



# MIAMIBEACH

BUDGET AND PERFORMANCE IMPROVEMENT  
Internal Audit Division

## INTERNAL AUDIT REPORT

TO: Kathie G. Brooks, Acting City Manager  
FROM: James J. Sutter, Internal Auditor  
  
DATE: March 22, 2013  
AUDIT: Miami Beach Cultural Arts Council Audit  
PERIOD: October 1, 2011 to September 30, 2012

This regularly scheduled audit of the Miami Beach Cultural Arts Council awarded and issued grants during the 2011/12 fiscal year by the Cultural Affairs Division was performed in compliance with the annual audit requirements specified by City Code Section 2 - 64.

### INTRODUCTION

The City Commission passed City Ordinance No. 97-3075 on March 5, 1997 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 more than \$8,495,000 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. 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 include funding for the arts. 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. As a result, the 1% resort tax revenues collected in FY 2010/11 totaling \$1,229,681 were appropriated to each of North Beach, Middle Beach, South Beach and the Arts in the 2011/12 fiscal year.

In an effort to address the needs of the arts community, City staff in conjunction with the CAC Board annually reviews each of the grants programs (currently Cultural Anchors; Cultural Presenters; Cultural Heritage; Artistic Disciplines – Dance, Music and Theater; and Cultural Tourism) to determine the type of programs which will benefit the community. 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

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be used towards operational expenses in association with the annual cultural programming described in the application. This category also includes "Junior" Cultural Anchors which are Miami Beach based cultural organizations that meet all the above listed objectives but their organizational budget levels are below \$750,000 as approved by the CAC approximately three years ago.

- Cultural Presenters provide grants to organizations whose primary mission is to produce and present cultural and artistic productions.
- 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. Selections are based on the organizations demonstrated artistic talent and potential and the vision for the proposed project, in relation to their overall artistic goals.
- Cultural Tourism are grant funds jointly provided by the CAC and Miami Beach Visitor and Convention Authority (VCA) to support major cultural arts performances, festivals, and events which attract a significant number of tourists to the City. Both the VCA and the CAC gave \$30,000 each to fund this program during the 2011/12 fiscal year.

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.

To be eligible to apply, 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(3) 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 VCA during the same fiscal year

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A total of \$975,000 was requested in grant monies by forty-seven organizations for the 2011/12 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 using evaluation forms based on criteria listed in the application, and then were averaged dropping the highest and lowest scores. An application must have scored a minimum average of 80% with a maximum possible score of 100 points, to be eligible to receive funding.

Forty-three organizations exceeded or met the designated minimum score required for funding. As a result, the City Commission, through the passage of Resolution No. 2011-27755, awarded grants totaling \$630,000.00 to these eligible organizations for the 2011/12 fiscal year. The largest award of \$25,597.75 was given to the New World Symphony, while the lowest amount of \$6,450.36 was given to City Theatre. All of 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 (excluding the "Fresh Air Fund").

The CAC adopted the \$2,000.00 "Fresh Air Fund" to be given to grant recipients whose projects include free outdoor performances in the City of Miami Beach at Collins Park, North Beach Bandshell, etc. during the 2011/12 fiscal year. Twelve organizations qualified for the "Fresh Air Fund" monies and these monies are included in the \$630,000.00 aforementioned awarded grant amounts. However, they are fully payable to the grantee in their second annual payment only upon completion of the designated events.

Resolution No. 2011-27755 also included four programs (16<sup>th</sup> Brazilian Film Festival of Miami, XVII International Ballet Festival of Miami, 14<sup>th</sup> Annual Miami Gay & Lesbian Film Festival in Miami Beach and VII Sicilian Film Festival) whereby the CAC partnered with the Miami Beach Visitor and Convention Authority or VCA for Cultural Tourism grants that support cultural events with documented tourism benefits. The City's agreed upon payment of \$30,000.00 was made to the VCA through check number 3057 dated 11/03/11. These four authorized grant recipients receive all their funding from the VCA upon submittal and approval of the required documents after the project's completion.

The CAC budget did not include a contribution towards the City's Cultural Endowment for the 2011/12 fiscal year due to budget constraints. Yet, the endowment's 09/30/12 balance held in a restricted cash account increased by \$14,435.22 to \$1,581,873.86 from the prior fiscal years ending balance of \$1,567,438.64 due to the interest earned on the invested monies.

Under Resolution No. 99-23228, the City Commission approved the appropriation of \$220,000.00 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 reduced to \$165,000.00. The City will repay the loan to the Cultural Arts Council from the 70% recapture of the Colony Theatre Café revenues. As of September 2012, the total amount in the Colony Theater Trust account remained at \$75,740.00 as no monies were authorized to be spent during the 2011/12 fiscal year.

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## OVERALL OPINION

The Cultural Arts Council 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 Cultural Arts Council is comprised of eleven Miami Beach residents who routinely meet once a month to plan the organizations' future. Program files were well organized for each tested vendor. Finally, sufficient documentation was present confirming that funded programs were staged and that the organizations' final reports were received before that fiscal year's grant payments were authorized for reimbursement.

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

- Six Cultural Anchor grantees received their 2012/13 fiscal year's first grant payments despite not fully satisfying 2011/12 fiscal year's requirements for their second grant payment.
- Three sampled grantees that did not submit timely IRS tax exempt letters or sufficient proof of payments still received their full second City grant payment. Also, three of the twelve randomly sampled grantees or 25% did not submit their final reports by the stated due dates.
- The Miami Gay Men's Chorus's second grant payment was incorrectly entered into general ledger account numbered 601-7000-229316 instead of 140-6080-000349. Once notified, a journal entry was prepared to correct this transaction on the City's Financial System.
- Inaccuracies were noted in the number of grants awarded, the number of grants issued and the total grant dollars awarded performance measures reported in the City's Environmental Scan and budget book.

## PURPOSE

To determine whether the Cultural Arts Council complied with tested requirements set forth by the City Commission during the 2011/12 fiscal year, which includes the timely distribution of approved grant funds in the correct amounts to qualified eligible not-for-profit organizations; properly reported grant payments in the City's Financial System; and accurately reported data in the City's Environmental Scan and 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 Miami Beach residents, who are appointed for three-year terms and no more than six consecutive years.
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.

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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 selected departmental measurement data reported in the City's Environmental Scan and performance management software are accurately calculated and properly supported by source documentation.

## **FINDINGS, RECOMMENDATIONS AND MANAGEMENT RESPONSES**

1. **Finding – Six Cultural Anchor Grantees Received 2012/13 Fiscal Year's First Payments Before Fully Satisfying 2011/12's Requirements**

Many grantees apply and are awarded Cultural Arts Council or CAC grant funding in consecutive fiscal years. For example, thirty-six of the forty-three organizations (excluding those organizations in the Cultural Tourism category) awarded monies in the 2012/13 fiscal year also received funding in the 2011/12 fiscal year. Testing found that the following six Cultural Anchor organizations received grant monies for the 2012/13 fiscal year before satisfying all the requirements in order to receive their second 2011/12 second payment: New World Symphony, Jewish Museum of Florida, Wolfsonian-FIU, Miami Beach Film Society, Art Center/South Florida and the Holocaust Memorial Committee.

**Recommendation(s):**

2012/13 grant award recipients should not receive any CAC funding until they have complied with all the prior year's requirements and received their second payment.

**Management's Response:**

The Grants and Operations Administrator assumes complete responsibility for the issuance of 1<sup>st</sup>-half payments prior to full compliance with previous years' final reporting. Cultural Anchors remain a unique category of grantee, whose final reports can be submitted as late as November 15, often coinciding with the receipt of their fully-executed grant agreement for the current fiscal year. Each of the six Cultural Anchor organizations mentioned above submitted their final report on or prior to the November 15 deadline and were ultimately found to be in full compliance.

2. **Finding – Submitted Supporting Documentation Does Not Fully Satisfy Tested Grant Requirements**

Prior to receiving any monies, a grant agreement must be completed and signed by both the City and the participating 501(c)3 entity. This standard document requires the submittal of a final report within 45 days of the project's completion date; proof of the City of Miami Beach logo and credit line must be included in all project publications and advertisements; proof of performances such as programs, brochures and flyers; etc. The Grants and Operations Administrator maintains separate grantee files of all submitted documentation which must be approved for sufficiency before a Request for Direct Payment is prepared authorizing the City's Finance Department to issue a check to the grantee.

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Twelve of these forty-seven grantees' files or 25.53% totaling \$133,205.55 or 21.14% of the \$630,000.00 in awarded grants were randomly selected for review with two nonprofit organizations chosen from each of the six designated programs (Cultural Anchors, Cultural Presenters, etc.). In doing so, the following deficiencies were noted:

- a. Ground Up and Rising's file contained an Internal Revenue Service letter dated 03/21/08 which is prior to the 01/01/09 CAC's desired date. Internal Audit's further review of the State of Florida Division of Corporation's website properly found that all twelve sampled grantees were currently active Florida nonprofit corporations.
- b. Grantees are required to categorize all receipts, invoices and cancelled checks (front and back copies), etc. according to the approved grant budget before they are eligible for reimbursement but the following two exceptions were noted:
  - Miami Dade College did not provide proof of payment for \$10,931 in claimed personnel – technician and marketing/publicity expenditures.
  - The Cuban Classical Ballet of Miami similarly did not provide proof of payment for \$7,640 paid to dancers and a separate \$600 cash payment for marketing/publicity.
- c. The signed grant agreements require grantees to postmark or deliver their final report no later than 45 days after the project end to receive the second half of their grant award. For example, the final report is due on November 15<sup>th</sup> for all grantee's programs having a September 30<sup>th</sup> completion date.

Unlike the Cultural Grants and Operations Administrator which time/date stamps the grantees' final reports upon submittal, the Miami Beach Visitor and Convention Authority or VCA manually records the date received. A comparison of the final reports' due dates with the listed received dates found that three sampled grantees had submitted these documents late or after the due date ranging from a low of 13 days (14<sup>th</sup> Annual Miami Gay & Lesbian Film Festival) to a high of 74 days (Teatro en Miami.) and had received their full second annual grant payment.

One other sampled grantee, Florida Grand Opera, submitted their final report late but their second grant payment is being disputed because they only staged three of seven proposed events. In addition, there were three other organizations that had not yet received their second grant payment as of the completion of this audit (Holocaust Memorial Committee, Florida Dance Association and City Theatre).

Subsequent inquiries with Cultural Affairs Division staff found that they continually spend time reminding the grantees that deadlines have passed and work with them to help ensure that they receive full funding, whenever possible. Despite continued warnings in the 2011/12 fiscal year of the need to comply with listed deadlines and the inclusion of the following statement in the grant program guidelines and applications instructions "Application and Final Report deadlines

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will be strictly enforced. There will be no exceptions." this year's random sample contained the same number of grantees submitting late as in last year's audit.

Recommendation(s):

The Cultural Affairs Division should more closely scrutinize the documents received and compare them to the maintained checklist to help ensure that all required items are received and are complete. The grantee's second payment should be withheld until any items required in the signed agreement deemed missing (financial statements, cancelled checks, etc.) are subsequently received. If the grantees don't fully comply by the previously agreed upon due dates, then they should consider reducing the grantee's funding accordingly in accordance with provisions that should be added to future grant agreements. The implementation and enforcement of these practices should result in better grantees' compliance thereby giving Cultural Affairs Division staff additional time to focus on more important duties and helping ensure that most, if not all, grant monies are disbursed in the fiscal year appropriated/awarded by the City Commission.

Management's Response:

- a. Ground Up & Rising's 501(c)(3) letter was found to be outdated however, Cultural Affairs Program Staff also utilized State of Florida Division of Corporation's web site at the time of submittal to determine their status as a current not-for-profit entity.
- b. Grants and Operations Administrator agrees that Miami Dade College did not provide sufficient proof of payment in the form of a front/back cancelled check in the amount of \$6,500 for the Personnel-Technical budget line item. Corresponding checks have been requested to complete and close the file. Additionally, required documentation was in fact received for the remaining \$4,431 mentioned above for Marketing/Publicity.

Staff acknowledges the oversight with regard to the Cuban Classical Ballet of Miami's proof of payment for their dancers. As was discussed during the audit process, there were prevailing issues with their final report which staff dealt with immediately and in doing so, inadvertently overlooked other possible deficiencies. The file has since been updated to include the required proof of payments.

- c. City of Miami Beach Cultural Affairs Program staff recognizes that Teatro en Miami's final report was received past the 45-day project completion date but understands that many organizations working with minimal staff have difficulty meeting certain deadlines. Staff maintains its commitment to the task of providing cultural programming to the residents and visitors of Miami Beach. In doing so, extra effort and understanding of grantees' limitations is sometimes necessary in order to secure documentation to complete the final report.

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3. Finding – The Miami Gay Men’s Chorus Second Grant Payment was Incorrectly Entered into General Ledger Account Numbered 601-7000-229316

Forty-seven organizations were awarded grant monies totaling \$630,000.00 for the 2011/12 fiscal year by the City Commission’s ratification of Resolution No. 2011-27755. These authorized grant recipients were to receive half their funding upon submittal and approval of the required documents with the remaining half upon completion (excluding the \$2,000.00 “Fresh Air Fund” which is included only in the second grant payment). 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, the amounts awarded, the date the checks are 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 forty-seven grantees by an Office Associate V and found that the Miami Gay Men’s Chorus second payment of \$6,577.79 was incorrectly coded to general ledger account number 601-7000-229316. Once notified, a journal entry was promptly completed to correct this inadvertent mistake.

Recommendation(s):

The Grants and Operations Administrator’s maintained Excel spreadsheet should continue to reflect each grant payment made to eligible organizations. In addition, the Grants and Operations Administrator should be granted Eden System read only access so that she can reconcile this Excel spreadsheet with the payments recorded in the City’s Financial System and investigate any differences.

Management’s Response:

As noted above, the journal entry was promptly completed and corrected. Staff will look into getting additional access to the Eden System for the Grants and Operations Administrator.

4. Finding – Review of Departmental Performance Measures

The Cultural Affairs Division measures both the number and amounts of grants awarded by the City 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 fiscal year since grantees may withdraw or be denied funding due to not fulfilling all the grant requirements.

These tested departmental measures are reported in the City’s performance measurement software and/or the Environmental Scan. We reviewed the basis for each measure and compared the reported amounts to the actual supporting documentation. The following figures were reported for the three tested measures reported annually in the City’s performance measurement software:

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# of grants Awarded				Grant Award Amounts		
Fiscal Year	Reported	Audited	Difference	Reported	Audited	Difference
2003/04	53	53	0	\$500,750	\$500,750	\$0
2004/05	49	49	0	\$599,015	\$599,015	\$0
2005/06	47	47	0	\$613,810	\$613,810	\$0
2006/07	50	50	0	\$642,887	\$642,887	\$0
2007/08	36	36	0	\$630,000	\$630,000	\$0
2008/09	43	43	0	\$627,169	\$627,169	\$0
2009/10	55	55	0	\$630,000	\$630,000	\$0
2010/11	52	52	0	\$627,676	\$627,676	\$0
2011/12	47	47	0	\$630,000	\$630,000	\$0

# of grants Issued			
Fiscal Year	CAC	Audited	Difference
2003/04	51	51	0
2004/05	46	46	0
2005/06	46	46	0
2006/07	49	49	0
2007/08	36	36	0
2008/09	43	43	0
2009/10	54	54	0
2010/11	51	51	0
2011/12	46	46	0

The following figures were reported for the two tested measures reported annually in the City's Environmental Scan last updated on 05/18/12:

# of grants Awarded				Grant Award Amounts		
Fiscal Year	Reported	Audited	Difference	Reported	Audited	Difference
2006/07	51	50	1	\$642,888	\$642,888	\$0
2007/08	36	36	0	\$630,000	\$630,000	\$0
2008/09	43	43	0	\$627,169	\$627,169	\$0
2009/10	55	55	0	\$630,000	\$630,000	\$0
2010/11	36	36	0	\$627,169	\$627,169	\$0
2011/12	43	43	0	\$630,000	\$630,000	\$0

After completing our review of the above measures for the specified fiscal years, we determined the following assessment categories suitable as defined in Exhibit 1 attached at the end of this audit report:

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

Lastly, a comparison of the audited figures listed above for the 2004/05 through 2011/12 fiscal years with those reported in the City's adopted budget book for the two performance measures entitled "# of cultural grants issued" and "total grant \$'s awarded" found the following:

- The budget book incorrectly reported that 47 CAC grants were issued during the 2011/12 fiscal year when the actual number is 46 as City Theatre did not receive any funding.
- The budget book incorrectly reported that \$627,169 in CAC grant monies were awarded when the actual amount was \$630,000 for the 2007/08 fiscal year which is a \$2,831 difference.

Recommendation(s):

The identified incorrect figures in the City's Environmental Scan and budget book should be promptly corrected. Also, designated City employee(s) should be assigned the responsibility to ensure that the dually reported figures in the Environmental Scan, performance measurement software and/or the adopted budget book are identical and correct going forward.

Management's Response:

Staff cannot change already published issues of the budget book and Environmental Scan. Since the City's performance measurement software system is the only one available for data entry, whoever creates the Environmental Scan and the budget book should be referring to that data and checking for updates prior to publication. We will contact OBPI to make the necessary changes.

## EXIT CONFERENCE

An exit conference was held on March 20, 2013 and the participants included Gary Farmer (Cultural Affairs Program Manager), Mary Heaton (Grants & Operations Administrator), 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, Assistant City Manager  
Patricia Walker, Chief Financial Officer  
Gary Farmer, Cultural Affairs Program Manager  
Vicki Kroger, Budget Officer

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**EXHIBIT: 1 – Assessment Categories for Performance Measures Verification**

<b>Assessment Category</b>	<b>Criteria</b>
<b>Certified</b>	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.
<b>Certified with Qualifications</b>	This category is assigned under either one of two conditions: <ul style="list-style-type: none"><li>1. <i>Reported performance is within +/- 3%, but the controls over data collection and reporting are not adequate to ensure continued accuracy.</i></li><li>2. <i>The department's calculation of actual performance deviates from the measure definition, but was still within an acceptable range.</i></li></ul>
<b>Factors Prevented Certification</b>	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.
<b>Inaccurate</b>	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).