

Audits of Cultural Grants by the City of Vienna



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Definitions

In the following, the terms 'grants' and 'subsidies' are used as synonyms, meaning

“A monetary contribution by the public sector without consideration at market conditions“



Art and Culture Institutions of the City of Vienna

- Do not include: State Opera, federal museums, Burgtheater, Schönbrunn Palace, Schatzkammer, Hofburg....
- Include: Vereinigte Bühnen Wiens, Theater in der Josefstadt, Volkstheater, Musikverein, Konzerthaus, Wien Museum, Jewish Museum, Vienna Symphony Orchestra, small and middle-sized theatres, and many many more
- Total capacity: 70,000 seats for theatre and concert performances each night with 100 theatres, 300 museums, 80 festivals per year



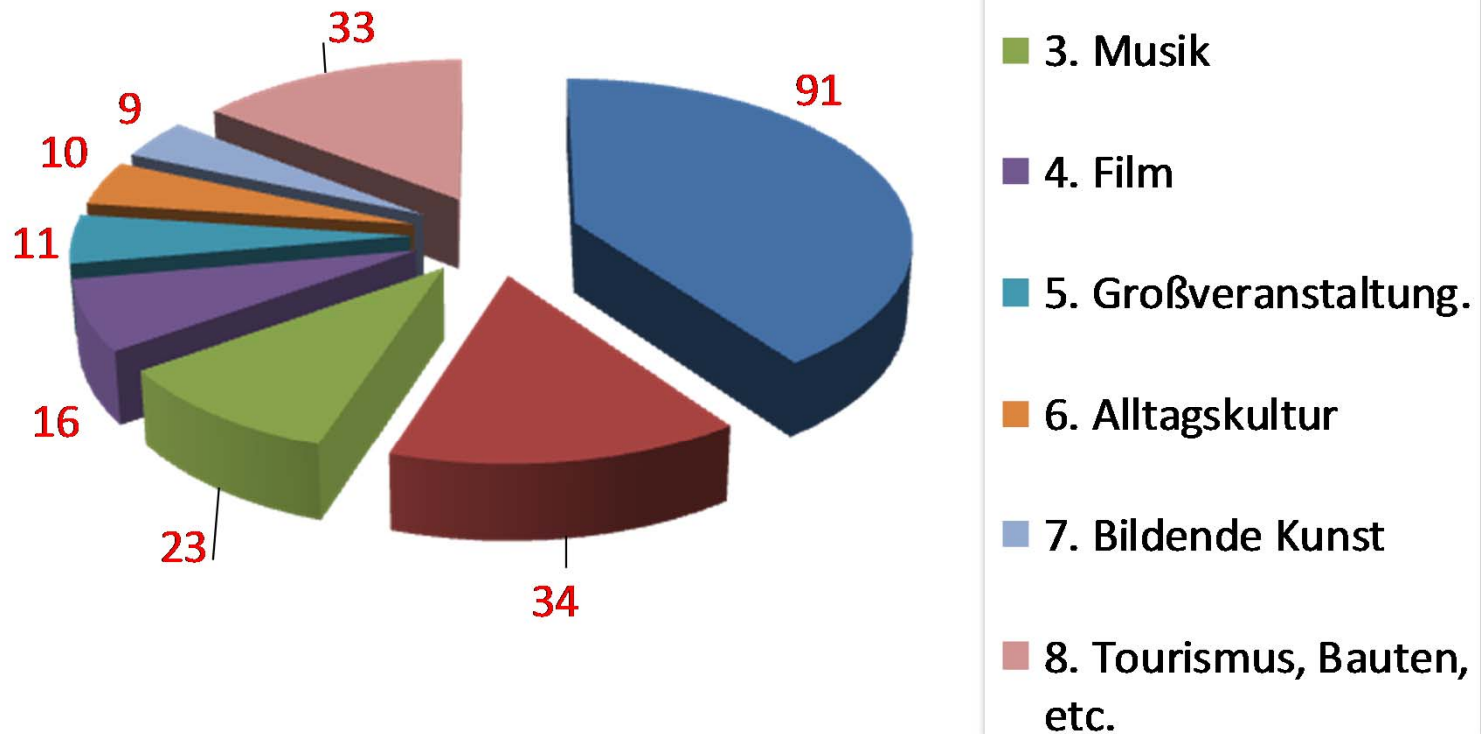
The City of Vienna Court of Audit

- Audit mandate is embedded in the Vienna City Constitution
- Two departments (Culture & Education, Participation Management) are responsible for culture audits
- Culture audits account for only 5 % of the total audit work of the Vienna Court of Audit
- 30 culture audits were conducted in the period 2010 to 2014, giving rise to almost 600 recommendations, i.e. 20 recommendations per report on average
- Audit recommendations are implemented at a rate of almost 100 %
- Audit capacity approx. 2-3 persons per year



Art and Culture Grants in 2014

Total of EUR 227 million



Types of Grants

- Culture grants are disbursed on the basis of a private-law agreement, there is to right to a grant
- By concluding the agreement, the right to audit is ensured also with private organisations

- The following **types of grants** exist:
 - Individual or project grants
 - Overall grant (annual grant) for not-for-profit organisations (cover of shortfall)
 - Annual or multi-annual grants



Selection of Audit Objects

Audits firstly concern the Municipal Department for Culture as grant-awarding (funding) entity

The Municipal Department for Culture is audited at approx. 8-year intervals.

However: In the course of every audit of a beneficiary, the funding entity will also be reviewed.



Base for Auditing the Award of Grants: Manual for Province Audit Offices

- Grant guidelines
- Process analysis

- Right to audit
- Application portals
- Documentation of award and settlement
- Multiple grants
- Impact analysis



Requirements Grant Guidelines Must Satisfy

- Definition of grant requirements (not-for-profit purpose with annual grants)
- Assessment of grant amount
- Form and content of applications and settlements
- Proof and audit of use for intended purpose
- Rules governing wrongful use of grants
- Target-attainment indicators
- Definition of eligible costs (expenses)



Process Governing the Award of a Grant

- **Application:** financial plan, signature
- **Authorisation:** competent body, funding requirement
- **Handling and disbursement:** separate bank account
- **Audit of use for intended purpose and effectiveness:** inspection of vouchers, financial statements, degree of target attainment
- **Internal control system:** dual-control principle



The City of Vienna Court of Audit's Findings concerning the Award of Grants

- Inadequate standards for auditing the settlement of grants in spite of specific rules
- Lack of professional competence when it comes to audits of settlements
- Poor documentation
- Lack of uniform grant processes
- Gaps in the implementation of the dual-control system
- Lacking impact targets and/or indicators



Finding

- The primary aim for the awarding entity is to grant support, the focus is on the artistic dimension, lack of motivation for targeted audit measures
- Because of lacking capacity, the awarding entity fails to conduct audits directly with the beneficiaries
- It is insufficient to limit audits exclusively to the award of a grant.

Conclusion

- It is indispensable for the audit institutions to conduct audits directly with the beneficiaries.



Audits with Beneficiaries

- Selected on the basis of an ABC risk analysis.
Some 40 beneficiaries with over EUR 1 million.
(The highest individual grant is EUR 37 million)
Approx. 30 between EUR 100,000 and EUR 1million.
Add approx. 2,000 individual grants of less than EUR 10,000 in general.
- Selection of audit objects from all grant segments
- High risk: grants to privates
- Priority: reduction of the number of unaudited entities



Beneficiaries: General Audit Priorities

- Eligibility
- Transparent documentation of decisions
- Economic use of funds and use for intended purpose
- Settlements (financial statements) and applications
- Compliance with effectiveness targets
- Internal control system
- Statutory auditors
- Dual-control principle
- Self-dealings
- Indicators (only over time, not as a benchmark)



Comparison of indicators over time to raise awareness among funding entities

- Coverage of own costs **6-92 %**
- Number of (paying) visitors & capacity utilisation **42-93%**
- Grant per visitor **EUR 7-178**
- Capacity utilisation based on total amount of tickets for sale (=maximum receipts) **22-83%**
- Free tickets **4-23%**
- Staff costs **19-78%**
- Cash flow, own funds ratio, liquidity ratios, fictitious duration of debt repayment



Findings with Beneficiaries and/or deficiencies not identified by the Funding Agency (1)

- **Eligibility**
- Beneficiary operates not-for-profit, but has reserves in excess of one annual budget
- The not-for-profit association is a mere shell, transactions are handled via a GmbH
- **Financial troubles (City to cover shortfall)**
- Unpaid remuneration of management
- Non-disbursed (and never agreed) royalties
- Unsettled loans
- No financial statements, just individual vouchers



Findings: Beneficiaries (2)

- **Self-dealings**
- Stage design sets up identical GmbH consisting of the same persons (price?)
- Was the contracting of partners in conformity with market conditions?
- Lacking separation of accounts between several areas
- **Expenses**
- No evidence of use for association activities
- Posting texts and vouchers not verifiable
- Vouchers are not produced in a timely fashion
- **Advertising expenses**
- Higher than receipts from the sale of tickets e.g. 113 %
- Always 50 % higher than when the grant was applied for



Findings: Beneficiaries (3)

- **Recording of receipts**
- Lacking or not documented in a verifiable form
- 30 authorised seats accounted for, 90 tickets actually sold (loss of approx. EUR 90,000 and security problem)
- Claim: School events need not be accounted for (hearsay)
- No cashbook, no documentation of cash withdrawals
- Sales proceeds lower than purchased goods
- Many give-away tickets, sometimes only 5 % sold at full price



Findings: Beneficiaries (4)

- **Statement of assets**
 - Inexistent
 - No records on inventories
 - Stocktakings not performed
- **Granting of loans by beneficiary**
 - To sister associations
 - Officers in the association
 - Third parties



Findings: Beneficiaries (5)

- **Personnel**

- No written agreements
- Employee signing service contract for director
- Employee acting as auditor

- **Auditors**

- Not appointed
- Certify lacking statements of account
- Biased, often family members



Findings: Beneficiaries (6)

- **Statutes**
- Violation of own rules (often model statutes which are not implemented in practice)
- **“Economy“**
- 50% of the fee to the non-employed partner
- Daily set-up and dismantling at an event centre that is used by many event organisers, in spite of recurring performances (basic democracy versus economy)
- Travelling theatre no longer travels because of excessive conversion costs. The theme however was **travelling** theatre.



**Thank you for your interest and
attention!**

Audit reports:

<http://www.stadtrechnungshof.wien.at/>

