

REGIONAL ARTS AND CULTURE COUNCIL:

Clear City goals aligned with strong Arts Council strategy will improve arts and culture services

May 2018



Faith47, *Capax Infiti (Holding the Infiti)*, 2014 and RONE, *Every Rose Has Its Thorn*, 2013.



PORTLAND
CITY AUDITOR
Audit Services



Mary Hull Caballero, City Auditor

Kari Guy, Audit Services Director

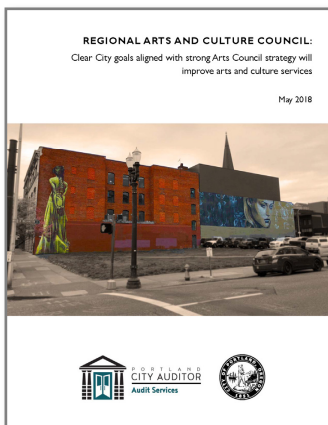
Audit Team

Jenny Scott, Senior Management Auditor

Martha Prinz, Senior Management Auditor

Cover Photo and Alterations

Audit Services Division





May 22, 2018

TO: Mayor Ted Wheeler
Commissioner Chloe Eudaly
Commissioner Nick Fish
Commissioner Amanda Fritz
Commissioner Dan Saltzman
Jeff Hawthorne, Interim Director, Regional Arts and Culture Council

FROM: Mary Hull Caballero, City Auditor

SUBJECT: *Audit Report - Regional Arts and Culture Council: Clear City goals aligned with strong Arts Council strategy will improve arts and culture services*

This report makes recommendations to improve the City's provision of art and culture services through its contract with the Regional Arts and Culture Council. The report includes the slides and notes from a PowerPoint presentation for a work session with City Council on May 22, 2018. We chose this different format to report quickly to best inform the City's upcoming contract negotiation with the Regional Arts and Culture Council.

Response letters from the Mayor and Arts Commissioner, and the Board Chair and Interim Director of the Regional Arts and Culture Council are included at the end of the report.

We will follow up in one year with the Arts Commissioner and Regional Arts and Culture Council for a status report detailing steps taken to address our audit recommendations.

We appreciate the assistance we received from the Arts Commissioner and the Regional Arts and Culture Council as we conducted this audit.

Mary Hull Caballero
City Auditor





Regional Arts and Culture Council Audit Work Session

A Portland Story, Jack McLarty, 1998. Woodblock tiles

Audit Report
May 22, 2018

Portland City Auditor
Audit Services Division

The Mayor and Arts Commissioner asked the City Auditor to perform a broad review of the Regional Arts and Culture Council's operations pursuant to its contractual agreement with the City after the Arts Council's long time Executive Director retired last summer.

The Arts Council is an independent 501(c)(3) organization governed by a volunteer Board of Directors. The City has contracted with the Arts Council for more than 20 years for arts and culture services including public art, grants, arts education, strategic planning and advocacy. Before becoming a nonprofit organization, the Arts Council was a City bureau.

This report first covers overall audit results, then background about the City's history with the Arts Council and about the organization itself, and then discusses in more detail our audit findings and recommendations.



Audit objectives

1. Does the City have clear goals for arts and culture?
2. Is the Arts Council providing services to meet City goals and contract obligations?
3. Is City oversight of the Arts Council helping to ensure that City goals are met?

Objective one: Does the City have clear goals for arts and culture?

The City does not have clear goals for arts and culture.

Objective two: Is the Arts Council providing services to meet City goals and contract obligations?

Because the City lacks clear goals for arts and culture, we were unable to answer the first part of the question. Our work focused on the Arts Councils' provision of services to meet contract obligations.

We found that the Arts Council provides many arts and culture services to the City, but that improvements are needed.

The Arts Council needs to articulate its strategy and regional role.

- The Arts Council lacks a strategic plan.
- The Arts Council is a regional organization, but is primarily funded by and focused on the City.
- The City's representation on the Arts Council's Board of Directors is less than what was originally intended.

The City contract with the Arts Council needs improvement.

- Elements of the contract are vague and hard to measure.
- Oversight and reporting responsibilities for arts education are unclear.
- There is a possible insurance risk because the City does not know the value of arts assets.
- The Arts Council is developing a proposal to restructure its largest grant program contrary to aspirational funding goal in the contract.

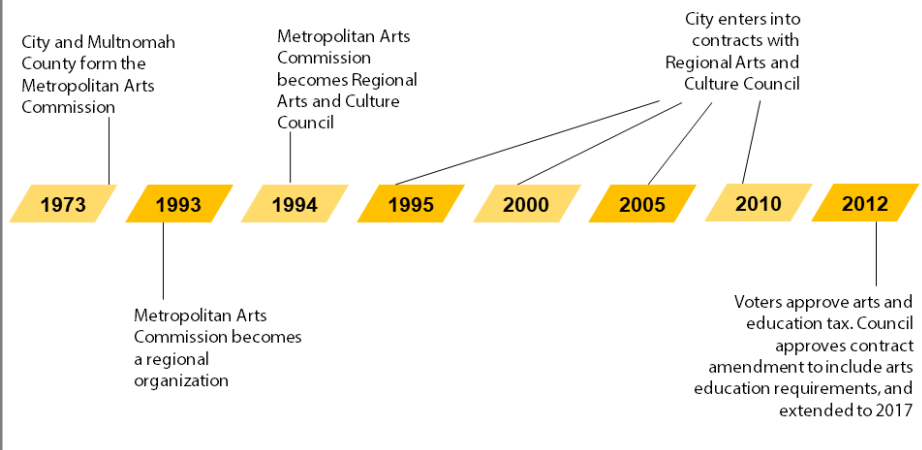
Objective three: Is City oversight of the Arts Council helping to ensure that City goals are met?

The City's oversight of the contract and spending needs improvement.

- There is no City contract administration or performance monitoring.
- The City is not thoroughly overseeing how the Arts Council spends money.
- The City is not tracking completely how it funds the Arts Council.



City has long history with the Arts Council



1973 The City and Multnomah County entered into an intergovernmental agreement to co-found the Metropolitan Arts Commission, which was a City bureau with offices in the Portland Building.

1993 The Metropolitan Arts Commission became more of a regional organization when the intergovernmental agreement was expanded to include Clackamas, Washington, and Clark counties.

1994 The Metropolitan Arts Commission was restructured into a nonprofit organization called the Regional Arts and Culture Council.

1995 The City of Portland, Metro, Multnomah, Clackamas, and Washington counties entered into an intergovernmental agreement designating the Arts Council as the region’s arts and culture agency.

1995 (continued) The jurisdictions agreed to enter into service agreements with the Arts Council.

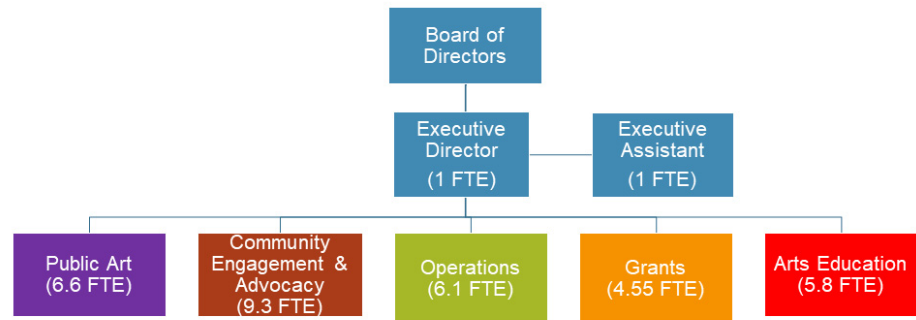
In turn, the Arts Council agreed to provide leadership, strategic planning, policy making, and coordination for the regional arts industry and its financial support.

1995 — 2010 The City of Portland entered into 5-year contracts with the Arts Council in 1995, 2000, 2005 and 2010.

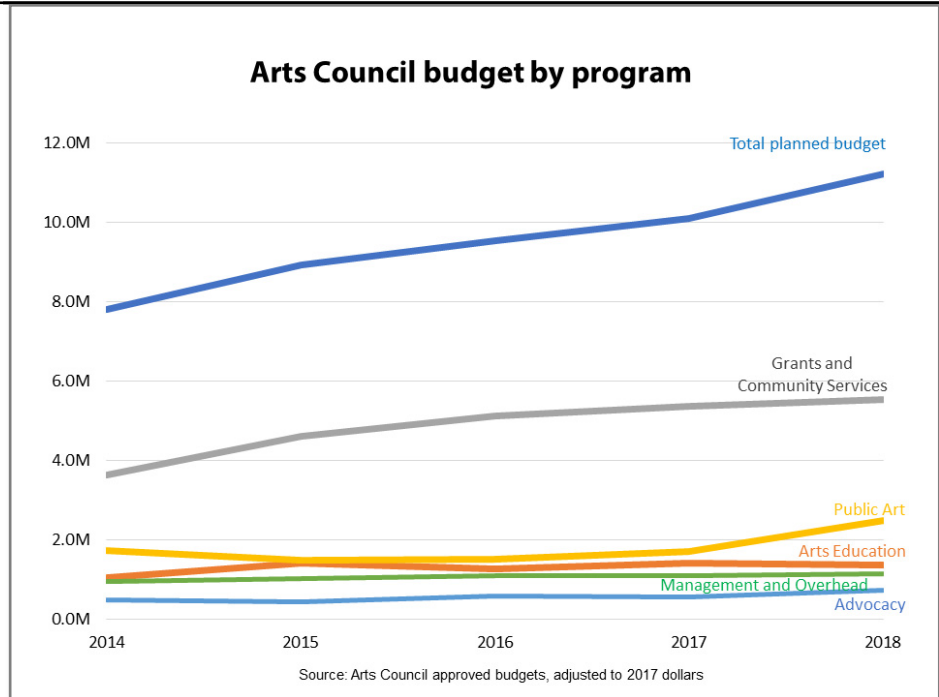
2012 After Portland voters approved the Arts Education and Access Income Tax, the contract was amended to add elements related to the Arts Education and Access Fund, including grant making and responsibilities related to arts education, and the contract was extended to November 2017. Last year, the contract was extended again and is set to expire on June 30, 2018.



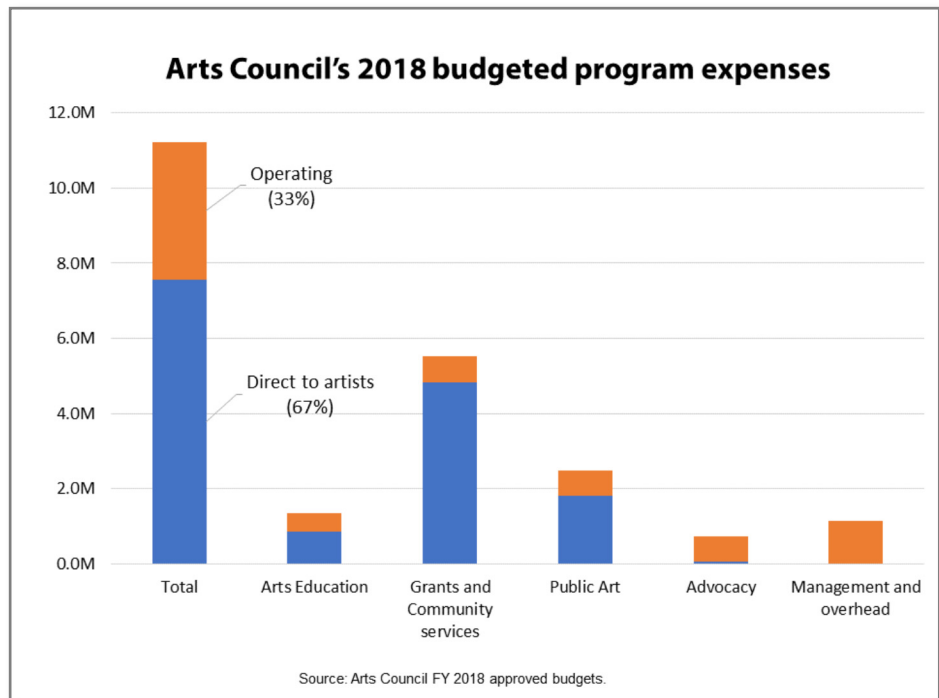
Arts Council's organizational structure



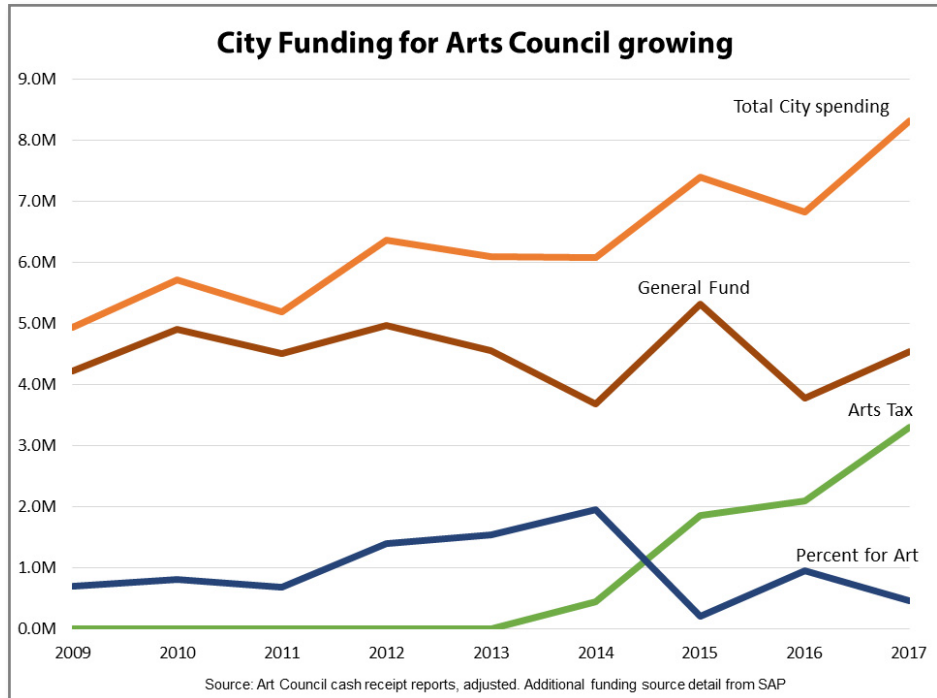
- The Arts Council has 34.5 full time equivalent employee positions.
- The Arts Council's Public Art staff are the stewards of the joint City and Multnomah County public art collection, which includes routine maintenance and conservation of more than 2,000 public art works. They also work with City bureaus that have Percent for Art funded projects.
- The Arts Council's community engagement program is responsible for research and assessments. Staff also run a workplace giving campaign, perform outreach and work to engage marginalized communities.
- The Arts Council's operations program is focused on internal operations including human resources, information technology and finance.
- The grants program oversees six types of grants for artists and arts organizations.
- The arts education program works to bring art into public schools in the region. They run the Right Brain Initiative and have some oversight responsibilities for Arts Education and Access Tax funded programs.



In 2018, the total planned budget for the Arts Council was \$11.2 million. This is an increase from 2014 when the organization’s budget was \$7.8 million. Spending on the grants program makes up the largest share of the Arts Council’s budget, followed by the public art program, arts education, management and overhead, and advocacy.



We found that while most of the Arts Council’s budget goes towards artists and arts organizations, about a third of its budget goes towards operating expenses like salaries, staff training, and rent.



We calculated total City spending on the Arts Council using the Arts Council’s financial records.

We were unable to rely on information contained in the City’s accounting system because we found it was incomplete. We will discuss this issue in more detail later in the report.

In 2017, the City (including Prosper Portland) gave the Arts Council \$8.3 million.

- \$4.5 million was from the General Fund.
- \$3.3 million was from the Arts Tax.
- \$500,000 was from the Percent for Art Program.
- These totals do not include Work for Art donations made by businesses or City employees.



From the 2010 City contract with the Arts Council:

“This Agreement in combination with the Intergovernmental Agreement establishing contractor as the Regional Arts and Culture Council and the Transition Agreement between the City of Portland and RACC contains the entire agreement between the City and RACC and supersedes all prior written or oral discussions or agreements.”

The City’s agreement with the Arts Council is contained in the intergovernmental agreement and transition agreement that established the organization, as well as the 2010 amended contract.

In our audit work, we relied on information contained in these agreements.



City needs clear goals for arts and culture

Our first objective was to determine if the City has clear goals for arts and culture.

We found the City does not have clear goals for arts and culture.



In addition to the work of the Arts Council, various City agencies do work related to arts and culture.

- Portland Parks and Recreation has an Arts, Culture, and Special Events program.
- The Bureau of Transportation issues permits for public art sited in the right of way, and their Sunday Parkways program has included cultural celebrations.
- The Grants Division administers the special appropriations grant program that includes arts and culture grants.
- The City Budget Office is responsible for administering elements of the Percent for Art program.
- The Revenue Division administers the Arts Education and Income Tax and the Arts Education and Access Fund.
- City Risk is responsible for insuring the City's art collection.
- The Office of Neighborhood Involvement consults with Neighborhood Associations about murals that are planned in their areas.
- The Bureau of Development Services reviews designs for projects that include art instead of ground floor windows, issues permits for murals, and plans to create a Small Business Liaison position to help artists navigate the City's permitting process. The Bureau of Development Services also works with the Arts Council to jointly select members to sit on the City's Design Commission, and the Arts Council's Public Art Committee.

AUDIT RESULTS

City needs clear goals for arts and culture

- City bureaus with Percent for Art projects help select the public art that will be purchased or commissioned, and help decide if the art will be a permanent or portable work. They can also decide to fund an artist in residence with their Percent for Art funds.
- All City bureaus display in public places art chosen from the joint City/Multnomah County rotating collection.
- The City also has a Creative Laureate who serves as Portland's cultural ambassador and participates in community education, advocacy, and public events.

City needs clear goals for arts and culture

From the 1995 intergovernmental agreement:

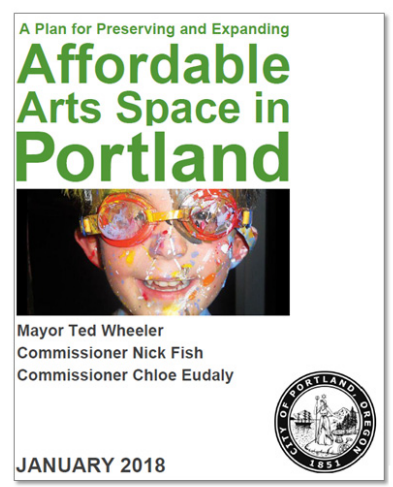
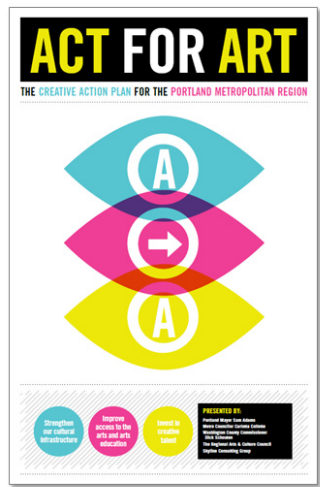
"RACC shall be designated as the arts and cultural agency with responsibility for the stewardship of public investment, and for serving citizens of the region by providing leadership, strategic planning, policy development, coordination, and financial support for the regional arts industry."

The 1995 intergovernmental agreement designates the Arts Council as the arts and culture agency responsible for, among other things, strategic planning and policy development.

AUDIT RESULTS

City needs clear goals for arts and culture

City needs clear goals for arts and culture



The City’s first comprehensive arts and culture planning process was in 1992. The most recent arts and culture planning effort was in 2009. This effort resulted in *Act for Art*, a regional plan focused largely on increasing funding for the arts.

These efforts included assessments of the arts and culture needs of the city and region and the reports contained goals and strategies to address these needs.

- The City recently accepted *A Plan for Preserving and Expanding Affordable Arts Space in Portland*, a project spearheaded by Commissioner Fish’s office focused on preserving and expanding affordable space for artists to create and show their work.
- The Arts Council prepared a one-year arts agenda for the Mayor in 2017.

While proactive, these efforts do not address Portland’s entire arts ecology and do not articulate either a vision or goals for what the City wants to do in terms of arts and culture generally, and how they intend to get there through the work of the Arts Council and City bureaus.

AUDIT RESULTS

City needs clear goals for arts and culture

City needs clear goals for arts and culture

From the 2010 City contract with the Arts Council:

“Provide leadership and conduct studies, hearings, and investigations to determine the needs of the City and the region in the arts and culture.”

“Plan for development and wise stewardship of our cultural resources within the arts sector and seek to incorporate an arts agenda into City and regional economic development, education, human service and growth management strategies.”

“The City shall confer with the Executive Director of RACC in city goal setting, annual retreats, and appropriate task forces.”

We found that the City lacks clear goals for arts and culture because the Arts Council and the City are not delivering or could do more to meet elements of their contract related to assessing needs, planning, and goal setting.

For example, one provision of the contract calls for the Arts Council to conduct studies, hearings, and investigations to determine the city and the region’s arts and culture needs. The Arts Council has not performed a general needs assessment since 2009, although Portland’s arts ecology has changed since then. The Arts Council said that it has been focused on assessing the needs of communities of color and other underrepresented communities in Portland for the last three years.

The contract calls for the Arts Council to incorporate an arts agenda into city and regional economic development, education, human service and growth management strategies, but we did not find evidence of this taking place at the City level since art related actions were integrated into the Portland Plan in 2012.

The contract calls for the City to confer with the Executive Director of the Arts Council in City goal setting, annual retreats, and task forces, but we did not find evidence of this taking place.

AUDIT RESULTS

City needs clear goals for arts and culture

The lack of clear goals, vision and strategy for arts and culture in Portland poses risks:

- City providers of arts and culture services (including the Arts Council) may struggle to prioritize their work.
- The Arts Council could provide services that are not aligned with City goals.
- The City misses the benefit of having the Arts Council's perspective on City decisions.



In addition to the contract requirements that call for the Arts Council to assess needs and to assist in articulating an arts agenda, experts recommend arts and cultural planning be used to engage with communities, assess needs and assets, and solidify the role of arts and culture into the operations of a city.

Other cities, including Denver, San Jose and Chicago have plans that articulate their jurisdictions' goals, strategy, and vision for arts and culture.



Recommendation



We recommend:

1. The Arts Commissioner and the Mayor work with the Arts Council, City leaders, City agencies involved with arts and culture, and community stakeholders to:
 - a. Assess the state of arts and culture in Portland;
 - b. Identify needs; and
 - c. Develop clear goals, vision, and strategy for arts and culture for City Council adoption.



Our second audit objective was to determine if the Arts Council is providing services to meet City goals and contract obligations.

We found that the Arts Council needs to articulate its strategy and regional role.

For example, we found that the Arts Council does not have a strategic plan.



A strategic plan is document that communicates the organization’s goals and the actions they plan to take to achieve them. Comprehensive strategic planning has not been carried out by the Arts Council. Former management said that is because the Arts Council has not had the certainty of a dedicated funding stream needed for long-term planning.

Arts Council management acknowledges the need for a strategic plan and is waiting for the new Executive Director to undertake strategic planning.

Additionally, the organization’s mission, “To enrich our communities through arts and culture,” does not identify who the

organization serves or what they do, and goals of program workplans are not directly tied to the mission.

The lack of a strategic planning process and corresponding plan has resulted in:

- Internal concern that the Arts Council’s operations are disjointed and that the public does not know what they do.
- Risk that money is not spent strategically if the organization does not have a clear mission or plan to achieve it.

AUDIT RESULTS

Arts Council needs to articulate strategy

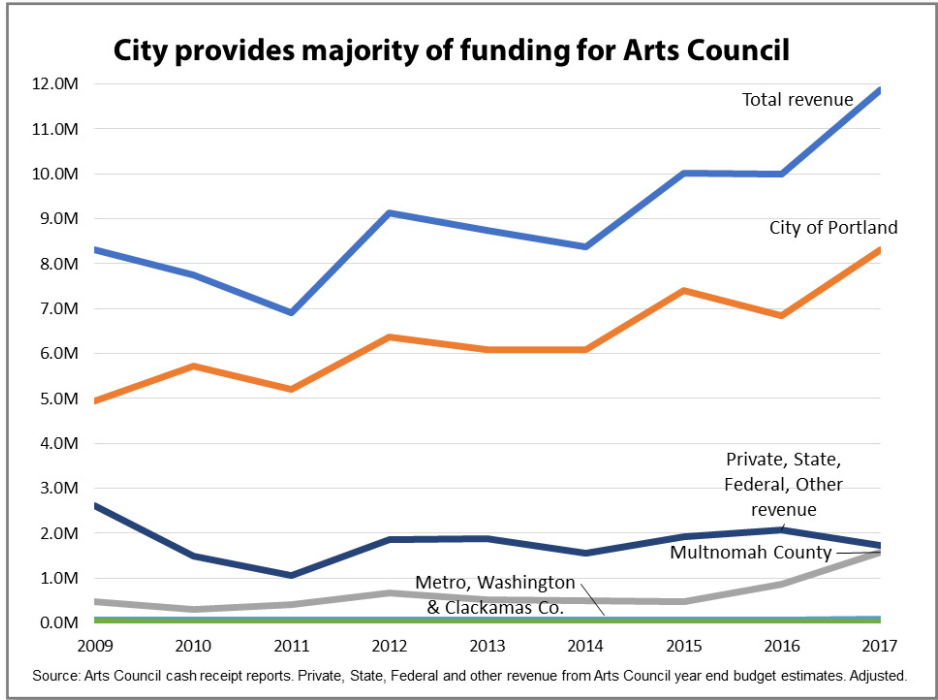
We found that despite being founded as a regional organization, the Arts Council is primarily funded by and focused on the City of Portland.

Arts Council needs to articulate strategy and regional role



Parties to the intergovernmental agreement that established the Arts Council are the City of Portland, Metro and the Counties of Multnomah, Clackamas, and Washington.

AUDIT RESULTS
 Arts Council needs to articulate strategy



In 2017, total revenue for the Arts Council was \$11.9 million.

That year, total funding from the City of Portland was \$8.3 million, which represents 70 percent of the Arts Council’s budget.

As noted in the background section, \$4.5 million of City funding was from the general fund, \$3.3 million from the Arts Tax and \$0.5 million from the Percent for Art Program.

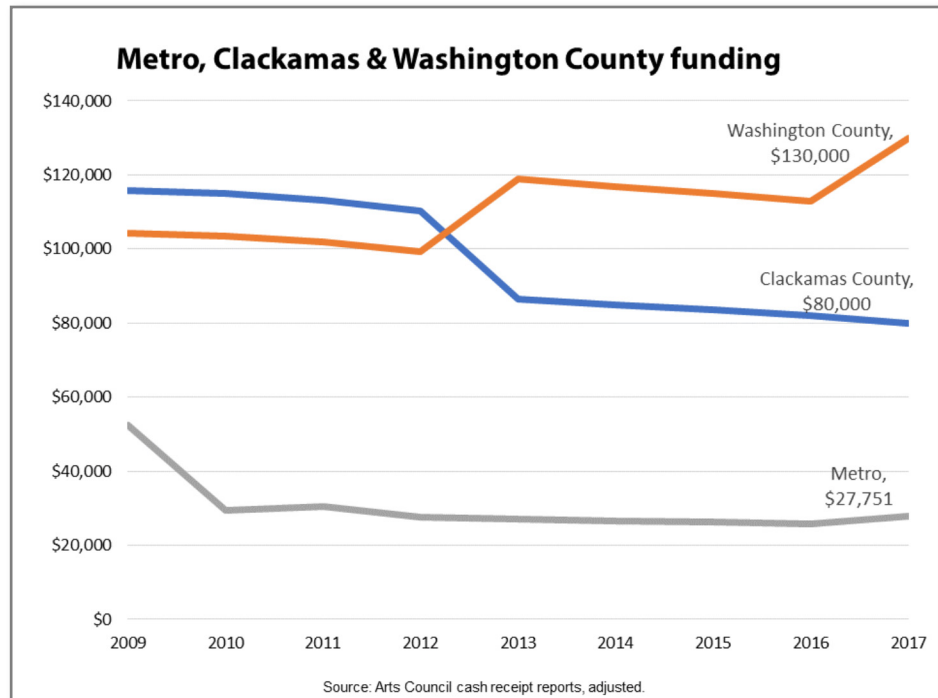
The services that the Arts Council provides are primarily focused on the City.

In 2017, total estimated funding from private fundraising, the state and federal governments, outside contracts, and other revenue sources such as income from conferences and merchandise was \$1.7 million.

In 2017, total funding from Multnomah County was \$1.6 million.

The funding from Metro, Washington and Clackamas counties cannot be seen well on the graph above due to its scale and is detailed in the graph on page 17.

AUDIT RESULTS
Arts Council needs to articulate strategy



In 2017:

- Washington County’s funding for the Arts Council was \$130,000.
- Clackamas County’s funding was \$80,000.
- Metro’s funding was \$27,750.

The City providing the majority of funding and receiving the majority of services from the Arts Council has resulted in:

- Limited regionally focused and funded arts and culture efforts.
- Arts Council not governed by the City or focused solely on Portland.
- Limited City resources means funding not available for alternative uses.



The Arts Council is not meeting requirements regarding regional support and service.

From the 1995 intergovernmental agreement:

"Services agreements for developing and administering arts and culture programs shall be entered into between RACC and City of Portland, Multnomah County, Clackamas County, Washington County, and Metro."

From the 2010 City contract with Arts Council:

"Work with local, regional, state and federal government agencies and with public and/or private groups, individuals and foundations to **secure contributions and grants to finance programs for the arts** and to develop collaborative projects beneficial to multiple services such as enhancing the travel and lodging industry through cultural tourism, to gather and consolidate information relating to the arts, and report to the City and Metro, Multnomah, Clackamas and Washington Counties periodically on its finding;"

For example, the Arts Council has not entered into service agreements for developing and administering arts and culture programs with Metro, Washington and Clackamas Counties as the intergovernmental agreement requires.

The Arts Council has five-year contracts for arts and culture services with Portland and Multnomah County. For Metro, Washington and Clackamas counties, the Arts Council has annual funding agreements. Arts Council management wants this portion of the intergovernmental agreement changed because they do not believe that Metro, Washington and Clackamas Counties are willing to enter into service agreements.

The City's contract requires the Arts Council to work with local, regional, state and federal government agencies, and with public and private groups, individuals and foundations to secure financing and develop collaborative projects.

Based on funding levels from jurisdictions and parties besides the City, we concluded that the Arts Council could do more to meet this requirement.

AUDIT RESULTS

Arts Council needs to articulate strategy

Related to the Arts Council's need to articulate their regional role, we found that the City's representation on the Arts Council's Board of Directors is less than originally intended.

Arts Council needs to articulate strategy and regional role

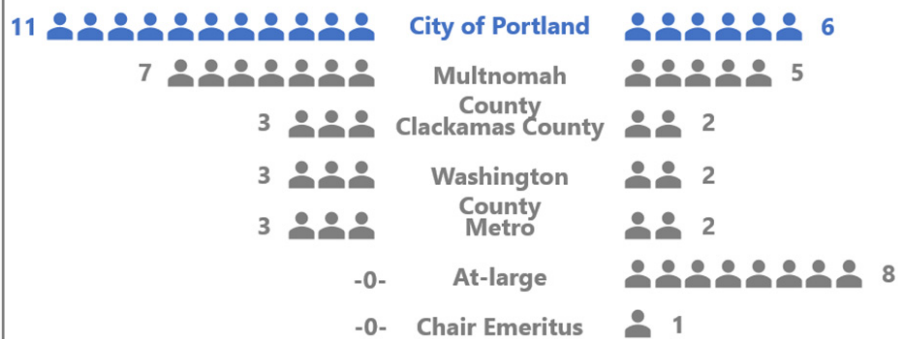
From 1999 amendment to intergovernmental agreement:

"The board of directors shall consist of **twenty-seven members** as long as the governmental entities listed below continue to be party to this agreement...From those lists, directors shall be appointed as follows: **7 directors** appointed by the Multnomah County Chair; **11 directors** appointed by the Mayor of the City of Portland; **3 directors** appointed by the Chair of Clackamas County Board of Commissioners; **3 directors** appointed by the Chair of the Washington County Board of Commissioners; and **3 directors** appointed by the Metro executive."

However, this is not the composition of the Board today. The Arts Council's 2016 bylaws state that the City will have six appointments to the Board, five less than is outlined in the agreement.

The bylaws also include the Board Chair Emeritus, and eight at-large members who are appointed by the Board. The at-large category is the largest group on the Board.

Arts Council needs to articulate strategy and regional role



1999
Amendment to Intergovernmental Agreement

2016
Regional Arts & Culture Council Bylaws



AUDIT RESULTS

Arts Council needs to articulate strategy

As such, the City's influence on the Board is less than what was outlined in the intergovernmental agreement.

The Arts Council may not have been aware that the intergovernmental agreement should be viewed as part of the binding commitment with the City.

It did not know if the City agreed to change the composition of the Board of Directors. This change was made in the Arts Council's bylaws as early as 2009.

The City's diminished influence on the Arts Council's Board of Directors may pose future risks to the City.

Board bylaws and member onboarding do not establish an expectation that members of the Board advocate for or to their jurisdiction for increased services or financial support.

Because of that, and because the Board and the City appear to have a positive working relationship, we do not believe there is significant risk to the City today from the City's diminished influence on the Board of Directors.

However, this could pose a risk to the City in the future if Board expectations or dynamics change.

Recommendations



Arts Council needs to articulate strategy and regional role

We recommend:

2. The Arts Council conduct a strategic planning process to clarify the organization's mission, goals and vision for arts and culture. Update bylaws to reflect governing agreements.
3. City Council review the intergovernmental agreement with the Arts Council, and in conjunction with other jurisdictions party to it, recommend changes that reflect the appropriate level of board representation and funding from each jurisdiction.



Elements of the contract with the Arts Council are vague and hard to measure.

Contract with Arts and Culture Council needs improvement

City's contract with the Arts Council contains vague language

From 2010 City contract with the Arts Council:

"Coordinate and focus equitable cultural development through policy-making, initiation of new partnerships and exercise of leadership."

"Involve representative groups of citizens in its decision making at all levels, evaluating services and reporting on outcomes."

"Comply with requirements of City and Oregon Public Records Law and city communications and public outreach policies."

In determining if the Arts Council was delivering services to meet City goals and contract obligations, we looked in detail at the City's contract with the Arts Council and found that the Arts Council provides many services to the City, but vague language and hard-to-measure elements mean the City may not get what it wants from the contract.

For example, the desired outcome for, *"Coordinate and focus equitable cultural development through policy-making, initiation of new partnerships and exercise of leadership,"* is unclear and is hard to measure.

Another element, *"Involve representative groups of citizens in its decision making at all levels, evaluating services and reporting on outcomes,"* is arguable because it is not defined what the groups of citizens should be representative of. One could interpret that groups should be representative

of the population of Portland, while another might interpret that groups should represent a variety of artistic disciplines.

And in the last example, *"Comply with the requirements of City and Oregon Public Records Law and city communication and public outreach policies,"* the language is not specific as to when different public records laws should be followed. This is important because the record retention schedules for City bureaus and nonprofit organizations differ for some kinds of records.



Oversight and reporting responsibilities for arts education are unclear and the Arts Council has not developed required metrics.

The impact of arguable, vague and hard-to-measure language in the contract is that the City may not be getting what it wants from the contract. There are elements of the contract where the Arts Council said it does not know what the outcome of the service or report is supposed to be.

Additionally, contract administration and oversight is more difficult because desired outcomes are not clear. Also, without defining desired service levels, minimal amounts of work could be considered sufficient.

Best practices on contract administration recommend using clear and unarguable language and writing scopes of work designed to ensure a realistic level of service.

An area where we saw the impact of vague contract language is arts education, where we found unclear oversight and reporting responsibilities and missing required metrics.

In 2012, City Council approved an amendment to the contract with the Arts Council to include responsibilities related to arts education.

As noted earlier, the City's contract with the Arts Council expires in June. Staff from the Office of Management and Finance are currently working to assess what the City wants from the new contract.

The longtime Executive Director of the Arts Council retired last year and the organization has been working with a firm on an Executive Director search since September.

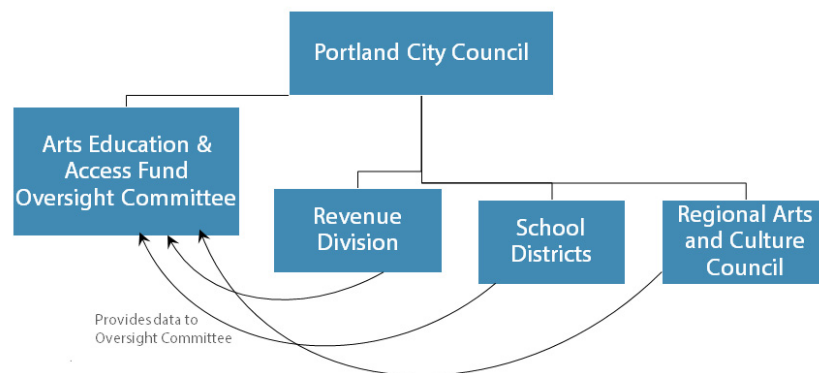
Among other things, the contract calls for the Arts Council to collect data from programs receiving arts tax funds and develop metrics to evaluate whether the objectives of the Arts Education and Access Fund are being met.

AUDIT RESULTS

Contract needs improvement

Contract with Arts and Culture Council needs improvement

Current data collection and reporting structure



As shown above, the Arts Education and Access Fund Citizen Oversight Committee, a group required by City Code, is collecting data from school districts, the Arts Council and the Revenue Division and reporting it to City Council. The data it collects from districts is used to determine if the districts are in compliance with teacher-student ratios required by the City.

This year, the Arts Council is beginning to collect data from school districts to help them measure access to arts education and equity of instruction time across programs. However, the Arts Council is unsure if this is the data that it should collect to comply with the contract.

In a 2015 audit of the arts tax, we found that there was confusion about the oversight and data collection roles of the Arts Council and the Arts Oversight Committee. In that audit, we recommended that the Arts Council propose changes to its contract with the City to clarify its oversight and data reporting responsibilities.

Changes to clarify the contract have not been proposed. Arts Council managers said they have not yet proposed changes to unclear aspects of the contract because they were waiting for the next contract negotiation.



Contract with Arts and Culture Council needs improvement

From 2012 amendment to City contract with the Arts Council:

"RACC shall establish and apply qualitative and quantitate measurements to evaluate whether the objectives of the Arts Education and Access Fund are being met and shall report as requested to the City Commissioner-in-Charge of arts and culture. RACC shall work cooperatively to implement any improvements in performance suggested through the measurement process."

Additionally, the Arts Council has not developed metrics to help determine if the goals of the Fund are being met. It said that this research is ongoing.

The Arts Council said that the work is complex and is further complicated due to unclear contract language. The contract calls for the Arts Council to develop measurements to evaluate whether the objectives of the Arts Education and Access Fund are being met. An Arts Council manager said this aspect of the contract is vague and that they are not sure what the objectives of the Fund are and do not know if they are documented anywhere.

Unclear arts education oversight responsibilities and lack of metrics pose risks:

- Arts education outcomes may not be measured as the City intended.
- Duplicative data collection efforts between the Arts Council and the Arts Oversight Committee may exist.

AUDIT RESULTS

Contract needs improvement

There is a possible insurance risk because the City does not know the value of arts assets.

Another area where the City's contract with the Arts Council needs improvement is in art valuation.

We found that there is a possible insurance risk because the City does not know the value of arts assets.



Enti, lithograph. Wendy Red Star, 2010



Keiko Hara, Verses-Reflected and Reflecting, 2010



David Manuel, Promised Land, 1993

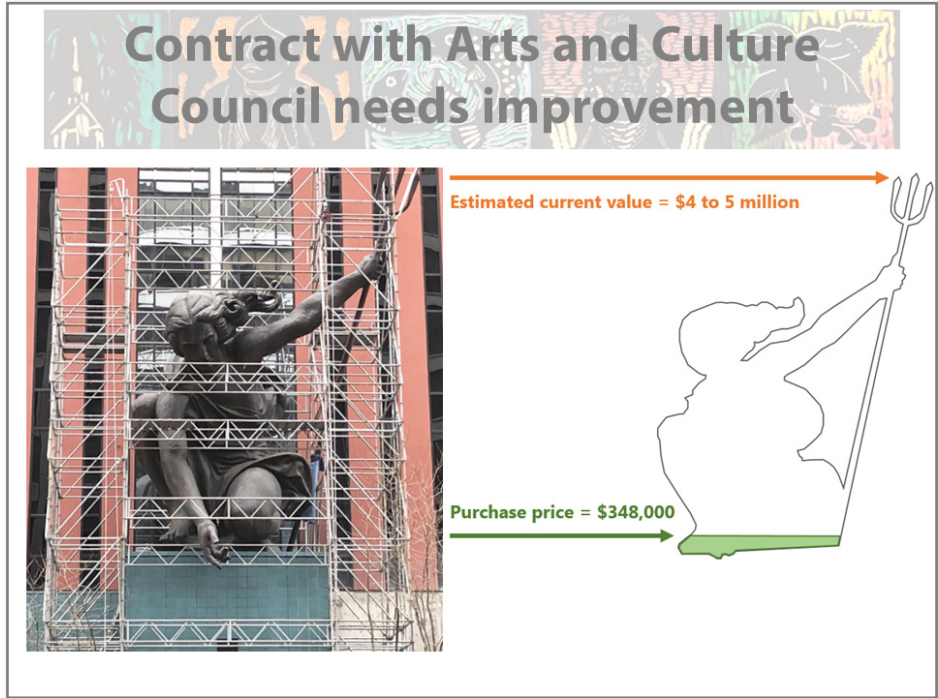
The City's Percent for Art Program is administered by the Arts Council's public art program.

Two percent of eligible funds on certain City improvements are dedicated to public art. Percent for Art funds go towards permanently sited art pieces like sculptures or elements integrated into building design, as well as pieces that go into the City and County's rotating collection that are displayed in public areas of City and County buildings.

The City owns the art purchased with its Percent for Art funds, but it is maintained by the Arts Council.

AUDIT RESULTS

Contract needs improvement

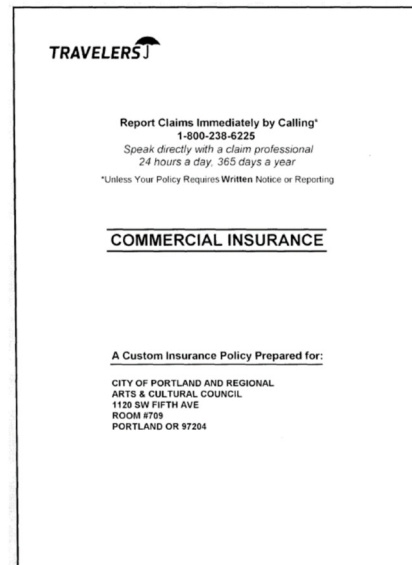


Neither the City nor the Arts Council know the current value of older City arts assets because valuations have not been performed.

The City insures its art assets as the contract requires; however, valuations shared with the insurance company are the assets' purchase price, which may be much less than the estimated current value for some significant pieces.

For example, it cost \$348,000 to acquire Portlandia in 1985. The Arts Council estimates that the current value of Portlandia is \$4-5 million.

The City's new arts insurance rider includes ambiguous language about the insurance company's right to reject claims for art with an appraisal.





City Risk is looking into other insurance carrier options and is working to remove or clarify ambiguous language in the current policy.

Risk managers believe that appraisals should be obtained on higher value art to avoid unfavorable outcomes of a loss.

The contract does not address if the City or the Arts Council is the party responsible for arts valuation.

Not knowing the current value of arts assets poses insurance risks for the City:

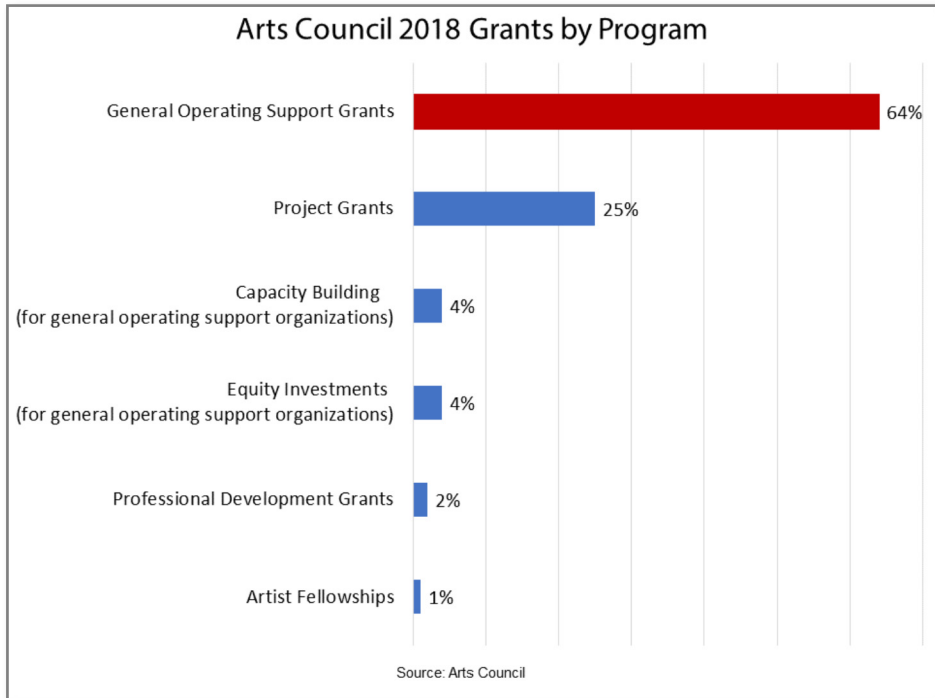
- In the case of a loss, the City may not be able to recoup the replacement value of the asset as the public would expect.
- Insuring art at the purchase price and collecting a higher value post-loss may impact future premiums.



The Arts Council is developing a proposal to restructure the general operating support grant program contrary to aspirational funding goal in contract.

One of the more specific aspects of the City’s contract with the Arts Council is the inclusion of an aspirational goal that the Arts Council

grant general operating support organizations 5 percent of their operating income.



The Arts Council offers grants in six categories—general operating support, project, capacity building for general operating support organizations, equity investments for general operating support organizations, professional development, and artist fellowships.

The general operating support grant program is the largest, comprising 64 percent of grant dollars in 2018.

A number of criteria must be met to become a general operating support organization, including being a 501(c)(3) arts organization with headquarters in Multnomah, Washington or Clackamas county, being in existence for at least three years, having paid administrative staff, and having minimum eligible income of \$75,000.

AUDIT RESULTS

Contract needs improvement

Once an organization is in the program, they do not need to reapply, but need to report annually to the Arts Council on various metrics.

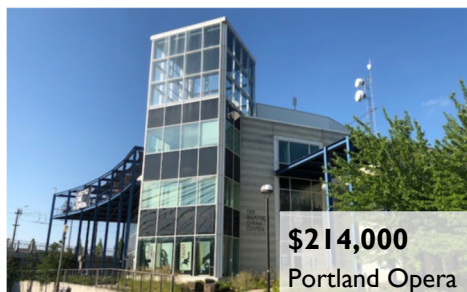
In 2018, the Arts Council granted a total of \$2.4 million to 52 general operating support organizations.

Awards to general operating support organizations are unrestricted and intended to provide general financial support.

Awards range from \$8,000 to \$427,000.

In 2018, five organizations will receive 56 percent of the available grant monies.

The five organizations receiving the largest grants and the amount awarded in 2018:





Contract with Arts and Culture Council needs improvement

From the City's 2010 contract with the Arts Council:

"Support equal opportunity and access to the arts."

The Arts and Education Tax, approved by voters in 2012, is intended to go in part, towards funding general operating support grants. Arts tax revenues have been less than anticipated, so the Arts Council has less money to distribute in general operating support grants.

The goal of providing 5 percent of each organization's operating income may not be sustainable, since income may grow over time while the grant program's budget may not have corresponding increases.

The Arts Council is currently not granting most organizations 5 percent of their incomes with general operating support grant dollars. Amounts range from 2.5 percent to 8 percent with the average amount for all organizations being less than 4 percent.

Additionally, the Arts Council believes that the contract's aspirational funding goal competes with contract provisions focused on diversity and equitable access to the arts, including the one in the slide above.

The Arts Council is developing proposals to restructure the general operating support grant program so it can bring more organizations into the program and give special consideration to organizations serving, and led by, underserved and under-represented populations. The Arts Council has engaged with current general operating support member organizations, the arts community at large, and underrepresented artist communities as part of their development of the proposal.

AUDIT RESULTS

Contract needs improvement

Not providing general operating support organizations with allocations outlined in City's contract may mean the City's goals for their participation in the grant program are not met.

Barring an influx of funding for the general operating support program, this program redesign will likely mean that the amounts granted to large general operating support organizations will fall further below the contract's 5 percent aspirational goal.

Because the contract provision to support equal opportunity and access to the arts is vague, and because the City does not have clear goals for arts and culture, we are unable to conclude if this significant change to the general operating support grant program is in or out of alignment with City goals.

City Council and the Arts Council should discuss the overall goals and consider the equity implications of the program as currently structured and how it might change.

Recommendation

Contract with Arts and Culture Council needs improvement

We recommend:

4. The Arts Commissioner, Mayor, and the Arts Council Executive Director update the contract, consistent with the City's goals for arts and culture, to:
 - a. Clearly define desired services, measures, and reporting;
 - b. Clarify the arts education objectives and outcome measures required of districts and programs, and the oversight role of the Arts Council;
 - c. Identify the organization responsible for art valuation, and determine which assets' values should be updated, and the responsible party carry out the necessary work;
 - d. Identify priorities and goals for grant funding.



Our third objective was to determine if City oversight of the Arts Council is helping to ensure that City goals are met.

We found that City administration of the contract and the way it tracks funding of the Arts Council need improvement.

For example, there is no City contract administration or performance monitoring.

Technical contract administration and regular performance monitoring help ensure that contracts are well-designed and desired services are received.

We found that there is no one from the City providing technical contract administration and oversight, or consistently monitoring the performance of the Arts Council against the contract to ensure that desired services and required reports are delivered and reviewed.

The City's contract with the Arts Council assigns general oversight responsibilities to approve work, give notices and terminate the agreement to the Arts Commissioner. The contract also references a project manager, but there is no project manager assigned to the contract.

A lack of contract administration and oversight by the City does not mean that work was not completed, but it poses risks for the City:

- City does not have assurances that services were provided.
- City cannot intervene if there are service delivery problems.
- City does not have information needed to determine if contract changes are needed.
- Additionally, funding without corresponding oversight may lead to a perception that funds are an entitlement rather than payment for specific services or results.

AUDIT RESULTS

Oversight needs improvement

The City is not thoroughly overseeing how the Arts Council spends money or tracking completely how they fund the Arts Council.

While examining the City's general oversight of the Arts Council, we found that the City lacks complete information on how the Arts Council spends money.

The Arts Council receives a financial audit each year. We spoke to the independent auditors and the Treasurer of the Arts Council Board

of Directors who all said that the Arts Council has strong financial internal controls.

Additionally, all City payments we reviewed back to 2009 were reflected in the Arts Council's financial records.

City oversight of contract and spending needs improvement

From 2010 City contract with the Arts Council:

"Develop annual budget and performance goals consistent with the Scope of Contractor Services and submit them for City of Portland review at the same time that City Bureaus submit budget and performance goals."

However, the City does not have complete information about how the Arts Council allocates money in their budget because during the City budget process, the Arts Council submits requests for new funding or to show the impact of proposed budget reductions, not an annual budget for the organization as the contract requires.

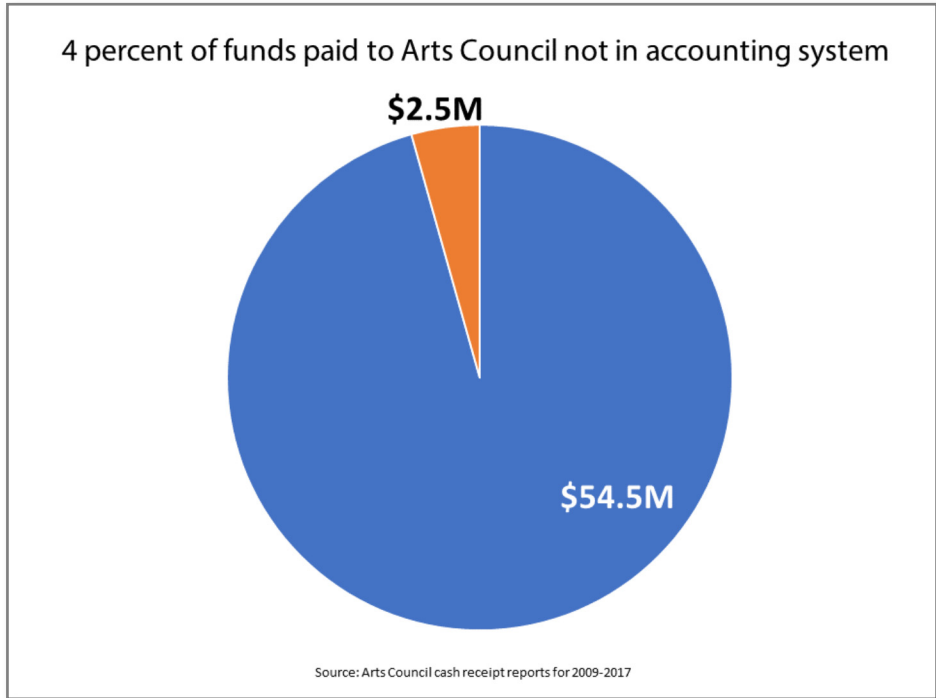
Additionally, the Arts Council's annual report to City Council contains only high-level information about its budget and funding from the City.

Lack of financial oversight poses risks for the City because spending by the Arts Council could be out of line with City goals.

AUDIT RESULTS

Oversight needs improvement

The City is not tracking completely how they fund the Arts Council.



The City is not tracking completely the money it gives to the Arts Council because Percent for Art funding on projects managed by a third party are not recorded in the City's accounting system as money going to the Arts Council.

Other City Percent for Art funding not included in the City's accounting system are Prosper Portland and HomeForward projects.

As such, \$2.5 million of City Percent for Art funds paid between 2009-2017 cannot be located in the City's accounting system when searching for Art Council funding.

Lack of financial oversight poses risks for the City because the City does not have a complete picture of how much they have spent on the Arts Council.



Recommendation

City oversight of contract and spending needs improvement

We recommend:

5. The Arts Commissioner and Mayor appoint a contract administrator to:
 - a. Monitor compliance with the contract;
 - b. Provide technical assistance to the Arts Council;
 - c. Review the annual budget submitted by the Arts Council;
 - d. Develop a consistent mechanism to track all City funding to the Arts Council;
 - e. Develop procedures for Arts Council reporting so that there is consistency over time.

OBJECTIVE, SCOPE & METHODOLOGY

We conducted this performance audit in accordance with generally accepted government auditing standards.

Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our audit findings and conclusions based on our audit objectives.

We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our audit objectives were to determine if the City has clear goals for arts and culture; if the Arts Council is providing services to meet City goals and contract obligations; and, if City oversight of the Arts Council is helping to ensure that City goals are met.

To accomplish our objectives, we:

- Interviewed managers and staff from the Arts Council; members of the Arts Councils' Board of Directors; City managers and staff who work with the Arts Council, City arts and culture provision, insurance, grants, finance and accounting; the Arts Council's independent financial auditors; and, community stakeholders involved with the Arts Council and the City's arts and culture work
- Reviewed the intergovernmental agreement and amendments that created the Arts Council and compared to current practice
- Reviewed City contracts with the Arts Council and compared deliverables to current practice
- Reviewed City Code, Charter and policy documents related to the Arts Council and arts assets
- Reviewed City plans with arts and culture components, and City reports about the Arts and Education Access Fund
- Reviewed best practices about cultural planning, strategic planning, contract administration, and mission statements
- Reviewed models and plans for arts and culture delivery used by other jurisdictions
- Summarized Arts Council cash receipt reports showing funding from the City of Portland, Metro, Multnomah, Washington and Clackamas Counties for 2009-2017. Reconciled City payments to information in the City's accounting system to identify discrepancies
- Reviewed Arts Council budgets and program work plans
- Reviewed independent financial audits of the Arts Council and assessed the status of prior audit recommendations directed towards the Arts Council
- Reviewed background, historical information, consultant reports, media reports about the Arts Council
- Reviewed sample of Arts Council Board materials including bylaws and meeting minutes
- Reviewed Oregon Statutes and registration requirements for nonprofit organizations

Source of photos:

Cover, header, p. 26, Audit Services Division; p.25, Arts Council website and Audit Services Division; p.29, pixabay.com, www.PCS.org/current-season and Audit Services Division.

RESPONSES TO THE AUDIT



May 18, 2018

Madam Auditor,

Last May, we asked you to undertake a broad review of the Regional Arts and Culture Council (RACC) and to share with us your thoughts about how best to ensure that the organization is helping us meet our goals for arts and culture in Portland.

We believe that the arts are part of what makes Portland such a special place. They contribute to our brand as a cultural center; enhance our quality of life; generate substantial tax revenues; and help us attract talent.

We also believed that the time had come to conduct an outside, independent review of RACC, and to plan for the future.

We write to thank you for your thoughtful audit, and to describe our thinking about next steps.

Your review asked three questions:

1. Does the City have clear goals for arts and culture?
2. Is RACC's work satisfying its contract obligations and the City's goals?
3. Is City oversight of RACC sufficient to ensure our goals are met?

Your evaluation found that RACC provides important support to local arts and culture organizations, contributing to a thriving arts community. That said, you found that because RACC and the City have not established clear goals, it's difficult to determine whether RACC is meeting our community's needs. And you recommend additional oversight to ensure that we have the information we need to make that judgment.

We acknowledge your finding that the agency is regional in name only, and that it has not prioritized the development of new partnerships and new sources of private and philanthropic financial support. As a result, Portland has become RACC's primary funder.

This structural imbalance must be addressed as part of planning for the future of the agency. We believe RACC is well-positioned to leverage Portland's support for the arts to build relationships with new funders, and stretch our public dollars.

In terms of next steps, we are moving forward with one of your key recommendations: strengthening oversight of RACC. The City budget for Fiscal Year 2018-19 funds a contract manager position to improve the tracking of City investments in RACC and the reporting of outcomes, and to monitor compliance with contract terms.

You offered four additional recommendations for our consideration:

- Establish clear City goals for arts and culture in our community.
- RACC should develop a strategic plan for the organization which reflects alignment with the City's goals.
- Review the Board's composition to ensure the City is appropriately represented.
- Update the City's contract with RACC to clarify expectations – especially around valuation and insurance of City art, grant program priorities, and Arts Tax outcome measures.

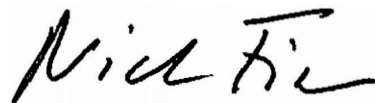
We agree that these steps will strengthen public confidence that the City is investing public resources strategically and efficiently.

We look forward to working with RACC's next Executive Director and its Board of Directors to clarify our community's priorities for arts and culture, to develop a strategic plan, and to update the contract, ensuring that our shared goals are met.

Thank you again for your review and your report.



Ted Wheeler
Mayor



Nick Fish
Commissioner



Regional Arts & Culture Council

411 NW Park Avenue, Suite 101
Portland, OR 97209
503.823.5111
www.racc.org

May 18, 2018

Mary Hull Caballero, City Auditor
Office of the City Auditor
1221 SW 4th Avenue, #140
Portland, OR 97204

Dear Auditor Hull Caballero:

Thank you for the opportunity to review and comment on your audit of the Regional Arts & Culture Council (RACC). We appreciate the time your staff invested in the report and bringing recommendations that will lead to a more vibrant arts community and a stronger Portland. Working with the Mayor, the Arts Commissioner and City staff, we look forward to implementing these recommendations in the months and years ahead.

This audit comes at a critical time for our 23-year-old organization and our changing City. Following the 2017 retirement of RACC's executive director, the board is engaged in a search to hire the right leader for our organization and for our collective future. We have begun the process of negotiating our next five-year City contract, and we are working with others in the public and private sector to resolve challenges that include the dearth of affordable space for artists and arts organizations, the inequitable distribution of resources in the past, and the ongoing need to excite and engage the public in the arts.

We support the audit's recommendations, though we wish to provide important context to several of the findings. We also expect there will be additional and more detailed conversation during the City Council work session on May 22.

Regarding your finding, "The City needs clear goals for arts and culture," we look forward to working with the Mayor, City leaders, City agencies and community stakeholders to develop clear goals and strategies for arts and culture in Portland. We believe it's appropriate for arts and culture to be integrated with the City's economic development, education, human services and growth management strategies. We have very much appreciated the opportunity to work with Arts Commissioner Nick Fish over the last few years to bring forward a number of proposals and solutions in response to economic challenges and other urgent issues facing artists, arts organizations and the community as a whole. It is a top priority for the RACC board that our new Executive Director will be a strong collaborator with City Council and City bureaus going forward.

Regarding your finding, “The Arts Council needs to articulate strategy and regional role,” we agree there’s more to do. Fortunately, RACC has established a strong foundation upon which to build its leadership role:

- From 2009-2012, RACC pursued the strategies set forth in our last comprehensive cultural plan, *Act for Art*, and achieved many of its goals, which included improving both public and private funding for the arts, and expanding arts education.
- For the past three years we have been primarily focused on identifying barriers to arts access, and better serving underrepresented communities. In February 2015, RACC adopted an Equity Statement to both articulate the organization’s equity philosophy and to hold ourselves accountable to this work. We have conducted focus groups to understand the needs within Portland’s marginalized communities, and we continue to diversify our staff and board to ensure broad community representation in our decision-making processes. Today 43 percent of the RACC board and 35 percent of staff identify as people of color.
- Our 2017-18 Community Engagement Plan articulates ongoing strategies for expanding RACC’s outreach efforts, collaborating with other community organizations and distributing resources more equitably. Currently, 35 percent of our individual artist grant award recipients identify as people of color, and we are developing new programs that reach into and collaborate within marginalized communities to fill gaps in arts participation.
- RACC has long recognized its role in promoting and making the arts more accessible in our schools, and RACC’s Strategic Framework for Arts Education, adopted in 2017, will continue to guide this work over the next several years. RACC recently marked the 10th year of The Right Brain Initiative, which integrates the arts in the region’s elementary schools, improving student performance as a result. This year we are serving 29,500 students in eight school districts including Portland Public and Parkrose.
- RACC staff and board members regularly contribute insightful leadership to City arts initiatives. We collaborated on the City’s 2017 Arts Agenda, the City’s Plan for Preserving and Expanding Affordable Arts Space in Portland, the appointment of the City’s second Creative Laureate, and the ongoing implementation of the City’s Arts Tax.
- RACC has excellent relationships with the private sector. Our workplace giving program has raised more than \$8 million for local arts organizations over the last 10 years, and other gifts and grants to RACC from businesses, foundations and individuals have grown 25 percent during this period.
- RACC continues to work with elected officials in Clackamas, Multnomah and Washington Counties, and Metro, to maintain and expand funding for arts and culture. We have more work to do building new and stronger cases for arts investments with local governments that opted not to be part of the voter-approved Arts Education & Access Fund (or Arts Tax) and do not necessarily consider investments in culture and creativity and the arts as part of their charters. On the other hand, The Right Brain Initiative is an excellent example of a region-wide program that successfully garners support from other jurisdictions; City funding accounts for only 25 percent of that program’s revenue.

Regarding your finding, “City oversight of contract and spending needs improvement,” RACC’s board and staff are looking forward to working more closely with the City. We agree that a dedicated contract administrator in the Office of Management and Finance will improve coordination, and our staff has already started working with OMF to better clarify and define our mutual goals in the form of a new five-year service agreement.

It’s important for the Mayor, Council members and for the general public to know that the Regional Arts & Culture Council has been and will continue to be committed to sound and transparent financial management:

- Each December RACC distributes an annual report to City officials and thousands of other local constituents as well as posts that report on the organization’s website. The report includes a summary of RACC’s audited financial statements and a link to the complete set of statements, for those who wish to dig deeper.
- We are pleased that the audit staff found RACC’s financial controls to be strong, and its records thorough. Citizens can be assured that RACC is able to account for every City dollar, including transactions that were not included in the City’s accounting system.
- We do not agree with the calculations regarding administrative costs. Our financial audit confirms that 13.3 percent of RACC’s total budget is spent on management and overhead expenses, and 1.5 percent is spent on fundraising, allowing the vast majority of RACC’s total budget, 85.2 percent, to be spent on programs and services. Based on our research of nonprofit best practices and other arts councils nationally, we understand these to be very good ratios.
- If provided with the financial resources and authority within our contract, RACC is prepared to lead the process of determining the current-day value of the City’s award-winning public art assets.

Let us conclude where we began: The board and leadership of the Regional Arts & Culture Council recognize that this is a critical time for arts in our city, region and state. We share the City’s goal of strengthening the role of arts and culture in Portland.

From all of us at the Regional Arts & Culture Council, thank you once again for examining the relationship between RACC and the City of Portland, and for identifying steps we can take together to ensure a stronger arts and culture ecosystem. Please extend our thanks and appreciation to the Audit Services staff for their work. We look forward to collaborating with the Mayor, the Arts Commissioner and City staff to better support culture, creativity, innovation and the arts in our community.

Sincerely,



Mike Golub
Board Chair



Jeff Hawthorne
Interim Executive Director

Audit Services Division
Office of the City Auditor
1221 SW 4th Avenue, Room 310
Portland, OR 97204
503-823-4005
www.portlandoregon.gov/auditservices

Mary Hull Caballero, City Auditor
Kari Guy, Director of Audit Services

*Regional Arts and Culture Council: Clear City goals
aligned with strong Arts Council strategy will improve
arts and culture services*

Audit Team: Jenny Scott, Martha Prinz

This report is intended to promote the best possible management of public resources.

This and other audit reports produced by the Audit Services Division are available for viewing on the web at: www.portlandoregon.gov/auditservices.

Printed copies can be obtained by contacting the Audit Services Division.

