

**Minnesota State Arts Board
Financial Audit**

For the Period July 1, 1995, through June 30, 1998

October 1998

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

98-57



STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
JAMES R. NOBLES, LEGISLATIVE AUDITOR

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Legislative Audit Commission

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Minnesota State Arts Board

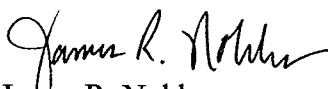
Members of the Minnesota State Arts Board


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

We have audited the Minnesota State Arts Board for the period July 1, 1995, through June 30, 1998, as further explained in Chapter 1. Our audit scope included: grants, the Minnesota Percent for Art in Public Places Program, payroll, and other administrative expenditures. In addition, we audited the financial activities for the Promotion of the Arts Partnership Agreement (CFDA # 45.025). The following Summary highlights the audit objectives and conclusions. We discuss these areas more fully in the individual chapters of this report.

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 October 8, 1998.


James R. Nobles
Legislative Auditor


Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: July 31, 1998

Report Signed On: October 2, 1998

SUMMARY

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Minnesota State Arts Board

Financial Audit

For the Period July 1, 1995, through June 30, 1998

Public Release Date: October 8, 1998

No. 98-57

Background Information

The Minnesota State Arts Board is governed by 11 private citizens, appointed by the Governor and approved by the Senate to serve four-year terms. The board provides direct funding and services to individual artists, schools, arts organizations, colleges and universities, and other groups that sponsor arts activities in Minnesota. The board also serves as the fiscal agent for the 11 regional arts councils in Minnesota. In addition, the board works in cooperation with the Department of Administration to administer the Minnesota Percent for Art in Public Places Program. Under this program, the board commissions artists to create new work or purchases existing artwork for installation in public buildings. Mr. Robert C. Booker serves as executive director of the board.

Scope and Conclusions

Our audit scope included: grants, artwork purchases for the Minnesota Percent for Art in Public Places Program, payroll, and other administrative expenditures. We concluded that the Minnesota State Arts Board designed and implemented internal controls to provide reasonable assurance that grants, artwork purchases, payroll and other administrative expenditures were properly authorized and accurately recorded in the accounting records. For the items tested, the board complied with applicable legal provisions, except for the following issues. The board deposited and used some refunds and other receipts inappropriately. In addition, we found that the board circumvented the state purchasing policy for some purchases.

We also reviewed material compliance requirements related to the Promotion of the Arts Partnership Agreement (CFDA #45.025) under the Single Audit Act. The board designed and implemented internal controls to provide reasonable assurance that federal expenditures were processed in compliance with applicable federal requirements. However, we noted the following reportable conditions involving internal control over compliance related to the federal program. The board incorrectly charged an artist's award to its federal account. In addition, the board did not manage its federal money in compliance with applicable federal requirements. Finally, the board carried forward federal grant funds to subsequent fiscal years without proper authority.

The Minnesota State Arts Board agreed with our findings and has begun to work towards implementing the recommendations.

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 |
| Renee Redmer, LPA | Audit Manager |
| Scott Tjomsland, CPA | Auditor-in-Charge |
| Fubara Dapper, CPA | Senior Auditor |
| Jason Stauffenecker | Staff Auditor |

Exit Conference

We discussed the results of the audit at an exit conference with the following staff of the Minnesota State Arts Board on September 16, 1998:

| | |
|---------------|--------------------------|
| Robert Booker | Executive Director |
| James Dusso | Assistant Director |
| Rick Jeanette | Accounting Director |
| Gail Burke | Human Resources Director |
| Lisa McDaniel | Grants Officer |

Chapter 1. Introduction

The Minnesota State Arts Board is governed by 11 private citizens, appointed by the Governor and approved by the Senate to serve four-year terms. The board provides grants and services to a statewide arts community. Its 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. To accomplish this mission, the board provides direct funding and services to individual artists, schools, arts organizations, colleges and universities, and sponsoring groups that present arts activities. The board also serves as fiscal agent for the 11 regional arts councils in Minnesota. Finally, the board works in cooperation with the Department of Administration to administer the Minnesota Percent for Art in Public Places Program. Under this program, the board commissions artists to create new work or purchases existing artwork for installation in public buildings.

The board's daily management is the responsibility of the executive director. Mr. Robert C. Booker has been the executive director since August 1996, when he was named acting executive director. The board named Mr. Booker permanent executive director in February 1997. Dr. Sam Grabarski was the executive director for several years before resigning in August 1996.

The board received General Fund appropriations for administrative costs and grants. In addition, the board received federal funding from the National Endowment for the Arts. Other funding sources included state agency transfers, gifts, and miscellaneous receipts. State agency transfers were mainly for the purchase of artwork and other administrative expenses related to the Minnesota Percent for Art in Public Places Program. Table 1-1 summarizes the financial activities of the board for fiscal years 1996, 1997, and 1998.

Minnesota State Arts Board

Table 1-1
Summary of Financial Activities
Fiscal Years 1996, 1997, and 1998

| | <u>1996</u> | <u>1997</u> | <u>1998</u> |
|-----------------------------------|--------------------|--------------------|---------------------|
| Source of Funds: | | | |
| State Appropriations | \$6,897,000 | \$6,903,000 | \$13,018,000 |
| Federal Grants | 811,687 | 480,688 | 485,400 |
| Transfers | 216,091 | 236,404 | 74,086 |
| Gifts | 25,000 | 20,000 | 20,000 |
| Other Receipts | 15,131 | 16,431 | 14,842 |
| Balance Forward In | <u>240,583</u> | <u>299,929</u> | <u>246,876</u> |
| Total Funds Available | <u>\$8,205,492</u> | <u>\$7,956,452</u> | <u>\$13,859,204</u> |
| Use of Funds: | | | |
| Grants | \$6,874,105 | \$6,666,198 | \$12,243,349 |
| Payroll | 647,460 | 652,292 | 766,903 |
| Other Administrative Expenditures | <u>383,998</u> | <u>391,086</u> | <u>388,372</u> |
| Total Expenditures | <u>7,905,563</u> | <u>7,709,576</u> | <u>13,398,624</u> |
| Balance Forward Out | <u>299,929</u> | <u>246,876</u> | <u>460,580</u> |
| Total Use of Funds | <u>\$8,205,492</u> | <u>\$7,956,452</u> | <u>\$13,859,204</u> |

Note: Table 1-1 does not include financial activity related to the Minnesota Percent for Art in Public Places Program. We present that financial activity, which includes \$1,038,647 in expenditures during the audit period, in Chapter 3, Table 3-1.

Source: Minnesota Accounting and Procurement System (MAPS) budgetary basis accounting reports for fiscal years 1996, 1997 and 1998 as of September 1996, 1997, and as of July 31, 1998, respectively. In addition, expenditures for 1998 include the board's estimated expenditures through September 1998.

Chapter 2. Grants

Chapter Conclusions

The Minnesota State Arts Board designed and implemented internal controls to provide reasonable assurance that grant expenditures were properly authorized and accurately recorded in the accounting records. For the items tested, the board processed grants in compliance with applicable legal provisions, except for the following issue. The board deposited and used some refunds and other receipts inappropriately.

The Minnesota State Arts Board provides grants to individual artists, schools, arts organizations, colleges and universities, and sponsoring groups that present arts activities. During the audit period, the board awarded and disbursed grants for the following programs:

- **Operating Support Program** - The board provides unrestricted operating support to arts organizations that produce or exhibit works of art, or provide services to artists. The board divides grantee organizations into three categories based on annual operating expenses, with minimum grants varying by category. The board awards grants of up to ten percent of an organization's last audited operating expenses.
- **Formula Funds Program** - The board provides additional unrestricted operating support to arts organizations that in the same fiscal year receive a grant from the board or a regional arts council under a different grant program. The program is available to organizations with average operating expenses of at least \$100,000 over the three most recent years. The grant awards are funds based on a percentage of the average operating expenses.
- **Arts in Education Program** - The board provides school support grants to elementary and secondary Minnesota schools for individual artist residencies. The board also provides organizational support grants to Minnesota arts organizations offering school residencies of at least five days.
- **Touring and Presenting Program** - The board provides grants to nonprofit, tax-exempt organizations that present professional touring artists or artistic companies during an annual season.
- **Artist Assistance Program** - The board awards \$8,000 annual fellowships to individual artists. The fellowships allow artists working in the visual, literary, and performing arts to set aside time to work, purchase supplies and materials, undertake advanced study not related to a degree, or to pursue other career goals. The board also awards career opportunity grants of \$100 to \$1,500 to individual artists for unique, short-term opportunities that enhance their career goals.

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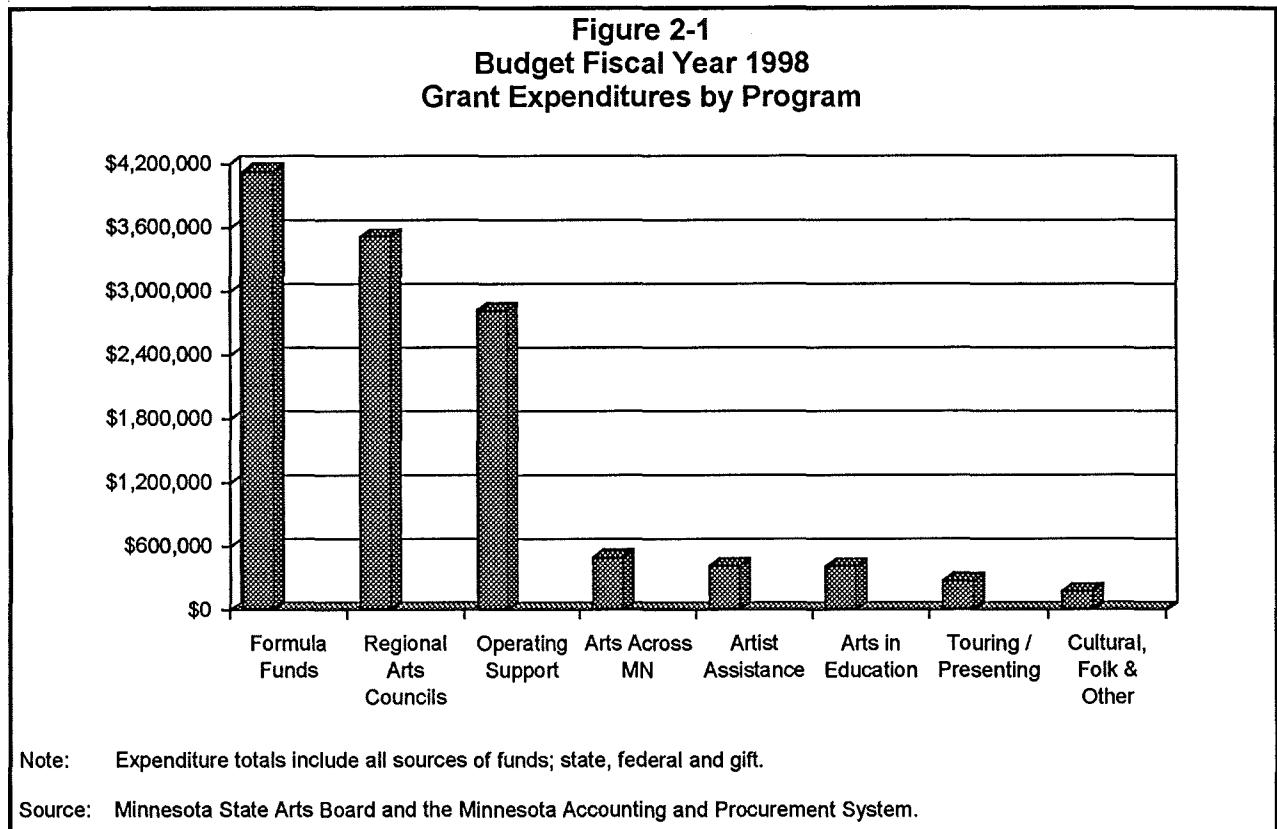
- **Cultural Pluralism Initiatives** - The board awards cultural collaboration grants of \$1,000 to \$6,000 to individual artists of color. This program is intended to enhance the careers of artists of color and expand the base of available arts programming for their communities. The board provides the grants to artists collaborating with nonprofit organizations to create any style of art.
- **Folk Arts Program** - The board awards folk arts apprenticeship grants of \$500 to \$4,000 to master/apprentice teams to foster the transmission of skills by traditional means from a master artist to an apprentice. Apprenticeships may involve traditional art forms representing ethnic, regional, occupational, or leisure cultures. The board also awards folk arts sponsorship grants of \$300 to \$4,000 to nonprofit, tax-exempt organizations to support public folk arts programs. Organizations use the grants to support one event or a series of events including exhibitions, concerts, workshops, and festivals.
- **Arts Across Minnesota** - In fiscal year 1998, the board created the Arts Across Minnesota Program to support arts celebrations in communities around the state, with at least one event-taking place in each of the state's 11 arts regions. The board awards grants of \$15,000 to \$45,000 to sponsoring or organizing groups to support community-based family arts festivals. The board also awards grants of \$15,000 to \$45,000 to sponsoring or organizing groups to support tour presentations by selected Minnesota performing arts organizations.

The board also acts as fiscal agent for the 11 regional arts councils in Minnesota. The Legislature designates a portion of each appropriation to the board for the regional arts councils. The board distributes the money to the regional arts councils based on an agreed upon formula.

The board used the majority of its funds for grant expenditures. For fiscal year 1998, grant expenditures totaled about \$12.2 million including \$123 thousand funded from a federal program. We reviewed the administration of federal funds separately and discuss the results in Chapter 5.

Minnesota State Arts Board

Figure 2-1 shows the amount distributed by the board under each grant program in fiscal year 1998.



Audit Objectives and Methodology

Our audit of grant expenditures focused on the following questions:

- Did the board design and implement internal controls to provide reasonable assurance that grant expenditures were properly authorized and accurately recorded in the accounting records?
- Were grant expenditures made in accordance with applicable legal provisions?

To answer these questions, we interviewed key staff members to gain an understanding of internal controls over grants. We reviewed and tested a sample of grant expenditures. In addition, we reconciled the board's list of authorized grants to recorded grant expenditures. Finally, we performed analytical reviews of grant expenditures.

Minnesota State Arts Board

Conclusions

The Minnesota State Arts Board designed and implemented internal controls to provide reasonable assurance that grant expenditures were properly authorized, accurately recorded in the accounting records, and in compliance with applicable legal provisions. For the items tested, the board processed grants in accordance with applicable legal provisions. However, as explained in Finding 1, the board inappropriately deposited and used some refunds and reimbursements.

1. PRIOR FINDING NOT RESOLVED: The board inappropriately deposited and used some refunds and other receipts.

During the audit period, the board inappropriately deposited approximately \$23,000 into its gift account. About 23 percent of those receipts were state and federal grant refunds, 13 percent were other refunds and reimbursements, and about 64 percent were mail list and workshop receipts.

By depositing state and federal refunds and reimbursements into its gift account, the board did not ensure that it spent the money for the intended purpose or within the proper time period. According to state appropriation law, the board must return unspent state money to the General Fund at the end of each biennium. Federal provisions require that unspent grant funds be returned to the National Endowment for the Arts at the end of the grant period. The board should deposit refunds and reimbursements into the account from which the original expenditure was made to comply with state and federal laws.

The board also deposited mail list and workshop receipts to the gift account, which is not the proper account. Minnesota Statutes Section 129D.04, subdivision 6 states that "the board's receipts from the sale of publications, mailing lists, recordings or media projects, and fees from seminars or workshops are annually appropriated to the board..." The board could deposit these receipts into either a Special Revenue Fund account or its General Fund account as dedicated receipts.

Finally, the board received interest earnings over several years on the inappropriate deposits in the gift account. State law authorized the board to receive and use interest earned on gift fund balances.

Recommendations

- *The board should deposit state and federal refunds and reimbursements into the accounts from which the expenditures were originally paid. The board should determine the appropriate adjustments needed to correct the inappropriate deposits.*
- *The board should work with the Department of Finance to establish the proper account structure for mail list and workshop receipts. The board should deposit these receipts into either a Special Revenue Fund account or its General Fund account.*
- *The board should estimate the amount of interest earned on the state and federal deposits recorded in the gift account and transfer these funds to the appropriate accounts.*

Chapter 3. Minnesota Percent for Art in Public Places

Chapter Conclusions

The Minnesota State Arts Board designed and implemented internal controls to provide reasonable assurance that program expenditures were properly authorized and accurately recorded in the accounting records. For the items tested, the board complied with applicable legal provisions.

Under legislation enacted in 1983, up to one percent of the total construction budget for all new or renovated state buildings may be reserved to acquire works of art. The law applies to construction projects with budgets of at least \$500,000. The Department of Administration created the Minnesota Percent for Art in Public Places Program and delegated administration authority to the Minnesota State Arts Board. The program allows the board to acquire works of art for exhibit in areas of a state building or its grounds accessible, on a regular basis, to members of the public.

For each project, the board establishes a committee of users from the building, the architect in charge of the project, artists and other design professionals. The committee decides how to incorporate artwork into the building and how to acquire it. The committee may decide to purchase existing artwork or commission artists to create new work. The board coordinates the purchase or commission of the artwork and contracts with selected artists. The board pays the selected artists in stages, with final payments occurring after the artist installs the artwork and the building users review and accept it. Projects authorized may continue over several years before completion. During the audit period, the board spent approximately \$869,000 on artwork for 35 projects. The board also used about \$169,000 for the administration of the program during this period. As of June 30, 1998, the board had about 28 projects in process with an estimated budget of \$1.6 million. A summary of the sources and uses of the funds is shown in Table 3-1.

Table 3-1
Summary of MN Percent for Art in Public Places Financial Activities
Budget Fiscal Years 1995, 1996, and 1997

| | <u>1995</u> | <u>1996</u> | <u>1997</u> |
|------------------------|-------------------|------------------|-----------------|
| Source of Funds: | | | |
| Transfers | \$1,773,585 | \$660,457 | \$36,000 |
| Use of Funds: | | | |
| Artwork Acquisitions | \$ 834,109 | \$ 29,807 | \$18,988 |
| Program Administration | <u>168,449</u> | <u>831</u> | <u>0</u> |
| Total Expenditures (1) | <u>1,002,558</u> | <u>30,638</u> | <u>18,988</u> |
| Unexpended Balance | <u>\$ 771,027</u> | <u>\$629,819</u> | <u>\$17,012</u> |

(1) Budget fiscal year 1995 artwork acquisitions totaled \$820,572 during the audit period. The remaining amount was paid from July 1, 1994, to June 30, 1995.

Source: Minnesota Accounting and Procurement System (MAPS) budgetary basis accounting reports for budget fiscal years 1995, 1996 and 1997 as of June 30, 1998, respectively.

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Audit Objectives and Methodology

Our audit of the Minnesota Percent for Art in Public Places expenditures focused on the following questions:

- Did the board design and implement internal controls to provide reasonable assurance that artwork purchases were properly authorized and accurately recorded in the accounting records?
- Were artwork purchases made in accordance with applicable legal provisions?

To answer these questions, we interviewed key staff members to gain an understanding of internal controls over artwork purchases. We reviewed and tested a sample of artwork expenditures. In addition, we performed analytical reviews of program expenditures.

Conclusions

The Minnesota State Arts Board designed and implemented internal controls to provide reasonable assurance that artwork purchases were properly authorized, accurately recorded in the accounting records, and in compliance with applicable legal provisions. For the items tested, the board processed purchases in accordance with applicable legal provisions.

Chapter 4. Payroll and Other Administrative Expenditures

Chapter Conclusions

The Minnesota State Arts Board designed and implemented internal controls to provide reasonable assurance that payroll and other administrative expenditures were properly authorized and accurately recorded in the accounting records. For the items tested, the board complied with applicable statutory provisions, Department of Finance and Department of Employee Relations requirements, and the related labor agreements, except for the following issue. We found that the board circumvented state purchasing policy for some purchases.

The Minnesota State Arts Board spends about \$700,000 annually on payroll for the board office. The board processed payroll using the Personnel Payroll System (PPS) until December 1995, when it converted to the State Employee Management System (SEMA4). Other administrative expenditures totaled about \$400,000 a year for operating costs.

Audit Objectives and Methodology

Our audit of payroll and other administrative expenditures focused on the following questions:

- Did the board design and implement internal controls to provide reasonable assurance that payroll and other administrative expenditures were properly authorized and accurately recorded in the accounting records?
- Were payroll and other administrative expenditures made in accordance with applicable statutory provisions, Department of Finance and Department of Employee Relations requirements, and the related labor agreements?

To answer these questions, we interviewed key staff members to gain an understanding of internal controls over personnel, payroll, and other administrative expenditures. We reviewed and tested samples of payroll and personnel transactions and reviewed payroll system access. In addition, we performed analytical reviews of payroll and other administrative expenditures.

Conclusions

The Minnesota State Arts Board designed and implemented internal controls to provide reasonable assurance that payroll and other administrative expenditures were properly authorized, accurately recorded in the accounting records, and in compliance with applicable legal provisions. For the items tested, the board processed payroll and other administrative expenditures in accordance with applicable statutory provisions, Department of Finance and Department of Employee Relations requirements, and the related labor agreements. However, as discussed in Finding 2, the board did not comply with the state purchasing policy for some purchases.

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2. The board did not comply with state purchasing procedures for some items.

The board did not use appropriate purchasing procedures for items over \$1,500. For those purchases, the board created manual purchase orders. After the board received the items, it paid the related invoices using field purchase orders (FPO) in MAPS. Since controls built into MAPS limit the maximum FPO amount to \$1,500, the board used multiple FPOs for purchases over that amount. We found several instances where a single purchase had up to six different FPO transactions including five that were equal to \$1,500. Department of Finance policy (No. 0703-02) limits FPOs to purchases of \$1,500 or less. The policy states that agencies should use the MAPS procurement component to create purchase orders for purchases over \$1,500. The Department of Finance established the policy to ensure that agencies encumber funds for large purchases prior to incurring the obligations. When agencies use MAPS to create purchase orders, MAPS automatically produces the encumbrances. By not complying with the policy, the board could incur obligations without encumbering funds.

Recommendation

- *The board should comply with the state purchasing policy for purchases over \$1,500.*

Chapter 5. Promotion of the Arts Partnership Agreement

Chapter Conclusions

The Minnesota State Arts Board designed and implemented internal controls to provide reasonable assurance that federal expenditures were processed in compliance with applicable federal requirements. However, we noted the following reportable conditions involving internal control over compliance related to the Promotion of the Arts Partnership Agreement Program (CFDA# 45.025). The board incorrectly charged an artist's award to its federal account. The board did not manage its federal money in compliance with applicable federal requirements. The board carried forward federal grant funds to subsequent fiscal years without proper authority. Finally, the board did not accurately report expenditures and unobligated grant funds to the federal government.

The Minnesota State Arts Board received an annual federal grant from the National Endowment for the Arts (NEA). The NEA awarded \$485,400 to the board in fiscal year 1998 for the Promotion of the Arts Partnership Agreement Program (CFDA# 45.025). Program objectives are to foster the excellence, diversity, and vitality of the arts in the United States and to broaden public access to the arts by providing financial support to state arts agencies. Under the agreement, the board can use the federal money for both administrative and grant expenditures.

Audit Objectives and Methodology

Our audit of federal revenue and expenditures focused on the following questions:

- Did the board design and implement internal controls to provide reasonable assurance that it managed federal money in compliance with applicable federal requirements?
- Did the board comply with applicable federal requirements?

To answer these questions, we interviewed key staff members to gain an understanding of internal controls over federal grants. We reviewed and tested a sample of federal expenditures. We tested controls for compliance with applicable federal requirements. In addition, we performed analytical reviews of federal revenue and expenditures.

Conclusions

The Minnesota State Arts Board designed and implemented internal controls to provide reasonable assurance that federal expenditures were processed in compliance with applicable federal requirements. However, we noted the following reportable conditions involving internal control over compliance related to the Promotion of the Arts

Minnesota State Arts Board

Partnership Agreement Program (CFDA# 45.025). The board incorrectly charged an artist's award to its federal account as discussed in Finding 3. The board did not manage its federal money in compliance with applicable federal requirements as discussed in Finding 4. The board carried forward federal grant funds to subsequent fiscal years without proper authority. Finally, the board did not accurately report expenditures and unobligated grant balances to the federal government. These issues are discussed in Finding 5.

3. The board incorrectly charged an artist's award to its federal account.

In fiscal year 1998, the board paid a \$1,000 award to an individual artist and incorrectly charged the amount to its federal account. The award was not an allowable use of the federal funds. The board received donated funds that it deposited to the gift account for this award. An external organization agreed to provide the money for the award and sent a check, which was deposited, to the gift account. Inadvertently, the board charged the award paid to the federal account instead of the gift account.

Recommendation

- *The board should make an adjustment to properly charge the gift account for this award.*

4. PRIOR FINDING NOT RESOLVED: The board did not properly match its requests for federal cash with its anticipated expenditures.

The board did not appropriately estimate expenditures and periodically request federal funds to cover its current activities. Federal requirements specify that request for funds should be limited to immediate cash needs and are not to exceed anticipated expenditures for a 30-day period. The board requested federal money just once in fiscal year 1998, drawing its entire 1998 award of \$485,400 in May of that year. In addition to not complying with the federal cash management guidelines, during part of the year, the board used state money when federal funds would have been available upon request. As of June 30, 1998, the board still had about \$260,000 of federal money in its federal accounts.

Recommendation

- *The board should develop a process to estimate its expenditures and periodically request funds for current operations.*

5. The board carried forward unobligated funds to subsequent fiscal years without obtaining written approval from the NEA. In addition, the board did not properly report the unobligated balances to the NEA on its financial status reports.

The board did not comply with federal grant guidelines requiring it to expend funds in the year awarded and return unobligated balances to the NEA. Furthermore, the financial status reports that the board submitted to the NEA did not properly reflect expenditures and unobligated balances. The board inappropriately reported the unobligated balances as expenditures for each of the years in question. Table 5-1 shows the unauthorized grant funds that the board carried over into the next fiscal year. The board did not request advance written approval from the NEA to use these funds in subsequent grant years.

Minnesota State Arts Board

Table 5-1
Summary of Federal Financial Activity
Fiscal Years 1996, 1997, and 1998

| | <u>1996</u> | <u>1997</u> | <u>1998 (1)</u> |
|----------------------------|------------------|------------------|------------------|
| Source of Funds: | | | |
| Federal Grants | \$811,687 | \$480,688 | \$485,400 |
| Balance Forward In | <u>140,017</u> | <u>122,541</u> | <u>83,876</u> |
| Total Funds Available | <u>\$951,704</u> | <u>\$603,229</u> | <u>\$569,276</u> |
| Use of Funds: | | | |
| Expenditures | \$829,163 | \$519,353 | \$367,178 |
| Authorized Carry Forward | 32,163 | 0 | 0 |
| Unauthorized Carry Forward | <u>90,378</u> | <u>83,876</u> | <u>202,098</u> |
| Total | <u>\$951,704</u> | <u>\$603,229</u> | <u>\$569,276</u> |

(1) Expenditures include encumbrances of \$60,272 at June 30, 1998.

Source: Minnesota Accounting and Procurement System (MAPS).

The grant provisions require that the board return unobligated grant funds to the federal government at the end of each grant year. The grant provides that if an agency cannot liquidate federal grant money within 90 days following the end of the grant period, the board has three options:

- Request a time extension to cover the period of time necessary to liquidate the money;
- Return the unused money to the NEA; or
- Inform the NEA that it does not intend to request the remaining grant money.

The board did not comply with these provisions during our audit period and did not return the unused grant funds to the NEA.

Recommendations

- *The board should resolve the unauthorized amounts carried forward for each of the fiscal years with the NEA and determine the proper amount to return to the federal government.*
- *In addition, the board should not carry forward federal grant money to subsequent fiscal years without written authority from the NEA.*
- *The board should accurately prepare the financial status reports that it files with the NEA. The board should properly show expenditures and unobligated balances by grant year on the federal reports.*

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Status of Prior Audit Issues As of July 31, 1998

Most Recent Audit

Legislative Audit Report 94-37, issued July 29, 1994, covered the three fiscal years ended June 30, 1993. The audit scope included grant disbursements, administrative expenditures, federal grant revenue, and other receipts.

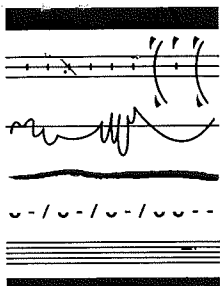
The board resolved three of the five prior audit findings. One unresolved prior audit finding involved the board's deposits into its gift fund account. We repeat that finding in our current report. See Chapter 2, Finding 1. The other unresolved prior audit finding addressed the board's excessive cash balances in its federal accounts. That finding was a repeated issue in the prior report, and we again repeat the finding in our current report. See Chapter 5, Finding 4.

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 and quasi-state organizations, such as the metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.

Minnesota State Arts Board

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MINNESOTA
STATE ARTS BOARD

September 30, 1998

James R. Nobles
Legislative Auditor
State of Minnesota
Office of the Legislative Auditor
Centennial Building
Saint Paul, Minnesota 55155

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, 1995 through June 30, 1998.

I want to commend your staff that carried out the audit field work, Scott Tjomsland, Fubara Dapper, and Jason Stauffenecker 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 and Renee Redmer as well as Scott, Fubara and Jason, for the many helpful recommendations, observations, and suggestions they offered during the course of the audit process.

Concerning the first finding, which cites inappropriate deposits and use of some refunds and other receipts. The Board accepts the recommendation to deposit state and federal refunds and reimbursements into the accounts from which the expenditures were originally paid. This is the policy of the Board and any variance from this policy reflects an oversight which will be corrected by the Board's accounting coordinator before December 31, 1998. As to the other two recommendations stemming from the first finding, as was discussed at our exit conference on September 16, 1998, because there exists some confusion over the interpretation of Minnesota Statutes Section 129D.04, subd. 1D, and subd. 6, the Board's assistant director along with the Board's accounting coordinator, will work with representatives of the Department of Finance and the Attorney General's office to establish clear policies and structures for depositing various receipts and interest earned which accurately reflect the intent of the legislation. It is anticipated that those policies will be in place before June 30, 1999.

Concerning the second finding that the Board did not comply with state purchasing procedures for some items. In particular, the Board did not use MAPS procurement purchase orders for purchases over \$1,500. The Arts Board, as a small agency, currently does not have the administrative capacity to address the time demands required to effectively implement the MAPS procurement component. Because the Board does not make frequent purchases of items over \$1,500 it does not have the resources to assign a staff person to understand, implement, and then manage the cumbersome MAPS procurement process. It is the Board's hope that MAPS 2000 will offer a more "user friendly" process that the Board will then be able to utilize. Until MAPS procurement

Please note: As of July 1, 1998, the Arts Board's area code will be (651).

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becomes more accessible to small agencies or until the Arts Board is able to increase its administrative capacity to address the demands of MAPS procurement, the Board cannot guarantee that it will always use MAPS procurement purchase orders for purchases over \$1,500, however, the Board's accounting coordinator, will implement the new MAPS 2000 system and will work with the Departments of Administration and Finance toward full integration of this new technology into the Arts Board's financial practices.

Concerning the third finding that the Board incorrectly charged an artist's award to its federal account. The Board acknowledges this error, which subsequently has been corrected by adjusting an entry to the appropriate accounts. Documentation of this adjustment has been provided to the Legislative Auditor's Office.

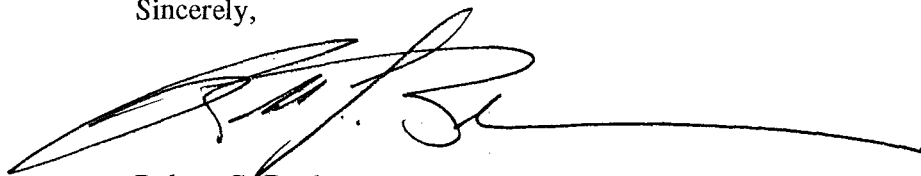
Concerning the fourth finding that the Board did not match its requests for federal cash with its anticipated expenditures. As noted in the exit conference, this is an ongoing concern that arises, as with MAPS, out of the Board's administrative capacity to work with the many and varied systems and procedures with which it is confronted. This administrative capacity problem is compounded when, in this case, the state's requirements are overlaid with those of the federal government. The current solution, which is being implemented by the Board's accounting coordinator, is to request, by wire transfer, reimbursements from the federal government for expenses charged against state cash flow accounts established with the Department of Finance.

Concerning the fifth finding that the Board carried forward federal funds without obtaining written approval and did not properly complete financial status reports. Written approval to extend the Board's current federal grant to December 31, 1998 subsequently was obtained. Documentation of this grant extension has been provided to the Legislative Auditor's Office. The Board's accounting coordinator will carry the responsibility to accurately complete all future federal financial status reports based on directions from the federal granting agency.

I would note that, with the exception of the above five findings, the Minnesota State Arts Board, in managing over \$31 million, complied, in all material respects, with the provisions of 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,

A handwritten signature in black ink, appearing to read 'Robert C. Booker', with a long horizontal flourish extending to the right.

Robert C. Booker
Executive Director

RCB/gb

cc: James Dusso, Assistant Director
Richard Jeanette, Accounting Officer