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ERNIE LEE MAGAHA
CLERK OF THE CIRCUIT COURT AND COMPTROLLER
ESCAMBIA COUNTY, FLORIDA

* AUDITOR * ACCOUNTANT * EX-OFFICIO CLERK TO THE BOARD * CUSTODIAN OF COUNTY FUNDS *

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TREASURY

July 31, 2012

Charles R. "Randy" Oliver, CPA
Escambia County Administrator
221 Palafox Place, Suite 400
Pensacola, FL 32502

Dear Mr. Oliver,

At the request of your office, the Clerk and Comptroller's (Clerk's) Finance Department conducted a limited review of the fiscal year 2012 expenditures of the Pensacola Museum of Art (PMA). The County funds PMA in two ways: 1) via a direct appropriation to PMA of \$15,000 for the purpose of marketing and 2) via an appropriation administered by Arts, Cultural, & Entertainment, Inc. (ACE) of \$38,525 for the purpose of general operating activities.

Sonya Davis, the Executive Director was interviewed, and provided a list of questions to respond to for the review. The review was limited in scope to the County's funding, however, as the public funding is helping to support general operating activities, it was considered to be our purview to include a minimal review of the PMA's financial statements that were provided to ACE as part their grant approval process. We express no opinion on PMA's financial statements, however the use of public funds invites a certain level of public interest in the entity receiving the funding and how it is using the funding from the public coffers.

As it relates to the County's direct appropriation of \$15,000, documentation is sent to the Clerk's Finance Department monthly from PMA showing the expenses for marketing. Staff pre-audits the documentation and reimburses PMA as allowable. There have been no discrepancies to date in the expenditures documentation provided by PMA.

The grant PMA receives via ACE is handled differently on a monthly basis. ACE does not require PMA (or any of its other grantees) to provide detailed documentation of expenditures. In other words, ACE does not handle its grants on a reimbursable basis in the same manner that the County does. In light of this procedure, we asked PMA to provide the appropriate documentation for how the County dollars have been spent to date in support of carrying out the mission they described in their grant request of ACE. PMA's grant request stated the grant would assist them in carrying out the mission of "providing an array of stimulating exhibitions

within our historic structure; collecting and preserving works from the 20th and 21st centuries with an emphasis on modern and contemporary art; and implementing age-specific educational programs to inspire and encourage an appreciation of the arts.”

Inquiry #1: Please provide appropriate documentation for how the County dollars have been spent to date in support of carrying out your mission as defined in your grant proposal cover letter.

Finding: In reviewing the expenditure documentation provided by PMA, we found that of the \$29,775.28 received to date, 3.39% has been spent on educational art supplies, such as canvas and paint, and 96.61% has been spent on general operating support such as insurance, phone service, electricity, and a copier lease.

Inquiry #2 and #3: Please provide copies of any and all Performance Reports you have provided to ACE in support of the funding you have received. Provide copies of the most recent financial statement.

Finding: PMA performance reports were reviewed, which included monthly financial statements. Some items to note in the financial statements as of May 31, 2012 are as follows:

- The ratio of current assets to current liabilities is 1.086. Commonly referred to as the *quick ratio*, it measures the ability of a company to use its near cash or quick assets to extinguish or retire its current liabilities. Quick assets include those current assets that presumably can be quickly converted to cash at or near their book values. The industry standard for a quick ratio is 1.00, therefore, PMA is slightly higher than the standard at this point in time.
- The endowment line item fluctuates each month by interest earned and transfers in/out. No further inquiries were made regarding the endowment, as that is beyond the purview and scope of the County's funding.
- Accounts Receivables (AR) and Grant Receivables equal close to \$90,000. We inquired as to PMA's policy/process on AR collections. Ms. Davis stated that they do actively pursue collection on the outstanding AR. Some AR accounts were recently written off during a current review process when it was determined that the amounts should not have been billed.
- Grant income appears to be approximately 28% of total income.
- Net Income to date is less than \$1,000.
- Retained earnings are over \$500,000.
- Significant budget departures are as follows:
 - Special Event Income is significantly over-budget
 - Annual giving is under budget. One component of this category is membership revenue. Although aggregate membership revenue is virtually at the same level as last year, the budgeted expectation was for increased membership. Individual

memberships have decreased, while other categories of membership giving have increased. See Inquiry #8 for a more detailed explanation on membership levels.

- Sponsorship Revenue is under budget
 - Utilities and Marketing expenses are over budget
 - General Administrative and Payroll costs are under budget
- Balance Sheets are reported for two (2) months comparatively at a time. It was noted that amounts reported at the end of one month do not always equal the same amount as reported the following month, in the comparative column. For example, the ending balance sheet amounts for the February 29, 2012 Balance Sheet did not equal the reported balances for February on the March 31, 2012 Balance Sheet. PMA's Finance Director, Jessica Hyché, explained that month-end adjustments are made after the financials are reviewed by the Finance Committee, therefore the ending balance may change. PMA explained that they may not have submitted the "final" balance sheets for this review and that they would check on this. No further documentation has been received at this time.

Recommendation: Once published, balances reported one month in the financial statements should not change from month to month. Adjustments made after the close of a period and publishing of the financial statements should be absorbed in the current month and reported as such.

Inquiry #4: Are you accounting for the County's dollars separately or are they co-mingled? The County's direct funding is to be spent only on advertising and marketing.

Finding: Ms. Davis indicates that the marketing and advertising line items are coded separately in their accounting system. "Marketing Expenses" do appear as a separate line item on the Profit & Loss Statement.

Inquiry #5: What is the status of the Audit Committee and their tasks as outlined on page 11 of the Grant Proposal? Per the proposal, the Audit Committee was to select an audit firm to perform a review/audit.

Finding: Per Ms. Davis, there are no minutes of the meeting held by the Audit Committee; however the Committee has sent a Request for Proposal (RFP) to seven (7) local firms requesting a review. Three responses were received from which a firm was selected on June 28, 2012 and began on July 9, 2012.

Recommendation: We request the PMA provide to the County a copy of that audit/review within 15 days of its release. If PMA does not comply with this request, it is recommended that the County funding be held in abeyance until the report is received.

Inquiry #6: What does your Finance Committee do and how often do they meet?

Finding: Per Ms. Davis, the PMA's Bylaws establish the Finance Committee work with the Treasurer to create the annual budget and prepare for the annual audit. The Finance Committee meets monthly to review financial reports.

Recommendation: Based on their receipt of county funding, it is recommended and the Clerk's Office highly encourages the PMA to keep minutes of both the Audit Committee Meetings and the Finance Committee Meetings to document actions taken.

Inquiry #7: What is PMA's status in meeting its 2012 fundraising goal of \$40,000 (page 15 of the Grant Proposal)?

Finding: According to the FY 2012 Grant Proposal submitted to ACE, the PMA established a goal of raising \$40,000 during FY 2012. According to the May 31, 2012 Profit & Loss Statement, the PMA has indeed exceeded that goal.

Inquiry #8: Have memberships increased as projected on page 15 of the grant proposal (projected increase of 72%)?

Finding: Per Sonya Davis, Membership has increased only 1.43%, well below what was expected. PMA is working now through their current Annual Members' Exhibition to improve their membership numbers by year end. PMA is working on filling the vacated position of Board Membership Chair and it will be part of this person's goals to recruit individual and corporate memberships.

Inquiry #9: No County dollars should be used on the Chicago "friend-raising trip" (see page 16 of the Grant Proposal) as that effort pertains to the function of raising private donations and memberships outside the scope of programmatic activity.

Finding: Per Ms. Davis, the Chicago trip sponsored by the Museum was paid for individually by the travelers. No Museum funds were used to support this trip.

Inquiry #10: Please provide documentation of the economic impact of the Museum as indicated is available on the grant application checklist. What quantifiable evidence do you have of improving economic development through tourism by putting "heads in beds"?

Finding: PMA supplied the list of out-of-town visitor locations that were registered in their guest book. Travelers have come from 39 States and 16 different countries. Examples include California, Connecticut, Massachusetts, New Mexico, Texas, Washington, Brazil, China, Germany, England, Holland, and Russia to name a few. Although the PMA does not collect lodging data on these guests, it is certain that they are staying in local hotels and other various transient rental accommodations, satisfying the requirement that the County

grant money be used to “put heads in beds”. There appears to be a definite impact on the local economy with tourism dollars spent on lodging, food and other services.

Overall, the review went smoothly. Ms. Davis is knowledgeable and was willing to answer all questions asked of her. Based on our limited review, no discrepancies in the County funding was noted. Attached you will find an e-mail response from Ms. Davis on behalf of PMA. She indicates that some recommendations have been brought to the attention of the Audit and Finance Committees and are in the process of being implemented.

Sincerely,

Ernie Lee Magaha, Clerk of Court and Comptroller

By: *Patricia L. Sheldon*
Patricia L. Sheldon, CPA, CGFO, CPFO, CPFIM
Administrator for Financial Services

cc: Sonya Davis, Executive Director, PMA

From: Sonya Davis [mailto:sonya@pensacolamuseumofart.org]

Sent: Monday, July 30, 2012 2:40 PM

To: 'Patty Sheldon'

Subject: RE: PMA Audit Report draft -- comments

Patty,

Thank you again for your willingness to give me a chance to review and respond to your report. I have a couple things I'd like to ask you to consider noting, changing or including.

Might you consider that while we have not increased as hoped, the aggregate membership revenue (total membership dollars) is the same as last year per the information I sent you?

Since the Finance Director creates the reports, would it be appropriate to say the Finance Director rather than PMA as far as the explanation of the difference in the end of the previous month and the beginning of the next month in February and March? I don't know if this makes any difference. In the meantime, this has been brought to the attention of the Finance Committee and the recommendation will be implemented.

In my response to Inquiry #5, seven firms were approached but several had conflicts of interest therefore 3 firms sent proposals. Again, I don't know if that makes any difference. I just want my responses to be accurate.

Regarding recommendations related to Inquiry #6, I have advised the Audit and Finance Committees to keep minutes to document their actions and recommendations to the full Board. This process will be in place forthcoming.

Thank you again for your willingness to let me review and respond. Please call me if there are any other questions I can answer.

Best,

Sonya

Sonya Davis
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