



FINANCIAL AUDIT DIVISION REPORT

**Department of
Administration**

**Arts and Cultural Heritage
Fund Expenditures**

**Internal Controls and
Compliance Audit**

July 2012 through February 2015

November 20, 2015

Report 15-15

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Conclusion on Internal Controls

The Financial Audit Division bases its conclusion about an organization's internal controls on the number and nature of the control weaknesses we found in the audit. The three possible conclusions are as follows:

Conclusion	Characteristics
Adequate	The organization designed and implemented internal controls that effectively managed the risks related to its financial operations.
Generally Adequate	With some exceptions, the organization designed and implemented internal controls that effectively managed the risks related to its financial operations.
Not Adequate	The organization had significant weaknesses in the design and/or implementation of its internal controls and, as a result, the organization was unable to effectively manage the risks related to its financial operations.



OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

November 20, 2015

Sondra Erickson, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Matt Massman, Commissioner
Department of Administration

This report presents the results of our internal controls and compliance audit of the Department of Administration's expenditures from the Arts and Cultural Heritage Fund for the period from July 1, 2012, through February 28, 2015. The objectives of this audit were to determine if the department had adequate internal controls for its grant expenditures and complied with finance-related legal requirements.

We discussed the results of the audit with the department's staff at an exit conference on November 6, 2015. This audit was conducted by Brad White, CPA, CISA, CFE (Audit Director), Tracy Gebhard, CPA (Audit Director), Lori Leysen, CPA (Audit Supervisor), and assisted by auditors Cassie Harlin, CPA, and Natalie Mehlhorn.

We received the full cooperation of the department's staff while performing this audit.

James R. Nobles
Legislative Auditor

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

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Report Summary

Background

The Office of the Legislative Auditor conducted this audit to determine whether the Department of Administration had adequate internal controls to monitor its grant programs and complied with applicable legal requirements when spending money from the Arts and Cultural Heritage Fund. We audited the department's grant expenditures from the Arts and Cultural Heritage Fund from July 1, 2012, through February 28, 2015.

The Arts and Cultural Heritage Fund is one of the four funds created when voters approved the "Legacy Amendment" to the Minnesota Constitution in 2008. The amendment increased the state's sales tax by three-eighths of 1 percent for 25 years and dedicated 19.75 percent of the additional revenue to the Arts and Cultural Heritage Fund.

For fiscal years 2013, 2014, and 2015, the Legislature appropriated over \$27 million from the Arts and Cultural Heritage Fund to the Department of Administration. As of February 28, 2015, the department had spent about \$24.3 million from these appropriations.

Conclusion

The Department of Administration had generally adequate internal controls to monitor its Arts and Cultural Heritage Fund grants. However, the department did not adequately ensure its grant recipients complied with the Arts and Cultural Heritage Fund appropriation laws.

The department partially resolved the prior audit finding by conducting monitoring visits for grants over \$50,000; however, for one grant recipient, the department did not conduct an effective financial reconciliation by the end of the grant period, as required by the state grants management policy.¹

Finding

- The Department of Administration did not adequately monitor its Arts and Cultural Heritage Fund grant recipients. (Finding 1, page 13)

¹ Office of the Legislative Auditor, Financial Audit Division Report 12-21, *Minnesota Department of Administration* (St. Paul, MN, October 25, 2012).

Background

Arts and Cultural Heritage Fund

In 2008, Minnesota voters approved a constitutional amendment, commonly referred to as the “Legacy Amendment.” The amendment increased the state sales tax by three-eighths of 1 percent for a 25-year period and required specific percentages of the new revenue to be deposited into four separate Legacy funds.² In this report, we refer to this additional sales tax revenue as “Legacy money.”

One fund is the Arts and Cultural Heritage Fund, which receives 19.75 percent of the Legacy money. The constitutional amendment says that money from this fund must be used for arts, arts education, arts access, and the preservation of Minnesota’s history and cultural heritage.³ The Legislature appropriates money from the Arts and Cultural Heritage Fund to certain state agencies (such as the Department of Administration) and quasi-state agencies (such as the Minnesota Historical Society) for programs and activities authorized by the Legacy Amendment.

These agencies often grant a significant share of the money they receive to other organizations, particularly nonprofit organizations. Some grants are awarded based on a competitive process. This process generally results in awarding grant funds to the top applicants, after evaluating their requests for funds. For other grants, the Legislature designates the grant recipient (these are sometimes called “pass through grants”). The agency that is appropriated the money then passes it through to that grant recipient. The state’s oversight requirements are the same for both the competitive and pass through grants.

Table 1 summarizes the Arts and Cultural Heritage Fund appropriations to agencies in fiscal years 2013, 2014, and 2015. This audit focused on the Department of Administration’s use of the money appropriated by the Legislature from the Arts and Cultural Heritage Fund for grant awards.⁴

² The four Legacy funds and their share of the new sales tax revenue are as follows: Outdoor Heritage Fund, 33 percent; Clean Water Fund, 33 percent; Parks and Trails Fund, 14.25 percent; and the Arts and Cultural Heritage Fund, 19.75 percent.

³ The Legacy Amendment also defines the purposes and activities for which money from the other Legacy funds may be used.

⁴ The Office of the Legislative Auditor’s Financial Audit Division also audited the Arts and Cultural Heritage Fund appropriations made to the Minnesota Historical Society and the Minnesota State Arts Board.

Table 1
Arts and Cultural Heritage Fund Appropriations
Fiscal Years 2013, 2014, and 2015

<u>Governmental Entities</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>Total</u>
Arts Board	\$23,314,000	\$26,675,000	\$27,425,000	\$77,414,000
MN Historical Society	12,950,000	13,800,000	14,075,000	40,825,000
Department of Administration	8,830,000	9,605,000	8,925,000	27,360,000
Department of Education	3,000,000	3,000,000	3,000,000	9,000,000
Humanities Commission	1,575,000	1,725,000	1,750,000	5,050,000
Zoological Board	1,500,000	1,750,000	1,750,000	5,000,000
Indian Affairs Council	875,000	950,000	950,000	2,775,000
Centers for Arts Education	850,000	795,000	750,000	2,395,000
Department of Agriculture	1,400,000	0	0	1,400,000
Legislature	<u>35,000</u>	<u>9,000</u>	<u>9,000</u>	<u>53,000</u>
Total	<u>\$54,329,000</u>	<u>\$58,309,000</u>	<u>\$58,634,000</u>	<u>\$171,272,000</u>

Source: *Laws of Minnesota* 2011, First Special Session, chapter 6, art. 4; *Laws of Minnesota* 2012, chapter 264, art. 5; and *Laws of Minnesota* 2013, chapter 137, art. 4.

Department of Administration

The Department of Administration is responsible for providing many administrative operations to the executive branch state agencies, including the department's Office of Grants Management. The office provides grants management guidance to all state agencies and acts as a resource for questions and training on grants management. In addition, it administers the department's grants, including grants from the Arts and Cultural Heritage Fund.

In 2007, the Legislature established the office in response to our program evaluation report on the state's grant process.⁵ The office began its operations in September 2007 and works closely with a Grants Management Governance Committee. The committee consists of members from state agencies and key grant recipient constituencies. As of October 2015, the office consists of a staff of a director, two full-time employees, and one student worker.

Using Arts and Cultural Heritage Fund money, the department awards grants to many radio and television stations, along with the Science Museum of Minnesota, zoos, and veterans memorial parks located in Minnesota. The state constitution requires that the grant money must be spent on projects that focus on the arts, arts

⁵ Office of the Legislative Auditor, Program Evaluation Division, *State Grants to Nonprofit Organizations* (St. Paul, MN, January 2007)

education, arts access, and preservation of historic and cultural heritage of Minnesota.⁶

In the past three fiscal years, the Legislature appropriated over \$27 million from the Arts and Cultural Heritage Fund to the Department of Administration. From that amount, as of February 28, 2015, the department had spent about \$24.3 million on the activities listed in Table 2.

Table 2
Department of Administration - Arts and Cultural Heritage Fund
Expenditures by Appropriation Activity
July 2012 through February 2015

Activity	FY 2013	FY 2014	FY 2015¹	Total
Public Television	\$3,562,160	\$ 4,954,911	\$2,531,586	\$11,048,657
Minnesota Public Radio	2,508,652	2,546,153	794,130	5,848,935
Association of Minnesota Public Educational Radio Stations	0	1,332,279	839,088	2,171,366
Science Museum of Minnesota	567,820	1,173,378	326,292	2,067,490
Minnesota Film and TV Board	228,853	725,217	26,746	980,816
Minnesota Children's Museum	177,738	521,063	54,882	753,683
Lake Superior Zoo	270,472	212,804	11,101	494,377
Como Zoo and Conservatory	0	69,994	282,676	352,670
Veterans Camps	254,988	0	0	254,988
Lake Superior Center Authority	0	198,000	0	198,000
State Capitol Preservation Commission	35,629	35,350	0	70,979
Small Theater Grants	0	27,027	24,423	51,450
Veterans Memorial Parks	0	0	29,700	29,700
Minnesota African American Museum and Cultural Center	0	0	13,263	13,263
Total Expenditures	\$7,606,312	\$11,796,176	\$4,933,887	\$24,336,374

¹ The scope of our audit included fiscal year 2015 activity from July 1, 2014, through February 28, 2015.

Source: State of Minnesota's accounting system.

Within the appropriation law, the Legislature identifies the purpose of each activity listed in Table 2 above. The following provides a description of each appropriation activity:

- **Public Television** – The department provided grant money to create, produce, acquire, or distribute programs that educate, enhance, or promote local, regional, or statewide items of artistic, cultural, or historic significance. In 2011 law, the Legislature also required that the Minnesota Public Television Association produce new programming on Minnesota history.

⁶ *Minnesota Constitution*, art. XI, sec. 15.

- Minnesota Public Radio Grants – The department provided grants to create programming and expand news service on Minnesota’s historic and cultural heritage.
- Association of Minnesota Public Educational Radio Stations – The department provided grants to create, produce, acquire, or distribute programs that educate, enhance, or promote local, regional, or statewide items of artistic, cultural, or historic significance. The focus of these grants was for projects that expand Minnesotans’ access to knowledge, information, arts, state history, or cultural heritage.
- Science Museum of Minnesota – The department provided grant money to conduct a variety of activities, including student and teacher outreach, expansion of the museum’s American Indian initiatives, and to upgrade its Omnitheater audio and projection systems.
- Minnesota Film and TV Board – The department granted money for the film production jobs program and for Minnesota residents to create film or television productions that promote Minnesota’s historic and cultural heritage.⁷
- Minnesota Children’s Museum – The department provided grant money for arts, arts education, arts access, and to preserve Minnesota’s history and cultural heritage.
- Lake Superior Zoo – The department provided grant money for the development of the forest discovery zone to create educational exhibits using animals and the environment.
- Como Zoo and Conservatory – The department provided grant money for program development. For example, in fiscal year 2014, the grant money was used to create activities such as the EdZooCation program (a free, weekly program series aimed at young guests to provide early environmental awareness with living plants and animals) and the ‘Music Under Glass’ and ‘Groovin’ in the Garden’ series, which offers local bands a venue and new audiences.^{8 9}
- Veterans Camps – The department provided grant money to the Disabled Veterans Rest Camp, located on Big Marine Lake in Washington County

⁷ For additional discussion of the Minnesota Film and TV Board’s Arts and Cultural Heritage Fund appropriations, see Office of the Legislative Auditor, Program Evaluation Division, *Minnesota Film and TV Board*, April 2015, pages 18 and 19.

⁸ <http://www.legacy.leg.mn/projects/edzoocation-program>.

⁹ <http://www.legacy.leg.mn/projects/music-series>.

and to the Veterans on the Lake Resort, located on Fall Lake in St. Louis County.

- Lake Superior Center Authority – The department granted money to develop an exhibit called Shipwrecks Alive! The exhibit examines the effect that aquatic environments have on shipwrecks, and to preserve Minnesota’s history and cultural heritage. The exhibit focuses on three examples of shipwrecks that serve as underwater habitat in three parts of the world: Lake Superior, the South Pacific, and the Mediterranean Sea.¹⁰
- State Capitol Preservation Commission – The Legislature appropriated this money to the department for the maintenance and operations of the Capitol building and grounds.
- Small Theater Grants – Using a competitive grant process, the department awarded money to theaters in Minnesota to purchase and install digital projection technology to allow continued access to films. Priority for grants is to theaters that have exclusively 35 millimeter projection systems in communities with few available theaters or to small theaters with only one screen.
- Veterans Memorial Parks – Using a competitive grant process, the department awarded at least four grants to local units of government to construct and preserve veterans’ memorials in municipal parks throughout Minnesota.
- Minnesota African American Museum and Cultural Center – The department provided grant money for arts, arts education, and arts access, and to preserve Minnesota’s history and cultural heritage.

To administer the grants listed above, the department used its staff, purchased products and materials from vendors, and contracted with other organizations for services. In the Arts and Cultural Heritage Fund appropriation law, the Legislature limits the amount of money that can be used for administrative expenditures.¹¹ Table 3 summarizes how the department used its fiscal years 2013, 2014, and 2015 appropriations from the Arts and Cultural Heritage Fund.

¹⁰ <http://www.legacy.leg.mn/projects/2014-lake-superior-center-authority-great-lakes-aquarium>.

¹¹ The Legislature limited the amount of Arts and Cultural Heritage Fund money that it allowed the department to use for administrative expenditures to 1 percent of the department’s Arts and Cultural Heritage Fund appropriation. We found that the department did not exceed this limit.

Table 3
Department of Administration - Arts and Cultural Heritage Fund
Expenditures by Type
July 1, 2012, through February 28, 2015

<u>Expenditure Type</u>	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>Total</u>
Grants	\$7,606,312	\$11,796,176	\$4,933,887	\$24,336,374
Administrative Costs ¹	<u>94,347</u>	<u>168,099</u>	<u>124,985</u>	<u>387,431</u>
 Total Expenditures	 <u>\$7,700,659</u>	 <u>\$11,964,275</u>	 <u>\$5,058,871</u>	 <u>\$24,723,805</u>

¹ The department's administrative costs were mostly for personnel costs related to grant oversight.

Source: State of Minnesota's accounting system.

Audit Objective, Scope, and Methodology

Our objective for this audit was to answer the following questions:

- Did the Department of Administration, through its Office of Grants Management, have adequate internal controls to monitor grant recipient's use of Arts and Cultural Heritage Fund grant money?
- Did the department comply with significant finance-related legal requirements related to grant recipients use of money from the Arts and Cultural Heritage Fund grant money?
- Did the department resolve the prior audit finding?¹²

Our audit scope focused on Arts and Cultural Heritage Fund grant expenditures made by the Department of Administration, through its Office of Grants Management, for the period July 1, 2012, through February 28, 2015.

To meet our audit objective, we used the following methodology: We gained an understanding of the department's financial policies and procedures. We considered the risk of errors in the accounting records and noncompliance with relevant legal requirements. We obtained and analyzed the accounting data to identify unusual trends or significant changes in financial operations. In addition, we selected financial transactions and reviewed supporting documentation to determine whether the department's controls over monitoring grant expenditures were effective. We also tested whether grants complied with applicable legal criteria.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to

¹² Office of the Legislative Auditor, Financial Audit Division Report 12-21, *Minnesota Department of Administration* (St. Paul, MN, October 25, 2012).

obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Criteria

We assessed the Department of Administration’s internal controls against the most recent edition of the internal control standards published by the U.S. Government Accountability Office, also known as the “Green Book.”¹³ Specifically, for internal controls over grants, we assessed the department against the policies and procedures established for executive branch state agencies by the department’s Office of Grants Management.¹⁴

To establish legal compliance criteria for the grants and other expenditures we tested, we examined the requirements in the following documents:

- *Minnesota Constitution*, art. XI, sec.15;
- *Laws of Minnesota* 2011, First Special Session, chapter 6, art. 4, sec. 2, subd. 6;
- *Laws of Minnesota* 2013, chapter 137, art. 4, sec. 2, subd. 6;
- *Minnesota Statutes* 2014, 129D.17; and
- Office of Grants Management Policies.

Some of the legal requirements in these documents apply generally to the use of money from any Legacy fund, and others apply specifically to the money appropriated to the Department of Administration from the Arts and Cultural Heritage Fund in fiscal years 2013, 2014, and 2015.

The following two requirements have been controversial and subject to conflicting interpretations:¹⁵

Directly Related To And Necessary For. Legislators and groups that supported approval of the Legacy Amendment have worked to limit the use of Legacy funds for administrative costs. Initially, the Legislature placed percentage caps on how Legacy money could be spent on administrative costs. In 2011, the Legislature changed that approach in favor of requiring that Legacy money could be used only for costs that were “directly related to and necessary for” a legislatively authorized Legacy project or activity.¹⁶

¹³ Comptroller General of the United States, Government Accountability Office, *Standards for Internal Control in the Federal Government* (Washington D.C., September 2014).

¹⁴ *Minnesota Statutes* 2014, 16B.97, required the commissioner of Administration to “...create general grants management policies and procedures that are applicable to all executive agencies.”

¹⁵ For a more extended discussion of these two legal requirements, see Office of the Legislative Auditor, Program Evaluation Division, *The Legacy Amendment* (St. Paul, MN, November 2011, pages 45-58).

¹⁶ *Laws of Minnesota* 2011, First Special Session, chapter 6, art. 4, sec. 2, subd. 2.

Some recipients of Legacy money have struggled with how to interpret and implement this language, particularly as it applies to those administrative costs that are often referred to as “overhead” or “indirect costs.” Because these are the costs that an organization incurs as part of its general operations, it is more difficult to show that they were directly related to a specific project or activity. These costs include, for example:

- Building costs (e. g., rent/lease, utilities, insurance, maintenance, and security)
- Staff support costs (e.g., human resources, information technology, and general office equipment and supplies)
- Management support costs (e.g., executive staff, legal services, accounting, financial reporting, and public relations)

In a 2011 report, we acknowledged that it might be difficult for organizations to show how “indirect costs” meet the “directly related to and necessary for” test. But we also emphasized that agencies could not ignore this legal requirement. We said:

We understand that justifying the use of Legacy money on a detailed level will require staff time and involve costs. But, in our view, that greater level of effort and documentation is what the law requires. Organizations that receive Legacy money must be able to show that all costs—including [all] administrative costs—charged to a Legacy appropriation are “directly related to and necessary for” the specific appropriation they received.¹⁷

We applied this expectation to the Department of Administration in this audit because the “directly related to and necessary for” requirement was stated in the laws that appropriated money from the Arts and Cultural Heritage Fund to the department. For example, the appropriation law enacted in 2011 said:

Money appropriated in this article may not be spent on activities unless they are directly related to and necessary for a specific appropriation. Money appropriated in this article must not be spent on indirect costs or other institutional overhead charges that are not directly related to and necessary for a specific appropriation.¹⁸

¹⁷ Office of the Legislative Auditor, Program Evaluation Division, *The Legacy Amendment*, (St. Paul, MN, November 2011, page 57).

¹⁸ *Laws of Minnesota* 2011, First Special Session, chapter 6, art. 4, sec. 2, subd. 2.

In applying this legal requirement to the Department of Administration, we followed *Minnesota Statutes* 2014, 645.16, which provides guidance on interpreting and applying state law. It says, in part:

The object of all interpretation and construction of laws is to ascertain and effectuate the intention of the legislature. Every law shall be construed, if possible, to give effect to all its provisions. When the words of a law in their application to an existing situation are clear and free from all ambiguity, the letter of the law shall not be disregarded under the pretext of pursuing the spirit.¹⁹

We believe the language of this law is clear and “the letter of the law” must be applied. Therefore, we expected the Department of Administration to demonstrate that it used the money it received in fiscal years 2013, 2014, and 2015 from the Arts and Cultural Heritage Fund only to pay for costs that were “directly related to and necessary for” the programs and activities listed in the law that appropriated money from the fund to the department.

Supplement Not Substitute. In addition to demonstrating that it has complied with the “directly related to and necessary for” requirement, recipients of Legacy money must also show that they have complied with a requirement that is in the Legacy Amendment. That requirement says that the money raised by the Legacy Amendment’s sales tax increase “must [be used to] supplement traditional sources of funding...and may not be used as a substitute.”²⁰

To emphasize the importance of this requirement, the Legislature has frequently repeated it in the laws that appropriated money from the four Legacy funds. It did that in the laws that appropriated money from the Arts and Cultural Heritage Fund to the Department of Administration. For example, the 2011 appropriation law said:

Grant agreements entered into by the commissioner and recipients of appropriations in this subdivision must ensure that money appropriated in this subdivision is used to supplement and not substitute for traditional sources of funding.²¹

Unfortunately, the meaning of the “supplement not substitute” requirement is uncertain. Neither the Legacy Amendment nor a subsequent statutory provision has defined what constitutes “traditional sources of funding.”²² A key question

¹⁹ *Minnesota Statutes* 2014, 645.16.

²⁰ *Minnesota Constitution*, art. XI, sec. 15.

²¹ *Laws of Minnesota* 2011, First Special Session, chapter 6, art. 4, sec. 2, subd. 6.

²² We discussed the uncertainty over the meaning of the Legacy Amendment’s “supplement not substitute” requirement in our report, Office of the Legislative Auditor, Program Evaluation Division, *The Legacy Amendment* (St. Paul, MN, November 2011, pages 45-53).

that has not been answered is: How many years must an expense be funded from a particular revenue source for that source to be considered “traditional”?

In addition, agencies often argue that they are “forced” to use Legacy money to maintain certain programs and activities or pay for indirect or overhead costs because the Legislature has reduced or eliminated a “traditional” source of funding for those programs and activities.

Both of these factors make it difficult for agencies to comply and difficult for OLA to judge whether agencies complied with the “supplement not substitute” requirement. Nevertheless, to the extent possible, we applied the requirement during this audit, as we have and will in other audits that involve Legacy money.

Conclusion

The Department of Administration had generally adequate internal controls to monitor its Arts and Cultural Heritage Fund grants. However, the department did not adequately ensure its grant recipients complied with the Arts and Cultural Heritage Fund appropriation laws.

The department partially resolved the prior audit finding by conducting monitoring visits for grants over \$50,000; however, for one grant recipient, the department did not conduct an effective financial reconciliation by the end of the grant period, as required by the state grants management policy.²³

The following *Finding and Recommendation* section provides further explanation about the exceptions noted above.

²³ Office of the Legislative Auditor, Financial Audit Division Report 12-21, *Minnesota Department of Administration* (St. Paul, MN, October 25, 2012).

Finding and Recommendation

The Department of Administration did not adequately monitor its Arts and Cultural Heritage Fund grant recipients.

Finding 1

The department did not perform certain key monitoring procedures or consider compliance requirements when monitoring some grant recipients. For example:

- The department did not adequately monitor or perform a financial reconciliation for a grant to the Minnesota African American Museum and Cultural Center (museum), as required by state policy.

In recent months, the museum has experienced significant financial and legal difficulties and lost possession of the building that was to serve as its primary location. Given the importance of this project to Minnesota history and the public investment involved, we believe a full and objective examination of what occurred is needed. As a result, we plan to conduct a special review and issue a separate report.

- For all grant recipients, the department did not adequately assess whether costs complied with the ‘supplement not substitute’ requirement.²⁴ Rather than assessing whether costs had been previously paid for with traditional sources of funding, the department considered any costs related to a new project to be eligible for reimbursement regardless of how it had been paid for previously.

For example, with Legacy money, the department reimbursed 13 grant recipients \$463,784 for salary expenses without considering how the grant recipients had previously paid for these costs. Table 4 shows the salary expenses reimbursed to the 13 grant recipients with Legacy money.

²⁴ *Minnesota Constitution*, art. XI, sec. 15.

Table 4
Department of Administration - Arts and Cultural Heritage Fund
Grant Recipient Salary Expense Reimbursements
July 2012 through February 2015

<u>Grant Recipients</u>	<u>Salary Expense Reimbursements</u>
Minnesota Public Radio	\$228,957
Regents of the University of Minnesota	66,608
Prairie Public Broadcast, Inc.	46,323
Northern Minnesota Public TV	35,360
Duluth Superior Education	21,885
Northland Community College	17,531
White Earth Land Recovery Project	12,351
Minnesota Film and TV Board	9,064
Minnesota State Colleges and Universities – Winona	7,937
Association of Minnesota Public Educational Radio Stations	5,794
Science Museum of Minnesota	4,743
KSMQ Public TV	4,388
KAXE Public Radio	2,843
Total Expenditures	<u>\$463,784</u>

Source: Department of Administration's grant recipient documentation.

- For all grant recipients, the department also did not adequately assess whether costs were directly related to and necessary for the purposes of the appropriation, as required by state law.²⁵ For example, the department allowed one grant recipient to use an agreed upon allocation method to pay \$31,400 for a portion of its administrative costs, including rent, insurance, equipment, maintenance, management, and general support costs.²⁶

The department believed the Department of Management and Budget's guidance allowed the use of this type of allocation method. However, they had not adequately documented their justification for this method, and were unable to adequately explain how the method complied with the "directly related to and necessary for" requirement.²⁷

²⁵ *Laws of Minnesota* 2011, First Special Session, chapter 6, art. 4, sec. 2, subd. 2.

²⁶ The grant recipient is Northern Minnesota Public Television.

²⁷ *Laws of Minnesota* 2011, First Special Session, chapter 6, art. 4, sec. 2, subd. 2.

Recommendation

- *The Department of Administration should adequately monitor its Arts and Cultural Heritage Fund grant recipients to ensure compliance with the grant agreements and statutory and constitutional requirements.*
-



November 17, 2015

Mr. James Nobles
Legislative Auditor
Office of the Legislative Auditor
Centennial Building, Room 140
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St. Paul, MN 55155

Dear Mr. Nobles,

Thank you for the opportunity to convey our response to your Internal Controls and Compliance Audit of the Department of Administration's (Admin) Arts and Cultural Heritage Fund Expenditures. We appreciate the opportunity to improve our processes and maintain accountability of valuable State resources.

Finding 1:

The Department of Administration did not adequately monitor its Arts and Cultural Heritage Fund grant recipients.

Recommendation:

The Department of Administration should adequately monitor its Arts and Cultural Heritage Fund grant recipients to ensure compliance with the grant agreements and statutory and constitutional requirements.

Response:

Admin agrees it should adequately monitor all grant recipients to reasonably ensure compliance with grant agreements, statutory and constitutional requirements, as well as Minnesota Management and Budget guidance to agencies and State policy.

The finding section of your report is divided into three bullet points, and is addressed in the same consecutive order below:

- Over the three fiscal years covered by your audit, the Office of Grants Management completed 37 site visits and 71 financial reconciliations. During that time, all site visits and all financial reconciliations were completed timely, except for one grantee. Although this reconciliation was not completed timely, extenuating circumstances warranted increased monitoring and more careful scrutiny of documentation which impacted our timeline.

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- As stated on page 12 of your report, the interpretation of the 'supplement not substitute' requirement is uncertain. Admin applied the 'supplement not substitute' requirement while evaluating each proposed grant project, along with the broader set of Arts and Cultural Heritage Fund/Legacy funds guidance available.

With each grant award, Admin determined that the scope of proposed work consisted of new projects or enhancements to existing programs. Often the scope of work included reimbursing salary expenses for existing staff completing these new or enhanced programs, because this is more efficient than recruiting, hiring and training new staff. Existing staff salaries may have been financed through another source prior to the grant, but Admin determined reimbursing existing staff expenses is the more efficient and effective way to deliver the enhanced programs for which Legacy funds are intended.

- Admin believes funding indirect costs that are applied in a fair and equitable manner is necessary for achieving the grant objectives. For each grant applicant that included indirect costs in its proposed budget, Admin assessed, analyzed and approved the cost allocation methodology. For each Legacy grant recipient, Admin responsibly applied existing guidance at the award phase, when processing invoices for reimbursement and while conducting grant monitoring.

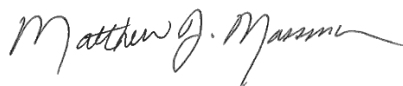
Admin will stay apprised of and participate in discussions about new or revised guidance on how to meet the 'supplement not substitute' and 'directly related to and necessary for' standards without placing undue administrative burden on both grantees and state agencies.

Persons responsible: Laurie Beyer-Kropuenske, Director of Community Services

Target Completion Date: July 1, 2016

Again, we appreciate the opportunity to respond to the finding in your report. We value the work of your office and the professionalism of your staff. If you have any questions or need additional information, please contact Director Laurie Beyer-Kropuenske.

Sincerely,



Matthew Massman
Commissioner