



A Report to the Galveston
City Council

Mayor
Jim Yarbrough

Council Members
Amy Bly
Dr. Craig Brown
Frank Maceo
Mike Doherty
Terrilyn Tarlton
Carolyn Sunseri

City Auditor
Glenn Bulgherini, CPA

Auditor
Carrie Sumrall, CFE

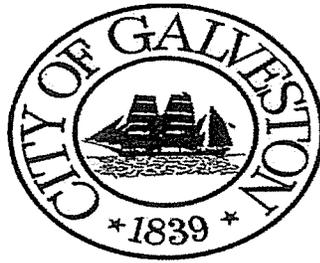
Audit Report
SP2016-3

Contributions of Hotel Occupancy Tax to Arts and Historical Preservation Audit Report



Report Summary

Article III of Chapter 33 of the Code for the City of Galveston, as amended, levies a hotel occupancy tax and provides for distribution of the receipts to entities that perform services that are appropriate under the enabling statutes. Section 33-92 of the City Code designates arts and historic preservation organizations as eligible recipients of sixths-eighths (6/8) of one seventh (1/7) of the hotel occupancy tax proceeds. The City enters into a contract with each organization and grants them the recommended portion of the HOT funds. The City Audit Department analyzed Ordinance 15-076 and created a twenty (20) point checklist (Appendix 1). The twenty point checklist was compared with each Organization's application for accuracy, missing documentation, and completion of each application. The City Audit Department found 12 instances where applicants failed to meet program requirements, yet received funding. The City Audit Department recommends that Ordinance 15-076 be simplified and condensed. The City Audit Department also recommends that all applications and documentation associated with contributions of Arts and Historical Preservation HOT funds be kept in one central location secured by a City of Galveston employee.



**CONTRIBUTION OF HOT TO ARTS & HISTORICAL PRESERVATION
CITY AUDITOR**

TABLE OF CONTENTS

BACKGROUND.....PAGE 1

OBJECTIVE.....PAGE 1

SCOPE.....PAGE 1

FIELDWORK PERFORMED.....PAGE 2

AUDIT FINDINGS.....PAGE 2

AUDIT RECOMMENDATIONS.....PAGE 2

STAFF CONDUCT.....PAGE 2

CITY MANAGER'S RESPONSE.....PAGE 3

APPENDIX 1.....PAGE 4

AUDIT TEAM

Glenn Bulgherini, CPA, City Auditor
Carrie Sumrall, CFE, Auditor

Office of the City Auditor
Galveston City Hall
Phone: 409-797-3692
Email: bulgheriniglen@cityofgalveston.org

City of Galveston
Contributions of Hotel Occupancy Tax to Arts and Historical Preservation
City Auditor Executive Summary

September 12, 2016

Background

Chapter 351 of the Texas Tax Code authorizes the City of Galveston to levy a hotel occupancy tax. Article III of Chapter 33 of the Code for the City of Galveston, as amended, levies a hotel occupancy tax and provides for distribution of the receipts to entities that perform services that are appropriate under the enabling statutes. Section 33-92 of the City Code designates arts and historic preservation organizations as eligible recipients of sixths-eighths (6/8) of one seventh (1/7) of the hotel occupancy tax proceeds. On November 17, 1994 City Council adopted Ordinance No. 94-72, which set forth the "Criteria and Selection Procedures for Contributions of Hotel Occupancy Tax to Arts and Historical Preservation." Another amendment to the Criteria was approved by City Council on April 28, 2011, with the adoption of Ordinance No. 11-032. On September 25, 2015 Ordinance No. 15-076 amended the criteria and selection procedures for contributions of Hotel Occupancy Tax to Arts and Historical Preservation entities by modifying the procedures for filing applications and submitting reports to the City of Galveston.

The City Council deems it in the public interest to award single year contracts, multi-year contracts, and forfeited funds for eligible Arts and Historical Preservation entities on an annual basis. The Arts and Historical Preservation Advisory Board makes recommendations to City Council for distribution of the Hotel Occupancy Tax (HOT) proceeds. The City enters into a contract with each organization and grants them the recommended portion of the HOT funds. The HOT funds are distributed monthly by the Park Board of Trustees.

Objective

The objective of this audit is to determine if the application process for receipt of the HOT funds for Arts and Historical Preservation is properly adhering to Ordinance 15-076.

Scope

The scope of this audit was all Organization's applications for contributions of Arts and Historical Preservation HOT funds dated January 2014 and January 2016.

City of Galveston
Contributions of Hotel Occupancy Tax to Arts and Historical Preservation
City Auditor Executive Summary

Fieldwork Performed

The City Audit Department analyzed Ordinance 15-076 and created a twenty (20) point checklist (Appendix 1). This twenty point checklist itemizes mandatory criteria for the application process for receipt of contributions of Arts and Historical Preservation HOT funds in compliance with Ordinance 15-076. The City Auditor compared the twenty point checklist with each Organization's application for accuracy, missing documentation, and completion of each application.

Audit Findings

The fieldwork performed by the City Audit Department disclosed that the following mandatory criteria was not available for review:

1. Two (2) Organization's applications.
2. Five (5) Organization's financial statements showing activity for one (1) year before the grant deadline.
3. One (1) Organization's list of addresses for board members.
4. One (1) Organization's history / philosophy statement.
5. Three (3) Organization's requested more than 20% of their budget by an immaterial amount.

Recommendation

The City Audit Department recommends that Ordinance 15-076 be simplified and condensed. The updated ordinance could include a mandatory checklist for each organization applying for contributions of Arts and Historical Preservation HOT funds. This checklist could be a mandatory part of the applicant organization's documentation to be submitted with its application for a more simplistic approach for the City to verify the required criteria has been met and submitted.

The City Audit Department also recommends that all applications and documentation associated with contributions of Arts and Historical Preservation HOT funds be kept in one central location secured by a City of Galveston employee. Currently, all information in connection with contributions of Arts and Historical Preservation HOT funds are kept in four (4) separate locations for the City: City Secretary's Office, City Finance Department, City Attorney's Office, and Galveston Park Board.

Staff Conduct

All staff acted in a professional and timely manner.

City of Galveston
Contributions of Hotel Occupancy Tax to Arts and Historical Preservation
City Auditor Executive Summary

City Manager's Response:

The audit identified 12 instances where applicants failed to meet program requirements, yet received funding. Since this program results in distribution of tax funds, City staff should be assigned to review all grant applications submitted for Council approval, and to monitor all ongoing requirements throughout the grant period. The Manager recommends that Council require an affirmative approval by City staff prior to it being presented to Council for funding. Delegation to the Parks Board seems to add an unnecessary step to the process and does not appear to add any relevant control or efficiency to the program. The requirement for quarterly distributions also appears inefficient and in need of review. Finance department staff will undertake a review of the entire funding process and make recommendations for Council review. This should be completed prior to calendar year end.

APPENDIX 1

#	ARTS AND HISTORIC PRESERVATION ADVISORY BOARD (AHPAB) VERIFICATION OF ORDINANCE NO. 15-076 TO THE MAYOR AND CITY COUNCIL OF THE CITY OF GALVESTON	YES	NO
1	All applicants turned in their applications to the Office of the City Secretary on or before January 15 by 5:00pm. If January 15 th fell on a weekend or City Holiday, the application was turned in the next available business day.		
2	All applicants and/or current recipients attended the annual orientation meeting held at 4:00 PM on the second Wednesday of December.		
3	All applicants and/or current recipients attended the annual orientation meeting held at 4:00 PM on the second Wednesday of July.		
4	All applicants made a public presentation to the AHPAB at a scheduled presentation meeting during the application process.		
5	All applicants paid, if any were due, all fines, fees, delinquent property taxes, or any other monies owed to the City of Galveston.		
6	All applicants have obtained a tax-exempt status pursuant to Section 501(c) (3) of the Internal Revenue Code.		
7	All applicants have been in operation for at least one (1) calendar year before the grant application deadline; (Does not apply to Seed Funding).		
8	All applicants have produced financial statements showing activity for one (1) calendar year before the grant application deadline; (Does not apply to Seed Funding).		
9	All applicants are governed by a Board of Directors that meets regularly.		
10	All applicants have attached their respective Board members' names and addresses to their application.		
11	All applicant and/or current recipient organizations are based in Galveston.		
12	All applicants have attached an organizational history/philosophy statement to their application.		
13	All applicant and/or current recipients provide programs and events open to the appropriate public constituencies.		
14	All applicant and/or current recipients have demonstrated that the request for Hotel Tax funds does not constitute more than 20 (%) percent of their organizational budget (50% for Seed Funding).		
15	All quarterly expenditure reports for multi-year allocation recipients have been submitted to the City's Finance Department which show a (1.) hotel occupancy tax budget and actual revenues and expenditures of such received funds as well as (2.) verification that all expenditures were made as authorized in the annual approved hotel occupancy tax itemized budget.		
16	All recipients of multi-year allocations have submitted the required annual report to the City Finance Department on or before January 15 th before 5:00pm. If January 15 th fell on a weekend or City holiday, the annual report was turned in the next available business day.		
17	All recipients of funds over one hundred thousand dollars (\$100,000) have submitted an annual audited financial report or an "Independent Accountant's Report" with the annual reporting to the City Finance Department.		
18	All applicants and/or current recipients have disbursed the awarded funds for (1.) promotion and production of fine arts activities, museums, special events, and programs with demonstrable visitor appeal and relating to the major art forms, including, but not limited to, painting, sculpture, music, theater and dance or, (2.) disbursed the awarded funds for historic preservation and restoration projects or activities requested by tourists and visitors to the City.		
19	All recipients have affixed the "Supported by Hotel/Motel Tax Dollars" logo to all advertising and printed materials, with the exception of classified ads.		
20	The Arts and Historic Preservation Advisory Board has made all funding recommendations to the City Council based on the ranking of organizations pursuant to the award criteria points outlined in Ordinance 15-076.		