

# Final Report

EVALUATION OF THE  
MINNESOTA STATE ARTS BOARD:  
INDIVIDUAL ARTISTS  
GRANTS PROGRAM

PROGRAM EVALUATION DIVISION  
Office of the Legislative Auditor  
State of Minnesota



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STATE OF MINNESOTA

November 3, 1980



## PREFACE

In June 1980, the Legislative Audit Commission (LAC) directed the Program Evaluation Division to conduct an evaluation of the State Arts Board, with emphasis on the Individual Artists Grants Program. The LAC acted in response to a request from the Arts Board for an evaluation. In making its request, the Arts Board expressed concern over recent media stories that criticized the operation of the board's Individual Artists Grants Program. These stories were primarily based on complaints by artists whose applications for grants had been rejected.

In conducting our review, we took note of these accounts but did not focus our investigation on them, and in this report we do not comment on the merit of individual complaints. We did, on the other hand, seek to determine the extent to which the board has responded to criticism in several previous official investigations. The objective of our study was to provide a general assessment of the board's performance in administering the Individual Artists Grants Program. Also, at the request of the LAC, we prepared a description of the board's organization and history and a brief review of its other programs.

In the course of our evaluation, we gained a generally favorable view of the board's performance, probably more favorable than if we had focused only on complaints by unfunded applicants. However, we believe that our report presents a balanced view and is based on a broad and thorough review of the board's activities. It also takes account of the fact that during the past several years the board has recognized deficiencies in its operation and taken corrective action. Nevertheless, we are not uncritical of the board. We have found several aspects of the board's operation that continue to need improvement, and our report gives emphasis to these areas.

We received the full cooperation of the Arts Board and its staff. Our work was facilitated by their willingness to provide information and to discuss matters in an open and constructive manner. In particular, we thank Mr. Stephen Keating, Chairman of the State Arts Board, and Mr. John Ondov, Executive Director.

The Program Evaluation Division's study was conducted by Thomas Sims in consultation with Roger Brooks.

James Nobles  
Deputy Legislative Auditor  
for Program Evaluation

November 1980



## PROGRAM EVALUATION DIVISION

The Program Evaluation Division was established in 1975 to conduct studies at the direction of the Legislative Audit Commission (LAC). The division's general responsibility, as set forth in statute, is to determine the degree to which activities and programs entered into or funded by the state are accomplishing their goals and objectives and utilizing resources efficiently. A list of the division's studies appears at the end of this report.

Since 1979, the findings, conclusions, and recommendations in Program Evaluation Division final reports and staff papers are solely the product of the division's staff and not necessarily the position of the LAC. Upon completion, reports and staff papers are sent to the LAC for review and are distributed to other interested legislators and legislative staff.

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## TABLE OF CONTENTS

EXECUTIVE SUMMARY . . . . .	xi
INTRODUCTION . . . . .	1
I. THE MINNESOTA STATE ARTS BOARD . . . . .	3
A. History and Finance	
B. Organization	
C. The Individual Artists Grants Program	
D. Statutory Authority	
E. How Similar Foundations Operate	
II. GRANTS PROGRAM MANAGEMENT. . . . .	17
A. Policy and Rule Development	
B. Program Information and Application Forms	
C. Grant Application Files	
D. Application Review Sessions	
E. Final Reports	
F. Spot Audits of Grant Recipients	
G. Geographic Distribution of Grants	
APPENDICES . . . . .	39



## LIST OF TABLES AND FIGURES

Table 1:	Grants and Appropriations Received by the Minnesota State Arts Board: FY 1966 - FY 1981	4
Table 2:	Minnesota State Arts Board Expenditures: FY 1975 - FY 1980	5
Table 3:	Minnesota State Arts Board Program Funds: FY 1980	7
Table 4:	Grant Applications and Awards: FY 1977 - FY 1980	11
Table 5:	Comparison of Selected Grant-making Organizations	15
Table 6:	Geographic Distribution of Grants: FY 1979	37
Figure 1:	MSAB Agency Structure	9



## EXECUTIVE SUMMARY

During the past five years, six investigations of the Minnesota State Arts Board (MSAB) have been conducted by public agencies. These investigations were prompted by criticisms regarding the awarding of grants and inattention to follow-up procedures to ensure that money was properly spent. The principal recommendations from these studies were for the Arts Board: (1) to promulgate rules which clearly specify the procedures and standards for reviewing grant applications, (2) to comply consistently with state law and its own rules in implementing its programs, and (3) to exercise better grant management.

Subsequent criticism of the Arts Board has focused on the Individual Artists Grants Program, which was a target of earlier criticisms as well. As a result, the Legislative Audit Commission directed the Program Evaluation Division to conduct the investigation which led to this report.

The objectives of our research were:

- to provide a brief overview of Arts Board activities and responsibilities;
- to determine what actions the Arts Board has taken in response to the findings and recommendations of earlier investigations;
- to assess the adequacy of the Arts Board's individual artists grant application and review process; and
- to assess how adequately the Arts Board's grant management practices ensure public accountability.

During our research, we interviewed many of the Arts Board staff as well as its chairman; we reviewed all of the earlier reports; we attended meetings for budget and program development, orientation, and grant review; and we collected data from many of MSAB's grant files.

In conducting this evaluation, we recognized that government support for the arts has often been controversial. Awarding public funds to individual artists or arts organizations is laden with opportunities for criticism. The job of identifying "quality art" is subjective at best; the very concept of "art" is ambiguous. So long as this is true, MSAB's work will not be entirely free from criticism.

However, beyond policy issues, such as defining the role of government in the arts which is the responsibility of the Legislature, and the task of identifying quality art, MSAB can take action to ensure that its programs are run as fairly and efficiently as possible. It is to this end that our research efforts have been directed.

Our overall assessment of the Arts Board is favorable. We have found no serious violations of the laws governing the Arts Board. Moreover, we think that the Arts Board has made significant progress in correcting problems identified in the past. However, we have found some deficiencies in the procedures used by the board in the awarding of grants to individual artists, and we have concluded that the Arts Board can do more to clarify its policies, improve its methods of processing and storing applicant information, and encourage the timely submission of final reports by grant recipients.

The following is a summary of the major conclusions and recommendations which resulted from our study.

#### A. POLICY AND RULE DEVELOPMENT

We conclude that the State Arts Board's policy-making process is too informal. As a result, review panel members struggle repeatedly through policy questions, and this detracts from the review of the applications. In particular, we found that:

- MSAB rules and program information regarding grant applications and their review, specifically the selection criteria, lack clarity and consistency.
- Insufficient policy guidance is provided by the Arts Board to panels in their review of grant applications.
- Policy issues on which review panels could use additional guidance are not routinely brought to the attention of the Arts Board for its consideration.
- Despite the legal prohibition against regional arts councils using state money to cover administrative costs, the State Arts Board allows the use of such funds for regional staff salaries.

We recommend that the Arts Board exercise greater care in developing new rules and program information to ensure clarity and consistency in the definition of review standards and procedures. Furthermore, the Arts Board should establish a more formal policy-making process in order to ensure that review panels receive adequate guidance. (pp. 18-22)

#### B. PROGRAM INFORMATION AND APPLICATION FORMS

We conclude that MSAB's application materials and forms are generally well designed, but due to inadequate instructions and grant agreements, applicants do not always supply MSAB with the most useful information. Specifically:

- MSAB's application forms do not uniformly provide sufficient guidance to prospective applicants in describing their proposals and specifying project dates.
- MSAB's grant agreement form does not contain all the provisions which grant recipients should be required to meet, such as those relating to records retention, and the form does not have the appearance of a legal contract.

We recommend that the Arts Board improve its application form by clarifying some of its instructions and by providing examples to applicants. MSAB should also develop a more formal grant agreement to help ensure overall compliance. (pp. 22-25)

### C. GRANT APPLICATION FILES

The State Arts Board retains grant applications in files which are generally well organized and complete. However, there are too few safeguards to ensure that materials are not lost or misplaced. We found that:

- Generally complete forms were on file for every individual grant application from the past two years.
- There are few safeguards built into MSAB's document handling procedures, and there is evidence that grant materials, such as final reports, have occasionally been lost or misplaced.
- Staff routinely store some materials, such as applicants' supporting materials, in their own files and return other materials to applicants, thus detracting from the usefulness of the central files.

We recommend that the Arts Board implement safeguards in its document handling procedures to ensure against loss, and that MSAB record in its central files the location or disposition of all applicant materials. (pp. 25-28)

### D. APPLICATION REVIEW SESSIONS

Based on our findings, we conclude that the Arts Board's grant application review procedures, in spite of minor variations, are generally conducted properly and in compliance with MSAB rules and state law. We found that:

- During a review session for sponsor assistance which we attended, panel members appeared to be conscientious in adhering to proper rules and procedures and routinely absented themselves to avoid conflicts-of-interest.
- Due to their brevity, MSAB's records of past review sessions are not very informative. Nevertheless, they indicate variations in voting procedures and record keeping among the review committees for individual artists.

We recommend that the Arts Board continue to standardize its review panels' voting and record keeping procedures to ensure fair and consistent treatment of applications and to provide adequate records. (pp. 29-30)

#### E. FINAL REPORTS

Until recently, the Arts Board has not actively sought the timely submission of final reports from grant recipients. Nonetheless, when ultimately submitted, final reports confirm that grant recipients generally complete their proposed work. We found that:

- Sixty percent of the final reports filed with MSAB were submitted after their deadlines. Furthermore, the Arts Board has yet to implement procedures for routinely monitoring final reports as they become due.
- The description of activities and the supporting material submitted with final reports indicate that individual grant recipients generally conduct work which closely resembles their original proposals.

We recommend that the Arts Board assist applicants in choosing practical project completion dates, that routine procedures be established to automatically monitor overdue final reports, and that recipients who fail to submit final reports forfeit part of their grant. (pp. 30-34)

#### F. SPOT AUDITS

We conclude that the Arts Board has been successful in implementing its first audit program to independently verify grant spending. We found that:

- MSAB staff recently conducted financial and program audits of six grants on a trial basis. The audits appear to have been thorough and timely, and provided useful information about the activities of grant recipients.



We recommend that the Arts Board continue its efforts to develop methods for monitoring, auditing, and evaluating all of its grant programs as a means to improving its programs and insuring the accountability for public funds. (pp. 34-35)

#### G. GEOGRAPHIC DISTRIBUTION OF GRANTS

We conclude that while the Arts Board has done little to ensure an equitable geographic distribution of funds in all its grant programs, most of the funds do, in fact, reflect the population distribution in the state. Specifically:

- The geographic distribution of grant funds reflects the location of the state's general population, its arts organizations, and its professional artists.
- Beyond establishing the regional arts development program, the Arts Board has done little to influence, or even monitor, the geographic distribution of grant funds.

We recommend that the State Arts Board routinely monitor and analyze the distribution of funds and include the results in its annual report. (pp. 35-38)



## INTRODUCTION

The Minnesota State Arts Board (MSAB) is required by Chapter 139 of Minnesota Statutes to "stimulate and encourage the creation, performance and appreciation of the arts in the state." MSAB's primary activity is the awarding of grants to artists, arts organizations, and organizational sponsors of the arts. In Fiscal Year (FY) 1980, MSAB's total budget was \$3.0 million not including public broadcasting funds; \$2.5 million, or 83 percent, was passed on to grant recipients.

The Arts Board consists of 11 members, each appointed by the governor and confirmed by the Senate for a four-year term. According to state law, one member is appointed from each congressional district and the remaining members are appointed from the state at large. The board is supported by a staff of 14 people.

The Arts Board's programs have often changed from year to year, but generally the board provides grants to:

- organizations for general operations,
- organizations for production assistance,
- individual artists for projects and fellowships,
- organizations to sponsor arts activities, and
- regional arts councils for arts development and sub-grants.

For a variety of reasons, MSAB has been criticized in nearly every one of its grant programs. Recent criticism focused on the Individual Artists Grants Program. This is financially the smallest of MSAB's grant programs (\$190,000 for FY 1980), but it is administratively one of the most burdensome since several hundred grant applications are processed annually.

The Legislative Audit Commission directed the Program Evaluation Division to investigate the State Arts Board's Individual Artists Grants Program. To capitalize on previous research conducted by governmental agencies--six studies over the past five years--our strategy was: (1) to review earlier reports which contain criticisms and recommendations regarding MSAB's grant programs, (2) to ascertain MSAB's response to these reports, and (3) to assess MSAB's grant management operations.

Chapter I presents background information on the Arts Board: its history and financing, its various grant programs, and its statutory responsibilities. Chapter II focuses on MSAB's Individual Artists Grants Program and examines several functions including policy development, application review, and grant management. Our findings and recommendations are presented in Chapter II.



## I. THE MINNESOTA STATE ARTS BOARD

### A. HISTORY AND FINANCE

The Minnesota State Arts Board was initially established in 1903 as a privately funded organization. Adopted as a state board in 1963, it received its first block grant from the National Endowment for the Arts (NEA) in 1966 (\$50,000), and its first state appropriation in 1967 (\$10,000). The Arts Board began awarding grants to individuals in 1973 when it gave grants of \$1,000 each to five individual artists.

Table 1 shows how MSAB's federal and state revenues have increased since the board first received public funding. For each of the past six years, NEA has contributed an average of \$440,000 to Minnesota. In addition to block grants, MSAB receives several other grants from NEA which involve non-discretionary funds, including Artists-in-the-Schools and the Dance Touring Program. In 1977, the Minnesota Legislature significantly increased its appropriation to MSAB by approving an annual budget for FY 1978 of over \$1 million. For FY 1980, MSAB's state funding exceeded \$2.4 million. Table 2 shows a breakdown of MSAB's expenditures for the past six years. MSAB's administrative costs have typically amounted to less than 15 percent of its total budget, and the remaining portion of MSAB's funds has been passed on as grants.

Compared with other states over the past decade, Minnesota has contributed relatively large amounts of public money to the arts. Altogether, \$96.9 million was appropriated for state arts agencies by state and territorial legislatures for FY 1980, and Minnesota's \$2.4 million appropriation ranked ninth in the nation. By comparison, Minnesota had ranked sixteenth in 1970. In state appropriations per capita, Minnesota (with \$.61 per capita) now ranks tenth behind Alaska, New York, American Samoa, Puerto Rico, Hawaii, West Virginia, Utah, and Michigan.<sup>2</sup>

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<sup>1</sup>The financial data included in this report are presented only for the general information of the reader, and do not represent an effort to reconcile the financial records of the State Arts Board.

<sup>2</sup>Source: National Endowment for the Arts.

TABLE 1

GRANTS AND APPROPRIATIONS RECEIVED BY  
THE MINNESOTA STATE ARTS BOARD\*  
FY 1966 - FY 1981

Year	National Endowment for the Arts		Minnesota State Appropriation	TOTAL
	Block Grant	Other Grants		
1966	\$ 50,000	na**	-	-
1967	37,053	na	\$ 10,000	-
1968	39,383	na	85,000	-
1969	30,909	na	85,000	-
1970	36,363	na	112,500	-
1971	75,377	na	115,150	-
1972	101,320	na	160,000	-
1973	150,000	na	200,000	-
1974	170,000	na	300,000	-
1975	200,000	\$254,697	300,000	\$ 754,697
1976	205,000	199,166	500,000	904,166
1977	210,000	164,428	500,000	874,428
1978	215,000	228,376	1,771,000	2,214,376
1979	243,000	198,315	2,274,000	2,715,315
1980	275,000	254,300	2,444,000	2,973,300
1981	275,000	-	2,556,000	-

\*This table shows the amount initially available at the beginning of each funding period, not including amounts carried over from previous years, nor monies awarded during the funding period such as those covering additional salary costs due to new union contracts.

\*\*na: not available.

Source: Minnesota State Arts Board, 1980.

TABLE 2

MINNESOTA STATE ARTS BOARD EXPENDITURES\*  
 FY 1975 - FY 1980  
 (in \$1,000s)

	1975	1976	1977	1978	1979	1980
<hr/>						
EXPENDITURES:						
Adminis-						
tration	\$ 153	\$ 207	\$ 278	\$ 348	\$ 416	\$ 498
Grants						
Production	193	346	263	937	1,368	1,472
Sponsor	238	219	438	354	381	307
Regional	0	0	0	463	734	680
Other**	<u>213</u>	<u>255</u>	<u>152</u>	<u>187</u>	<u>149</u>	<u>415</u>
TOTAL	\$ 797	\$1,027	\$1,131	\$2,289	\$3,046	\$3,372

\*Actual expenditures shown in Table 2 may differ from revenues shown in Table 1 due to the carry over of revenues from prior years, the inclusion of gifts to MSAB, and the exact timing of expenditures.

\*\*Other includes public broadcasting funds for which MSAB is fiscal agent.

Source: Minnesota State Arts Board Biennial Budget Requests, and the Minnesota State Arts Board, 1980.

## B. ORGANIZATION

### 1. GRANT PROGRAMS AND AWARDS

MSAB administers grants which fall into five categories. The first three, under the common heading of production assistance, are grants for general operations, project assistance, and individual artists; the fourth category includes grants for sponsor assistance; and the fifth includes grants for regional arts development. Table 3 depicts MSAB's FY 1980 budget and the flow of funds through its grant programs. The function of each program is described below.

#### a. General Operations Grants

In FY 1980, the Arts Board awarded \$1,080,000 through 13 general operations support grants. To be eligible, organizations must be well established and provide high quality programmatic services and leadership on a state-wide or multi-regional scale. Examples of such organizations include the Guthrie Theatre and the Rochester Art Center. These grants assist agencies in achieving overall organizational goals and are not for specific projects. (For a complete listing of the FY 1980 recipients, their total budgets, and their MSAB awards, see Appendix A.)

#### b. Project Grants

In FY 1980, the Arts Board awarded \$202,000 through 49 project grants. These grants generally go to organizations which are not eligible to receive general operating support. Project grants are for specific activities which will advance the organization's artistic development or expand its services. Examples include awards to the Playwrights' Lab in Minneapolis for a series of workshops and to Minnesota Public Radio in St. Paul for production of "A Prairie Home Companion."

#### c. Individual Artists Grants

In FY 1980, the Arts Board awarded \$130,000 to 54 individual artists for projects and advanced study and \$60,000 to six individuals for fellowships. These grants provide assistance directly to individual artists for creative time to develop professionally and to defray the expenses associated with the creation of works of art. (Further detail is provided in Section C of this chapter.)

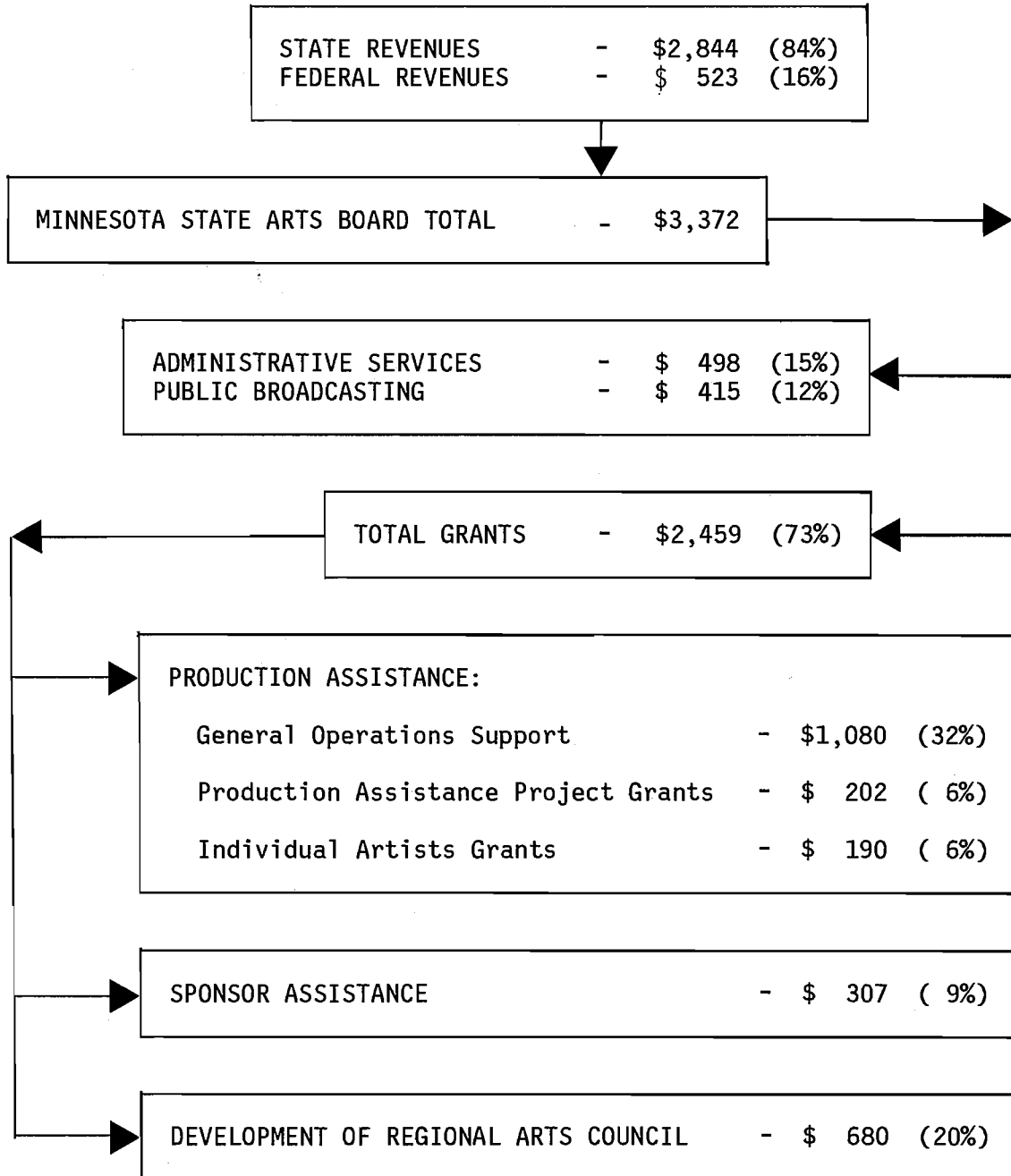
#### d. Sponsor Assistance Grants

In FY 1980, the Arts Board awarded \$317,000 through 129 sponsor assistance grants. These grants provide financial support for the presentation of art in schools, churches, and communities.



TABLE 3

MINNESOTA STATE ARTS BOARD PROGRAM FUNDS\*  
(FY 1980; in \$1,000s)



\*All percentages are based on the MSAB total: \$3,371,700.

Source: Minnesota State Arts Board's Biennial Requests  
for 1979 to 1981.

Examples include sponsoring concerts, works of art in public places, touring dance companies, and artist residencies in schools.

e. Regional Arts Development Grants

In FY 1980, the Arts Board awarded \$690,000 as block grants to 11 arts councils and arts task forces representing various regions in the state. These grants enable Minnesota's regions to plan and develop the arts locally in a fashion similar to the State Arts Board. Most of the money is distributed by the councils to arts organizations for various projects and activities.

## 2. STAFF RESPONSIBILITIES

MSAB staff is headed by an executive director and an assistant director. The staff complement includes program managers, clerical workers, and specialists in areas of public information, finance, and grants management. Figure 1 reflects the agency structure of MSAB and the division of responsibilities.

Each of four grants program managers develops program information for dissemination to applicants and other interested people, provides technical assistance, receives applications and prepares the materials for review, orients review panel members, provides information to review panels during the selection process, reports to the Arts Board, and develops changes in policies and programs.

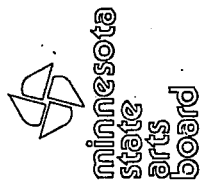
## 3. GRANT APPLICATION REVIEW PANELS

Review panels are an integral part of MSAB's strategy for choosing which grant applications to fund. Review panels are comprised of volunteers who have substantial familiarity with the arts. All panel members are selected from among Minnesota residents. The Arts Board appoints the panel members through an open nominations process and delegates to them the responsibility for reviewing and selecting grant applications in accordance with the laws and rules governing the Arts Board.

Review panels undergo day-long orientations to become familiar with their responsibilities, the review process, and MSAB rules. The panels review the applications and supporting materials and assess the merits of the proposals as they relate to the selection criteria contained in rule. Although there are variations among grant categories, three criteria common to all grant reviews are:

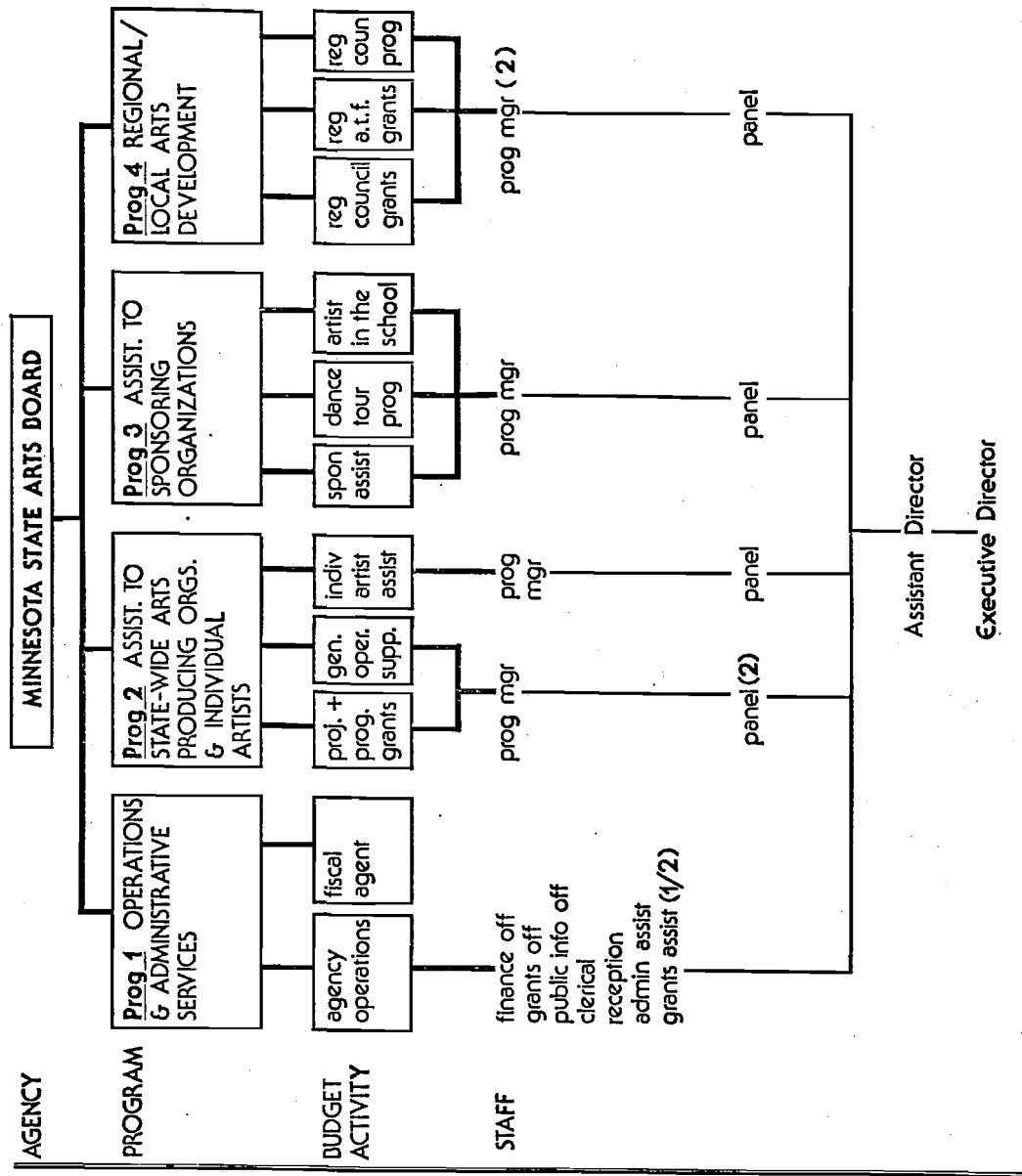
- artistic merit of the proposal,
- ability of the applicant to carry out the proposal, and
- the need for the project.

Review panel sessions are public and often require several days of work. The Arts Board staff's role in these sessions, as



# **AGENCY STRUCTURE**

FIGURE 1



Source: Minnesota State Arts Board, 1980.

determined by the Board, is to provide factual information and clarify policy. For each grant category, a list of applicants is recommended by the panels to the Arts Board. The Arts Board usually accepts the entire recommended list. Table 4, which shows the applications and the grant awards for the past four years, illustrates the administrative task faced by the board.

### C. THE INDIVIDUAL ARTISTS GRANTS PROGRAM

According to Arts Board officials, Minnesota is one of the few states in the nation to operate a grants program providing funds directly to individual artists, and furthermore, that it is the only one to do so under formal administrative rules. Since 1973, MSAB has provided technical assistance and has conducted programs for individual artists in the form of fellowships, grants for projects, and grants for advanced study.

The total value of the grants awarded to individuals in one year has yet to exceed \$200,000. But for FY 1980, roughly 500 people competed for \$130,000 to be divided among 54 project recipients, and 180 people competed for another \$60,000 to be divided evenly among six fellowships.

Upon receipt by MSAB, individual artists' applications are grouped according to the disciplines of literature, performing arts, and visual arts. Screening committees in each discipline recommend a limited number of applications for further consideration by the review panels. While the total amount of money for individual artists is determined in advance by MSAB, the proportion of the total going to each discipline is determined by the numbers of applications considered by each review panel. For example, if 100 applications are referred by the screening committees to each of the three panels, one third of the money would go to applicants in each discipline. Thus, the money allocated to each discipline is in rough proportion to the demand from the artists' community.

According to our review of applications submitted by individual artists, projects typically involve efforts to:

- create new artistic works or performances;
- create new tools, techniques, and materials for artistic productions;
- reproduce, package, and market finished products;
- advance one's artistic skills and career; and
- provide service to the community.

Successful applicants are notified in writing of the board's final action. Applicants not recommended for funding are also notified of the review panel and board decisions regarding their applications. Recipients are asked to sign a grant agreement and a request for payment. Arts Board policy is to pay recipients the full

TABLE 4

GRANT APPLICATIONS AND AWARDS  
FY 1977 - FY 1980

	1977	1978	1979	1980
1. General Operating				
- Applications	6	34	15	13
- Awards	6	9	14	13
2. - Production Assistance				
- Applications	185	221	166	102
- Awards	73	128	79	49
3a. Individual Artists				
- Applications	209	446	383	502
- Awards	38	52	57	54
3b. Fellowships				
- Applications	0	170	203	178
- Awards	0	3	5	6
4. Sponsor Assistance				
- Applications	200	348	302	239
- Awards	119	167	117	129
5. Regional Arts Development				
- Applications	0	11	11	11
- Awards	0	11	11	11

Source: Minnesota State Arts Board, 1980.

amount of their award at the beginning of the grant period. Within 30 days after completion of their projects, grantees are required to submit final reports which specify:

- a. how the project differed from the proposal;
- b. how the actual budget compared to the estimated budget;
- c. the number of people attending any performance;
- d. promotional efforts;
- e. other groups involved as co-sponsors or recipients of services; and
- f. suggestions for improving MSAB services.

Until recently, the Arts Board did little to enforce the timely submission of final reports. However, in March 1980, MSAB initiated a campaign to seek delinquent reports in all grant categories; the results of this campaign are discussed in Chapter II, Section E.

#### D. MSAB'S STATUTORY AUTHORITY

Chapter 139 of Minnesota Statutes defines the composition and terms of the 11-member board and provides that "no more than four of the members shall . . . be officers, directors or employees of recipient sponsoring organizations" in order to ensure adequate cross-representation. Members are compensated at the rate of \$35 per day and are reimbursed for expenses.

The MSAB executive director serves at the pleasure of the board while all other employees are in the classified civil service of the state. No employee may be an applicant for board assistance nor may an employee be directly involved with a recipient sponsoring organization.

The duties of the board and its members are as follows:

- a. receive and consider any requests for grants, loans, or other forms of assistance;
- b. advise and serve as a technical resource;
- c. advise departments of the state on art-related matters;
- d. accept gifts and grants;
- e. promulgate by rule procedures for receiving and reviewing requests for grants;
- f. promulgate by rule standards for the distribution of grants;
- g. abstain from deliberations or voting on assistance to groups or persons in which a board member has an interest as officer, director, employee, or recipient; and
- h. appoint advisory committees which the board deems essential to the performance of its powers and duties.

In the performance of its duties, the board is also required to meet the following provisions "insofar as reasonably possible":

- a. avoid any actions which infringe on the freedom of artistic expression;
- b. distribute board assistance equitably according to population throughout the geographic regions of the state; and
- c. give special consideration to requests for types of art which have yet to receive the level of general support as the more established types of art.

MSAB is required to submit an annual report to the Legislature and the governor which contains the following:

- a. a financial statement;
- b. a description of board activities;
- c. the meetings and hours spent by board members;
- d. the names, addresses, and occupations of board members;
- e. the names and job classifications of board employees;
- f. a summary of proposed and adopted board rules;
- g. the number of requests for assistance and the number of complaints received by the board;
- h. a summary of the substance of the requests and complaints and the responses of the board; and
- i. a listing of all grants, loans, and other forms of assistance including information on recipients, the amount of money, number of grants, and the basis for the allocations made.

Throughout our research, we looked for evidence that the Arts Board has taken steps to ensure the fulfillment of many of the above requirements.

Minn. Stat. §139.10, subd. (1) states that it is the duty of the Arts Board to promulgate by rule the procedures for receiving and reviewing grant applications and the standards for distributing the grants. The Arts Board adopted its first set of rules in 1977. In response to criticisms that its procedures lacked an appeals process and that certain terms and procedures were ill-defined, MSAB revised its rules in November 1978.

A variety of shortcomings in the current rules has prompted MSAB to draft further revisions. The Arts Board is attempting to: (1) clarify the eligibility standards, (2) clarify the staff role in ensuring completeness of applications, (3) define the proper form of review panel recommendations, (4) improve public access to the appeals process, (5) clarify the review standards, (6) strengthen the final report requirements and initiate a process for requesting project changes, and (7) establish a conflict-of-interest provision for review panels similar to that of the Arts Board.

## E. HOW SIMILAR FOUNDATIONS OPERATE

As part of our research, we contacted several private foundations which award grants to individual artists. In addition, we contacted other public grant-making organizations. We did this to determine how the practices of the Arts Board compare with those employed by similar agencies and to identify potential solutions to Arts Board problems.

There are few agencies in the country which routinely award grants to individual artists. Nonetheless, we did locate five other organizations, four of which are in Minnesota, which run grant programs for individuals or organizations. We set out to learn from these agencies:

- what kind of review process is conducted to screen grant applications;
- what kind of payment schedule is used to distribute funds to grant recipients;
- what kind of administrative requirements are placed on grant recipients; and
- what kind of audit or evaluation is conducted to assess and verify the outcome of the grants.

The results of our survey are summarized in Table 5. In general, the official positions stated by these other agencies indicate a variety of requirements placed on grant recipients. Examples include using paid professionals from across the nation to review the grant applications, conducting orientations for recently awarded grant recipients to refine their proposals and to re-emphasize their obligations, using grant payment holdbacks to ensure that grant recipients submit their required reports, and using field audits to verify results. Most of the agencies indicated a high success rate for the implementation of these provisions. Thus, we incorporate some of their ideas into our own recommendations in Chapter II.



TABLE 5

## COMPARISON OF SELECTED GRANT-MAKING ORGANIZATIONS \*

	ORGANIZATIONS MAKING GRANTS FOR THE ARTS				OTHER GRANT-MAKING ORGANIZATIONS	
	Minnesota State Arts Board	Bush Foundation**	Jerome Foundation**	Western States Arts Foundation	Minnesota Historical Society	Minnesota Humanities Commission
Nature of Grant Programs	Grants for organizational support, individual projects and fellowships, and sponsors, and regional programs.	Fellowships for MN writers and visual artists to work in their chosen fields. Also, operating and project grants to organizations.	Grants to organizations and individuals (through organizations) for projects.	Grants to individuals for past achievements. Grants to organizations for on-going arts activities.	Grants-in-aid to local historical societies for preservation and education programs.	Grants to organizations for programs or workshops in the humanities. No individual grants.
Individual Grant Applications	586	135	99	300	--	--
Individual Grants Awarded	62	9	12	10	--	--
Total Awarded (\$)	\$170,000	\$112,000	\$103,000	\$ 50,000	--	--
Other Grants Awarded	182***	10	62	200	172	120
Total Awarded (\$)	\$2.3 Million	\$1.1 Million	\$697,000	\$600,000	\$500,000	\$335,000
Recommendations for Awards	Two stages of review; panels make recommendations to Board.	Preliminary and final selection panels; all non-Minnesotans.	Staff makes recommendations to Board in most areas.	Review panel; some outside members from outside region.	Review panel submits to MHS executive council.	No review panels; Board reviews all applicants.
Payment Policy	Lump sum payments made at outset of grant period.	Usually paid out monthly. Additional costs reimbursed up to \$2,000.	Usually paid out in two sums: some final payments withheld until project completed.	Individuals: lump sum payment. Organizations: 90% in advance, 10% after final report.	Lump sum payment at outset of grant period.	Normally 80% in advance, 20% after final report is submitted.
Interim Report	No	Quarterly reports	Yes	No	No	For grants over \$10,000
Final Report	Due 30 days after project completion (MSAB form)	Due 90 days after final payment (Bush form)	Financial/narrative report required. Audited financial statement.	Required at end of grant period.	Due 90 days after end of project (with photos)	Due 3 months after end of project.
Evaluation/Audits	Spot audits of some recipients begin in 1980.	Fellowships audited.	None	None	Field audits done for most (85%) of projects.	Outside evaluators attend most sponsored events.
Other Requirements	None	None	None	None	None	First time grantees attend a meeting to review procedures.

\* Data is for fiscal or calendar 1979.

\*\* Private organizations.

\*\*\* Includes sponsor assistance, production assistance, and regional council assistance.



## II. GRANTS PROGRAM MANAGEMENT

This chapter contains the findings, conclusions, and recommendations which resulted from our research. We focused on board responsiveness to earlier reports, the propriety of the its grant review activities, and the rigor of its grant management practices. Unless otherwise noted, all references in this chapter are to the Individual Artists Grants Program.

During the past five years, six reviews have been completed by public agencies focusing on all of MSAB's various grants programs:

- 1975: Senate Finance Committee staff report
- 1977: Legislative Auditor's Office financial audit
- 1977: Legislative Commission to Review Administrative Rules report
- 1978: Department of Administration operations report<sup>1</sup>
- 1979: State Hearing Examiner's investigation<sup>2</sup>
- 1980: National Endowment for the Arts survey report

Many recommendations emerged from these reports, principally that MSAB: (1) promulgate rules which clearly specify the procedures, standards, and criteria for reviewing grant applications; (2) comply consistently with state law and its own rules in implementing its programs; and (3) exercise better grant contract management to include submission of final reports by grantees and independent verification of grant use. We used these earlier studies to develop our own questions and to guide our investigation, and we followed up on MSAB's response to many of the earlier criticisms.

The early section of this chapter focuses on the standards and procedures which MSAB has implemented to ensure the proper and effective conduct of its program. The middle section examines the results of MSAB's grant review procedures and determines how successfully MSAB has implemented its official policies. The last section examines MSAB's effort to strengthen its grant management practices. The findings and recommendations resulting from our investigation follow.

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<sup>1</sup>This study was conducted at the request of the Arts Board.

<sup>2</sup>This report investigated the processing of a specific individual applicant under the Individual Artists Grants Program.

## A. POLICY AND RULE DEVELOPMENT

We reviewed MSAB's application materials, administrative rules, and procedural records in order to assess how well review criteria and procedures have been formulated and implemented.

- **Finding:** MSAB's current rules and materials relating to application review criteria lack clarity and consistency.

It is the responsibility of the Arts Board to promulgate rules to aid in the daily implementation of law. The challenge is to formulate clear, concise definitions, specify procedures, and spell out the means by which the agency operates. Any supplementary materials designed to help the public understand the agency's operating procedures need to be consistent with the rule.

In the past, the Arts Board has been criticized for the inadequacy of its rules. In 1977, the Legislative Commission to Review Administrative Rules found that: (1) MSAB rules allowed the creation of additional review standards not found in rule; (2) review standards were ambiguous, leading to confusion and inconsistent application; and (3) MSAB rules did not provide any appeals process.

Current Arts Board rules specify three criteria to be considered in reviewing applications from individual artists:

- a. The quality of the creative work submitted by the artist.
- b. The ability of the artist to accomplish the project or plan described in the application.
- c. The relationship of the application to the artist's career goals.

We compared these with the criteria specified in the program information which accompanied the application forms distributed by the Arts Board for FY 1980. They were stated as follows:

1. the quality of the creative work of the artist as demonstrated in the required supporting materials;
2. the ability of the artists to carry out the proposed activities as indicated by the examples of the artist's work and resume;
3. if applicable, the need for the project in terms of the need for the artist to engage in the stated activities, the needs of the particular art form and/or the needs of the community to be served. [emphasis added]

The differences between the criteria contained in the program information and those specified in rule are readily apparent.

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<sup>1</sup>5 MCAR §5.001.

Most significant are the reference to "need" in the application materials which is absent from the rule, and the failure of application materials to mention the relevance of the "artist's career goals" as a selection criterion. In addition, the similarity of the wording of the underlined portions of the application materials makes the distinction between the first two criteria unclear. It also makes unclear whether the emphasis on artistic quality is meant to give primary consideration to the proposed work or to past work.

The program information for fellowships contained a fourth criterion not found in rule form: "the artist's commitment to the arts in Minnesota may be considered." The same program information goes on to state that "the geographical location of the artist's residence within the state, and the artist's personal, financial resources are not considered." It would be most accurate for MSAB to state that no items except those explicitly contained in rules may be considered in reviewing applications.

Worksheets distributed to assist panel members in the selection process contain criteria worded exactly the same as those appearing in the program information, not those appearing in rule.

On August 28, 1980, we attended an application writing workshop designed to assist artists expecting to apply for FY 1981 grants. During the workshop, Arts Board staff used an overhead projector to show the audience not three, but five review standards, once again with different wording:

1. the quality of your past artistic activity;
2. the merit of your proposed activity;
3. your demonstrated ability to carry out the proposed activities;
4. the impact of the proposed activities on your career at this point in its development; and
5. your justification of the amount requested.

Recommendation: The Arts Board should promulgate definitions of criteria which are clear and specific in their essential meaning. If supplementary materials are needed to clarify these criteria for applicants or review panel members, the Arts Board should ensure that supplementary materials are fully consistent with formally promulgated rules.

- Finding: Insufficient policy guidance is provided by the Arts Board to panels in their review of grant applications.

In its 1978 operations study of the Arts Board, the Department of Administration found that "a significant problem faced by MSAB is the lack of written policies and procedures. Because there are few written policies, staff are often uncertain as to how to proceed on an issue."

We discovered that such uncertainty persists. During our own investigation, we attended one day of the two-day review session for sponsor assistance grants and witnessed the discussion of approximately 45 applications. Several policy questions arose at this meeting; for example:

- a. whether a proposal was essentially a religious event or an arts event;
- b. whether a college-based event was in addition to the college's normal academic program and whether the arts event would serve the general community in addition to the students;
- c. whether commercial concert series were such proven financial successes as to not warrant subsidy; and
- d. whether MSAB should be a funding agency of "last resort"; that is, whether applicants should seek funds from MSAB only when all other sources fail.

What was most disturbing about the review session we attended is that the panel's position on certain issues changed as the panel progressed through the applications. When previously considered issues arose again, there was no device ensuring consistent treatment. Variation was most notable for cases involving religious and educational institutions. For example, a liturgical dance was recommended for funding while an organ recital held in a church and a mock seder were not. Whether college-sponsored programs of comparable artistic merit were recommended for funding appeared to depend upon the particular college's assumed financial resources. Furthermore, if staff members have doubts about the soundness and consistency of particular panel decisions, there is no avenue for reconsideration. Questionable decisions proceed unchecked and uncorrected.

There are a number of potential risks when review panels are left to make decisions without sufficient policy guidance from the Arts Board:

- a. there is no assurance that review panel members will be familiar with the policies of the board;
- b. through the effect of their selections, review panel members might develop ad hoc policies which are inconsistent with the board's wishes; and
- c. if the review panels develop ad hoc policies as they progress in their work, applications might not be treated consistently.

Policy guidance may be provided through the formal rules promulgation process. Minnesota Statutes require state agencies to "adopt rules setting forth the nature and requirements of all formal and informal procedures related to the administration of official agency duties to the extent that those procedures directly affect the rights

of or procedures available to the public."<sup>1</sup> Although the rule-making process may be lengthy and complex, it provides for a public airing of all agency procedures which directly affect the public. In this manner, the promulgation process ensures agency accountability to the public and increases the likelihood that all individuals will be treated equally by state agencies.

Recommendation: The Arts Board should provide better policy guidance for review panels, including formal promulgation in rule of all guidelines used to assess grant applications.

- Finding: Policy issues on which review panels need guidance are not always brought to the attention of the Arts Board for its consideration.

We observed that in their review of applications, review panels frequently encounter problems in deciding how to deal with specific requests for funding. We attended a review session for the sponsor assistance program and witnessed numerous instances of review panel confusion regarding Arts Board policy. For example, panel members had difficulty in determining whether an applicant's financial need should be considered in recommending an award. In addition, there were questions about whether state funds should be used to hire out-of-state artists.<sup>2</sup>

According to Arts Board procedures, such issues are supposed to be brought before the board by the staff or by individual review panel members either for immediate resolution or for additional staff work. However, when we attended the Arts Board meeting at which the sponsor assistance grants were approved, many policy issues which had been discussed and left essentially unresolved in the review session were not brought to the board's attention at that time. Hence, the basic policy issues which had perplexed the review panel were not immediately resolved by the board. Should the same issues arise at future panel sessions, no additional policy guidance will have been provided by the Arts Board.

We also reviewed board minutes going back to January 1979. The minutes often reflected board discussion of general policy issues and noted the presentation by staff of revised program information, proposed rule revisions, and drafts of annual reports. Beyond such items, however, we found no examples of the board establishing formal policy specifically to aid review panel members in their decisions.

The record keeping procedures for the review sessions sometimes obscure the difficulties faced by panel members. Statements summarizing panel decisions are framed in terms of the review criteria contained in rule. But the summary statements, which are

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<sup>1</sup>Minn. Stat. §15.0412, subd. 3.

<sup>2</sup>See Appendix B for more detailed examples.

forwarded to the board, do not always reflect the diverse considerations which dominated panel discussions.

Recommendation: In addition to the current summary statements which inform the board why the review panel is recommending funding or non-funding for each applicant, staff should routinely bring to the attention of the board any policy related issues on which review panels might need further guidance.

- Finding: Despite the existing legal prohibition from using state money to pay for the administrative costs of regional arts councils, the State Arts Board allows the use of such funds for regional staff salaries.

Legislation appropriating money to MSAB for the last two biennia (1979-1981) contained provisions that "state money granted to regional arts councils shall not be used for general administrative costs of the regional arts councils." This restriction on using state money was supported by the Arts Board. However, as the result of a financial audit of the board in 1977, the Legislative Auditor asserted that state funds were being used to pay for salaries of regional arts council staff and that this constituted a violation of state law.

Regional arts councils submit their budgets to the State Arts Board for review and approval. Because these are program budgets, it is not possible to identify such line items as salaries or rent. Nevertheless, MSAB staff informed us that most regional arts councils use MSAB funds for council salaries. In the view of MSAB staff, such expenditures are not prohibited by law. MSAB argues that costs for staff, travel, and public information relate directly to service programs, but that costs for rent and utilities are for the general administration of the regional councils. We believe that this distinction is questionable, and must conclude that state money is not being spent according to the terms of the appropriation. It should be noted that because this prohibition was passed as part of an appropriations bill, unless the Legislature wishes to renew it, it will expire at the end of the current biennium.

Recommendation: MSAB should approve only those regional arts council expenditures authorized by law. Furthermore, in order to encourage administrative efficiency, the board should monitor all funds spent by regional arts councils and should consider placing limits on the proportion of such funds used for administration.

## B. PROGRAM INFORMATION AND APPLICATION FORMS

The Department of Administration operations report issued in April 1978 identified a number of problems regarding MSAB's grant



application forms and the information provided to the review panels. The investigation found that: (1) application forms were not specific enough, (2) staff were uncertain about what information was needed by the review panels, and (3) staff spend inordinate amounts of time gathering additional information for applications following their submission. As a result MSAB has redesigned some of its forms and procedures for gathering data.

In addition to the program information, there are five forms currently used for the Individual Artists Grants Program: applications, grant notification letters, grant rejection letters, requests for payment, and final reports.

- **Finding:** MSAB's application form and instructions are generally well designed. However, they contain certain deficiencies such as the failure to provide clear guidance to applicants in describing their proposals and selecting project dates.

Because confusion may result from the current specification of review criteria, and because some applicants may depend solely on the program information for guidance in completing their applications, more explanation would be beneficial. FY 1981 program information simply instructs the applicant to "describe the proposed activities." Somewhat more specific instruction could be suggested; for example, to:

- describe the artistic theme of the work,
- describe the production techniques or sequence that will be used,
- describe how the work is a continuation of or a departure from earlier work, and
- describe how the grant money will be used.

In reviewing samples of grant applications from FY 1979 and FY 1980, it is easy to locate good descriptions and poor ones. MSAB could develop examples of good descriptions for each artistic discipline to further assist applicants. Only at an application writing workshop attended by some 20 people did we learn that examples are sometimes provided. The Arts Board should continue the provision of sample materials as a routine practice.

The FY 1981 application material provides no guidance in setting the starting and ending dates of the proposed activities. (Arts Board staff themselves were unaware that FY 1980 program information stated that the grant period could be up to twelve months.) It is unclear whether the date for the "completion of activities" means the same thing as the end date of the grant period. The program information specifies that a final report is due upon "completion of activities." An artist could receive a grant for a six-month period, but the project might not be completed until months or years later. It should be clear to all parties when the final report is due. Only at the application writing workshop did we hear advice given on setting project dates.

The budget section of the FY 1981 application is an improvement over the earlier form, due to the incorporation of more detailed, self-explanatory line-items. However, it still requires line-items which are different from those required on the final report form, thus making a direct comparison between proposed and actual expenditures difficult. The budget breakdowns on both forms should be identical.

The FY 1981 application form does not require a listing of any supporting materials which might accompany applications, as did an earlier form. Supporting materials such as photographs and audio tapes provide the principal information upon which review panels base their decisions. To enable staff to determine whether all submitted materials are present, as well as to serve as a brief summary for the review panels, space for listing supporting materials should be provided.

Another improvement which could be made in the program information is to cross reference the application instructions with the application form. This improvement might apply to other forms as well, such as the final report form.

Recommendation: The Arts Board should continue the refinement of its program information and forms by incorporating our suggestions listed above.

- Finding: MSAB's grant agreement for individual artists does not contain all the provisions which grant recipients should be required to satisfy, and the agreement does not have the appearance of a legal contract.

During August 1979, the National Endowment for the Arts (NEA) reviewed MSAB's management of several grants which included federal funds. Under its federal grant agreement, MSAB is required to include in its various agreements with its own grant recipients the same provisions required of MSAB by NEA. These include agreement to:

- a. acknowledge MSAB financial support;
- b. provide a final report;
- c. carry out the funded project in compliance with the project description, budget, and dates as set forth in the application;
- d. participate in fair labor standards;
- e. ensure the protection of civil rights;
- f. ensure accessibility to the handicapped;
- g. not discriminate on the basis of sex;
- h. provide access to records for audit;
- i. maintain a financial management system;
- j. retain records;
- k. not use grant money for lobbying; and
- l. provide a payment schedule.

In its review, NEA found that the Arts Board did not include all of the requirements listed above and recommended that MSAB revise its grant agreements. The Arts Board agreed.

All of the above requirements are now included in the agreements for production assistance projects and sponsor assistance grants. Roughly half are included in the agreement for general operating support. But the Arts Board requires that individual artists comply with only the first three of these provisions even though certain of the omitted provisions, such as retaining records, are as relevant for individuals as they are for organizations.

Furthermore, while using the grant notification letter as the grant agreement might be an efficient practice, the letter lacks the appearance of a more obviously legal commitment. MSAB should consider using one form which simply serves to notify the applicant of the board's decision and another form as the grant agreement, one which more closely follows the format of a conventional contract. This would emphasize to recipients the seriousness of the terms upon which they accept the grants, and it would provide MSAB with a more binding agreement.

Recommendation: MSAB should comply with NEA's requirement to include all of the above provisions in its grant agreements. Furthermore, MSAB should develop a more formal individual artists grant agreement.

### C. GRANT APPLICATION FILES

For FY 1980, MSAB received nearly 200 applications for fellowships and over 500 applications for project grants. Applications are received at the MSAB office, dated, and logged into a computerized file. Most of the applications are accompanied by supporting materials and must be checked for completeness and eligibility. Review panels meet and recommendations are made to the Arts Board for its final approval.

As part of our research, we first reviewed random samples of the 381 project grant applications for FY 1979 regardless of whether they were funded. Next, we examined the files for all the projects which were funded in FY 1979 and FY 1980. Earlier reports had found fault with the management of MSAB files. The 1975 Senate Finance Committee staff report found grants listed in the annual report for which there were no files. The report also found that there were no project proposals for grants which had been awarded for less than \$1,000.

The objective of our review was to determine:

- whether the applications appear to have been complete and in good order at the time of their review; and
- whether MSAB's record keeping techniques appear to be adequate.

■ Finding: We found no evidence that applications were not complete and in good order at the time of their review, but refinements can be made in MSAB record management system.

During our review of the FY 1979 application files, we found that:

- a. Using a computer printout as our master list, all the hard-copy files were properly located and identified. All of the files contained application forms, and those forms were generally complete.
- b. Ninety percent of the application forms indicated the original inclusion of supporting materials. However, virtually none of the files actually contained any supporting materials, and there were no means to confirm that the supporting materials specified on the forms were ever present. Moreover, 52 percent of all project descriptions were unclear in the absence of supporting materials.
- c. Seventy-six percent of the files contained resumes. In some cases, resumes were mentioned on the application form, but were not in the file. Resumes were often not well developed.
- d. The files contained no evidence of staff attempts to obtain any information which might have been missing.
- e. Six percent of the files were missing copies of the notification letter which is sent to all applicants.

We conducted a more inclusive review of those applications which were ultimately funded for FY 1979. Of these 57 grant files, we found that:

- a. All of the files were properly located and identified.
- b. Thirty-three percent of the project descriptions were not clear when not accompanied by supporting materials.
- c. Ninety-three percent of the grants were for activities which could be documented.

In addition, we reviewed all files for those ultimately funded for FY 1980 and found that:

- a. All of the files were properly located and identified.
- b. Nine percent of the project descriptions were not clear.
- c. Virtually 100 percent of the grants (including those for advanced study) were for activities which could be documented.

While our finding on the lack of clarity in project descriptions might seem a significant one, we do not necessarily consider it a serious flaw in MSAB's system. The supporting materials which artists submit receive much attention from the review panels because they are considered to be the best indication of what the artists are capable of achieving. Supporting materials are usually manuscripts, audio tapes, video tapes, photographs, and slides. Because the best way for visual artists such as sculptors or painters to describe their works is not by written descriptions, but rather through pictures, it is not surprising that unclear descriptions most frequently occurred in the visual arts category. We could not determine whether apparently weak written descriptions have in any way diminished the quality of the application review process. Furthermore, we recognize that supporting materials are submitted at the expense of the applicants, and it is reasonable that these items be returned.

Recommendation: In regard to applications, attention should be given to developing better project descriptions and resumes, and to ensuring the routine submission of supporting material.

- Finding: Current practices do not provide safeguards against the loss or misplacement of application materials.

As the result of an appeal filed in 1979 by an unsuccessful grant applicant, the State Hearing Examiner found that the Arts Board had failed to comply with 5 MCAR §5.007H which states:

Applicants will be notified by mail of the receipts of their applications and the need, if any, for changes or supplementary material. Failure by an applicant to provide this information may result in a rejection or deferral of the application.

Because missing materials can jeopardize an applicant's chances for favorable consideration and because of the extensive administrative burden caused by an appeal, it is important for MSAB to ensure the completeness of applications and safeguard against the loss or misplacement of materials.

According to current MSAB procedures, application materials are received at the front desk and are forwarded to the grants officer, who enters basic data from the application onto formatted index cards. These index cards function as the only journal of items received and as the record for entering data into the computer file. Although these index cards are supposed to remain in the grants office, single cards are sometimes temporarily removed by program managers, and groups of cards are removed and used by the computer operator. Thus, it is possible for items to be misplaced with no other record as a back-up, and for items to be omitted during data entry onto the computer files.

During their campaign to seek roughly 100 delinquent final reports, Arts Board staff contacted grant recipients whose reports

were not recorded in MSAB's files. Approximately 30 people offered comments about their final reports, and of these, 14 claimed to have already sent in their final reports. In some cases, through further efforts, Arts Board staff were able to locate the reports. Thus it appears that materials are not always properly logged and filed. If such items become misplaced, there is no record of their having been received.

Recommendation: MSAB should review its material handling procedures to ensure that all materials are routed directly to the grants officer and are logged in a timely manner. Furthermore, grant applicants and recipients should be advised to retain copies of all forms submitted to MSAB.

- Finding: Staff routinely store some materials in their own files and return other materials to applicants, thus detracting from the usefulness of the central files.

The 1978 Department of Administration operations report criticized MSAB's lack of a central filing system as being administratively inefficient, but acknowledged the existence of the Arts Board's plan to establish a new filing system with assistance from the Records Management Division. While the Arts Board now has central files, the files are not always well maintained.

In our review of MSAB's central files, we learned that all application materials are not routinely stored in one place. For the most part, the items which staff have chosen to store in their central files are uniformly present. One staff member explained that some items such as resumes are not filed centrally because staff do not wish to lose access to them when the central files are shipped to the state archives. In addition, virtually all of the supporting materials originally accompanying the applications are absent from the central files, many having been returned to the applicants. Because certain items are not stored in the central files, and the disposition or location of such materials is not indicated, this detracts from their usefulness.

Finally, during our review, we found that nearly every grant recipient file contained duplicates of the grant notification letter and the request for payment. One set was a copy of the forms mailed to the recipient, and the second set consisted of the original signed forms returned by the recipient. To eliminate clutter and to reduce the bulk of the files, staff should discard the unsigned copies when the signed forms are received.

Recommendation: Central files should be kept as complete as possible. Furthermore, the disposition of items which the staff discards, returns to applicants, or locates elsewhere for convenience should be noted in the central files.

#### D. APPLICATION REVIEW SESSIONS

The 1978 Department of Administration operations report found that in some ways, the application review process lacked standardization. For example, it was not clear to staff what information was routinely required by review panels. Moreover, the research done by staff on applications after submission was left to the discretion of staff.

The review process involves three steps: a preliminary review by screening committees, recommendations by review panels, and final approval by the Arts Board. During our investigation, we reviewed all relevant documentation including worksheets, notes taken by staff, voting records, and memoranda recommending grant applications for FY 1979 and FY 1980. Our objectives were as follows:

- to determine whether procedures ensure that applications are reviewed uniformly according to the review criteria and;
- to determine whether review panel members abstain from discussion and voting when conflicts-of-interest exist.

First, we reviewed the records of past review sessions for individual artists. Then, we attended the only review session scheduled during our study, one for sponsor assistance grants.

- **Finding:** There is evidence of variations in voting procedures and record keeping among the screening committees of the Individual Artists Grants Program.

During our review of MSAB records, we found that:

- a. The records show that voting procedures varied among the screening committees. Among the procedures used were awarding numerical scores to applications, rank-ordering by quality, and using a simple process of elimination.
- b. Names of applicants who did not appear among those considered in the first screening in some cases appeared later among those in subsequent screenings. The records do not make clear how these people were added.
- c. Many discussion comments were recorded for the FY 1979 reviews, but almost none were recorded for FY 1980. The discussion notes for some screening committees such as the film committee are minimal, making it difficult to review the decision-making process.
- d. There was no indication in any of the records that any review panel members abstained from discussion or voting for any reason, although there is a place on the review panel worksheet to so indicate.

- e. A comment recorded during the FY 1979 review indicated that the review panel discussed whether one particular applicant might be able to carry out the proposal with his own [financial] resources, even though this is not an official review standard. (This was the only recorded comment which suggested possibly irrelevant discussion.)

Recommendation: The Arts Board should standardize the voting and record keeping procedures of the review panels in order to ensure the uniform treatment of applications and to provide an audit trail for retracing the steps of each review. The board should consider development of a training film as a means to familiarize panel members with proper procedures.

There was only a single review session for sponsor assistance scheduled during our research. At this session, 111 applications were reviewed and approximately \$321,000 was available for funding. Each panel member had been sent 1,570 pages of application material to read beforehand.

Review panel members were reminded of the information presented in their orientation a month earlier. They were reminded that the review session was a public meeting and that discussion should be relevant to the review criteria and the application. They were also informed that no notes of the discussion would be kept and that only summary remarks would be recorded. We witnessed the review of approximately 45 applications during the session.

- Finding: During a review session which we attended, panel members appeared to be conscientious in adhering to proper rules and procedures and routinely absented themselves to avoid conflicts-of-interest.

Each time an application was introduced for discussion, the chairman asked review panel members if any had possible conflicts-of-interest. For at least 10 of the 45 application reviews we witnessed, panel members abstained by leaving the room prior to any discussion and voting.

Recommendation: The Arts Board should continue its current practice of continually reminding board and panel members to avoid possible conflicts-of-interest.

## E. FINAL REPORTS

Until the time the grants are approved by the Arts Board, the responsibility for processing applications is the program



manager's. Once the grants are approved, however, responsibility shifts to the grants officer.

The 1978 Department of Administration operations report found that the grants process was cumbersome and not standardized and that it was unclear to some staff members who was responsible for completing certain tasks. The report went on to say that the grants officer spent only 60 percent of her time on grants administration and that she was not used effectively. The Arts Board has since redefined the responsibilities of the grants officer, requiring that 100 percent of the time be spent on grants administration, and has filled the position with a new person.

The grants officer, with the aid of an assistant and MSAB's finance officer, is responsible for the following:

- a. sending grant notification letters and request-for-payment forms to grant recipients to be signed and returned within 30 days;
- b. notifying the Department of Finance to send payments to grant recipients;
- c. keeping up-to-date computerized and hard-copy grant files, and conducting analyses as requested;
- d. monitoring the submission of final reports by grant recipients; and
- e. assisting in spot audits of grant recipients.

For this portion of the grant sequence, our primary research objective was:

- to determine whether MSAB's grant management practices are adequate for ensuring that recipients conduct their projects according to their proposals and comply with MSAB's administrative requirements.

To satisfy this objective, we reviewed the files of all individual artist grant recipients for FY 1979 and FY 1980, and discussed with MSAB staff their efforts to ensure general accountability.

- **Finding:** The majority of individual grant recipients routinely fail to submit their reports on time, according to MSAB records. Furthermore, the Arts Board has yet to implement procedures for routinely monitoring final reports as they become due.

Of the 43 final reports present in MSAB files at the time of our research, 60 percent had been filed late, that is, more than 30 days beyond the original completion date of their grant. We also found that, according to Arts Board records, of the approximately 50 final reports which were due as of April 29, 1980, 76 percent were missing. The Arts Board conducted a major campaign to solicit the submission of delinquent reports in spring 1980. We later found that of approximately 50 final reports which were due as of July 21, 1980, only 22 percent were missing.

MSAB has had difficulty in achieving the timely submission of final reports from individual artist grant recipients. Assessing the significance of lateness is not without complication. There is evidence that some recipients believe that although the grant period has passed, the final report is not due until "completion of the project." Some applicants specify a season of the year as the end date, some specify a given number of months after beginning the project (with the beginning date unspecified), and many files contain evidence that applicants believed their project end dates had been changed. While many final reports show project end dates which are later than those specified in their proposals, we found little evidence that applicants had requested date changes or that such changes had been approved by staff.

Until recently, the Arts Board had not dealt seriously with grant recipients who were delinquent in submitting final reports. Recipients were informed at the time they were awarded their grants that such reports were required, but no further routine efforts were made. However, in 1978 and in 1979, the Arts Board sent reminders to delinquent recipients that they were obligated to submit final reports. It was not until April 1980 that the Arts Board made their reminders more impressive by notifying delinquent recipients that "failure to comply with grant terms or failure to submit documentation of compliance in the form of final reports provides grounds for the agency to deny future funding requests from the applicant." The Arts Board now informs grant recipients in their award notification letters that "all future grants will be contingent upon complete compliance with the terms of this grant." Such terms include the submission of a final report.

The Arts Board is also considering a 20 percent payment holdback. Grant recipients would receive 80 percent of their award money at the beginning of their grant period and would receive the remaining 20 percent upon complete compliance with the terms of the grant agreement. Because Minn. Stat. Ch. 139 requires the Arts Board to "promulgate by rule standards consistent with this chapter to be followed by the board in the distribution of grants," MSAB would have to promulgate such a provision into rule.

Some people have argued that the practice of a payment holdback would be an inordinant burden on both the individual grant recipient and the administrative staff of MSAB, and would do little to improve the submission of final reports. However, in our discussions with both artists and administrators, particularly during our review of other foundations, we were informed that payment holdbacks were not uncommon, rarely constituted an administrative burden to the agency or a financial hardship to the grant recipient, and were believed to be effective in encouraging compliance with the grant agreement. These opinions were held by some of MSAB's own review panel members.

While the Arts Board has recently made considerable effort to achieve the submission of past delinquent final reports, it has yet

to decide what an acceptable delinquency rate is and what it should do in those cases where grant recipients refuse to submit final reports or where final reports are unacceptable.

Recommendation: MSAB still needs to establish routine procedures to ensure the submission of final reports. Furthermore, for MSAB to better enforce the timeliness of report filing, it will have to revamp its policy on setting and changing project dates and emphasize the importance of choosing project dates carefully. We also recommend the institution of a 20 percent grant payment holdback for individual recipients.

- Finding: Final reports indicate that individual grant recipients generally conduct work which closely resembles their original proposals. However, nearly half of the final reports show expenditure breakdowns which deviated from the proposals.

In reviewing the final reports submitted for FY 1979 grants--the most recent ones available--we found the following:

- a. Seventy-seven percent of the final reports described activities consistent with the original grant proposal. Twenty-one percent of the final reports were so written as to make it impossible to judge for consistency. Furthermore, the absence of supporting materials which helped to illustrate the original proposal made it difficult to compare for consistency. One project appeared to be not consistent.
- b. At least 40 percent of the final reports showed expenditure breakdowns which were not consistent with the original proposal. (To be not consistent, at least one line-item had to deviate from the original by at least 10 percent and by at least \$100.)

While many final reports showed budgets which deviated from the proposal, in some cases there is evidence that this occurred when the recipient included in the final report money spent from other sources. Seven percent of the final reports were not sufficiently descriptive to determine consistency. There was little evidence of requests and approvals for changes in budget line-items.

- c. Fifty-eight percent of the final reports were accompanied by evidence of the grant recipients' achievements such as manuscripts, photographs, slides, programs, and other printed matter.

Some final reports made reference to accompanying materials which were not found in the file. For nearly all grants, it would be possible for recipients to provide some evidence of their achievements.

The timeliness of final reports appears to be a greater problem than the quality of final reports once submitted. What is true for the grant applications is also true for the final reports: supporting materials which accompany the form are probably MSAB's best means for determining the nature of the artists' activities.

Recommendation: The Arts Board should implement procedures to ensure that any changes in grant proposals are approved in advance by the Arts Board. Documentation of requests and approvals should be kept in the central files. Furthermore, we recommend that the Arts Board require grant recipients to submit evidence of work completed during the grant period.

#### F. SPOT AUDITS OF GRANT RECIPIENTS

As we learned in our survey of other public and private grant-making organizations, field audits of individual grant recipients are commonly employed to verify the use of grant money and to assess the outcome of funded projects.

Following a survey report issued by the National Endowment for the Arts (NEA) in February 1980, the Arts Board activated a spot audit program. In response to an earlier audit by the Financial Audits Division of the Legislative Auditor's Office in 1977, the Arts Board had stated that it would initiate spot audits in FY 1979, but it was not until the very end of FY 1980 that the Arts Board took action.

- Finding: The Arts Board's spot audit program has been well planned, and audits have been conducted in a timely fashion.

The Arts Board has approached its spot audit program on an experimental basis. It selected six grant recipients representing the five major grant categories (two from individual artists) and conducted its first audit on April 16, 1980. For each grant recipient, the Arts Board conducted either a financial audit or a program audit. The financial audit format, developed in cooperation with NEA, checks for commonly accepted accounting practices. The program audit is based on a comparison of the original project proposals with the project results as documented in the field.

By the end of our data collection, Arts Board staff had conducted all six of its audits and had completed four reports. The audit frameworks developed by the grants officer were well planned and tailored to specific projects. In comparison to the program audits, the financial audits appear to have been more rigorous, more critical, and more specific, and as a result provided more useful findings and recommendations. Furthermore, at least two of the

program audits were conducted by the program manager who was responsible for the processing of the original applications. Such a practice might ensure that the auditor is familiar with the grant recipients' work. On the other hand, it might be difficult for MSAB staff to be critical of individuals and organizations with whom they work on a daily basis.

As a result of its recent experience, the Arts Board is already planning its next series of spot audits for FY 1982. Staff plan to hire a consultant to develop an evaluation plan and audit model. MSAB will employ part-time field auditors to audit a total of 26 grant recipients. To cover these expenses, \$26,650 has been earmarked out of the FY 1982 MSAB budget.

Recommendation: To achieve the fullest benefit, audit reports should be produced expeditiously. The spot audit program should be widely publicized so that all grant recipients are aware that they might be the subject of a future audit. Program managers should not conduct audits of grants falling within their own jurisdiction. We encourage the Arts Board to continue the development of its spot audit program both as a means for independent verification of grant achievements and as a source of information potentially useful to staff and review panels in addition to final reports.

#### G. GEOGRAPHIC DISTRIBUTION OF GRANTS

The 1975 report issued by Senate Finance Committee staff found that when asked about the distribution of state arts money, many people in the arts believed that too much went to the Twin Cities area. At the time of the Senate report, the Arts Board's appropriation bill required that at least 55 percent of the program funds be spent outside the Twin Cities area. Although this particular requirement no longer exists, Minn. Stat. Ch. 139 does require that "insofar as is reasonably possible," MSAB must "distribute board assistance equitably according to population throughout the geographic regions of the state." Recent criticisms still allege that too much of the Arts Board's funding goes to the large Twin Cities-based arts organizations.

- Finding: Except for the Individual Artists Grants Program and the General Operating Support Program, the distribution of Arts Board funds among the state's regions has generally reflected the distribution of population, as required by law.

We reviewed the Arts Board's computerized files to determine whether the board has complied with the legal requirement to distribute its assistance equitably according to the state's population.

We compared the distribution of grants awarded for FY 1979 and FY 1980 with the state's population distribution according to the State Demographer's estimates for 1979.

The award distribution for three of the five grant programs reasonably follows the population distribution of the state, as shown in Table 6; these include production assistance project grants, sponsor assistance, and regional arts development. Not surprisingly, the regional arts development grants, whose funds are allocated according to a per capita formula, follow the population distribution most closely.

On the other hand, Table 6 shows that most of the General Operations Support Grant funds go to the Twin Cities, where most of the well-established arts agencies are located. This grant program is designed to support established arts organizations which provide high quality programs and leadership on a state-wide basis. Furthermore, General Operations is the one grant program whose allocation is specified in the appropriation bill. Thus, it is not surprising that such a large portion of the Arts Board's money goes to the Twin Cities area.

Table 6 also shows that 80 to 85 percent of the project grants going to individual artists went to recipients residing in the Twin Cities region. MSAB points out that the 1970 U.S. Census Bureau data shows that ten years ago, of the 9,543 employed artists residing in Minnesota, 7,048 or 74 percent resided in the Twin Cities metropolitan area.

Upon comparing the regional distribution of grant applications with that of grant awards for all five grant categories, we found there to be a strong correlation between the proportion of applications coming from a region and the proportion of awards going to a region.

- **Finding:** Even though the distribution of Arts Board funds closely follows that of the state's population, this has not resulted from any Arts Board policy or monitoring mechanism.

The Arts Board explains that the regional arts development program was instituted to ensure that adequate and equitable funding reaches the outlying areas of the state. However, this is the extent of MSAB's actions ensuring equitable distribution.

For example, during the review session for sponsor assistance which we attended, panel members were informed that they were selected from various geographic regions to assure familiarity with arts activities across the state, not to ensure balanced representation. It was unclear to panel members how an equitable distribution of assistance across the state is to be ensured if it is not considered by them. During the board meetings which we attended wherein board members reviewed lists of grant applicants recommended by the

TABLE 6

## GEOGRAPHIC DISTRIBUTION OF GRANTS: FY 1979 AND FY 1980

		Region 3 Duluth	Region 10 Rochester	Region 11 Twin Cities	All Other Regions	TOTAL
State Population		8%	10%	49%	33%	4,059,800
GRANTS AWARDED:						
PERCENT OF GRANTS AWARDED BY REGION						
1. Production Assistance	FY 1979	3%	1%	57%	39%	\$282,091
	FY 1980	10	0	63	27	218,604
2. Individual Artists Project Grants	FY 1979	3	4	83	10	131,968
	FY 1980	4	4	84	8	130,000
3. Sponsor Assistance	FY 1979	6	5	54	35	342,326
	FY 1980	13	7	51	29	292,109
4. Regional Block Grants	FY 1979	10	14	49	27	614,452
	FY 1980	8	9	41	42	722,293
5. General Operating	FY 1979	3	1	95	1	1,015,000
	FY 1980	0	0	97	3	1,080,000

Source: Minnesota State Arts Board, 1980.

review panels, there was no accompanying information analyzing the regional distribution of recommended awards.

No routine analysis of the regional distribution of grant funds is conducted, or has ever been conducted, even though Minn. Stat. Ch. 139 encourages equitable geographic distribution. The Department of Administration operational study found that the statistical reports on grants generated by the grants officer were time-consuming, cumbersome, and prone to error. The study recommended that the Arts Board explore the feasibility of computerizing its data. MSAB's computer capabilities are presently limited to storing and sorting grant file data. Any analysis of grant distribution cannot be accomplished through simple cross-tabulations, but rather must be done through multiple sorts and print outs. To do the analysis which we did manually, Arts Board staff would have had to generate 110 to 220 separate printouts (five grant programs times 11 regions for two years for both applications and awards).

While the regional arts development program does significantly affect the average distribution of grants, beyond that, we found virtually no other indications of Arts Board measures to ensure an equitable geographic distribution. Furthermore, the Arts Board does not even monitor and analyze the geographic distribution of their grants after the fact.

Recommendation: The Arts Board should routinely analyze the distribution of its grant funds, and should include the results in its annual report.



# APPENDIX A

## CONTRIBUTION OF MSAB FUNDS TO MAJOR ARTS ORGANIZATIONS:

### GENERAL SUPPORT GRANTS - FY 1980

RECIPIENT	TOTAL BUDGET	MSAB GRANT	%*
1. Greater Twin Cities Youth Symphony	\$ 185,500	\$ 12,000	6.5
2. Plains Art Museum	222,810	22,000	9.9
3. Walker Art Center	3,014,100	115,000	3.8
4. Chimera Theatre	841,560	35,000	4.2
5. Rochester Art Center	137,000	12,000	8.8
6. Minnesota Opera	839,000	85,000	10.1
7. St. Paul Chamber Orchestra	1,400,000	90,000	6.4
8. Minnesota Dance Theatre	965,500	70,000	7.3
9. Children's Theatre	1,486,362	82,000	5.5
10. Cricket Theatre	560,475	42,000	7.5
11. Minnesota Orchestra	7,692,000	190,000	2.5
12. Guthrie Theatre	4,529,000	180,000	4.0
13. Minneapolis Society of Fine Arts	1,380,181	145,000	10.5
TOTAL:	\$23,069,073	\$1,080,000	4.7

\*MSAB grant as a percentage of each organizational budget.

Source: Minnesota State Arts Board, 1980.



## APPENDIX B

### POLICY ISSUES FROM REVIEW SESSIONS<sup>1</sup>

#### A. Religion and Art

1. An organ recital held in a church is to be open to the public for the dedication of the new organ. There is extensive discussion as to whether this is a church (religious) activity.
2. Comment that a mock seder proposed in an application is very religious and is more humanities than art.
3. Comment that a liturgical dance to be sponsored is only religious in the spiritual sense.

#### B. Colleges as Sponsors

1. Discussion that a college-sponsored symposium should rather be an exhibition; that public access should be greater. Panel member questioned whether the college did not have the (financial) resources to carry out the project.
2. Question as to whether a college-sponsored program served a population beyond the student body.

#### C. Libraries as Sponsors

1. Question as to whether library-sponsored programs are inherently art or day care.
2. Question as to who benefits when a library sponsors an activity in a shopping mall: the library, the businessmen, or the public.

#### D. Finances

1. Question as to whether MSAB should be the funder of last resort; are applicants supposed to look everywhere else first.

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<sup>1</sup>As noted by Program Evaluation Division staff who attended MSAB application review sessions for sponsor assistance grants. These issues are discussed more generally in Chapter II, Section A of this report.

2. Question as to whether MSAB should be subsidizing non-Minnesota artists by providing sponsors with funds to hire out-of-state artists.
3. Discussion as to whether funds should go to applicants who want to sponsor a commercially popular and financially successful group of performers. Application looks like concert promotion, not arts development.
4. Question as to whether applicant sponsor had already obtained a written commitment from the artist to perform. Staff point out that this is not an application requirement.
5. Question as to why there is no door charge, especially when a particular arts event is so attractive.
6. One panel member asked whether applicants should be expected to charge fees for performances when possible as a positive indicator of responsible financial management. There was no resolution of this issue.
7. Comment that one of the objectives of this program [sponsor assistance] is to get applicants to broaden their base of funding.
8. One panel member motioned to reduce the requested budget amount on the basis of the fourth criterion, need, because he believed that programs should be increasing local support over the years and should therefore need less state money.
9. Comment that applicants should provide more cash match as a demonstration of commitment to the project.
10. A former panel member stated: "Sometimes we might reject an application because there is no cash match, only in-kind; this is indicative of little commitment."
11. Staff stated: "Financial standing of the applicant is something that is sometimes taken into consideration, but that is not what 'need' means."
12. The budget is not so good, but MSAB ought to encourage risk. If someone goes into debt, it will be the sponsors [not MSAB].
13. Staff stated: "One might consider favorably an applicant which is taking risks to up-grade, but we are not funding projects simply because they are avant garde."
14. Comment, from both panel members and staff, that while MSAB will give funding to a sponsor to hire a pre-packaged art exhibit (for example, from the Smithsonian or the Museum of Modern Art), funding will not go to a sponsor to put together their own exhibit.

E. Procedures

1. There is confusion on the part of some panel members as to the appropriate time for amending applicants' budgets.
2. One panel member asked if it would be possible to review the final reports of applicants who had received earlier grants. Staff indicated that they would provide copies of final reports, but only on request.



## STUDIES OF THE PROGRAM EVALUATION DIVISION

Final reports and staff papers from the following studies can be obtained from the Program Evaluation Division, 122 Veterans Service Building, Saint Paul, Minnesota 55155, 612/296-8315.

### 1977

1. Regulation and Control of Human Service Facilities
2. Minnesota Housing Finance Agency
3. Federal Aids Coordination

### 1978

4. Unemployment Compensation
5. State Board of Investment: Investment Performance
6. Department of Revenue: Assessment/Sales Ratio Studies
7. Department of Personnel

### 1979

8. State Sponsored Chemical Dependency Programs
9. Minnesota's Agricultural Commodities Promotion Councils
10. Liquor Control
11. Department of Public Service
12. Department of Economic Security, Preliminary Report
13. Nursing Home Rates
14. Department of Personnel, Follow-up Study

### 1980

15. Board of Electricity
16. Twin Cities Metropolitan Transit Commission
17. Information Services Bureau
18. Department of Economic Security
19. Statewide Bicycle Registration Program
20. State Arts Board: Individual Artists Grants Program

### In Progress

21. State Income Tax Processing
22. State Architect's Office
23. Hospital Regulation
24. Department of Public Welfare Regulation of Residential Facilities for the Mentally Ill
25. Department of Human Rights
26. State Sponsored Chemical Dependency Programs, Follow-up Study

