



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial-Related Audit

Minnesota State Arts Board
July 1, 1998, through June 30, 2001



Financial Audit Division

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- Strengthen Legislative Oversight, and
- Support Good Financial Management.

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OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

Senator Ann H. Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Robert C. Booker, Executive Director
Minnesota State Arts Board

Members of the Minnesota State Arts Board

We have audited the Minnesota State Arts Board for the period July 1, 1998, through June 30, 2001. Our audit scope focused on general financial management, grants, and payroll expenditures. In addition, we examined the financial activities of the Minnesota Percent for Art in Public Places Program.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, as issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards also require that we design the audit to provide reasonable assurance that the Minnesota State Arts Board complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. The management of the Minnesota State Arts Board is responsible for establishing and maintaining the internal control structure and complying with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission and the management of the Minnesota State Arts Board. This restriction is not intended to limit the distribution of this report, which was released as a public document on June 13, 2002.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: February 7, 2002

Report Signed On: June 10, 2002

Minnesota State Arts Board

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Audit Participation

The following members of the Office of the Legislative Auditor prepared this report:

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Brad White, CPA, CISA	Audit Manager
Scott Tjomsland, CPA	Auditor-in-Charge
Kristen Peterson	Auditor
Heather White	Auditor

Exit Conference

We discussed the results of the audit with the following representatives of the Minnesota State Arts Board at an exit conference on May 16, 2002:

Robert Booker	Executive Director
James Dusso	Assistant Director
Gail Burke	Human Resources Director
Rick Jeanette	Accounting Director

Report Summary

Key Findings and Recommendations:

The Minnesota State Arts Board's internal controls provided reasonable assurance that it properly recorded financial activities in the payroll and accounting systems. For the items tested, the board complied with finance-related legal provisions. However, we found that the board has not resolved three financial concerns raised in prior audits.

- The board continued to incorrectly deposit certain refunds, reimbursements, and miscellaneous receipts in the Gift Fund rather than a General Fund or Special Revenue Fund account. We recommended adjustments totaling \$27,056 to correct misdirected financial activity. It was also recommended that the board establish a separate account to track money and financial activity for a new grant it began receiving in fiscal year 2001. (Finding 1, page 6)
- The board does not request federal moneys in compliance with federal cash management directives. Some money was drawn too early and some too late. We recommended that the board request federal money on a monthly basis. (Finding 2, page 7)
- The board did not comply with state policies for purchases exceeding \$2,500. (Finding 4, page 9)

Additional concerns identified the need for improved controls over incoming receipts (Finding 3, page 8) and cash management practices and grant oversight controls. (Finding 5, page 13)

Agency Background:

The Minnesota State Arts Board is composed of 11 private citizens appointed by the Governor to serve four-year terms. One member is appointed from each congressional district, with remaining members appointed at large. The board employs 20 staff under the supervision of the executive director, Mr. Robert C. Booker, who has served since August 1996.

Financial-Related Audit Reports address internal control weaknesses and noncompliance issues noted during our audits of state departments and agencies. The scope of our work at the Minnesota State Arts Board included overall financial management, grants, payroll, and capital expenditures for the Percent for Art in Public Places Program for the period from July 1, 1998, through June 30, 2001.

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Minnesota State Arts Board

Chapter 1. Introduction

The Minnesota State Arts Board's mission is to "promote the quality of life in Minnesota by making the arts accessible to all citizens, nurturing creative activities, encouraging the development of innovative forms of artistic expression, and preserving the diverse artistic heritage of the people." The board performs the following functions to accomplish its mission:

- administration of several grant programs that provide aid for a variety of activities in the performing, visual, and literary arts;
- distribution of state appropriations to the 11 regional arts councils in Minnesota; and
- administration of the Minnesota Percent for Art in Public Places Program, in conjunction with the Department of Administration, to purchase or commission the creation of artwork for installation at newly constructed or renovated state buildings.

The board is composed of 11 private citizens appointed by the Governor to serve four-year terms. One member is appointed from each congressional district, with remaining members appointed at large. The board's daily management is the responsibility of the executive director, Mr. Robert C. Booker, who has served since August 1996.

The board received General Fund appropriations for administrative costs and grants. It also received federal funding from the National Endowment for the Arts. Other funding sources included grants from private organizations, state agency transfers, and miscellaneous receipts. Table 1-1 summarizes the financial activity of the board for fiscal year 2001.

Table 1-1
Sources and Uses of Funds
Fiscal Year 2001

	General Fund	Federal Fund	Gift Fund	% for Art in Public Places^(note 1)
Resources available for expenditures:				
State Appropriations	\$13,094,000	\$ 0	\$ 0	\$ 0
Receipts	0	510,300	459,610	0
Transfers-In	75,000	0	0	880,782
Balance Forward-In	227,169	0	158,132	1,350,168
Balance Forward-Out	(0)	(160,039)	(552,000)	(1,356,888)
Total Resources Available	<u>\$13,396,169</u>	<u>\$350,261</u>	<u>\$ 65,742</u>	<u>\$ 874,062</u>
Expenditures:				
Grants	\$12,176,027	\$119,778	\$ 65,742	\$ 0
Payroll	818,756	159,130	0	191,659
Other Administrative	401,386	71,353	0	682,403
Total Expenditures	<u>\$13,396,169</u>	<u>\$350,261</u>	<u>\$ 65,742</u>	<u>\$ 874,062</u>

Note 1: State-appropriated capital projects transfer funding to the board for the Percent for Art in Public Places Program. The measurement period for these activities was July 1, 2000, to September 30, 2001. Funds carryforward until projects are completed.

Source: Minnesota Accounting and Procurement System (MAPS) for fiscal year 2001.

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Chapter 2. Financial Management

Chapter Conclusion

The Minnesota State Arts Board charged expenditures to appropriate funding sources and used funds earmarked for intended purposes in compliance with significant finance-related legal provisions. However, the board has not resolved key financial concerns raised in earlier audits. Staff continued to inappropriately deposit certain miscellaneous receipts and refunds in the Gift Fund. We recommended that the board initiate deposit corrections totaling \$27,056 and create a separate account for a new grant it received. Also, the board has not developed effective cash management practices for requesting federal grant funds. It also needs to improve safeguards over receipts. Finally, the board did not comply with state purchasing policies for acquisitions over \$2,500.

The board's primary funding source is General Fund appropriations, but it also received transfers from capital projects under the Percent for Art in Public Places Program, and grants and gifts from federal and private sources. The board used separate accounts in the state accounting system to account for the funds and track the different financial activities.

For fiscal year 2001, the Legislature provided the board with \$13,094,000 in General Fund appropriations earmarked for three specific purposes: \$1,019,000 for operations and services, \$8,540,000 for grants programs, and \$3,535,000 in funding for regional arts councils.

The board received annual federal grants from the National Endowment for the Arts (NEA) under the Partnership Agreement Program. In fiscal year 2001, the board received grants totaling \$500,300. The board also received smaller federal grants each year from the NEA under the Leadership Initiatives Program. This program provided \$10,000 to the board in fiscal year 2001.

The board received grants from several private organizations. The most significant was a grant received from Wallace-Reader's Digest Funds to "*implement programs that will bring the arts to new audiences, enrich the experience of current audiences and foster the exchange of participation building strategies and techniques.*" The grant was for \$1.1 million over a four and one half-year period, and the board received the first installment of \$366,000 during fiscal year 2001. The board has also received annual grants from the Wells Fargo Foundation (formerly Norwest) since fiscal year 1998 to provide additional funding for mid-size arts organizations. During fiscal year 2001, the board received a total of \$55,000 for distribution in fiscal years 2001 and 2002. Finally, the board received a \$21,000 grant in fiscal year 2001 from Qwest (formerly US West) to produce Arts Across Minnesota brochures and for grants to selected Minnesota communities.

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Audit Objectives and Methodology

We focused on the following objectives during our audit of the board's financial management:

- Did the board record revenues and charge expenditures to appropriate funding sources?
- Did the board use funds earmarked for specific purposes as intended and in compliance with significant finance-related legal provisions?
- Did the board account for its funds in a reasonable and prudent manner and in compliance with significant finance-related legal provisions?

To answer these questions, we interviewed the board's staff to gain an understanding of the procedures to assign expenditures to specific funding sources and to collect, deposit, and record receipts. We reviewed expenditures to determine if they were charged to appropriate funding sources and to determine if the board used earmarked funds as intended. We also reviewed receipts to determine if the board properly deposited and recorded them in compliance with applicable legal provisions. Finally, we reviewed the board's federal cash draws to determine if the board complied with federal cash management requirements.

Conclusions

The Minnesota State Arts Board charged expenditures to appropriate funding sources and used funds earmarked for intended purposes in compliance with significant finance-related legal provisions. However, the board has not resolved key financial concerns raised in earlier audits. Staff continued to inappropriately deposit certain miscellaneous receipts and refunds in the Gift Fund. We recommended that the board initiate deposit corrections totaling \$27,056 and create a separate account for a new grant it received. Also, the board has not developed effective cash management practices for requesting federal grant funds. It also needs to improve safeguards over receipts. Finally, the board did not comply with state purchasing policies for acquisitions over \$2,500.

1. PRIOR FINDING NOT RESOLVED: The board needs to improve its accounting for miscellaneous financial activities and grants.

The board inappropriately deposited \$14,260 of General Fund refunds and reimbursements and \$12,796 of Special Revenue Fund miscellaneous receipts into the Gift Fund in the state's accounting system. While the annual receipts are not large; the accumulated balance continues to grow.

- In our prior audit, we reported that the board inappropriately deposited \$8,387 in refunds and reimbursements into its Gift Fund account. We found that the board did not make the recommended adjustments for these errors and during fiscal years 1999 to 2001, the board inappropriately deposited another \$5,873 of refunds and reimbursements into the Gift Fund account. The refunds and reimbursements should have been deposited into the

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account from which the original expenditure was made to ensure funds are being used for intended purposes or within proper time periods. The board's Gift Fund moneys carry forward to subsequent fiscal years, while General Fund appropriations must be spent by the end of each biennium, and federal grants must be spent by the end of the authorized grant period. Also, the board inappropriately earned investment income on these cash balances in its Gift Fund account.

- The board continued to deposit mailing list, workshop, and other miscellaneous receipts into its Gift Fund account, including \$12,796 during fiscal years 1999 to 2001. These miscellaneous revenues are available and annually appropriated for board use and should be accounted for in either a Special Revenue Fund or General Fund account as dedicated receipts. This financial activity should be separated from the Gift Fund account, which is to account for donations to the board for donor-specified purposes.

We also noted that the board deposited grant moneys it received from private sources into the Gift Fund. The board deposited the first installment of \$366,000 from the Wallace-Reader's Digest Funds grant into the same Gift Fund account holding the refunds and miscellaneous receipts mentioned above. Instead of commingling this money with other receipts in the Gift Fund, the board should account for them using a separate account. Under terms of the grant agreement, the board must submit detailed financial reports to Wallace-Reader's Digest Funds each year, including any investment income earned on grant funds. Establishing a separate account would provide the board with an efficient structure to monitor use of the grant money and to accurately report grant activity back to the donor.

Recommendations

- *The board should deposit refunds and reimbursements into the appropriate account from which the original expenditures were made. The board should initiate adjustments of \$14,260 to correct the deposit errors.*
- *The board should deposit mailing list, workshop, and other miscellaneous receipts into either a Special Revenue Fund account or its General Fund account. The board should make an adjustment of \$12,796 to move funds into this account.*
- *The board should work with the Department of Finance to establish a separate account in the accounting system to account for the Wallace-Reader's Digest Funds grant.*

2. PRIOR FINDING NOT RESOLVED: The board needs to improve its federal cash management practices.

We continued to encounter concerns with the timing of the board's requests for federal program cash. The board would, at times, draw and hold too much federal cash. On other occasions, the

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board would not timely draw the necessary cash resulting in the use of state funds to cover federal expenditures.

The board did not limit its requests for federal cash to its immediate cash needs. For three of the board's six federal cash requests during fiscal years 1999 to 2001, the board depleted the federal cash between 33 and 114 days after the request. This violates federal cash management requirements, which specify that requests for federal funds should be limited to immediate cash needs and must be expended within 30 days of the request.

The board also did not timely request federal cash to finance expenditures from the board's federal account. For half of the federal deposits, state money covered federal account expenditures for several months between the board's federal cash requests. At one time during fiscal years 1998 to 2001, up to \$457,553 of state money was used to cover federal expenditures before the board received federal cash to reimburse the account. State money used to cover federal account expenditures is not available for investment, costing the state lost investment income.

The board should increase the frequency of its requests for federal cash. By requesting federal cash monthly, at a minimum, the board could ensure it complies with federal cash management requirements and limit the amount of state money needed to cover federal account expenditures.

Recommendation

- *The board should request federal cash in compliance with federal cash management requirements and limit its reliance on state money to cover federal account expenditures.*

3. The board needs to improve safeguards over receipts.

We noted two concerns with the board's internal controls over incoming receipts.

- The board did not consistently deposit receipts promptly. Of the board's 13 deposits exceeding \$250 during fiscal year 2001, 10 were not made within one day after receipt. Instead, the board deposited those moneys from 5 to 21 days after accumulated receipts reached \$250. Minn. Stat. Section 16A.275 requires daily deposits of receipts in excess of \$250.
- The board did not perform certain key monitoring procedures over receipts. The board did not reconcile receipts recorded on its check receipts log to actual deposits to ensure it deposited all receipts collected. Without an independent reconciliation, receipts could be lost or stolen without detection. We reconciled the log to actual deposits for fiscal years 1999 to 2001, and found 29 checks and 2 cash receipts recorded on the log that were not deposited. Upon further investigation, the board located documentation that provided reasonable explanations for why it did not deposit 27 of those check receipts. However, two of the check receipts and the two cash receipts, totaling \$190, could not be accounted for. In

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addition, we also identified 26 check receipts that the board deposited but did not record on the log. A complete, accurate log is necessary to ensure proper controls.

Recommendation

- *The board should improve internal controls over receipts by:*
 - *depositing accumulated receipts exceeding \$250 on a daily basis; and*
 - *ensuring it records all receipts on the check log and completing timely, independent reconciliations of receipts recorded on the log to actual deposits.*

4. PRIOR FINDING NOT RESOLVED: The board did not comply with the state purchasing policy for certain items.

The board's purchasing practices do not conform with Department of Administration local purchase authority policies allowing agencies to use paper field purchase orders (FPO). In our prior audit, we found that the board did not comply with the Department of Administration state purchasing policy for acquisitions over \$1,500. Controls built into the Minnesota Accounting and Procurement System (MAPS) require agencies to create regular purchase orders, which encumber funds for purchases over \$1,500 through fiscal year 1999. The amount was increased to \$2,500 beginning in fiscal year 2000. The purpose was to ensure that agencies encumbered funds for larger purchases prior to incurring obligations.

Instead of initiating a single purchase order and encumbrance for the total purchase, the board issued multiple field purchase orders (FPO) and made vendor payments in \$1,500 increments. For example, a printing purchase for \$4,935 consisted of three FPOs for \$1,500 each, along with another FPO for \$435. The board paid the vendor with four transactions totaling \$4,935 that were processed on the same day. During fiscal year 1999, the board used multiple FPO transactions to procure and pay 16 invoices exceeding \$1,500. During fiscal year 2000, when the minimum purchasing level increased to \$2,500, the board used multiple FPOs to pay nine invoices exceeding \$2,500. During fiscal year 2001, we did not encounter the problem since the board did not make any purchases above the \$2,500 level. In addition to noncompliance with state purchasing policies, board use of multiple transactions require additional board staff time to prepare the FPOs and process the payments.

Recommendation

- *The board should comply with state purchasing policies for purchases exceeding \$2,500.*

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Chapter 3. Grants

Chapter Conclusion

The Minnesota State Arts Board established internal controls to provide reasonable assurance that it authorized and accurately paid grants and properly recorded the grant expenditures in the accounting system. However, the board needs to improve cash management practices and oversight controls to ensure grant recipients comply with grant contract requirements.

For the items tested, the board awarded and paid grants in compliance with significant finance-related legal provisions and management's authorization.

The board provides grants to individual artists, schools, arts organizations, colleges and universities, and sponsoring groups that present arts activities. During the three-year audit period, approximately \$12.4 million in grant funding was provided each year to a wide variety of programs as shown in Table 3-1.

Table 3-1
General Fund Grant Expenditures by Program
Fiscal Years 1999, 2000, and 2001

Program	1999	2000	2001
Regional Arts Councils	\$ 3,535,000	\$ 3,535,000	\$ 3,535,000
Institutional Support	6,955,000	6,270,900	6,270,900
Institutional Presenter Support	0	891,100	891,100
Arts Across Minnesota	569,925	500,000	500,000
Arts in Education	417,537	419,014	396,579
Artist Assistance	492,000	529,945	539,000
Series Presenter	277,000	75,000	75,000
Folk Arts	76,761	83,313	80,366
Other	94,547	56,677	73,602
Total	<u>\$12,417,770</u>	<u>\$12,360,949</u>	<u>\$12,362,547</u>

Source: The Minnesota State Arts Board grants subsystem and the Minnesota Accounting and Procurement System (MAPS) for fiscal years 1999, 2000 and 2001.

The board awarded and disbursed grant funds for the following programs and purposes:

- ✓ **Regional Arts Councils** - The board acts as fiscal agent for the 11 regional arts councils in Minnesota. The board distributes the portion of each biennial appropriation designated to the councils based upon a formula.

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- ✓ **Institutional Support Program** – This program provides unrestricted operating support to nonprofit, tax-exempt arts organizations that produce or exhibit works of art, or offer a broad range of services to artists. Organizations must have at least \$123,000 in annual operating expenses to be eligible for this support.
- ✓ **Institutional Presenter Support Program** – This program provides unrestricted operating funds to large and medium-sized arts presenters who present live performances, exhibitions, or screenings in the visual, performing, and literary arts. The program is available to organizations with at least \$123,000 in annual operating expenses.
- ✓ **Arts Across Minnesota Program** – The board awards two types of grants under this program. Host Community Grants provide \$2,000 to \$50,000 to organizations in greater Minnesota to help present distinguished Minnesota based performing arts institutions. Festival Grants provide \$2,000 to \$20,000 for sponsoring groups to involve individual Minnesota artists and small to mid-sized Minnesota arts organizations in the arts component of community-based festivals.
- ✓ **Arts in Education Program** – The board awards two types of grants under this program. School Support Grants fund independent artist residencies of at least one week at K-12 public or private non-parochial schools or educational organizations. Organizational Support Grants support arts organizations that produce K-12 school residency programs of at least one week.
- ✓ **Artist Assistance Program** – The board awards several types of grants under this program. Fellowship Grants of \$8,000 provide time, materials, and living expenses for artists. Career Opportunity Grants of \$500 to \$1,500 help artists take advantage of unique opportunities that will significantly advance their work or careers. Cultural Collaboration Grants of \$1,000 to \$6,000 provide assistance to artists of color in collaboration with nonprofit arts or community organizations. Video Documentation Grants provide \$500 to \$3,000 to artists whose work is time or movement based to document their work on videotape, or edit existing tapes related to artwork documentation.
- ✓ **Series Presenter Program** – This program provides annual grants to arts presenting organizations to help Minnesota communities experience new, diverse, and outstanding live performances, exhibitions, and screenings in the visual, performing, and literary arts. The minimum grant under this program is \$2,000.
- ✓ **Folk Arts Program** – The board awards two types of grants under this program. Folk Arts Apprenticeship Grants of \$500 to \$4,000 provide funds for the serious study of traditional art forms between a master folk artist and an apprentice. Folk Arts Sponsorship Grants of \$300 to \$5,000 provide annual funds for research and presentation of Minnesota folk arts events like exhibitions, concerts, workshops, or festivals by nonprofit, tax-exempt organizations.

Audit Objectives and Methodology

Our audit of grant expenditures focused on the following questions:

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- Did the board establish internal controls to authorize and accurately record grant expenditures in the accounting records, and monitoring procedures to ensure grantees used grant funds appropriately and complied with provisions specified in grant contracts?
- Did the board award and disburse grants in compliance with significant finance-related legal provisions and management's authorization?

To answer these questions, we interviewed board staff to gain an understanding of internal controls over grants. We performed analytical reviews of grant expenditures and reconciled recorded grant expenditures to the board's list of authorized grants. Finally, we tested samples of grant expenditures for recipient eligibility, accurate awarding, recording and payment of funds, and execution of an authorized grant agreement.

Conclusions

The board established internal controls to provide reasonable assurance that it authorized and accurately paid grants and properly recorded the grant expenditures in the accounting system. However, the board needs to improve cash management practices and oversight controls to ensure grant recipients comply with grant contract requirements.

For the items tested, the board awarded and paid grants in compliance with significant finance-related legal provisions and management's authorization.

5. The board needs to improve cash management practices and grant oversight controls.

We noted the following concerns with the board's grant management practices.

- The board did not establish cash management practices for disbursing grant funds that were in the state's best financial interest. For all of its grants, the board disbursed the entire grant amount to the recipient at the beginning of the grant period. By not prorating the disbursements over the grant period, the state loses potential investment earnings on the undisbursed cash. In addition, not retaining a portion of the grant until the end of the grant period weakens the board's ability to effectively ensure compliance with final grant reporting and close-out requirements. Without a financial incentive for grantees to timely submit close-out reports, the board loses its leverage to enforce the requirement. An effective practice typically used is to retain five or ten percent of the overall grant until all requirements are met.
- The board requires detailed final reports from grantees to monitor use and spending of grant funds. However, a large number of grant recipients consistently submitted the required reports to the board late or after the deadlines specified in grant agreements. Out of 25 grants we reviewed, 9 grantees submitted final reports ranging from two days late to more than a year after the grant deadline. One grantee receiving funds in fiscal year 1999 did not submit any final report at all. The board has a process to monitor whether grant reports are received;

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however, gaining recipient compliance has been a problem. As of January 15, 2002, the board had 28 grantees on a moratorium list precluding any future grants due to failure to submit final reports, and another 22 that had overdue final reports outstanding.

- The board did not reconcile its master list of grants authorized by the board to actual grant disbursements. Without a periodic reconciliation, the board cannot detect potential errors in grant disbursements, such as incorrect amounts paid or incorrect deposits of returned grant funds. We reconciled the grants list to grant disbursements for fiscal years 1999 to 2001 and found minor discrepancies caused by deposit errors of returned grant funds. The board improperly deposited those returned funds into its Gift Fund account instead of the account the grants were originally disbursed from. This concern is discussed in Finding 1 of this report. Those accounting errors could have been detected if the board had reconciled the grant list to actual grant disbursements.

Recommendations

- *The board should consider prorating grant payments throughout the grant period and retaining a portion of grants until grantees submit final reports.*
- *Board staff should periodically reconcile its master list of authorized grants to actual grant disbursements.*

Chapter 4. Payroll

Chapter Conclusion

The board's internal controls provided reasonable assurance that it accurately compensated employees and correctly recorded payroll expenditures in the accounting records. Mitigating detective controls sufficiently decreased the risks associated with one employee's incompatible access to update the board's personnel and payroll functions. For the items tested, the board accurately compensated employees in compliance with applicable collective bargaining agreements and state compensation plans.

The board's annual payroll expenditures approximated \$1 million for the three-year audit period. As of February 2002, the board had 20 staff. Board staff belong to various compensation plans, including the American Federation of State, County, and Municipal Employees, the Minnesota Association of Professional Employees, the Managerial Plan, and the Commissioner's Plan. Table 4-1 shows payroll expenditures for fiscal years 1999 through 2001.

Table 4-1
Payroll Expenditures by Type
Fiscal Years 1999, 2000, and 2001

	<u>1999</u>	<u>2000</u>	<u>2001</u>
Full Time ^(Note 1)	\$808,824	\$898,715	\$934,161
Part Time	37,905	33,986	36,403
Overtime	1,380	1,269	3,700
Other	<u>8,187</u>	<u>9,071</u>	<u>3,622</u>
Total	<u>\$856,296</u>	<u>\$943,041</u>	<u>\$977,886</u>

Note 1: Additional payroll costs were charged to capital projects accounts for the Percent for Art in Public Places Program. From July 1, 1998, through September 30, 2001, the board posted total additional payroll expenditures of \$210,052 to program accounts.

Source: Minnesota Accounting and Procurement System (MAPS) for fiscal years 1999, 2000, and 2001.

We noted one board employee had incompatible ability to update both personnel and payroll functions in the State Employment Management System (SEMA4). However, as an alternative to separating these incompatible duties, the board instituted detective controls to review the biweekly SEMA4 payroll register for input accuracy.

Audit Objectives and Methodology

Our audit of payroll expenditures focused on the following questions:

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- Did the board's internal controls provide reasonable assurance that it accurately compensated employees and correctly recorded payroll expenditures in the accounting records?
- Did the board pay employees in compliance with significant finance-related legal provisions contained in applicable collective bargaining unit agreements and state compensation plans?

To answer these questions, we interviewed board staff to gain an understanding of internal controls over the human resources and payroll processes and performed analytical reviews of payroll expenditures over the audit period. We tested various types of payroll and human resource transactions, including the entry of timesheet hours, special transactions, and employee payrate changes.

Conclusions

The board's internal controls provided reasonable assurance that it accurately compensated employees and correctly recorded payroll expenditures in the accounting records. Mitigating detective controls sufficiently decreased the risks associated with one employee's incompatible access to update the board's personnel and payroll functions. For the items tested, the board accurately compensated employees in compliance with applicable collective bargaining agreements and state compensation plans.

Chapter 5. Percent for Art in Public Places Program

Chapter Conclusion

The board's internal controls over the Percent for Art in Public Places Program provided reasonable assurance that artwork expenditures were accurately paid and recorded in the accounting records. For the items tested, the board incurred costs and obtained artwork in compliance with finance-related legal provisions and management's authorization.

Under the Minnesota Percent for Art in Public Places Program, state building construction or renovation projects with budgets of at least \$500,000 may designate up to one percent of the budget to acquire artwork for the site. The board, in partnership with the Department of Administration, administers the program. Works of art acquired under the program must be exhibited in areas of the building or its grounds readily accessible to the public.

For each project, the board establishes a committee consisting of users from the building, the project architect, artists, and other design professionals. The committee decides how to incorporate artwork into the building and how to acquire it. The board may purchase existing artwork or commission artists to create new works of art. Since it may take several years to complete projects, program funds remain available to the board until spent. The program allows the board to use up to 20 percent of the funds transferred for each project for administrative expenditures. During the period from July 1, 1998, through September 30, 2001, the board spent approximately \$1.3 million of program funds on artwork acquisitions and about \$423,000 on administrative expenditures, including payroll costs. As of September 30, 2001, the board carried forward \$1.357 million for uncompleted projects as shown on Table 1-1 in Chapter 1 of this report.

According to Minnesota Rule 1900.2210, Subp. 3, the board may use up to 20 percent of the capital funds transferred for administrative expenditures. Minn. Stat 16B.35, Subd. 3 provides that any unexpended portion is available for the commission or purchase of works of art for existing state buildings.

Audit Objectives and Methodology

We focused on the following objectives during our audit of the Minnesota Percent for Art in Public Places Program:

- Did the board's controls provide reasonable assurance that it accurately disbursed and recorded expenditures for artwork in the accounting records?

Minnesota State Arts Board

- Did the board obtain artwork in compliance with significant finance-related legal provisions and management's authorization?

To answer these questions, we interviewed board staff to gain an understanding of internal controls over artwork purchases. We analyzed the accounting system transfers to the board and expenditure transactions for various projects. Artwork expenditures were tested for accurate payment of vendor invoices according to the established contract and board management's authorization.

Conclusions

The board's internal controls over the Percent for Art in Public Places Program provided reasonable assurance that artwork expenditures were accurately paid and recorded in the accounting records. For the items tested, the board incurred costs and obtained artwork in compliance with finance-related legal provisions and management's authorization.

Minnesota State Arts Board

Status of Prior Audit Issues As of February 7, 2002

Legislative Audit Report 98-57, issued in October 1998, covered the three fiscal years ending June 30, 1998. The audit scope included grants, the Percent for Art in Public Places Program, payroll and other administrative expenditures, and the federal Promotion of the Arts Partnership Agreement. The board resolved two of the five findings contained in the 1998 audit report. Three issues were not resolved and are repeated in this report.

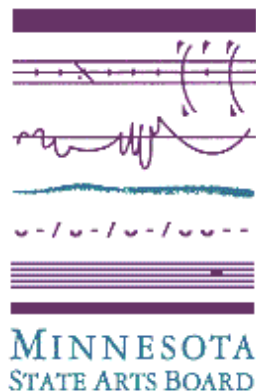
The 1998 audit reported that the board inappropriately deposited certain receipts, which was a prior concern from a 1994 audit of the board. The concern remains unresolved and is repeated as Finding 1 in this report. A second unresolved issue concerns the timing of the board's requests for federal funds, which was also a 1994 audit issue, is repeated as Finding 2 of this report. Finally, the 1998 audit reported that the board did not comply with the state purchasing policy for certain items. This concern is repeated as Finding 4 in this report.

State of Minnesota Audit Follow-Up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issued by the Legislative Auditor. The process consists of an exchange of written correspondence that documents the status of audit findings. The follow-up process continues until Finance is satisfied that the issues have been resolved. It covers entities headed by gubernatorial appointees, including most state agencies, boards, commissions, and Minnesota state colleges and universities. It is not applied to audits of the University of Minnesota, any quasi-state organizations, such as Metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.

Minnesota State Arts Board

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June 6, 2002

James R. Nobles
Legislative Auditor
State of Minnesota
Office of the Legislative Auditor
140 Centennial Building
658 Cedar Street
Saint Paul, MN 55155-1603

Dear Mr. Nobles:

Please consider this letter as the Arts Board management's response to findings contained in your financial audit of the Minnesota State Arts Board for the period July 1, 1998 through June 30, 2001.

I want to commend your staff that carried out the audit field work, Brad White, Scott Tjomsland, Kristen Peterson, and Heather White for their cooperation and professionalism in working with the Arts Board's staff, space, and schedule. I also want to recognize and thank Claudia Gudvangen as well as Brad, Scott, Heather, and Kristen for the many helpful recommendations, observations, and suggestions they offered during the course of the audit process and at the exit conference.

Concerning the first finding which identifies the board's need to improve its accounting for miscellaneous financial activities and grants. The board accepts the recommendations identified in the audit report. Specifically, the board's accounting director will work to make the adjustments necessary to correct all identified deposit errors. We expect these adjustments to be completed by July 31, 2002. The board's accounting director is currently working with the Department of Finance to create a Special Revenue Fund account into which the Arts Board will deposit future mailing list, workshop, and other miscellaneous receipts. The Arts Board then will transfer into this new Special Revenue Fund account any such receipts that it currently has in its current Gift Fund account. The Special Revenue Fund account is anticipated to be active by July 31, 2002. Finally, the Arts Board has established a separate account for the Wallace-Reader's Digest Funds grant; the account will become active at the start of the upcoming fiscal year.

Concerning the second finding that the Arts Board needs to improve its federal cash management practices. The Arts Board will continue to work within its capacities to both comply with federal cash management requirements and limit its reliance on state money to cover federal account expenditures. To that end, the Arts Board will process a request for federal cash in June 2002 and the Arts Board's accounting director will begin requesting federal cash on a monthly basis starting in September 2002, with the close of fiscal 2002 accounts.

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Concerning the third finding that the board needs to improve safeguards over receipts. The Arts Board, through its accounting director, will increase its efforts to comply with the requirement that accumulated receipts exceeding \$250 will be deposited on a daily basis. In addition, the Arts Board's assistant director will carry out a periodic reconciliation of receipts recorded on the check log to actual deposits.

Concerning the fourth finding that the Arts Board did not comply with the state purchasing policy for certain items. As noted in the audit report, the Arts Board did comply with the state purchasing policy throughout fiscal year 2001 and it is the Arts Board's belief that this compliance extends through fiscal year 2002, to date. In addition, the Arts Board's accounting director will use the Minnesota Accounting and Procurement System (MAPS) for any future purchases over \$2,500.

Concerning the fifth finding that the Arts Board needs to improve cash management practices and grant oversight controls. The Arts Board is entering into a planning process for fiscal years 2004 – 2006 and will incorporate into that process, through its assistant director, the recommendation that it consider prorating grant payments throughout the grant period and retaining a portion of grants until grantees submit final reports. It should be noted, however, that when this recommendation was considered in the past the conclusion reached was that it would place a significant and undue hardship on the Arts Board's grantees, the very organizations and individuals it was created to serve. In addition, this change in the Arts Board's grant payment structure would substantially increase the workload of an already overburdened staff. As noted above, the Arts Board will correct any deposit errors identified through the audit process, including those that resulted in returned grant funds being incorrectly placed in an account other than the grants account. Beyond this correction, the Arts Board, as recommended, does reconcile its master list of authorized grants to actual grant disbursements throughout the year, at the time the grants are approved and made, and at the end of the fiscal year when it produces its annual report and its year-end grant report to the National Endowment for the Arts.

I would note that, with the exception of the above five findings, the Minnesota State Arts Board, in managing over \$41 million in the three years being audited, complied with all provisions of laws, regulations, contracts, and grants that are significant to the audit. I also note that nothing else came to the attention of your staff to cause doubt that the Minnesota State Arts Board had not complied with rules and laws associated with items not tested during the audit.

Thank you for your thorough review of our agency and for your recommendations.

Sincerely,

/s/ Robert C. Booker

Robert C. Booker
Executive Director

RCB/gb

cc: Ben Vander Kooi, Jr., Chair
William Miller, Arts Board Member
James A. Dusso, Assistant Director
Richard Jeanette, Accounting Officer
Gail Burke, Human Resource Manager