



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Montana Arts Council

*For the Two Fiscal Years Ended
June 30, 2009*

OCTOBER 2009

LEGISLATIVE AUDIT
DIVISION

09-24

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LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Monica Huyg, Legal Counsel



Deputy Legislative Auditors
James Gillett
Angie Grove

October 2009

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Montana Arts Council (council) for the two fiscal years ended June 30, 2009. This report contains three recommendations to the council addressing monitoring and testing of internal controls, noncompliance with state law pertaining to grantee requirements, and misclassification of current year revenue. The council's response to this report is included on page B-1.

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

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

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APPOINTED AND ADMINISTRATIVE OFFICIALS

			<u>Term Expires</u>
Montana Arts Council	Jackie Parsons, Chair	Browning	2013
	Cynthia Andrus, Vice Chair	Bozeman	2012
	Corwin Clairmont	Ronan	2013
	Mark Kuipers	Missoula	2010
	Tracy Linder	Molt	2013
	Rick Newby	Helena	2012
	Ellen Ornitz	Manhattan	2012
	Arlene Parisot	Helena	2013
	Rob Quist	Kalispell	2010
	Kevin Red Star	Roberts	2010
	Kathleen M. Schlepp	Miles City	2013
	Youpa Stein	Missoula	2010
	Judy Ulrich	Dillon	2012
	Jane Waggoner Deschner	Billings	2013
	Wilbur Wood	Roundup	2010
Administrative Officials	Arlynn Fishbaugh, Executive Director		
	Carleen Layne, Accountant		

For additional information concerning the Montana Arts Council, contact:

Carleen Layne
 Accountant
 Montana Arts Council
 830 North Warren
 Helena, MT 59601
 (406) 444-6489
 e-mail: clayne@mt.gov

REPORT SUMMARY

Montana Arts Council

This audit report documents the results of our financial-compliance audit of the Montana Arts Council (council) for the two fiscal years ended June 30, 2009.

This report contains three recommendations related to noncompliance with state policy pertaining to monitoring and testing internal controls, noncompliance with state law pertaining to grantee requirements, and misclassification of current year revenue.

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 council's response thereto, and a reference to the supporting comments.

Recommendation #1 3
We recommend Montana Arts Council implement procedures for monitoring and testing of its internal controls as required by state policy.
Council Response: Concur.....B-3

Recommendation #2 4
We recommend Montana Arts Council implement procedures to ensure grantee reports are submitted as required by state law.
Council Response: Concur..... B-4

Recommendation #3 4
We recommend Montana Arts Council record revenues according to state policy.
Council Response: Concur..... B-4

Chapter I – Introduction

Introduction

We performed a financial-compliance audit of the Montana Arts Council (council) for the two fiscal years ended June 30, 2009. The objectives of our audit included:

1. Determine if the council complied with selected state and federal laws and regulations during the audit period.
2. Obtain an understanding of the council's control systems to the extent necessary to support our audit of the council's financial schedules and, if appropriate, make recommendations for improvements in management and internal controls of the council.
3. Determine if the council's financial schedules present fairly the results of operations and changes in fund balances for each of the fiscal years ended June 30, 2009, and 2008.

This report contains three recommendations to the council. The prior financial-compliance audit report, issued for the two fiscal years ended June 30, 2007, did not contain any recommendations. Other 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 communicated to management. We issued an unqualified opinion on the financial schedules of the council, which means the reader can rely on the presented information.

In accordance with §5-13-307, MCA, we analyzed and disclosed the cost, if significant, of implementing the recommendations made in this report.

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, which consists of seven full-time equivalent employees, 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.

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 receives federal grants from the National Endowment for the Arts, investment earnings from the Cultural Trust Fund, Percent for Art allocations from appropriations for construction of state buildings, private grants, and General Fund appropriations to fund its operations. 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 60th Legislature approved funding of approximately \$698,770 for cultural and aesthetic projects in the biennium ending June 30, 2009.

Chapter II – Findings and Recommendations

Monitoring and Testing of Internal Controls

The council has not fully implemented monitoring and testing of the internal control procedures in accordance with state policy.

State policy requires agencies to develop internal control procedures, monitor and test its internal controls, and evaluate and report the results of its testing. Proper monitoring ensures that controls continue to be adequate and to function properly. Monitoring also allows a manager to identify whether controls are being followed before problems occur. Testing of controls include verifying that the control system established is effective and performed properly.

The council could only produce documentation of limited monitoring or testing of their established control procedures. During our testing we found that the control system established by the council is appropriate for its activities. Some of the council's existing control structure could be considered monitoring and testing if it was clearly documented as such and performed timely.

Council staff stated that there is no funding to hire someone to test the internal controls. The staff is working with other state agencies to implement an internal control monitoring function in which each will review each others processes and records. The council should follow state policy and implement procedures for monitoring and testing of internal controls.

RECOMMENDATION #1

We recommend Montana Arts Council implement procedures for monitoring and testing of its internal controls as required by state policy.

Compliance With Grantee Reporting Law

The council does not require grantees to submit semiannual reports of expenditures and final financial reports within 30 days after the grant period.

Section 22-2-306(6), MCA, requires council grantees to submit semiannual reports of expenditures during the course of the project and any other financial and descriptive reports. The grantees must submit, within 30 days after completion of the project, a final financial report and a narrative report stating what was accomplished with the grant.

During our audit, we tested nine out of approximately 104 Cultural Trust grants per fiscal year. The council did not have the required semiannual expenditure reports for any of the grants tested or the final financial reports within 30 days of project completion.

Council staff explained that they have not enforced the semiannual reporting since 2001 because they stopped making quarterly payments to grantees and are now making bi-annual payments to grantees. The council also explained that they do not require the grantee to submit a final report within 30 days after the end of the grant period because it was believed that it only applied to projects completed before the end of the grant period. State law requires grantees to submit semiannual reports of expenditures and final financial reports within 30 days after the completion of the project.

RECOMMENDATION #2

We recommend Montana Arts Council implement procedures to ensure grantee reports are submitted as required by state law.

Misclassification of Current Year Revenue

The council recorded a reimbursement for current year costs as prior year revenue.

The council receives funding from the National Endowment for the Arts for certain art projects and related administrative costs on a reimbursement basis. The council recorded a reimbursement for expenditures in fiscal year 2007-08 as if these costs had been incurred in the previous fiscal year. As a result, 2008 year revenue was understated and 2007 year revenue was overstated by \$60,000 in the Federal Special Revenue Fund in fiscal year 2007-08. State policy requires that reimbursement revenue be recognized in the same year in which the related expenditures occurred. Council staff said prior year revenue was recorded in error.

RECOMMENDATION #3

We recommend Montana Arts Council record revenues according to state policy.

Independent Auditor's Report and Council Financial Schedules

Tori Hunthausen, Legislative Auditor
Monica Huyg, Legal Counsel



Deputy Legislative Auditors
James Gillett
Angie Grove

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedule of Changes in Fund Balances, Schedule of Total Revenues & Transfers-In, and Schedule of Total Expenditures & Transfers-Out of the Montana Arts Council for each of the fiscal years ended June 30, 2009, and 2008. 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, these financial schedules are prepared on the basis of Montana state accounting policy, which is 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, 2009, and 2008, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA
Deputy Legislative Auditor

August 14, 2009

MONTANA ARTS COUNCIL
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	<u>General Fund</u>	<u>State Special Revenue Fund</u>	<u>Federal Special Revenue Fund</u>	<u>Permanent Fund</u>
FUND BALANCE: July 1, 2008	\$ <u>(112,015)</u>	\$ <u>79,082</u>	\$ <u>(4,202)</u>	\$ <u>10,425,177</u>
ADDITIONS				
Budgeted Revenues & Transfers-In		732,495	713,093	
Nonbudgeted Revenues & Transfers-In	173	50,743	256	429,097
Direct Entries to Fund Balance	<u>493,152</u>	<u>(24,942)</u>	<u>(120)</u>	<u>307,530</u>
Total Additions	<u>493,325</u>	<u>758,296</u>	<u>713,229</u>	<u>736,627</u>
REDUCTIONS				
Budgeted Expenditures & Transfers-Out	459,035	595,492	709,027	
Nonbudgeted Expenditures & Transfers-Out	(23)	40,010		535,495
Prior Year Expenditures & Transfers-Out Adjustments	<u>(835)</u>	<u>(6,617)</u>		
Total Reductions	<u>458,177</u>	<u>628,885</u>	<u>709,027</u>	<u>535,495</u>
FUND BALANCE: June 30, 2009	\$ <u><u>(76,867)</u></u>	\$ <u><u>208,493</u></u>	\$ <u><u>0</u></u>	\$ <u><u>10,626,309</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, 2008

	<u>General Fund</u>	<u>State Special Revenue Fund</u>	<u>Federal Special Revenue Fund</u>	<u>Permanent Fund</u>
FUND BALANCE: July 1, 2007	\$ <u>(31,706)</u>	\$ <u>(55,388)</u>	\$ <u>0</u>	\$ <u>8,603,801</u>
ADDITIONS				
Budgeted Revenues & Transfers-In		587,096	570,194	
Nonbudgeted Revenues & Transfers-In	151	15,902		2,126,972
Prior Year Revenues & Transfers-In Adjustments			60,000	
Direct Entries to Fund Balance	<u>483,711</u>	<u>(13,105)</u>		<u>278,449</u>
Total Additions	<u>483,862</u>	<u>589,893</u>	<u>630,194</u>	<u>2,405,421</u>
REDUCTIONS				
Budgeted Expenditures & Transfers-Out	564,171	524,721	593,286	
Nonbudgeted Expenditures & Transfers-Out		33,871		584,045
Prior Year Expenditures & Transfers-Out Adjustments		<u>(103,169)</u>	<u>41,110</u>	
Total Reductions	<u>564,171</u>	<u>455,423</u>	<u>634,396</u>	<u>584,045</u>
FUND BALANCE: June 30, 2008	\$ <u><u>(112,015)</u></u>	\$ <u><u>79,082</u></u>	\$ <u><u>(4,202)</u></u>	\$ <u><u>10,425,177</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, 2009

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Permanent Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS					
Taxes	\$ 173	\$ 220	\$ 256		\$ 649
Charges for Services		2,175			2,175
Investment Earnings		304		\$ 429,097	429,401
Grants, Contracts, and Donations		48,044			48,044
Transfers-in		732,495			732,495
Federal			713,093		713,093
Total Revenues & Transfers-In	173	783,238	713,349	429,097	1,925,857
Less: Nonbudgeted Revenues & Transfers-In	173	50,743	256	429,097	480,269
Prior Year Revenues & Transfers-In Adjustments					0
Actual Budgeted Revenues & Transfers-In	0	732,495	713,093	0	1,445,588
Estimated Revenues & Transfers-In	8,966	790,282	1,055,557		1,854,805
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (8,966)</u>	<u>\$ (57,787)</u>	<u>\$ (342,464)</u>	<u>\$ 0</u>	<u>\$ (409,217)</u>
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS					
Taxes	\$ (246)				\$ (246)
Charges for Services	(8,720)				(8,720)
Transfers-in		\$ (57,787)			(57,787)
Federal			\$ (342,464)		(342,464)
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (8,966)</u>	<u>\$ (57,787)</u>	<u>\$ (342,464)</u>	<u>\$ 0</u>	<u>\$ (409,217)</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, 2008

	<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	\$ 151	\$ 46			\$ 197
Charges for Services		7,250			7,250
Investment Earnings		1,001		\$ 626,972	627,973
Sale of Documents, Merchandise and Property		3,051			3,051
Grants, Contracts, and Donations		7,605			7,605
Transfers-in		584,045		1,500,000	2,084,045
Federal			\$ 630,194		630,194
Total Revenues & Transfers-In	151	602,998	630,194	2,126,972	3,360,315
Less: Nonbudgeted Revenues & Transfers-In	151	15,902		2,126,972	2,143,025
Prior Year Revenues & Transfers-In Adjustments			60,000		60,000
Actual Budgeted Revenues & Transfers-In	0	587,096	570,194	0	1,157,290
Estimated Revenues & Transfers-In	8,966	582,180	609,500		1,200,646
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (8,966)</u>	<u>\$ 4,916</u>	<u>\$ (39,306)</u>	<u>\$ 0</u>	<u>\$ (43,356)</u>
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS					
Taxes	\$ (246)				\$ (246)
Charges for Services	(8,720)				(8,720)
Transfers-in		\$ 4,916			4,916
Federal			\$ (39,306)		(39,306)
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (8,966)</u>	<u>\$ 4,916</u>	<u>\$ (39,306)</u>	<u>\$ 0</u>	<u>\$ (43,356)</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, 2009

	<u>PROMOTION OF THE ARTS</u>	<u>Total</u>
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT		
Personal Services		
Salaries	\$ 452,005	\$ 452,005
Other Compensation	11,626	11,626
Employee Benefits	130,011	130,011
Total	<u>593,642</u>	<u>593,642</u>
Operating Expenses		
Other Services	114,496	114,496
Supplies & Materials	33,757	33,757
Communications	41,843	41,843
Travel	58,284	58,284
Rent	60,923	60,923
Other Expenses	19,566	19,566
Total	<u>328,869</u>	<u>328,869</u>
Grants		
From State Sources	444,522	444,522
From Federal Sources	429,056	429,056
Total	<u>873,578</u>	<u>873,578</u>
Transfers-out		
Fund transfers	535,495	535,495
Total	<u>535,495</u>	<u>535,495</u>
Total Expenditures & Transfers-Out	<u>\$ 2,331,584</u>	<u>\$ 2,331,584</u>
EXPENDITURES & TRANSFERS-OUT BY FUND		
General Fund	\$ 458,177	\$ 458,177
State Special Revenue Fund	628,885	628,885
Federal Special Revenue Fund	709,027	709,027
Permanent Fund	535,495	535,495
Total Expenditures & Transfers-Out	2,331,584	2,331,584
Less: Nonbudgeted Expenditures & Transfers-Out	575,482	575,482
Prior Year Expenditures & Transfers-Out Adjustments	<u>(7,451)</u>	<u>(7,451)</u>
Actual Budgeted Expenditures & Transfers-Out	1,763,553	1,763,553
Budget Authority	2,328,654	2,328,654
Unspent Budget Authority	<u>\$ 565,101</u>	<u>\$ 565,101</u>
UNSPENT BUDGET AUTHORITY BY FUND		
State Special Revenue Fund	\$ 204,702	\$ 204,702
Federal Special Revenue Fund	360,399	360,399
Unspent Budget Authority	<u>\$ 565,101</u>	<u>\$ 565,101</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, 2008

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	<u>PROMOTION OF THE ARTS</u>	<u>TOTAL</u>
Personal Services		
Salaries	\$ 417,181	\$ 417,181
Other Compensation	6,450	6,450
Employee Benefits	118,745	118,745
Total	<u>542,376</u>	<u>542,376</u>
Operating Expenses		
Other Services	226,888	226,888
Supplies & Materials	30,088	30,088
Communications	51,626	51,626
Travel	54,977	54,977
Rent	53,698	53,698
Repair & Maintenance	78	78
Other Expenses	17,563	17,563
Total	<u>434,918</u>	<u>434,919</u>
Grants		
From State Sources	282,938	282,938
From Federal Sources	393,758	393,758
Total	<u>676,696</u>	<u>676,696</u>
Transfers-out		
Fund transfers	584,045	584,045
Total	<u>584,045</u>	<u>584,045</u>
Total Expenditures & Transfers-Out	<u>\$ 2,238,035</u>	<u>\$ 2,238,035</u>
EXPENDITURES & TRANSFERS-OUT BY FUND		
General Fund	\$ 564,171	\$ 564,171
State Special Revenue Fund	455,423	455,423
Federal Special Revenue Fund	634,396	634,396
Permanent Fund	584,045	584,045
Total Expenditures & Transfers-Out	2,238,035	2,238,035
Less: Nonbudgeted Expenditures & Transfers-Out	617,916	617,916
Prior Year Expenditures & Transfers-Out Adjustments	(62,059)	(62,059)
Actual Budgeted Expenditures & Transfers-Out	1,682,178	1,682,178
Budget Authority	2,085,548	2,085,548
Unspent Budget Authority	<u>\$ 403,370</u>	<u>\$ 403,370</u>
UNSPENT BUDGET AUTHORITY BY FUND		
General Fund	\$ 2,412	\$ 2,412
State Special Revenue Fund	389,479	389,479
Federal Special Revenue Fund	11,479	11,479
Unspent Budget Authority	<u>\$ 403,370</u>	<u>\$ 403,370</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, 2009

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 realizable, measurable, earned, and available to pay current period liabilities.
- ♦ Expenditures for valid obligations when the council 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 and sick leave when used or paid.

Expenditures and expenses 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 state program purposes. Council State Special Revenue Funds include the Cultural Aesthetic Projects and Percent for Art.
- ♦ **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 permanently 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 (negative balances)

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 fiscal years ended June 30, 2008 and June 30, 2009.

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.

4. American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act was enacted by the United States Congress to preserve and create jobs and promote economic recovery.

The Montana Arts Council was appropriated \$291,000 in House Bill 645 of the 2009 Legislative Session. Of this amount, \$796 was spent by June 30, 2009.

MONTANA ARTS
COUNCIL

COUNCIL RESPONSE

MONTANA ARTS COUNCIL

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

B-3



BRIAN SCHWEITZER
GOVERNOR

830 NORTH WARREN STREET
FIRST FLOOR

STATE OF MONTANA

(406) 444-6430
FAX: (406) 444-6548

PO BOX 202201
HELENA, MONTANA 59620-2201
mac@mt.gov
<http://art.mt.gov>

Friday, October 02, 2009

TO: Tori Hunthausen
Legislative Auditor

A handwritten signature in cursive script, appearing to read "Arlynn Fishbaugh".

FROM: Arlynn Fishbaugh
Executive Director

RECEIVED

OCT 02 2009

LEGISLATIVE AUDIT DIV.

RE: Review of FY 2009 audit recommendations and agency response

As in the past, we commend you on the overall helpfulness, competence and cordiality of your staff. We especially appreciate 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 use these audits as learning experiences and continue to improve our practices here 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 Montana Arts Council implement procedures for monitoring and testing of its internal controls as required by state policy.

We concur. We have accomplished a great deal in the past two years in terms of internal control development and implementation. Subsequent to the audit, the council's accountant has met with the Centralized Services managers at the State Library and Historical Society. We have developed the following italicized policy, which will be included in the council's Internal Control Plan and the first review will be implemented before the Legislative Audit Committee meeting.

Part of the Internal Audit function will be performed semi-annually with the shared resources of the State Library and Historical Society. Centralized Services managers from each agency will be responsible for this function. At least 2 reviews per fiscal year will be performed in the areas of expenditures, receivables and payroll. The State Library and Historical Society will also

participate in an inventory review. The Council does not have sufficient inventory to participate in this cycle and has its own inventory control procedures for equipment and supplies.

Recommendation #2

We recommend Montana Arts Council implement procedures to ensure grantee reports are submitted as required by state law.

We concur. The statute referenced applies to Cultural Trust grantees and not all council grantees. We will re-implement the semi-annual reporting part of the law for the coming grant cycle—we have been given a recommendation by our legal counsel to implement the requirement without making it onerous to grantees. Circumstances have changed vastly in the Cultural and Aesthetics grant program with the average 2-year grant dropping from \$16,000 average to \$8,500. Because of that change we tried to simplify the process and make it easier on everyone, issuing fewer, larger payments annually, rather than smaller payments every six months. We did check making the change in the payments with legal staff, but neglected to check the reporting requirement.

We will implement the 30-day reporting requirement in the coming Cultural Trust granting cycle as well, rather than the 90-day requirement we use as the standard reporting requirement with all our other grant programs, with notification going to grantees before the Legislative Audit Committee meeting.

Recommendation #3

We recommend Montana Arts Council record current revenues according to state policy.

We concur. Procedures will be implemented immediately to catch such mistakes.