balance.

We could not locate any evidence that the City (CAC) loaned \$165,000 to the Colony Theatre Café. Consequently, the monies should not be held in a trust account to pay back a loan that was not made. This finding was also present in last year's audit report whereby the Tourism and Cultural Development Department recommended that the funds be placed in a capital reserve fund for future capital needs of the Colony Theater but no such action has been taken to date.

Recommendation(s)

The trust account should be closed and the \$143,139.82 balance should be used in a manner recommended by the City Administration and subsequently authorized by the City Commission.

Management Response

The Tourism & Cultural Development Department Director discussed this trust account with the City Manager during a budget review meeting for the Fiscal Year 2009/10 Department Budget. The City Manager approved the use of these funds for future capital at the Colony Theatre. He asked that this adjustment be made for future Colony Theater capital in the Fiscal Year 2009/10 budget.

3. Finding – Tested Grantee Applications and Documentation

Thirty-six grantees' applications were awarded and issued monies by the CAC for the 2007/08 fiscal year. Ten of these grant recipients receiving \$218,333 in grant monies out of a total of \$630,000 awarded or 34.66% were selected for testing with at least one chosen from each award category (Cultural Anchors; Cultural Heritage; Artistic Disciplines, Arts and Cultural Education, Cultural Presenters, and Cultural Tourism).

For the most part, the grantees' files reviewed were found to be sufficient, complete and well organized. Internal Audit's only criticism is that the date required documents were received was not indicated thereby making it difficult to confirm that the grantee complied with listed due dates. For example, the written final report documenting that the grantee has fulfilled all requirements is to be received by the Cultural Affairs Program Manager or his designee within 45 days of the project's completion date per section 3 of the signed grant agreement. Testing found that none of the eight files maintained by the City's Cultural Arts Division were documented indicating when they were received so Internal Audit used the date listed on the written final report's notarized signature and certification page as the received date. Using this approach, it was subsequently concluded that these sampled eight written final reports were most likely received timely but we could not be sure.

Subsequent inquiries with Cultural Arts Division staff found that they are flexible on this due date and they estimate that more than 50% of grantees submit their written final reports late. The grantees second and final payment is not issued until this report is reviewed and approved by the Cultural Arts Division. Consequently, \$137,500 of the \$630,000 in funds approved by the City Commission for the 2008 fiscal year or 21.83% were not actually paid to the grantee until the next fiscal year.

Recommendation(s)

The date that grantee documents are received should be indicated either manually or preferably by a time/date stamp machine to help verify that the grantee complied with the agreed upon requirements and is eligible for future funding. It was subsequently agreed to that the due date of the written report should be changed going forward to October 1st. This change to an earlier date will allow Cultural Affairs sufficient time to review the report for completeness and for the Finance Department to issue the second and final check during the same fiscal year that the monies were appropriated by the City Commission.

Management Response

The Cultural Affairs Program staff will initiate time/date stamping of all grant documents received, and will require all final reports to be due by October 1.

4. Finding – Review of Departmental Measures

The CAC measures both the number and amounts of grants awarded by the Commission, as well as the actual number of grants issued (output measures). These numbers may differ as the number of grants issued is usually not available until the end of the year since grantees may withdraw or be denied funding due to not fulfilling grant requirements.

These departmental measures are reported in the City's performance management software. We reviewed the basis for each measure and compared the reported amounts to the actual supporting documentation.

For the measures reported annually in the City's 05/01/09 Environmental Scan we noted the following:

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Fiscal Year	# of grants Awarded			Grant Award Amounts		
	CAC	Audited	Difference	CAC	Audited	Difference
2003/04	51	53	-2	\$500,750	\$500,750	\$0
2004/05	49	49	0	\$599,015	\$599,015	\$0
2005/06	50	47	3	\$613,810	\$613,810	\$0
2006/07	51	50	1	\$642,887	\$642,887	\$0
2007/08	36	36	0	\$630,000	\$630,000	\$0

The audited differences listed above for the 2003/04, 2005/06 fiscal years as reported in our previous year audit still were not corrected as of the conclusion of this audit.

Meanwhile, results from the audit of the amount of cultural grants issued (paid out), as reported in the performance management software were as follows:

Fiscal Year	# of grants Issued		
	CAC	Audited	Difference
2003/04	47	47	0
2004/05	45	45	0
2005/06	45	45	0
2006/07	49	49	0
2007/08	36	36	0

A review of the performance management software found that the differences previously noted in the 2005/06 and 2006/07 fiscal years audits for the number of grants issued were properly corrected during the current fiscal year. However, the definition and description for this measurement in the performance management software was omitted thereby not defining or indicating how the measure is derived.

After completing our review of the above measures for fiscal year 2007/08, we determined the following assessment categories suitable as defined in Exhibit 1 attached:

Source	Name of Measure	Assessment Category
Environmental Scan	# of grants Awarded	Certified
Environmental Scan	Grant Award Amounts	Certified
Performance Management Software	# of grants Issued	Certified with Qualifications

Finally, it was discovered that the performance measure entitled "# {number} of cultural grants issued" for the 2005/06, 2006/07 and 2007/08 fiscal years reported in the City's adopted budget book is incorrect. Each of the aforementioned fiscal years' figures is overstated by two and was confirmed in discussions with Cultural Affairs personnel.

Recommendation(s)

The identified incorrect measures for grants awarded in the Environmental Scan and for the number of grants issued in the City's adopted budget book should be corrected. In addition, the performance management software definition and description fields should be revised by the department to include a definition of the measure, as well as the methodology for deriving the measure, the data source, and references and/or sources of comparable benchmarks. Finally, the City's budget book for the 2009/10 fiscal year should be revised to

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have the # of cultural grants issued equal those figures listed correctly in the performance management software.

Management's Response

All recommendations have been implemented and revisions made where necessary.

EXIT CONFERENCE

An exit conference was held on June 26, 2009 and the participants included Max Sklar (Tourism Development Director), Gary Farmer (Cultural Affairs Program Manager), Mary Heaton (Grants & Operations Administrator), Allison Williams (Chief Accountant), James Sutter (Internal Auditor), and Mark Coolidge (Senior Auditor). All present were in agreement with the findings and recommendations discussed and management responses were submitted shortly thereafter for inclusion in this report.

JJS:MC:mc

Audit performed by Senior Auditor Mark Coolidge

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cc Max Sklar, Cultural Arts and Tourism Development Director
Gary Farmer, Cultural Affairs Program Manager
Patricia Walker, Chief Financial Officer
Georgie Echert, Assistant Finance Director

EXHIBIT: 1 – Assessment Categories for Performance Measures Verification

Assessment Category	Criteria
Certified	If reported performance is 100% accurate and if it appears that controls are in place to ensure accuracy for collecting and reporting performance data. Measurement data is supported by source documents.
Certified with Qualifications	This category is assigned under either one of two conditions: 1. <i>Reported performance is within +/- 3%, but the controls over data collection and reporting are not adequate to ensure continued accuracy.</i> 2. <i>The department's calculation of actual performance deviates from the measure definition, but was still within an acceptable range.</i>
Factors Prevented Certification	Documentation is unavailable or incomplete and controls are not adequate to ensure accuracy. This category is also assigned when there is a deviation from the measure definition and the reviewer cannot determine the correct measure result.
Inaccurate	Actual performance is not within 3% of reported performance, or there is a greater than 5% error in the sample of documents tested.

EXHIBIT: 2 - Additional References for Performance Management Software's Description of Measure

- 1) **Measure Name:** Should list the name of the measure for which data is being collected and reported.
- 2) **Measure Type:** Should recognize whether the measure is an "Input", "Output", or "Outcome" measure. One must consider whether results are measured through input (Ex: Customer surveys), output (Ex: Number of contracts completed without change orders), or outcome (Ex: % of projects substantially completed or in beneficial use within 120 days).
- 3) **Measure Description:** Should describe the measure. Some measures are self explanatory and some may not; however, a description should always be included (Ex: The measure considers the % of change in the value of the change orders for a specific category divided by the original project cost).
- 4) **Measure Frequency:** Describes how often performance data is reported (Ex: Quarterly).
- 5) **Data Sources:** Should list sources used to collect performance data (Ex: System Software Names, Report Names, Schedules, etc.)
- 6) **Calculation Methodology:** Should explain how data reported was calculated (Ex: change orders for that quarter divided by the original total projects costs, projects substantially completed or in beneficial use within 120 days of the contract milestone date divided by the total number of projects completed during the same quarter).