



An Audit Report on

Financial Processes at the Commission on the Arts

May 2017
Report No. 17-035



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Overall Conclusion

The Commission on the Arts (Commission) had controls to ensure that it administered financial transactions in accordance with applicable statutes, rules, and Commission policies and procedures. However, it should improve certain controls over grant monitoring and information technology systems. Specifically:

- **Grant Monitoring.** The Commission should ensure that it consistently obtains reports due from grant recipients before making payments for new grants to those same grant recipients. It also should strengthen its monitoring process by performing site visits at grant recipients it deems higher risk.
- **Information Technology.** The Commission should assign user access rights that are specific and appropriate to each **user's** responsibilities, and it should routinely review user access to information technology.

The Commission also had controls to ensure that travel expenditures complied with laws, regulations, and policies, but it should strengthen its documentation related to those travel expenditures.

Auditors communicated other, less significant issues in writing separately to Commission management.

Background Information

The mission of the Commission on the Arts (Commission) is to advance the state economically and culturally by investing in a creative Texas. The Commission provides resources to enhance economic development, arts education, cultural tourism, and artist sustainability initiatives.

The Legislature appropriated \$17.7 million to the Commission for the 2016-2017 biennium; of that amount, \$16.7 million was appropriated for arts and cultural grants.

Sources: The Commission and the General Appropriations Act (84th Legislature).

Table 1 presents a summary of the findings in this report and the related issue ratings. (See Appendix 2 for more information about the issue rating classifications and descriptions.)

Table 1

Summary of Chapters/Subchapters and Related Issue Ratings		
Chapter/Subchapter	Title	Issue Rating ^a
1-A	The Commission Had Controls to Award and Pay Grants in Accordance with Applicable Requirements	Low
1-B	The Commission Had Controls to Monitor Grants and Perform Site Visits; However, It Should Strengthen Its Monitoring Process	Medium
1-C	The Commission Should Strengthen Controls Over Certain Aspects of Its Information Technology Systems	Medium
2	The Commission Had Controls to Ensure That Travel Expenditures Complied with Laws, Regulations, and Policies	Low

^a A chapter/subchapter is rated Priority if the issues identified present risks or effects that if not addressed could **critically affect the audited entity's ability to effectively administer the program(s)/function(s) audited**. Immediate action is required to address the noted concern and reduce risks to the audited entity.

A chapter/subchapter is rated High if the issues identified present risks or effects that if not addressed could **substantially affect the audited entity's ability to effectively administer** the program(s)/function(s) audited. Prompt action is essential to address the noted concern and reduce risks to the audited entity.

A chapter/subchapter is rated Medium if the issues identified present risks or effects that if not addressed could **moderately affect the audited entity's ability to effectively administer program(s)/function(s) audited**. Action is needed to address the noted concern and reduce risks to a more desirable level.

A chapter/subchapter is rated Low if the audit identified strengths that **support the audited entity's ability to administer** the program(s)/functions(s) audited or the issues identified do not present significant risks or effects that would **negatively affect the audited entity's ability to effectively administer** the program(s)/function(s) audited.

Summary of Management's Response

At the end of certain chapters in this report, auditors made recommendations to address the issues identified during this audit. The Commission agreed with the recommendations in this report.

Audit Objective and Scope

The objective of this audit was to determine whether the Commission has processes and related controls to help ensure that it administers financial transactions in accordance with applicable statutes, rules, and Commission policies and procedures.

The scope of this audit covered the Commission's activities related to awarding and paying grants, monitoring grants and grant recipients, travel reimbursements, and the related information systems for fiscal year 2016 (September 1, 2015, through August 31, 2016) and the first five months of fiscal year 2017 (September 1, 2016, through January 31, 2017).

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Detailed Results

Chapter 1

The Commission Had Controls to Award and Pay Grants, But It Should Strengthen Certain Aspects of Its Grant Monitoring and Information Technology

The Commission on the Arts (Commission) had controls in fiscal year 2016 and the first five months of fiscal year 2017 to ensure that it administered financial transactions in accordance with applicable statutes, rules, and Commission policies and procedures. However, it should improve certain controls over grant monitoring and information technology.

Chapter 1-A

The Commission Had Controls to Award and Pay Grants in Accordance with Applicable Requirements

**Chapter 1-A
Rating:**

Low¹

The Commission had controls to award and pay grants in accordance with applicable statutes, rules, and Commission policies and procedures. For all 37 grants tested, members of the Commission on the Arts formally voted to approve the grants; the Commission documented the grant recipients' eligibility; and the Commission obtained the required documentation, including signed contracts or assurances, from the grant recipients prior to payment.

Background Information on Commission Grant Programs

The Commission awards competitive grants to non-profit arts organizations, educational institutions, and government entities under the following categories:

- Arts Create grants support operating costs of established arts organizations.
- Arts Respond Project grants support specific projects at arts and educational institutions.
- Cultural District Project grants support specific projects in cultural districts.
- Special Initiatives grants are specific awards designated by the Commission.
- Young Masters grants support students' artistic education.

The Commission also awards non-competitive grants for Arts Respond Performance Support grants, which support the costs of Texas Touring Roster artists for Texas nonprofits, educational institutions, and governmental entities.

Source: The Commission.

¹ Chapter 1-A is rated Low because the audit identified strengths that support the audited entity's ability to administer the program(s)/functions(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

The Commission also had controls to award grants in accordance with the requirements of each of its various funding sources, such as funding sources intended to support arts education (see text box on page 1 for additional information). Specifically, for all 37 grants tested, the grant recipients were eligible under the requirements of the specific funding source, and the documented uses of the funds met the requirements of each funding source.

Application Review Criteria for Competitive Grants

The Commission's application review criteria for competitive grants included three components:

- Artistic quality (50 percent of score) included artistic significance, quality of works of art, quality of artists, impact on artists, and quality of services.
- Capability (25 percent of score) included administrative capability, personnel, demonstrated history, budget, and planning, implementation, and evaluation.
- Impact (25 percent of score) included public service, audience or participants, education, outreach, and economic impact.

Source: The Commission.

For competitive grants, the Commission awarded grants based on independent evaluators' assessments of applications in three categories: artistic quality, capability, and impact (see text box for additional information). Of the 37 grants that auditors tested, 28 were competitive grants and required independent evaluation in accordance with Commission guidelines. For all 28 grants tested for which the associated applications were evaluated by an independent panel, the Commission accurately documented evaluation panel scores and calculated the resulting grant amounts. The remaining nine grants tested were Arts Respond Performance Support grants and, therefore, non-competitive; the Commission reviewed the proposals for those nine grants in accordance with its established process.

In addition, the Commission had policies and procedures to disclose and manage conflicts of interest for members of the Commission on the Arts and independent evaluators. Those policies and procedures help ensure that the Commission awards grants in accordance with its criteria.

Management's Response

The Commission agrees and will maintain the current system of controls.

The Commission Had Controls to Monitor Grants and Perform Site Visits; However, It Should Strengthen Its Monitoring Process

**Chapter 1-B
Rating:
Medium²**

The Commission had controls to ensure that it monitored grants and grant recipients. For all 30 fiscal year 2016 grants tested, the Commission obtained required reports from grant recipients on their uses of grant funds, reviewed the reports using a standard checklist, and followed up with grant recipients to resolve any issues. In addition, the Commission performed site visits at selected grant recipients. However, the Commission should strengthen its grant monitoring process.

The Commission should consistently obtain prior reports that are due from grant recipients before making payments for new grants to those same grant recipients.

The Commission did not always obtain reports due from grant recipients on prior grants before making payments for new grants to those same grant recipients. Commission policies state that the Commission will not make a payment for a new grant until the grant recipient has submitted accurate and complete reports for all prior years. Of the 37 grants tested, 25 had reports due from the recipient for a previous grant. Of those 25 grant recipients, the Commission incorrectly made payments on new grants when it had not obtained reports due for previous grants for 2 (8 percent) recipients. Not obtaining and reviewing reports for previous grants increases the risk that the Commission would not identify and prevent the potential misuse of grant funds by a recipient.

The Commission had a process to assess risks and perform site visits to grant recipients; however, it should ensure that it performs site visits to grant recipients that it identifies as higher risk.

The Commission performed site visits at grant recipients as part of its monitoring activities. Based on information the Commission provided, it performed 126 site visits from September 2015 through February 2017. The Commission had an internal controls questionnaire and site visit checklist, which it used to conduct the site visits. For all 19 site visits tested, the Commission prepared a site visit checklist that documented the results of those site visits.

In addition, the Commission had a risk assessment process for its grant recipients to identify grant recipients that were at a higher risk for misuse of awarded funds. To develop risk scores, the Commission considered factors such as reports provided by the grant recipients and other factors that came

² Chapter 1-B is rated Medium because the issues identified present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.

to its attention, such as changes in personnel at grant recipients. The Commission's process was to visit grant recipients to which it assigned relatively higher risk scores.

Auditors reviewed the Commission's risk assessment for fiscal year 2016 and identified nine grant recipients that had received one of the Commission's two highest risk scores. The Commission conducted site visits at 7 (78 percent) of those 9 grant recipients. However, the Commission did not conduct site visits at the remaining two higher-risk grant recipients. The Commission asserted that it was unable to visit the other two grant recipients during fiscal year 2016 because of constraints in its travel budget; however, during fiscal years 2016 and 2017, the Commission performed site visits at grant recipients to which it had assigned lower risk scores. Not conducting site visits at higher-risk grant recipients increases the risk that grant recipients' misuse of grant funds would not be identified.

Recommendations

The Commission should:

- Consistently obtain prior reports that are due from grant recipients before making payments for new grants to those same grant recipients.
- Develop a process to help ensure that it performs site visits at the grant recipients that it identifies as higher risk through its risk assessment process.

Management's Response

The Commission agrees with the recommendations.

The agency has procedures in place to close out prior year grants before issuing payment of subsequent grants. The two instances identified by the SAO team were caused by human error. Both errors had been identified by staff prior to the audit and both of the prior year grants have been successfully closed out. The agency has refined internal processes and procedures to minimize likelihood of similar errors in the future.

The agency will continue to use a risk assessment system to prioritize higher risk grant recipients for fiscal site visits. Prior to the audit, the two site visits in question that the agency did not complete in FY2016 had been moved forward to FY2017 and deemed high priority; both monitoring visits were completed in FY2017. The agency has updated the internal procedures on

fiscal site monitoring selection to more accurately reflect how we manage risk with our limited travel budget and small staff.

Person Responsible for Implementation: Director of Programs and Technology

Completion Date: At this time, the agency has implemented the process improvements described in the Management Response section above.

Chapter 1-C

The Commission Should Strengthen Controls Over Certain Aspects of Its Information Technology Systems

**Chapter 1-C
Rating:**

Medium³

The Commission uses the Uniform Statewide Accounting System (USAS) to record, post, and report financial transactions; and it uses its Grant Management System (GMS) to store and manage grant applications, process grant payments, and monitor grant recipients.

The Commission should strengthen user access controls for USAS. Although the Commission appropriately limited access to USAS to current employees, two employees' access allowed them to process transactions that were not related to their job duties. To prevent unauthorized transactions, users should be assigned only the access necessary to perform their job duties.

In addition, the Commission should strengthen user access controls for GMS and its components. The Commission used shared user accounts to access GMS and the underlying database and server. The use of shared user accounts increases the risk of unauthorized changes. Assigning individual accounts to each user of an automated system decreases that risk and allows for the identification of individuals who were responsible for specific changes. Additionally, the Commission did not remove access to the server that hosts GMS for two former employees. Performing periodic reviews of user access helps to ensure that only users with current needs to access systems are authorized to access those systems.

The Commission's change management process for GMS included appropriate testing and approvals for changes; however, that process allowed the Commission's external vendor to both make programming changes and place those changes in the production environment. Although

³ Chapter 1-C is rated Medium because the issues identified present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.

the vendor placed only approved changes into the production environment, having that access increases the risk that the vendor could make unauthorized changes to the production environment.

Recommendations

The Commission should:

- Assign individual user accounts with access rights that are specific and appropriate to each user's responsibilities.
- Periodically review user access to information technology systems.
- Develop and implement a process to prevent the individuals responsible for making changes to applications from placing those changes in the production environment.

Management's Response

The Commission agrees with these recommendations.

The agency understands it is a best practice to assign individual user accounts with access rights that are specific and appropriate to each user's responsibilities, but its ability to do so is limited by the legacy grants system. The agency will reassess the viability and risk of integrating the legacy grants system with our Active Directory Services. Additionally, the agency will review all users' USAS credentials and ensure employees' access is limited to only those areas appropriate to their job responsibilities.

The agency performs periodic auditing of all accounts in the Active Directory domain. The accounts in question were local accounts on a server that is not part of the domain. New procedures have been put in place to ensure this does not occur again.

The agency will implement an installation procedure for staff to follow for releasing new code in the production environment. Future web server code releases will be implemented with this procedure.

Person Responsible for Implementation: *Director of Programs and Technology and Director of Finance*

Completion Date: *September 1, 2017.*

The Commission Had Controls to Ensure That Travel Expenditures Complied with Laws, Regulations, and Policies

**Chapter 2
Rating:**

Low ⁴

The Commission had controls to ensure that travel reimbursements and advances complied with laws, regulations, and policies. The Commission expended a total of \$45,885 in travel expenditures for fiscal year 2016 and fiscal year 2017 through December 31, 2016; that amount included \$32,536 in travel expenditures for staff and \$13,349 in travel expenditures for members of the Commission on the Arts.

The Commission took steps to conserve its travel budget by setting a maximum reimbursement rate for in-state meals of \$36 per day for overnight travel, which was less than the maximum reimbursement specified in the Office of the Comptroller of Public Accounts' travel guidelines.

For all 20 travel vouchers tested, the Commission accounted for the expenditures correctly in its financial records and obtained required signatures and approvals. In addition, for all eight travel vouchers tested that included the use of Commission travel cards, the expenditures were allowable, and the Commission had signed cardholder agreements for all users.

Although all travel expenses tested were supported, the Commission did not always fully document decisions and exceptions to requirements related to travel. For example, in one instance the Commission did not document on the travel voucher how the Commission achieved a lower total cost to the State when (1) exceeding the per diem lodging rate but (2) reducing transportation expenses. The Office of the Comptroller of Public Accounts' travel guidelines require agencies to document their exceptions to the guidelines, such as instances in which exceptions result in a lower total cost to the State. In addition, having that documentation would help the Commission fully support its decisions related to travel.

Recommendation

The Commission should complete and retain documentation to support its decisions and exceptions to requirements related to travel.

⁴ Chapter 2 is rated Low because the audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

Management's Response

The Commission agrees with this recommendation and will retain documentation to support its decisions and exceptions to requirements related to travel.

Person Responsible for Implementation: Director of Finance

Completion Date: At this time, the agency has implemented the process improvements described in the Management Response section above.

Appendices

Appendix 1

Objective, Scope, and Methodology

Objective

The objective of this audit was to determine whether the Commission on the Arts (Commission) has processes and related controls to help ensure that it administers financial transactions in accordance with applicable statutes, rules, and Commission policies and procedures.

Scope

The scope of this audit covered the Commission's activities related to awarding and paying grants, monitoring grants and grant recipients, travel reimbursements, and the related information systems for fiscal year 2016 (September 1, 2015, through August 31, 2016) and the first five months of fiscal year 2017 (September 1, 2016, through January 31, 2017).

Methodology

The audit methodology included collecting information and documentation; interviewing Commission staff regarding financial and operational processes; testing documentation related to awarding and paying grants, monitoring of grants and grant recipients, and travel reimbursements; and analyzing and evaluating the results of audit tests.

Data Reliability and Completeness

Auditors tested access to the Uniform Statewide Accounting System (USAS) and relied on previous State Auditor's Office audit work to determine that expenditure data in USAS was sufficiently reliable for the purposes of this audit.

Auditors used grant recipient site visit data from the Commission's Grant Management System (GMS) to select a sample of site visits performed and determined that data was sufficiently reliable to select a sample. Auditors also used the Commission's risk assessment and site visit tracking spreadsheet to identify additional recipients for testing. That data was of undetermined reliability; therefore, the conclusions in this report regarding those higher-risk recipients are subject to that limitation.

Sampling Methodology

Auditors selected nonstatistical, random samples of transactions and expenditures related to grant awards and grant payments, grant monitoring, grant recipient site visits, and travel expenditures. Auditors also used professional judgement to select additional items for testing in each of those areas. Those sample items generally were not representative of the population and, therefore, it would not be appropriate to extrapolate those results to the population.

Information collected and reviewed included the following:

- Commission policies, procedures, and grant guidelines.
- Commission meeting minutes, agendas, and supporting documentation.
- Risk assessment data from the Commission's manual spreadsheets.
- Grant recipient site visit data from GMS.
- The Commission's 2016 annual financial report.
- Expenditure data from USAS.
- User access data from USAS and GMS.
- Commission travel vouchers and supporting documentation.
- Grant award documentation, including independent evaluations; monthly grant payment reconciliations; grant recipient site visit checklists; and conflict of interest documentation.

Procedures and tests conducted included the following:

- Interviewed Commission staff regarding the Commission's financial and operational processes.
- Tested documentation related to grant payments, grant monitoring, and travel expenditures to determine compliance with Commission policies and procedures and state laws and regulations.
- Reviewed the Commission's processes related to evaluating conflicts of interest for potential grants.
- Tested selected general and application controls for key automated systems.

- Reviewed the Commission’s grant recipient risk assessment and site visit processes.

Criteria used included the following:

- Commission policies, procedures, and guidelines.
- Office of the Comptroller of Public Accounts’ travel policies and procedures.
- Texas Government Code, Chapter 444.
- Title 1, Texas Administrative Code, Chapter 202.
- Title 13, Texas Administrative Code, Part 3.
- The General Appropriations Act (84th Legislature).

Project Information

Audit fieldwork was conducted from December 2016 through March 2017. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The following members of the State Auditor’s staff performed the audit:

- Benjamin Nathaniel Keyfitz, CPA (Project Manager)
- Michelle Lea DeFrance, CPA (Assistant Project Manager)
- Shaun Alvis, JD
- Shelby Rounsaville
- Michelle Ann Duncan Feller, CPA, CIA (Quality Control Reviewer)
- Audrey O’Neill, CIA, CFE, CGAP (Audit Manager)

Issue Rating Classifications and Descriptions

Auditors used professional judgement and rated the audit findings identified in this report. Those issue ratings are summarized in the report chapters/sub-chapters. The issue ratings were determined based on the degree of risk or effect of the findings in relation to the audit objective(s).

In determining the ratings of audit findings, auditors considered factors such as financial impact; potential failure to meet program/function objectives; noncompliance with state statute(s), rules, regulations, and other requirements or criteria; and the inadequacy of the design and/or operating effectiveness of internal controls. In addition, evidence of potential fraud, waste, or abuse; significant control environment issues; and little to no corrective action for issues previously identified could increase the ratings for audit findings. Auditors also identified and considered other factors when appropriate.

Table 2 provides a description of the issue ratings presented in this report.

Table 2

Summary of Issue Ratings	
Issue Rating	Description of Rating
Low	The audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.
Medium	Issues identified present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern(s) and reduce risks to a more desirable level.
High	Issues identified present risks or effects that if not addressed could substantially affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern(s) and reduce risks to the audited entity.
Priority	Issues identified present risks or effects that if not addressed could critically affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern(s) and reduce risks to the audited entity.

Copies of this report have been distributed to the following:

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The Honorable Dan Patrick, Lieutenant Governor, Joint Chair

The Honorable Joe Straus III, Speaker of the House, Joint Chair

The Honorable Jane Nelson, Senate Finance Committee

The Honorable Robert Nichols, Member, Texas Senate

The Honorable John Zerwas, House Appropriations Committee

The Honorable Dennis Bonnen, House Ways and Means Committee

Office of the Governor

The Honorable Greg Abbott, Governor

Commission on the Arts

Members of the Commission on the Arts

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Ms. Rita E. Baca

Mr. David Garza

Ms. Mila Gibson

Mr. Felix Noel Padrón, Jr.

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Dr. Gary Gibbs, Executive Director



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