

**METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY**



May 28, 2014

Jennifer Cole, Executive Director  
Metro Nashville Arts Commission  
800 2<sup>nd</sup> Avenue South, 4<sup>th</sup> Floor  
P.O. Box 196300  
Nashville, TN 37219

Dear Ms. Cole:

Please find attached the final report on monitoring of the Metro Nashville Arts Commission grants. This report explains the results of our review of federal and state grant and other financial assistance for the fiscal year 2013. Staff from the Office of Financial Accountability began the fieldwork for this review on May 5, 2014. You previously reviewed and responded to the findings in the preliminary report. Your responses have been incorporated into this final report under "Management's Comments".

We appreciate the assistance provided by your department during the course of the review. If you have any questions, please call me at 615-880-1035.

Sincerely,

*Fred Adom*

Fred Adom, CPA  
Director

cc: Ian Myers, Metro Nashville Arts Commission  
Leigh Patton, Metro Nashville Arts Commission  
Richard M. Riebeling, Director of Finance  
Talia Lomax-O'dneal, Deputy Director of Finance  
Gene Nolan, Deputy Director of Finance  
Kim McDoniel, Chief of Accounts  
Mark Swann, Internal Audit  
Kevin Brown, Office of Financial Accountability  
Essie Robertson, Office of Financial Accountability  
Brad Thompson, Office of Financial Accountability



**Metropolitan Government of Nashville and Davidson County**

# **METRO NASHVILLE ARTS COMMISSION**

**◆ Monitoring Report ◆**

**Conducted by**



**Office of Financial Accountability**

May 28, 2014

# MONITORING REPORT

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## INTRODUCTION

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The Office of Financial Accountability (hereinafter referred to as “OFA”) has completed a monitoring review of the federal and state grant and contract administered by the Metro Nashville Arts Commission. The monitoring process included a review of the contract in effect during the fiscal year ending June 30, 2013. The contracts reviewed are listed in Appendix A. The OFA conducted the monitoring review along the major compliance areas identified in the Office of Management and Budget (OMB) Circular A-133, “Audits of States, Local Governments, and Non-Profit Organizations.” and in compliance with the OMB Circular A-87, “Cost Principles for State, Local and Indian Tribal Governments.”

### About the Metro Nashville Arts Commission

The Metro Nashville Arts Commission was founded to provide leadership around arts and culture in Nashville. The Commission believes that every citizen should have the ability to experience and participate in a creative life. The agency serves arts organizations, individual artists, and the general public as a facilitator, technical assistance provider, and partner-collaborator with other arts groups. Recent accomplishments include managing 62 grants with 43 local nonprofit organizations, initiated a national model art program for outcomes evaluation in the arts, expanded Artober Nashville, a month long celebration of the arts, to include 936 events with 246 partners engaging more than 342,000 Nashvillians in the arts, and curated 4 cutting edge shows at the Metro Nashville Gallery, featuring 47 local artists including Metro employees, local elementary students, and individuals living with mental illness. The Metro Arts Commission’s fiscal year 2013 operating budget was \$2,616,900 with 9 full time employees.

### Grants Reviewed

#### Major Cultural Institutions 13

The Metro Nashville Arts Commission was awarded \$78,700 grant from the Tennessee Arts Commission under the Major Cultural Institutions 13. The purpose of the grant award was to assist with various operational expenditures.

#### Arts Build Communities 13-14

The Metro Nashville Arts Commission received \$29,866 under the Arts Build Communities grant from the Tennessee Arts Commission. The purpose of the grant award was to provide past through funding as a designated agency on behalf of Arts Build Communities initiative.

## OBJECTIVES, SCOPE AND METHODOLOGY

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A monitoring review is substantially less in scope than an audit. The OFA did not audit the financial statements for the Metro Nashville Arts Commission and, accordingly, does not express an opinion or any assurances regarding the financial statements of the Metro Nashville Arts Commission or the Metropolitan Government of Nashville and Davidson County (hereinafter referred to as “Metro”). The OFA is responsible for the internal monitoring of Metro agencies that receive federal and state financial assistance, including cooperative agreements, and non-profit organizations that receive appropriations from Metro government. In summary, any agreement(s) that imposes performance and/or financial requirements on Metro government is subject to review by the OFA.

The overall monitoring objective was to determine the department’s compliance with grantor and Metro guidelines, policies, rules, and regulations. Specifically, we reviewed for the following objectives:

- To determine whether activities and costs of the program were made in accordance with OMB Circular A-87; the minimum federal, state and local requirements; and grantor guidelines.
- To determine whether the minimum requirements for local matching contributions and/or adequate level of expenditures by other sources of funds are met.
- To determine whether grant funds were used exclusively during the period in which the funds were authorized.
- To determine the reliability and timeliness of the financial and programmatic reporting.
- To determine whether federal compliance requirements regarding sub-recipient oversight were met and whether the sub-recipient performed in accordance with the contract terms.
- To determine whether civil rights requirements are met.
- To determine whether program objectives were met.
- To determine whether the various Metro regulations were followed.

The scope of the work included the grants listed in Appendix A. The methodology adopted by the OFA encompassed various interviews and an objective review of fiscal and programmatic files, including:

- Financial transactions and supporting documentation
- Contract agreements and related amendments
- Federal and/or state financial reports
- Program reports and supporting documentation
- Correspondence between related parties.

## RESULTS OF MONITORING

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### Overall Findings and Major Review Highlights

Our review revealed one discrepancy with policies and grant requirement guidelines. The Arts Commission:

1. Needs to improve its monitoring of its sub-recipients.
2. Needs to improve compliance with Metro's OMB Policy #9 Grant Drawdown and Reimbursement Request.
3. Needs to improve compliance with Metro's Cash Deposit Policy.

The section that follows provides more detailed information for the item listed above. Management is given an opportunity to respond to the finding.

## **FINDINGS, RECOMMENDATIONS, AND MANAGEMENT'S RESPONSE**

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### Finding

#### **1. Needs to improve its monitoring of its sub-recipients.**

The Metro Nashville Arts Commission failed to adequately monitoring its sub-recipients under the Arts Build Communities 13-14 (ABC) grant. The Metro Arts Commission served as the pass through agency on behalf of the Tennessee Arts Commission to plan and execute the ABC grant funds for the small scale community arts projects build better communities by nurturing artists, arts organizations, and art supporters in each of Tennessee's 95 counties and 9 development districts. As the prime recipient of the grant funds, the Metro Nashville Arts Commission is required to advise sub-recipients of relevant grant requirements, receive and review annual program technical reports, receive and review invoices and perform on-site visits as deemed necessary. We noted that the Metro Nashville Arts Commission requires its sub-recipient to submit final expenditures and a final program evaluation upon the completion of the sub-recipient's program; however, the Metro Arts Commission does not perform on-site reviews, for the purpose of ensuring program compliance, or require its sub-recipients to submit supporting documentation to support its reported program expenditures.

### Recommendation

The Metro Nashville Arts Commission should implement a formal monitoring process of its sub-recipients to ensure compliance with grant program requirements. In addition, the Metro Nashville Arts Commission should maintain documentation of its sub-recipient monitoring activities.

### Management's Response

We do not concur. Metro Arts is unaware of any formal policy requiring us to "receive and review invoices and perform on-site visits" related to pass through grants. We have reviewed DGC's grant policy guide and the Metro Code and find no specific language that requires invoice review and onsite visit as part of grant monitoring. Rather, the existing DGC policy (2009) indicates that monitoring must be compliant with the contract. The ABC grant is a pass through of the state where no Metro dollars are involved in subgranting. There is no such requirement outlined in our contract with the state and at no time during contract review did OMB request that we make a change requiring the actions listed above.

If this is a best practice of monitoring versus a formal policy we are happy to adjust our internal practices. We request this be reclassified as a recommendation versus a finding in this report as it is not relevant to a formal Metro policy or a contractual obligation.

Metro Arts does take the recommendation seriously and will take the opportunity to improve our internal controls. We will move forward a policy of sub-grant site review and invoice review

## **FINDINGS, RECOMMENDATIONS, AND MANAGEMENT'S RESPONSE**

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to our grants committee and the full Metro Arts Commission review and approval—both for pass through and Metro grants. It is our intent that this would be in effect for fiscal year 2015.

### **Auditors' Rebuttal**

The Metro Arts Commission in its role as the pass-through serves as an agent of the state for the programmatic and fiscal oversight of all funds in the contract with the state, including those disbursed to the local smaller projects. As the pass-through agency the Arts Commission is fully accountable for all funds received and managed under the contract even when the state is involved in the subgrating process.

In addition, the OFA has agreed to work with the Arts Commission to monitor some of the recipients that happen to operate other grants reviewed by the OFA, if the Arts Commissions permits.

### **2. Needs to improve compliance with Metro's OMB Policy #9**

Our review revealed that the Metro Nashville Arts Commission did not always comply with the requirements of Metro's OMB Policy #9: Grant Drawdown and Reimbursement Policy. Per the OMB Policy #9, "Because interest expense adds to the cost of carrying out grant programs, it is Metro government's policy to make drawdowns prior to expenditures when grant terms permit Metro departmental grant recipients to drawdown grant funds, following grantor directives for such drawdowns." The Major Cultural Institutions (MCI)13 grant allowed the Metro Nashville Arts Commission to drawdown 40% of the grant award upon the completion of an executed contract. The contract was fully executed in October 2013 and the Arts Commission completed a request for funds in January 2014, totally 40% of the grant funds, for which was received by the Tennessee Arts Commission on February 26, 2014 according to a date and time stamp. Review of the general ledger associated with the MCI 13 grant revealed that on March 1, 2014 the Arts Commission reclassified various operational expenditures from Metro's general fund to the Arts Commission's grant fund for which the expenditures were incurred during the months of July, August, and September 2013, which is during the period of availability. Therefore, the Arts Commission was in fact incurring grant related expenditures and therefore should have sought the drawdown as soon as the grant was fully executed to reduce the amount of interest expense for which was charged to the grant fund.

### **Recommendation**

The Metro Nashville Arts Commission should implement a process to ensure that grant funds are requested in accordance with the grantor guidelines as well as Metro's OMB Policy #9. The Metro Arts Commission should ensure request for funds are submitted immediately upon the execution of a completed contract, especially if grant related expenditures has been incurred.

### **Management's Response**



## **FINDINGS, RECOMMENDATIONS, AND MANAGEMENT'S RESPONSE**

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We concur and will comply with full with the recommendation.

### 3. Needs to improve compliance with Metro's Cash Deposit Policy

Our review revealed that the Metro Nashville Arts Commission, did not on some occasions, comply with the requirements of Metro's Treasury Policy #9: Cash Deposits. Per the Treasury Policy #9, "payments received directly into the depository bank by ACH credit, wire transfer, credit or debit cards, are recorded by Division of Accounts in an 'unapplied' account upon receipt and must be recorded by the department benefiting from the payment into the appropriate general ledger revenue account within 2 business days of notification by Division of Accounts." The following table provides the timeline from when the payments were received and the revenue were properly recorded:

Grant	Amount	Date Received	Date Recorded in Proper Revenue Account	Days Variance
Major Cultural Institutions 13	\$31,480.00	3/8/2013	6/20/2013	104
Arts Build Communities 13-14	\$16,426.00	9/23/2013	10/08/2013	15

### Recommendation

The Metro Nashville Arts Commission should implement a process to ensure that revenue received is recognized and recorded within the appropriate general ledger account within two (2) business days as required by the Metro Finance Treasury Policy #9. The Arts Commission should immediately review the ACH unapplied wire transfers to identify and properly record the payments they have received.

### Management's Response

We concur and will comply fully with the recommendation. In order to do so, we request that the Division of Accounts revise the report that is currently issued to include the name of the payor, and/or contract number, so that it will be easier for departments to identify incoming ACH payments on the general ledger.

When the original report was issued it contained no information regarding the payor and/or contract number. The current worksheet does not allow a Finance Officer to search query via receipt amount and therefore is quite cumbersome for small departments who may only have 2-3 transactions like this per fiscal year to find and make appropriate transfers from the General Ledger. When the contract number and payor information on the transaction in question was

## **FINDINGS, RECOMMENDATIONS, AND MANAGEMENT'S RESPONSE**

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provided to our department, the ledger transaction was completed the same day. Our hope is that this will result in a reporting improvement that will make compliance easier all around.

## APPENDIX A

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Grant	Contract #	Grant Period		Award Amount	Findings
Major Cultural Institutions 13	31625-20734	7/1/2012	6/30/2013	\$78,700.00	YES
Arts Build Communities 13-14	35893	5/1/2013	6/30/2014	\$29,866.00	YES