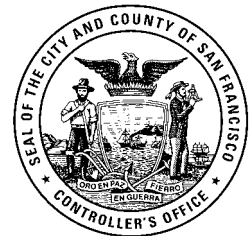


### **SAN FRANCISCO ARTS COMMISSION:**

SomArts Properly Used Grant  
Funds but Needs to Improve Its  
Accounting and Reporting  
Procedures

**FINANCIAL AUDITS  
DIVISION**



*April 24, 2006*  
02052



**CITY AND COUNTY OF SAN FRANCISCO**  
**OFFICE OF THE CONTROLLER**

**Ed Harrington**  
**Controller**  
**Monique Zmuda**  
**Deputy Controller**

April 24, 2006

Audit Number 02052

Richard Newirth, Director of Cultural Affairs  
San Francisco Arts Commission  
25 Van Ness Avenue, Suite 240  
San Francisco, CA 94102

Dear Mr. Newirth:

The Office of the Controller presents its report on the financial review of the South of Market Cultural Center, which SomArts, a nonprofit organization, operates using grant funds received from the San Francisco Arts Commission (Arts Commission) of the City and County of San Francisco (City). We delayed issuing our report until staff in the Office of the City Attorney, the Arts Commission, and the Controller's Budget and Analysis Division agreed on the interpretation of the section in the hotel tax legislation that calculated the annual target revenue for the cultural centers. As the report indicates, the auditors found that for fiscal year 2001-02 SomArts generally complied with the City's requirements for using the City's hotel tax funds. However, SomArts needs to improve some of its accounting and reporting procedures to ensure that it meets the objectives of the Arts Commission's cultural center program.

Additionally, we found that SomArts billed \$4,124 of the same wages to both the Arts Commission grant and to other government grants. We also found that the Arts Commission should better manage the grant agreement with SomArts by more closely monitoring SomArts to ensure that it submits all required reports.

Responses from both SomArts and the Arts Commission are attached to this report. The Controller's Financial Audits Audits Division will be working with the Commission to follow up on the status of the recommendations made in this report.

Respectfully submitted,

*Original signed by:*  
Ed Harrington  
Controller

# INTRODUCTION

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## BACKGROUND

The City owns four community-based cultural centers dedicated to serving the needs of the members of their communities. The cultural centers offer educational and artistic programs, and provide venues for artistic programs and gallery exhibits. The San Francisco Arts Commission (Arts Commission) administers the cultural centers through its Community Arts and Education Program. The San Francisco Municipal Code authorizes the Arts Commission to distribute a portion of the City's hotel tax funds to the cultural centers to support their operation, maintenance, and programming. In return, the operators of the cultural centers must meet certain requirements, such as spending the funds for the specified purposes, having active community support boards dedicated to community outreach, fundraising, and advocacy, and obtaining a certain amount of funding for their centers from sources other than the hotel tax funds.

SomArts, a California nonprofit organization, operates one of the City's cultural centers, the South of Market Cultural Center. The center is located in a 30,000 square foot building at 934 Brannan Street and has gallery spaces, a theater, visual arts studios, and administrative offices. SomArts serves as both a cultural center and a support service facility providing fiscal, technical and mural services. SomArts receives funding under the terms of a grant agreement with the City, through the Arts Commission.

In fiscal year 2001-02, the Arts Commission granted SomArts \$847,214 to operate the cultural center. In addition, SomArts supports its operations with revenues it receives from technical services it provides and rental of its facility. Private and foundation contributors and state and federal grants provide additional funding to SomArts.

## SCOPE AND METHODOLOGY

The purpose of this review was to comply with the requirement in the San Francisco Business and Tax Regulations Code, Section 515.01 (hotel tax legislation), that the Office of the Controller (Controller) performs a financial review every four years of the operations of the cultural centers. We determined whether SomArts complied with the provisions of its grant agreement with the City for the period July 1, 2001, through June 30, 2002. To conduct the review, we examined the applicable terms of the grant agreement and the legislation allocating hotel tax revenues to SomArts. We delayed issuing our report until staff in the Office of the City Attorney, the Arts Commission, and the Controller's Budget and Analysis Division agreed on the interpretation of the section in the hotel tax legislation that calculated the annual target revenue for the cultural centers.

The hotel tax legislation requires that each cultural center (center) obtain a minimum amount of support (target revenue) each year from sources other than hotel tax revenues. The legislation states that each center's annual target revenue is based on its fiscal year 1996-97 total revenues, including hotel tax revenues. Beginning in 1997-98, the target revenue was 20 percent of the center's 1996-97 total revenues. Each year thereafter, the new target revenue is to be the prior year's target, increased by a rate of 3 percent or by the actual rate of growth in the cultural center's hotel tax revenues, whichever is lower. If the rate of growth in the cultural center's hotel tax revenues is negative, then the prior year target shall be reduced by the actual percentage decrease in the hotel tax revenue, but the reduction shall not be more than 10 percent each year.

We also verified whether SomArts correctly accounted for all grant funds it received from the Arts Commission, whether SomArts met its required revenue target for fiscal year 2001-02, and whether SomArts complied with its grant requirement for a community support committee. We reviewed the adequacy of SomArts' procedures for administering the grant funds received from the Arts Commission and verified whether SomArts used the funds for eligible expenses as defined in the grant agreement.

We also assessed the SomArts' compliance with the reporting requirements of its grant agreement. We determined whether SomArts provided its scheduled programs for fiscal year 2001-02 and properly accounted for the revenues it received in providing these programs.

# AUDIT RESULTS

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## **SOMARTS PROPERLY USED GRANT FUNDS TO OPERATE THE SOUTH OF MARKET CULTURAL CENTER**

Our review showed that the SomArts properly used the \$847,214 in grant funds it received from the Arts Commission from July 1, 2001, through June 30, 2002, to support the operation, maintenance, and programming of the South of Market Cultural Center. SomArts used the funds to pay its staff to provide a variety of cultural and technical resources to the community. Finally, SomArts used the funds to pay for the maintenance of the South of Market Cultural Center.

SomArts also complied with the grant requirement that it have an active community support committee dedicated to community outreach, fundraising, and advocacy. We reviewed the minutes of the committee's meetings held in fiscal year 2001-02 and found that the community support committee met on six occasions during the fiscal year. One of the six meetings was adjourned without conducting any business because no community members attended. The committee meetings discussed topics such as fiscal sponsorship of small arts groups, and collaborative programming.

In addition, SomArts met the revenue-matching requirement to obtain revenues from sources other than the Arts Commission's grant from hotel tax revenues. The hotel tax ordinance requires SomArts to obtain in fiscal year 2001-02 other revenues in the amount of \$127,660, which represents SomArts' fiscal year 1997-98 target revenue from sources other than the Arts Commission's grant from hotel tax revenues, inflated annually by the lower of 3 percent or the rate of growth in SomArts' revenue from hotel tax. SomArts' target revenue in 1997-98 was \$117,545 in revenues from sources other than the Arts Commission's hotel tax funds.

## **SOMARTS INCORRECTLY BILLED THE ARTS COMMISSION FOR SOME EXPENSES AND MADE SOME REPORTING ERRORS**

Although SomArts properly used grant funds and generally complied with the City's requirements for using hotel tax funds, we found that it SomArts billed more than one government grant for the same employee wages, and that it misreported to the Arts Commission its fiscal year 2001-02 net income. Also, we found that SomArts did not file one of the ten reports that its grant agreement with the Arts Commission requires.

### **SomArts Billed More Than One Government Grant For Some of the Same Salary Expenses**

When we reviewed the fiscal year 2001-02 financial records of SomArts, we found that SomArts billed \$4,124 in wages to the Arts Commission hotel tax grant as well as to other grants from the Arts Commission and other government agencies. Of these wages, \$1,417 were also paid under an Arts Commission grant for the City of Life and Death youth festival, and \$2,707 in wages were also paid under grants with the California Arts Council. The \$2,707 in wages were eligible expenses under either the California Arts Council grant or the Arts Commission grant, but SomArts should have billed only one grant or the other.

This double-billing occurred because SomArts' bookkeeper does not accurately segregate the costs attributable to each of Somarts' contracts and grant agreements in its accounting system because employees do not identify their time by funding source on timesheets. Also, a few salaried staff do not keep timesheets at all, as is the case with the staff person whose wages were billed to both the California Arts Council Grant and the Arts Commission grant.

Furthermore, SomArts is unable to produce reports from its accounting system which correctly itemize the income and expenses of each of the the state and federal grants it receives because it doesn't consistently use the capacity of its accounting software to segregate the financial data for each funding source. We found that all of the expenses for the Arts Commission grant were segregated in the accounting system, but that SomArts did not segregate consistently the costs of

other government grants in the accounting system. While SomArts has government grant funding from sources not covered by either federal or Arts Commission guidelines, Somarts' failure to account for those funds using fund accounting principles prevents it from being able to ensure that it is reporting accurately the amount of non hotel-tax revenue that it receives in each fiscal year, which is an important requirement of its grant with the Arts Commission.

In addition, we found that the SomArts reported incorrectly the amount of its revenue from non-hotel tax sources for fiscal years 2000-01 and 2001-02 because it does not track and reconcile its non-hotel tax grants to ensure that revenues for those grants are recorded in the fiscal years that they are actually earned.

The Arts Commission provided a document entitled "Accounting Procedures & Reporting Guidelines for San Francisco Municipally Owned Community Cultural Centers" to the cultural centers several years ago which gives detailed instructions for identifying revenue and expenses by funding source using the type of software that SomArts uses for its accounting. This document was developed in June of 1998 by the person who was at that time SomArts' bookkeeper.

### **SomArts Misreported Its Net Income to the Arts Commission for the Fiscal Year**

SomArts reported in its final report and unaudited financial statements that it submitted to the Arts Commission for fiscal year 2001-02 that it lost \$7,937. However, our examination of SomArts' accounting records and supporting documentation revealed that it actually had net income of \$18,651 in fiscal year 2001-02. This reporting error occurred mainly because the agency did not record its revenues from government and foundation grants in the year in which they were earned, as required by generally accepted accounting principles.

### **SomArts Did Not File All Required Reports With the Arts Commission When Due.**

SomArts did not submit two required reports to the Arts Commission. In fiscal year 2001-02, the Arts Commission required SomArts to submit six reports to the Art Commission

by specified dates throughout the year. SomArts submitted four of the six date-specified reports on time but did not file all the remaining two.

The Arts Commission relieved SomArts of the requirement to file one of these two reports, the 2001-02 audited financial statements, based upon the expectation that the Controller's Office Financial Audits Division would be performing a financial review. The appendix lists the reports that SomArts submitted to the Arts Commission, the due dates, and the dates that SomArts was required to submit the reports.

SomArts failed to submit to the Arts Commission a required report showing how it used the grant funds advanced to it by the Arts Commission. SomArts' agreement requires it to submit a reconciliation to account for the \$151,975 in advance funds that it received from the Arts Commission and deposited on August 3, 2001. Although it neglected to submit the required reconciliation, SomArts documented how all but \$724 of the advance was spent on its final invoice to the Arts Commission, dated July 18, 2002. According to SomArts' final report to the Arts Commission, it actually spent \$9,549 more than its \$847,214 grant amount.

## **RECOMMENDATIONS**

The Art Commission should take the following actions to ensure that the SomArts operates the South of Market Cultural Center effectively and efficiently:

- Require SomArts to return \$4,124 of reimbursed wages that were also reimbursed under other government grants.
- Require SomArts to use correctly the accounting software the Arts Commission provided to the center. The center should identify revenues and expenses by funding source so that it can produce reports showing details of transactions for each individual grant it receives.
- Require SomArts to report correctly its revenues when earned and its expenses when due.
- Require SomArts to file all reports required in its grant agreement on a timely basis.



We conducted this review according to the standards established by the Institute of Internal Auditors. We limited our review to those areas specified in the audit scope section of this report.

Staff: Carmen LeFranc, Audit Manager  
Deborah Gordon

**Appendix**  
**Reports Requested by the Art Commission in Its Fiscal Year 2001-02**  
**Grant Agreement with SomArts**

|    |  | <b>Due Date</b>         | <b>Report Submitted</b> | <b>Date Submitted</b> | <b>Days Late</b> | <b>Report Submitted On Time</b> |
|----|--|-------------------------|-------------------------|-----------------------|------------------|---------------------------------|
| 1  | A 12-month management and programming plan.  | 5/01/01                 | Yes                     | 5/01/01               | 0                | Yes                             |
| 2  | An interim report on all the center's activities for the period July 2001 through December 2001.   | 1/31/02                 | Yes                     | 1/30/02               | 0                | Yes                             |
| 3  | A final report on all the center's activities for fiscal year 2001-02.   | 8/31/02                 | Yes                     | 8/28/02               | 0                | Yes                             |
| 4  | A copy of the center's personnel policies and procedures.  | 10/31/97                | Yes                     | 6/1/98                | N/A (1)          | N/A                             |
| 5  | Details about the center's officers and directors  | 30 days from any change | Yes                     | 9/9/98                | 0                | N/A                             |
| 6  | Certified copies of its articles of incorporation and bylaws as well as satisfactory evidence that the center is a nonprofit organization. | 7/1/97                  | Yes                     | 9/9/98                | N/A              | N/A                             |
| 7  | Unaudited financial statements for fiscal year 2001-02 submitted within 60 days following the end of fiscal year.                          | 8/31/02                 | Yes                     | 8/29/02               | 0                | Yes                             |
| 8  | Notice of public events.   | 30 days notice          | Yes                     | (2)                   |                  |                                 |
| 9  | Audited financial statements   | 5/31/03                 | No                      | (3)                   | N/A              | N/A                             |
| 10 | Reconciliation of Advanced Grant Funds   | 8/31/02                 | No                      |                       | N/A              | No                              |

(1) N/A = Not Applicable

(2) SomArts is approved by the Arts Commission to meet this requirement through its website's advance events calendar.

(3) SomArts was informed by the Arts Commission's Cultural Facilities Manager on February 14, 2003 that it was exempt from the requirement to submit audited financial statements for fiscal year 2001-02.

# SAN FRANCISCO ARTS COMMISSION RESPONSE TO THE REVIEW:



SAN FRANCISCO ARTS COMMISSION

February 10, 2006

RICHARD NEWIRTH  
DIRECTOR OF CULTURAL AFFAIRS

Mr. Ed Harrington  
Controller  
City Hall, Room 316  
1 Dr. Carlton B. Goodlett Place  
San Francisco, California 94102

PROGRAMS Mr. Harrington:

CIVIC DESIGN REVIEW  
PERFORMING ARTS  
PUBLIC ART  
SUITE 240

COMMUNITY ARTS  
& EDUCATION  
CULTURAL EQUITY GRANTS  
STREET ARTISTS LICENSES  
SUITE 60

CIVIC ART COLLECTION  
SUITE 70

ARTS COMMISSION GALLERY  
401 VAN NESS AVENUE  
415.554.6080

[HTTP://WWW.SFGOV.ORG/SFAC](http://www.sfgov.org/sfac)

EMAIL:  
ARTSCOMMISSION@SFGOV.ORG

The San Francisco Arts Commission has reviewed the report and recommendations by the Financial Audits Division /Office of the Controller on Somarts for fiscal year 2001-2002.

Based on the recommendations of the Controllers Office the San Francisco Arts Commission will:

- require Somarts to return \$4,124 of reimbursed wages that were also reimbursed under other government grants or to submit eligible invoices in the amount of \$4,124 not previously billed to other sources and eligible for reimbursement under the cultural center guidelines
- require Somarts to accurately use the accounting software provided in 1998. The Arts Commission issued a report and revised guidelines for the cultural centers in 2004-2005 which requires adherence to proper accounting software and procedures
- require that Somarts file all required documents and reports in a timely way.

The Arts Commission stamps and dates all reports as they are received and will continue to require Somarts to file all report revenue and expenses by the required deadlines.

Please let me know if you need any additional information.

Sincerely,

  
Richard Newirth



CITY AND COUNTY OF  
SAN FRANCISCO

## **SOMARTS' RESPONSE TO THE REVIEW:**

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934 BRANNAN STREET  
SAN FRANCISCO, CA 94103  
415.552.2131 phone  
415.522.0136 fax  
info@somArts.org  
www.somArts.org

February 27, 2006

Ed Harrington  
Controller  
City Hall, Room 316  
1 Dr. Carlton B. Goodlett Place  
San Francisco, CA 94102

### **Re: SOMARTS' RESPONSE TO THE REVIEW**

Dear Mr. Harrington:

Thank you to Deborah Gordon for detailed feedback on the audit. SomArts Cultural Center has come a long way in learning and implementing this reporting process to the San Francisco Arts Commission. It is important work and we are committed to continuing to grow in this process. From reading this report we have identified communication and additional time as areas to focus on to improve our reporting accuracy and timeliness.

I would also request submitting qualifying expenses to cover the \$4,124 of double reimbursed wages as opposed to reimbursing a cash payment to the San Francisco Arts Commission.

Sincerely,

A handwritten signature in blue ink, appearing to read "Jack Davis", is written over the word "Sincerely,".

Jack Davis  
Executive Director

cc: Mayor  
Board of Supervisors  
Civil Grand Jury  
Budget Analyst  
Public Library