

Legislative Audit Division

State of Montana



Report to the Legislature

October 2005

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2005

Montana Arts Council

This report contains an unqualified opinion and three recommendations related to:

- ▶ Compliance with state sole source procurement requirements
- ▶ Insufficient documentation for travel expenditures
- ▶ Accurately recording information on the state's accounting records

Direct comments/inquiries to:
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Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2005, will be issued by March 31, 2006. The Single Audit Report for the two fiscal years ended June 30, 2003, was issued on March 23, 2004. Copies of the Single Audit Report can be obtained by contacting:

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State Capitol
Helena MT 59620
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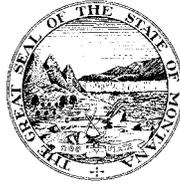
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Scott A. Seecat, Legislative Auditor
John W. Northey, Legal Counsel



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

October 2005

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Montana Arts Council for the two fiscal years ended June 30, 2005. The report contains three recommendations where the council could enhance compliance with state law pertaining to procurement and travel documentation requirements, and accurately recording expenditures on the state's accounting system. The council's written response to the audit is included in the back of the report.

We thank the Executive Director and staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Scott A. Seecat

Scott A. Seecat
Legislative Auditor

Legislative Audit Division

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2005

Montana Arts Council

Members of the audit staff involved in this audit were Geri Hoffman,
Sonia Powell and Vickie Rauser.

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Appointed and Administrative Officials

			<u>Term Expires</u>
Montana Arts Council	Jackie Parsons (Chair)	Browning	2008
	Tim Holmes	Helena	2010
	Rob Quist	Kalispell	2010
	Kevin Red Star	Roberts	2010
	Mary O. Crippen	Billings	2007
	Dee Heltne	Havre	2007
	John Dudis	Kalispell	2007
	Betti Hill	Helena	2008
	Kathleen Schlepp	Miles City	2008
	Ann Cogswell	Great Falls	2008
	Rick Halmes	Billings	2008
	Neal Lewing	Polson	2007
	Youpa Stein	Missoula	2010
	Wilbur Wood	Roundup	2010
Cynthia Andrus	Bozeman	2007	
Administrative Officials	Arlynn Fishbaugh, Executive Director		
	Carleen Layne, Accountant		
	clayne@mt.gov		
	(406) 444-6489		

Introduction

This audit report is the result of our financial-compliance audit of the Montana Arts Council for the two fiscal years ended June 30, 2005. The recommendations in this report are related to noncompliance with state law pertaining to procurement and travel documentation requirements, and accurately recording information on the state's accounting records.

We issued an unqualified opinion on the financial schedules contained in this report. The reader may rely on the financial information presented in the financial schedules and the supporting data on the state's accounting system.

The listing below serves as a means of summarizing the recommendations contained in the report, the department's response thereto, and a reference to the supporting comments.

Recommendation #1

We recommend the council comply with state sole source procurement requirements. 4

Council Response: Concur. See page B-3.

Recommendation #2

We recommend the council obtain sufficient documentation for travel expenditures paid, as required by state travel policy..... 5

Council Response: Concur. See page B-3.

Recommendation #3

We recommend the council classify expenditures in accordance with state accounting policy..... 5

Council Response: Concur. See page B-4.

Introduction

Introduction

We performed a financial-compliance audit of the Montana Arts Council (council) for the two fiscal years ended June 30, 2005. The objectives of the audit were to:

1. Determine the council's compliance with applicable laws and regulations.
2. Make recommendations for improvement in the council's management and internal controls.
3. Determine the status of prior audit recommendations.
4. Determine if the council's financial schedules present fairly the results of its operations for the two fiscal years ended June 30, 2005.

The report contains three recommendations to the council. Areas of concern deemed not to have a significant effect on the successful operations of the council are not included in this report but have been discussed with management.

In accordance with section 5-13-307, MCA, we analyzed and disclosed the cost, if significant, of implementing the recommendations.

Background

The Montana Arts Council consists of 15 members who are appointed by the governor, confirmed by the Senate, and serve staggered five-year terms. The council is authorized to accept gifts and donations to carry out the functions of the council, and is designated as the official agency of the state to receive and disburse funds made available by the National Endowment for the Arts. The council is responsible for the governance, management, and control of staff hired to perform its mission. The council's duties are to:

1. Encourage the study and presentation of the arts statewide.
2. Stimulate public interest and participation in the arts.
3. Cooperate with public and private institutions engaged in cultural and aesthetic activities.
4. Foster public interest in the cultural heritage of Montana and expand the state's cultural resources.
5. Encourage and assist freedom of artistic expression.

Introduction

Programs such as Artists in Schools/Communities, Governor's Awards for the Arts, and Montana Folklife are designed to expose Montanans to their artistic and cultural heritage. Grants, fellowships, technical assistance, and networking efforts help support both individual artists, and art and cultural organizations.

The council has five sources of funding including federal grants from the National Endowment for the Arts, investment earnings from the Cultural Trust Fund, Percent for Arts allocations from appropriations for construction of state buildings, private grants, and General Fund appropriations. General Fund support was \$543,929 and \$539,692 in fiscal years 2005 and 2004, respectively. The council had 8.5 full-time equivalent positions as of June 30, 2005.

Section 15-35-108(6), MCA, allocates investment income, excluding unrealized gains and losses, from the Cultural Trust Fund for the protection of art in the state capitol, and for cultural and aesthetic projects. The trust fund's corpus must remain intact, and increases by 0.63 percent of annual coal severance tax revenue.

Cultural and Aesthetic (C&A) grants are available to cultural organizations, and units of state, local, and tribal governments. The council provides support for the C&A project advisory committee in reviewing grant applications. The advisory committee recommends a prioritized grant list to the legislature for funding. The legislature determines which organizations will receive grants, and the council awards the money as specified by the legislature. The 58th Legislature approved funding of approximately \$804,150 for cultural and aesthetic projects in the biennium ending June 30, 2005.

Prior Audit Recommendations

Our office performed the audit of the Montana Arts Council for the two fiscal years ended June 30, 2003. The audit report contained one recommendation. The council implemented this recommendation.

Findings and Recommendations

Non-Compliance with State Sole Source Procurement Requirements

The council did not follow state sole source procurement procedures when it contracted for the publication of its bi-monthly newsletter.

The state encourages competition among its vendors in order to secure reasonable prices for the purchases of services in excess of \$5,000. This competition, which is based on total contract price, requires agencies to obtain a minimum of three written or oral quotations for services valued between \$5,001 and \$25,000, and to obtain a competitive sealed bid, or competitive sealed proposal, for services valued in excess of \$25,000.

In some limited circumstances, a contract exceeding the above monetary limits can be awarded to a vendor without going through the bid process. These awards, known as “sole source” procurements, are made when the vendor is the only contractor available to provide the service. The determination to purchase an item sole source can be made by the council up to its delegated authority of \$25,000. Above this amount, the decision to issue a sole source contract must be made by the State Procurement Bureau.

During our audit, we reviewed contract services expenditures paid during fiscal years 2004-05 and 2003-04. We noted that the council contracted for the publication of its bi-monthly newsletter, *State of the Arts*, making payments to the publication contractor of \$35,244 in fiscal year 2004-05 and \$30,750 in fiscal year 2003-04. Appropriate bids were not obtained prior to issuing the contract, and we could find no documentation that a sole source purchase was authorized.

Council staff explained that the vendor publishing the newsletter was the only contractor available for this type of service and therefore qualified for a sole source exemption.

Findings and Recommendations

Subsequent to our discussion with staff, the council secured a sole source agreement for the newsletter publication effective for the last issued published in fiscal year 2004-05, and for the six issues to be published in fiscal year 2005-06. However, this documentation was not in place for the majority of our audit period.

Recommendation #1

We recommend the council comply with state sole source procurement requirements.

Insufficient Documentation for Travel Expenditures Paid

Three travel expenditures were not sufficiently documented.

The council reimburses employees and board members for authorized travel expenses incurred as part of the council's programs. During our audit, we reviewed 10 board travel vouchers and 13 staff travel vouchers and noted the following instances where the payments made were not sufficiently documented:

- ▶ Two airfare purchases made in fiscal years 2004-05 and 2003-04, totaling \$1,276, did not contain sufficient documentation to support the expenditures. These purchases were made on the council's credit card, with e-mails submitted describing the purchase, and no additional documentation (i.e., ticket stubs, electronic confirmations, or itemized itineraries) to support the charges.
- ▶ The council paid \$1,370 for lodging costs in Washington, D.C., at a rate of \$299 per day plus tax, when the federal rate per day for the District of Columbia was \$153 plus tax. For out-of-state lodging expenditures, state policy requires that reimbursement cannot exceed the maximum federal rate per day for the location involved, plus taxes on the allowable costs, unless there is written documentation provided to approve the payment at actual cost.

The council should obtain sufficient documentation prior to payment of travel expenditures.

Findings and Recommendations

Recommendation #2

We recommend the council obtain sufficient documentation for travel expenditures paid, as required by state travel policy.

Federal Expenditure Misclassification

The council misclassified payments made from a private grant source as federal expenditures during fiscal years 2004-05 and 2003-04.

In fiscal year 2000-01, the council received \$500,000 from a private source to revise and expand current grant programs, provide training opportunities for grantees and other groups, and to publish and distribute case studies of participation-building efforts of selected grantee organizations over a five-year period.

The council awarded \$27,477 in subgrants from this funding in fiscal year 2004-05, and \$90,248 in fiscal year 2003-04, and classified these payments as Grants from Federal Sources. Since the source of the funds used for this program was a private donor, amounts provided to the grantee organizations should have been classified as Grants from Other Sources.

Section 17-1-102 (3), MCA, requires all state agencies to use a uniform accounting and reporting system containing three levels of expenditures. The first level includes general expenditure categories, such as personal services, operating expenses, equipment, capital outlay, local assistance, grants, benefits, and claims, transfers and debt service. The second level of expenditures includes specific categories of expenditures within the first-level classification, such as Grants from Federal Sources and Grants from Other Sources, both of which were established through state accounting policy.

Recommendation #3

We recommend the council classify expenditures in accordance with state accounting policy.

**Independent Auditor's Report &
Council Financial Schedules**

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Montana Arts Council for each of the fiscal years ended June 30, 2005, and 2004. The information contained in these financial schedules is the responsibility of the council's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the council's assets and liabilities.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Montana Arts Council for each of the fiscal years ended June 30, 2005, and 2004, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA
Deputy Legislative Auditor

August 17, 2005

MONTANA ARTS COUNCIL
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Permanent Fund
FUND BALANCE: July 1, 2004	\$ <u>(7,099)</u>	\$ <u>113,903</u>	\$ <u>18</u>	\$ <u>4,768,639</u>
ADDITIONS				
Budgeted Revenues & Transfers-In	178	336,333	622,292	
NonBudgeted Revenues & Transfers-In	68	121,092		383,101
Direct Entries to Fund Balance	<u>541,094</u>	<u>(27,335)</u>	<u>19,890</u>	<u>231,219</u>
Total Additions	<u>541,340</u>	<u>430,090</u>	<u>642,182</u>	<u>614,320</u>
REDUCTIONS				
Budgeted Expenditures & Transfers-Out	543,928	407,669	644,127	
NonBudgeted Expenditures & Transfers-Out		120,975		318,333
Prior Year Expenditures & Transfers-Out Adjustments	<u>(93)</u>		<u>(1,927)</u>	
Total Reductions	<u>543,835</u>	<u>528,644</u>	<u>642,200</u>	<u>318,333</u>
FUND BALANCE: June 30, 2005	\$ <u><u>(9,594)</u></u>	\$ <u><u>15,349</u></u>	\$ <u><u>0</u></u>	\$ <u><u>5,064,626</u></u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

MONTANA ARTS COUNCIL
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Permanent Fund
FUND BALANCE: July 1, 2003	\$ <u>(3,138)</u>	\$ <u>48,137</u>	\$ <u>0</u>	\$ <u>4,867,627</u>
ADDITIONS				
Budgeted Revenues & Transfers-In	6,696	325,684	586,175	
NonBudgeted Revenues & Transfers-In	61	174,274		72,283
Direct Entries to Fund Balance	<u>528,974</u>	<u>(10,643)</u>	<u>10</u>	<u>154,413</u>
Total Additions	<u>535,731</u>	<u>489,315</u>	<u>586,185</u>	<u>226,696</u>
REDUCTIONS				
Budgeted Expenditures & Transfers-Out	539,692	281,774	586,167	
NonBudgeted Expenditures & Transfers-Out		174,217		325,684
Prior Year Expenditures & Transfers-Out Adjustments		<u>(32,442)</u>		
Total Reductions	<u>539,692</u>	<u>423,549</u>	<u>586,167</u>	<u>325,684</u>
FUND BALANCE: June 30, 2004	\$ <u><u>(7,099)</u></u>	\$ <u><u>113,903</u></u>	\$ <u><u>18</u></u>	\$ <u><u>4,768,639</u></u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

MONTANA ARTS COUNCIL
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>General Fund</u>	<u>State Special Revenue Fund</u>	<u>Federal Special Revenue Fund</u>	<u>Permanent Fund</u>	<u>TOTAL</u>
TOTAL REVENUES & TRANSFERS-IN BY CLASS					
Taxes	\$ 43	\$ 172			\$ 215
Charges for Services	178	11,620			11,798
Investment Earnings		2,160		\$ 383,101	385,261
Miscellaneous	25	42			67
Grants, Contracts, Donations and Abandonments		125,098			125,098
Other Financing Sources		318,333			318,333
Federal			\$ 622,292		622,292
Total Revenues & Transfers-In	<u>246</u>	<u>457,425</u>	<u>622,292</u>	<u>383,101</u>	<u>1,463,064</u>
Less: Nonbudgeted Revenues & Transfers-In	<u>68</u>	<u>121,092</u>		<u>383,101</u>	<u>504,261</u>
Actual Budgeted Revenues & Transfers-In	178	336,333	622,292	0	958,803
Estimated Revenues & Transfers-In	<u>7,147</u>	<u>672,000</u>	<u>1,218,486</u>		<u>1,897,633</u>
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (6,969)</u>	<u>\$ (335,667)</u>	<u>\$ (596,194)</u>	<u>\$ 0</u>	<u>\$ (938,830)</u>
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS					
Charges for Services	\$ (6,969)				(6,969)
Other Financing Sources		\$ (335,667)			(335,667)
Federal			\$ (596,194)	\$	(596,194)
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (6,969)</u>	<u>\$ (335,667)</u>	<u>\$ (596,194)</u>	<u>\$ 0</u>	<u>\$ (938,830)</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

MONTANA ARTS COUNCIL
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	<u>General Fund</u>	<u>State Special Revenue Fund</u>	<u>Federal Special Revenue Fund</u>	<u>Permanent Fund</u>	<u>Total</u>
TOTAL REVENUES & TRANSFERS-IN BY CLASS					
Taxes	\$ 33	\$ 73			\$ 106
Charges for Services	6,696	4,720			11,416
Investment Earnings		2,168		\$ 72,283	74,451
Miscellaneous	28	47			75
Grants, Contracts, Donations and Abandonments		167,266			167,266
Other Financing Sources		325,684			325,684
Federal			\$ 586,175		586,175
Total Revenues & Transfers-In	<u>6,757</u>	<u>499,958</u>	<u>586,175</u>	<u>72,283</u>	<u>1,165,173</u>
Less: Nonbudgeted Revenues & Transfers-In	<u>61</u>	<u>174,274</u>		<u>72,283</u>	<u>246,618</u>
Actual Budgeted Revenues & Transfers-In	6,696	325,684	586,175	0	918,555
Estimated Revenues & Transfers-In	<u>13,847</u>	<u>315,000</u>	<u>1,192,032</u>		<u>1,520,879</u>
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (7,151)</u>	<u>\$ 10,684</u>	<u>\$ (605,857)</u>	<u>\$ 0</u>	<u>\$ (602,324)</u>
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS					
Charges for Services	\$ (7,151)				(7,151)
Other Financing Sources		\$ 10,684			10,684
Federal			\$ (605,857)	\$	(605,857)
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (7,151)</u>	<u>\$ 10,684</u>	<u>\$ (605,857)</u>	<u>\$ 0</u>	<u>\$ (602,324)</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

MONTANA ARTS COUNCIL
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	<u>PROMOTION OF THE ARTS</u>
Personal Services	
Salaries	\$ 336,428
Other Compensation	1,975
Employee Benefits	97,602
Total	<u>436,005</u>
Operating Expenses	
Other Services	141,481
Supplies & Materials	24,829
Communications	32,970
Travel	45,297
Rent	23,870
Other Expenses	11,892
Total	<u>280,339</u>
Grants	
From State Sources	564,018
From Federal Sources	434,317
Total	<u>998,335</u>
Transfers	
Accounting Entity Transfers	318,333
Total	<u>318,333</u>
Total Expenditures & Transfers-Out	<u>\$ 2,033,012</u>
EXPENDITURES & TRANSFERS-OUT BY FUND	
General Fund	\$ 543,835
State Special Revenue Fund	528,644
Federal Special Revenue Fund	642,200
Permanent Fund	318,333
Total Expenditures & Transfers-Out	<u>2,033,012</u>
Less: Nonbudgeted Expenditures & Transfers-Out	439,308
Prior Year Expenditures & Transfers-Out Adjustments	<u>(2,020)</u>
Actual Budgeted Expenditures & Transfers-Out	1,595,724
Budget Authority	1,636,313
Unspent Budget Authority	<u>\$ 40,589</u>
UNSPENT BUDGET AUTHORITY BY FUND	
State Special Revenue Fund	\$ 29,810
Federal Special Revenue Fund	10,779
Unspent Budget Authority	<u>\$ 40,589</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

MONTANA ARTS COUNCIL
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	<u>PROMOTION OF THE ARTS</u>
Personal Services	
Salaries	\$ 314,524
Other Compensation	1,750
Employee Benefits	90,110
Total	<u>406,384</u>
Operating Expenses	
Other Services	131,432
Supplies & Materials	21,950
Communications	31,707
Travel	43,900
Rent	23,722
Repair & Maintenance	150
Other Expenses	17,079
Total	<u>269,940</u>
Grants	
From State Sources	426,051
From Federal Sources	447,033
Total	<u>873,084</u>
Transfers	
Accounting Entity Transfers	325,684
Total	<u>325,684</u>
Total Expenditures & Transfers-Out	<u>\$ 1,875,092</u>
 EXPENDITURES & TRANSFERS-OUT BY FUND	
General Fund	\$ 539,692
State Special Revenue Fund	423,549
Federal Special Revenue Fund	586,167
Permanent Fund	325,684
Total Expenditures & Transfers-Out	<u>1,875,092</u>
Less: Nonbudgeted Expenditures & Transfers-Out	499,901
Prior Year Expenditures & Transfers-Out Adjustments	<u>(32,442)</u>
Actual Budgeted Expenditures & Transfers-Out	1,407,633
Budget Authority	1,691,139
Unspent Budget Authority	<u>\$ 283,506</u>
 UNSPENT BUDGET AUTHORITY BY FUND	
General Fund	\$ 478
State Special Revenue Fund	263,254
Federal Special Revenue Fund	19,774
	<u>\$ 283,506</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

Montana Arts Council

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 2005

1. Summary of Significant Accounting Policies

Basis of Accounting

The council uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, Federal Special Revenue, and Permanent Funds). In applying the modified accrual basis, the council records:

Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.

Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the council to record the cost of employees' annual leave and sick leave when used or paid.

Expenditures may include: entire budgeted service contracts even though the council receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment. The council uses the following funds:

Governmental Fund Category

General Fund - to account for all financial resources except those required to be accounted for in another fund.

State Special Revenue Fund - to account for proceeds of specific revenue sources that are legally restricted to expenditures for specific

Notes to the Financial Schedules

purposes. Council State Special Revenue Funds include the Cultural and Aesthetic Projects, Percent for Art, and the Lila Wallace grant.

Federal Special Revenue Fund - to account for federal funds received by the council from the National Endowment for the Arts.

Permanent Fund - to account for financial resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the council's programs. The council uses this fund for the Cultural and Aesthetic Trust Fund and Sigerson Fellowship Exhibit.

2. General Fund Balance

The negative fund balance in the General Fund does not indicate overspent appropriation authority. The council has authority to pay obligations from the statewide General Fund within its appropriation limits. The council expends cash or other assets from the statewide fund when it pays General Fund obligations. The council's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund balances for each of the two fiscal years ended June 30, 2005, and June 30, 2004.

3. Direct Entries to Fund Balance

Direct entries to fund balances in the General, Special Revenue, and Permanent funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.

Council Response

MONTANA ARTS COUNCIL

*Boosting local economies, revitalizing communities
and improving education through the arts*



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October 12, 2005

TO: Scott Seacat
Legislative Auditor

A handwritten signature in cursive script that reads "Arlynn Fishbaugh".

FROM: Arlynn Fishbaugh
Executive Director

RECEIVED
OCT 13 2005
LEGISLATIVE AUDIT DIV.

RE: Review of FY 2005 audit recommendations and agency response

Per our response to the last several agency audits, I wish to again commend you on the overall cordiality and helpfulness of your staff. We have especially appreciated their willingness to understand the operations and intricacies of our small agency. We always appreciate the opportunity to be more efficient and effective in our overall operations. We do use these audits as learning experiences and always continue to improve our practices at the agency.

We have reviewed the audit recommendations and concur with them. Below is our position, contemplated corrective action and timetable for implementation.

Recommendation #1

We recommend the council comply with state sole source procurement requirements.

We concur and, as noted in your comments, have secured a sole source agreement for the newspaper production. We will continue to comply with state sole source procurement requirements, as this requires an annual update.

Recommendation #2

We recommend the council obtain sufficient documentation for travel expenditures paid, as required by state travel policy.

We concur. We have contacted DOA/Accounting to ascertain what is considered sufficient documentation and will follow their guidance, policies and statutes regarding travel.

The trip to D.C. occurred during the Presidential inauguration and the room rates were exorbitant. Much research was done by staff and a travel agent to find a room at all let alone one

at a reasonable rate. The hotel required prepayment two months in advance of the actual trip. Approval for the stay was made, but not on the correct form. We will utilize the correct form for all future out of state trips.

Recommendation #3

We recommend the council classify expenditures in accordance with state accounting policy.

We concur. We are submitting a request to DOA/Accounting for the specific expenditure codes that we need in the Grants from Other Sources category and will utilize those codes for all future grant payments from other than state and federal sources.