

MINNESOTA STATE ARTS BOARD

FINANCIAL AUDIT

FOR THE THREE YEARS ENDED JUNE 30, 1990

JULY 1991

**Financial Audit Division
Office of the Legislative Auditor
State of Minnesota**

91-45

SUMMARY

State of Minnesota
Office of the Legislative Auditor
Centennial Office Building • St. Paul, MN 55155
612/296-4708

MINNESOTA STATE ARTS BOARD

FINANCIAL AUDIT FOR THE THREE YEARS ENDED JUNE 30, 1990

Public Release Date: August 2, 1991

No. 91-45

OBJECTIVES:

- EVALUATE INTERNAL CONTROL STRUCTURE: Grant disbursements, payroll, travel and membership disbursements, federal grants, and private donations.
- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

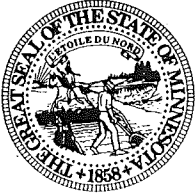
CONCLUSIONS:

We found the internal control structure to be effective.

We found two areas where the board had not complied with finance-related legal provisions:

- The board maintained excessive cash balances in the federal accounts.
- Some board employees exceeded the authorized limit for private car mileage reimbursement.

Contact the Financial Audit Division for additional information.
(612) 296-1730



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

VETERANS SERVICE BUILDING, ST. PAUL, MN 55155 • 612/296-4708

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Ann Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. James Nardone, Chair
Minnesota State Arts Board

Members of the Minnesota State Arts Board

Dr. Sam Grabarski, Executive Director
Minnesota State Arts Board

Audit Scope

We have conducted a financial related audit of Minnesota State Arts Board as of and for the three years ended June 30, 1990. Our audit was limited to only that portion of the State of Minnesota financial activities attributable to the transactions of the Minnesota State Arts Board, as discussed in the Introduction. We have also made a study and evaluation of the internal control structure of the Minnesota State Arts Board in effect at March 31, 1991.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial activities attributable to the transactions of the Minnesota State Arts Board are free of material misstatements.

As part of our study and evaluation of the internal control structure, we performed tests of the Minnesota State Arts Board's compliance with certain provisions of laws, regulations, contracts, and grants. However, our objective was not to provide an opinion on overall compliance with such provisions.

Management Responsibilities

The management of the Minnesota State Arts Board is responsible for establishing and maintaining an internal control structure. This responsibility includes compliance with applicable laws, regulations, contracts, and grants. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- assets are safeguarded against loss from unauthorized use or disposition;

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- transactions are executed in accordance with applicable legal and regulatory provisions, as well as management's authorization; and
- recorded properly on the statewide accounting system in accordance with Department of Finance policies and procedures.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Internal Control Structure

For purposes of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- grant disbursements,
- payroll,
- travel and membership disbursements,
- federal grants, and
- private donations.

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Conclusions

In our opinion, the internal control structure of the Minnesota State Arts Board in effect at March 31, 1991, taken as a whole, was sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or irregularities in amounts that would be material in relation to the financial activities attributable to transactions of Minnesota State Arts Board.

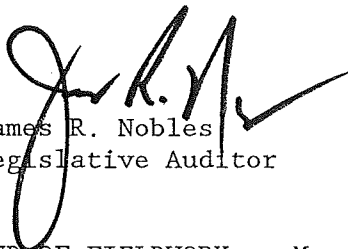
However, we noted certain matters involving the internal control structure and its operation that we reported to the management of Minnesota State Arts Board in a meeting held on June 12, 1991.

The results of our tests indicate that, except for the issues discussed in findings 1 and 2, with respect to the items tested, the Minnesota State Arts Board complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that the Minnesota State Arts Board had not complied, in all material respects, with those provisions.


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This report is intended for the information of the Legislative Audit Commission and management of Minnesota State Arts Board. This restriction is not intended to limit the distribution of this report, which was released as a public document on August 2, 1991.

We thank the Minnesota State Arts Board for their cooperation during this audit.



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

END OF FIELDWORK: May 17, 1991

REPORT SIGNED ON: July 26, 1991

MINNESOTA STATE ARTS BOARD

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AUDIT PARTICIPATION

The following staff from the Office of the Legislative Auditor prepared this report:

John Asmussen, CPA	Deputy Legislative Auditor
Warren Bartz, CPA	Audit Manager
Carl Otto, CPA	Auditor-in-Charge
Melissa Gamble	Auditor

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff of the Minnesota State Arts Board on June 12, 1991:

Dr. Sam Grabarski	Executive Director
Robert Booker	Assistant Director
Rick Jeanette	Accounting Director
Natalie Madgy	Grants Officer
Gail Swain	Administrative Assistant

MINNESOTA STATE ARTS BOARD

I. INTRODUCTION

The Minnesota State Arts Board is a state agency dedicated to making the arts available to all citizens in Minnesota. It was first established as the State Arts Society by the Minnesota legislature in 1903. The Society sponsored exhibitions and actively promoted the folk arts and crafts until 1947 when the legislature withdrew its appropriation.

In 1956 the Society was revived and an eleven member board was created to direct its activities. Over the years the Society was involved in sponsoring traveling exhibitions and competitions, designing and erecting monuments, advising state planners on matters of building construction, and offering scholarships to students and artists. In 1965 the legislature dissolved the Arts Society and created the Minnesota State Arts Council in its place. In 1976 the enabling statute of the Arts Council was amended and it was officially renamed the Minnesota State Arts Board.

The board is governed by eleven Minnesota citizens who are appointed by the Governor to serve four year terms. The board makes policy decisions regarding programming and makes final funding decisions regarding grants assistance. The board appointed Dr. Sam Grabarski as executive director to oversee and operate the Minnesota State Arts Board administrative office.

With an annual budget of \$6 million, the board offers a series of grants, programs, and services for individual artists, arts organizations, and schools throughout the state. Funds administered by the Arts Board are obtained primarily from state appropriations and are supplemented by grants from the National Endowment for the Arts and the private sector. Following is a summary of the board's fiscal year 1990 expenditures, revenues, and appropriations:

<u>Expenditures</u>	<u>Fiscal Year 1990</u>
Grants and Aids	\$4,651,142
Personnel Services	503,341
Travel	52,291
Memberships	42,673
Other Administrative Expenses	204,862
Total Expenditures	<u>\$5,454,309</u>
<u>Revenue and Appropriations</u>	
Federal Grants	\$ 597,790
Private Donations	810,250
Interest Income	23,269
Other Receipts	57,516
Total Revenue	<u>\$1,488,825</u>
State Appropriations	<u>\$4,164,000</u>
Total Revenue and Appropriations	<u>\$5,652,825</u>

Source: Statewide Accounting System Manager's Financial Report as of September 1, 1990, and Estimated/Actual Receipts Report as of August 31, 1990.

MINNESOTA STATE ARTS BOARD

II. CURRENT FINDINGS AND RECOMMENDATIONS

1. The board maintained excessive cash balances in the federal accounts.

During fiscal year 1990, the board kept excessive cash balances in the major federal accounts. Month-end federal cash on hand for the National Endowment for the Arts (NEA) Block Grant (CFDA# 45.007) for the period of July 31, 1989 to June 30 1990 ranged from \$1,366 to \$125,683. Month-end balances for the NEA Expansion Arts Program (CFDA# 45.010) ranged from \$8,100 to \$97,000 for the same period. These balances are excessive because federal cash is drawn in advance and held before subgrant awards are ready for payment. Federal drawdowns were made approximately every two to three months for the Block Grant program and recorded in the Statewide Accounting (SWA) system.

Federal awards are used to finance the agency's operating expenditures and subgrantee award payments under the National Endowment for the Arts programs. The board used the federal letter of credit system to obtain federal funds by wire transfer to operate the federal programs. The board recently changed to the direct treasury check method to obtain federal grant payments. However, our concerns about excessive cash balances remain the same. Federal guidelines state that cash advances to a recipient organization shall be limited to the minimum amounts needed and shall be as close as possible to the actual cash disbursements.

RECOMMENDATION

- The board should request federal cash on a more frequent basis and keep federal cash on hand to the minimum amount needed for effective operations.

2. Some board employees exceeded the authorized limit for private car mileage reimbursement.

Two employees' travel claims for private car mileage reimbursement exceeded the authorized limit. The employees did not obtain a control number showing that a state car was not available prior to exceeding the 50 mile limit. The employees claimed reimbursement at the higher mileage rate of \$.27 per mile and were overpaid \$30.30 (505 miles @ \$.06) and \$48.12 (802 miles @ \$.06). These examples were obvious cases where the employees knew in advance that they would be traveling more than 50 miles each day.

The board accounting director mistakenly had interpreted policy and procedure ADM-5 SAC to mean that an average for the month could be taken to determine if the mileage was more than 50 miles per day. However, this policy states that on anticipated trips over 50 miles per day Central Motor Pool must be contacted to determine if a state vehicle is

MINNESOTA STATE ARTS BOARD

available. If no vehicle is available, a daily control number will be issued allowing the employee to use the higher mileage reimbursement rate of \$.27 per mile. Otherwise, the employee would be allowed to claim only \$.21 per mile.

RECOMMENDATIONS

- The board should monitor travel reimbursements for correct mileage rates in accordance with applicable guidelines established by the Department of Finance.
- The two employees who exceeded the authorized mileage should reimburse the state for the amounts overclaimed.




MINNESOTA
STATE
ARTS
BOARD

July 22, 1991

Mr. James R. Nobles
Legislative Auditor
State of Minnesota
Office of the Legislative Auditor
First Floor Centennial Office Building
658 Cedar Street
St. Paul, MN 55102

Dear Mr. Nobles:

This correspondence is in response to the findings and recommendations contained in the draft copy of the MSAB Audit Report for the three year period ending June 30, 1990.

On behalf of the board I would like to thank you, Mr. Bartz, and the audit team for the work you have done in evaluating the agency's system of internal accounting controls.

The information contained in the following paragraphs corresponds to the findings and recommendations made in the audit report and constitute the agency's formal response.

Auditor's Finding #1

The board maintained excessive cash balances in the federal accounts.

Auditor's Recommendation

The board should request federal cash on a more frequent basis and keep federal cash on hand to the minimum amount needed for effective operations.

Agency Response

The Arts Board will comply with this recommendation.

Auditor's Finding #2

Some board employees exceeded the authorized limit for private car mileage reimbursement.

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Auditor's Recommendation

The board should monitor travel reimbursement for correct mileage rates in accordance with applicable guidelines established by the Department of Finance.

The two employees who exceeded the authorized mileage should reimburse the state for the amounts overclaimed.

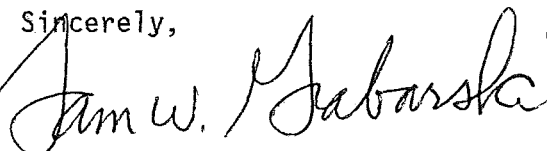
Agency Response

The Arts Board will comply with this recommendation. The Arts Board will now require all employees to obtain a control number from the Central Motor Pool if they wish to be reimbursed at the higher rate of 27 cents per mile. All employees not obtaining a control number will be reimbursed at the lower mileage rate.

In conclusion, the Arts Board is pleased that the results of the audit report are positive and that its assets are being well managed and protected against loss from unauthorized use or disposition. I am confident that the board's response to the few findings and recommendations contained in the audit report reflect sound management practice and that, where appropriate, corrective action has been or will be implemented.

Again, thank you for your review of the Arts Board's operations. Please contact me if you have additional questions or comments.

Sincerely,



Sam W. Grabarski
Executive Director

SWG/gs

cc: MSAB Executive Committee