



A REPORT  
TO THE  
MONTANA  
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

# *Montana Arts Council*

*For the Two Fiscal Years Ended  
June 30, 2011*

DECEMBER 2011

LEGISLATIVE AUDIT  
DIVISION

11-24

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**FINANCIAL-COMPLIANCE AUDITS**

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

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, 2009, was issued March 1, 2010. The Single Audit Report for the two fiscal years ended June 30, 2011, will be issued by March 31, 2012. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator  
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# LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor  
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors  
Cindy Jorgenson  
Angie Grove

December 2011

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, 2011. This report contains issues concerning fiscal year-end internal controls related to Cultural and Aesthetic grant accruals and noncompliance with state law pertaining to reverted appropriation authority. The council's response to this report is included on page B-1.

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

Respectfully submitted,

Tori Hunthausen, CPA  
Legislative Auditor



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## APPOINTED AND ADMINISTRATIVE OFFICIALS

			<u>Term Expires</u>
<b>Montana Arts Council</b>	Jackie Parsons, Chair	Browning	2013
	Cynthia Andrus, Vice Chair	Bozeman	2012
	Corwin Clairmont	Ronan	2013
	Mark Kuipers	Missoula	2015
	Tracy Linder	Molt	2013
	Rick Newby	Helena	2012
	Ellen Ornitz	Manhattan	2012
	Arlene Parisot	Helena	2013
	Rob Quist	Kalispell	2015
	Jean Steele	Hamilton	2015
	Kathleen M. Schlepp	Miles City	2013
	Youpa Stein	Arlee	2015
	Judy Ulrich	Dillon	2012
	Jane Waggoner Deschner	Billings	2012
	Wilbur Wood	Roundup	2015
<b>Administrative</b>	Arlynn Fishbaugh, Executive Director		
	Carleen Layne, Accountant		

For additional information concerning the Montana Arts Council, contact:

Carleen Layne  
 Accountant  
 Montana Arts Council  
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# MONTANA LEGISLATIVE AUDIT DIVISION

## FINANCIAL-COMPLIANCE AUDIT

### Montana Arts Council

For the Two Fiscal Years Ended June 30, 2011

DECEMBER 2011

11-24

REPORT SUMMARY

Title 22, Chapter 2 of the Montana Code Annotated established the Montana Arts Council (council) as a state agency. Because the council is established by the Montana Code Annotated, unlike most state agencies established by the Montana Constitution, it is often the subject of Legislative scrutiny.

### Context

The council's primary activity involves administering grants from state and federal sources of about \$1 million each fiscal year. Interest earnings on the \$12 million balance in the Cultural Trust provide continued funding of cultural and aesthetic project grants. During the audited biennium, interest earnings fell short of the amounts allocated by the 61st Legislature. While cultural trust earnings declined, federal funding received by the council increased by at least 20 percent for the biennium.

Recommendation Concurrence	
Concur	2
Partially Concur	0
Do Not Concur	0
<b>Source: Agency audit response included in final report.</b>	

### Results

This report contains the audited financial schedules for the two fiscal years ended June 30, 2011. Due to an error in accounting, the 2010-11 grant expenditures are inaccurate. This report contains two recommendations regarding internal controls over financial reporting and noncompliance with state laws. The council implemented the three prior audit recommendations made in 2009.

For a complete copy of the report (11-24) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>

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Call toll-free 1-800-222-4446, or e-mail [lad@mt.gov](mailto:lad@mt.gov).



# Chapter I – Introduction

## **Introduction**

We performed a financial-compliance audit of the Montana Arts Council (council) for the two fiscal years ended June 30, 2011. The objectives of the audit were:

1. To determine whether the council's financial schedules present fairly its results of operations and changes in fund balance for each of the fiscal years ended June 30, 2011, and June 30, 2010.
2. To 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 improvement in the internal and management controls of the council.
3. To determine the implementation status of prior audit recommendations.
4. To assess the council's compliance with selected state laws and regulations during the audit period.

Beginning on page A-1, you will find the Independent Auditor's Report followed by the financial schedules and accompanying notes. We issued a qualified opinion for the fiscal year 2010-11 Schedule of Total Expenditures & Transfers-Out, which means the reader should use caution when relying on the information presented on this schedule. We issued unqualified opinions on the other five financial schedules.

Auditing standards require us to communicate, in writing, deficiencies in internal control we identified as a result of audit objective #2 above and considered to be significant or material. A deficiency in internal control exists when the design or operation of a control does not allow management or employees to prevent or detect and correct misstatements on a timely basis. A material weakness is one or more deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial schedules will not be prevented, or detected and corrected on a timely basis. A significant deficiency is one or more deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Table 1 below outlines the status of significant deficiencies and material weaknesses we identified during this audit.

Table 1  
**Summary of Deficiencies in Internal Control**

Subject	Significant Deficiency	Material Weakness	Page
Cultural and Aesthetic grant accruals	Yes	Yes	5

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

## **Background**

Title 22, Chapter 2 of the Montana Code Annotated established the council as a state agency. Because the council is established in the Montana Code Annotated rather than the constitution, it is often subject to Legislative scrutiny. The council consists of 15 members who are appointed by the governor, confirmed by the Senate, and serve staggered five-year terms. The council is responsible for the governance, management, and control of staff hired to perform its mission. State law designates the council as the official agency of the state to receive and disburse funds made available by the National Endowment for the Arts, and its 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 artistic and cultural 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.

Montana Arts Council programs, such as Artists in Schools/Communities, Governor's Awards for the Arts, and Montana Folklife, 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 publishes a newspaper called the *State of the Arts* six times per year. *State of the Arts* is designed to provide timely information about the arts in Montana to artists and organizations. The council has seven full-time equivalent positions to conduct their operations.

In addition to funding from the National Endowment for the Arts, the council receives investment earnings from the Cultural Trust Fund, Percent for Arts allocations from

appropriations for 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.

### **Prior Audit Recommendations**

Our office performed the council's financial-compliance audit for the two fiscal years ended June 30, 2009. The council implemented the three recommendations contained in the report.



## Chapter II – Findings and Recommendations

### Cultural and Aesthetic (C&A) Grant Accruals

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**The council accrued C&A grant expenditures in excess of funds available and authorized by state law.**

---

The council received appropriation authority of \$885,400 in the 2011 biennium for C&A grants, contingent on trust earnings being sufficient to fund the grants. Because trust earnings fell short, §22-2-305, MCA, required pro-rata grant reductions for projects with funding greater than \$4,500. Although the council reduced grant awards, they accrued grant expenditures based on the original, rather than the revised award amounts. Accrued grant expenditures exceeded the amount owed to grantees by \$149,901 in fiscal year 2010-11.

The council did not have sufficient controls to prevent or detect and correct the error prior to fiscal year-end closing. State accounting policy requires management establish and maintain internal controls to ensure that transactions are accurate and properly recorded. Staff indicated that they could improve fiscal year-end controls by instituting a checklist that reminds staff of the necessity to consider trust earnings during the accrual process.

Council staff also believe the error could have been prevented if C&A grant appropriations were based on trust earnings from the previous biennium rather than the current biennium, making grant awards final and not subject to change.

---

#### **RECOMMENDATION #1**

*We recommend the council:*

- A. *Record Cultural and Aesthetic grant accruals based on funds available and authorized to pay grants.*
  - B. *Strengthen internal controls over the Cultural and Aesthetic grants year-end accrual.*
-

## **Use of Reverted Appropriations**

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**The council did not comply with state law that restricts the use of reverted appropriations.**

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The council receives appropriation authority through the general appropriations act to expend funds received from the National Endowment for the Arts. The general appropriations act identifies those appropriations as biennial appropriations. The council applied \$18,690 of expenditures incurred in fiscal year 2009-10 against the residual of the 2008-09 appropriation authority. Based on §17-7-304(1), MCA, the council's 2008-09 appropriations expired and reverted after the period in which the legislature appropriated the funds. The biennium for the 2008-09 appropriations ended June 30, 2009. State law would have allowed the use of reverted authority in fiscal year 2009-10 for expenditures originating in fiscal years 2007-08 and 2008-09. However, the expenditures charged against the reverted authority do not meet that criteria. Because the National Endowment for the Arts authorized an extension to use the funds in fiscal year 2009-10, council staff believed the funds were treated as continuing appropriation authority.

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### **RECOMMENDATION #2**

*We recommend the council comply with state law by charging only appropriate expenditures to reverted appropriations.*

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# **Independent Auditor's Report and Council Financial Schedules**



## LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor  
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors  
Cindy Jorgenson  
Angie Grove

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, 2011, and 2010. The information contained in these financial schedules is the responsibility of the council's management. Our responsibility is to express opinions 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 opinions.

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.

The council accrued Cultural and Aesthetic project grant expenditures in the State Special Revenue Fund in fiscal year 2010-11 in excess of grant award amounts. As a result, Grants from State Sources on the Schedule of Total Expenditures and Transfers-Out for the year ended June 30, 2011, is overstated by \$149,901.

In our opinion, except for the effect of the error discussed in the preceding paragraph, 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, 2011, and 2010, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

Cindy Jorgenson, CPA  
Deputy Legislative Auditor

August 26, 2011



MONTANA ARTS COUNCIL  
SCHEDULE OF CHANGES IN FUND BALANCES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Permanent Fund
FUND BALANCE: July 1, 2010	\$ (18,106)	\$ 223,228	\$ 0	\$ 11,646,835
ADDITIONS				
Budgeted Revenues & Transfers-In		620,604	865,541	
Nonbudgeted Revenues & Transfers-In	106	76,065		728,063
Direct Entries to Fund Balance	433,169	(20,281)		339,662
Total Additions	433,275	676,388	865,541	1,067,725
REDUCTIONS				
Budgeted Expenditures & Transfers-Out	440,184	754,620	865,541	
Nonbudgeted Expenditures & Transfers-Out	(51)	45,943		560,604
Total Reductions	440,133	800,563	865,541	560,604
FUND BALANCE: June 30, 2011	\$ (24,964)	\$ 99,053	\$ 0	\$ 12,153,956

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-9.

MONTANA ARTS COUNCIL  
SCHEDULE OF CHANGES IN FUND BALANCES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Permanent Fund
FUND BALANCE: July 1, 2009	\$ (76,867)	\$ 208,493	\$ 0	\$ 10,626,309
ADDITIONS				
Budgeted Revenues & Transfers-In		553,130	982,392	
Nonbudgeted Revenues & Transfers-In	132	40,132		1,292,608
Direct Entries to Fund Balance	524,170	(9,860)		284,049
Total Additions	524,302	583,402	982,392	1,576,657
REDUCTIONS				
Budgeted Expenditures & Transfers-Out	465,557	554,038	963,697	
Nonbudgeted Expenditures & Transfers-Out	(16)	21,110		556,131
Prior Year Expenditures & Transfers-Out Adjustments		(6,481)	18,695	
Total Reductions	465,540	568,667	982,392	556,131
FUND BALANCE: June 30, 2010	\$ (18,106)	\$ 223,228	\$ 0	\$ 11,646,835

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-9.

MONTANA ARTS COUNCIL  
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

TOTAL REVENUES & TRANSFERS-IN BY CLASS

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Permanent Fund	Total
Taxes	\$ 106	\$ 190			\$ 296
Charges for Services		800			800
Investment Earnings		50			728,113
Grants, Contracts, and Donations		75,025		\$ 728,063	75,025
Transfers-in		620,604			620,604
Federal			\$ 865,541		865,541
Total Revenues & Transfers-In	106	696,669	865,541	728,063	2,290,379
Less: Nonbudgeted Revenues & Transfers-In	106	76,065		728,063	804,234
Actual Budgeted Revenues & Transfers-In	0	620,604	865,541	0	1,486,145
Estimated Revenues & Transfers-In	4,668	723,000	979,050		1,706,718
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (4,668)	\$ (102,396)	\$ (113,509)	\$ 0	\$ (220,573)

BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS

Charges for Services	\$ (4,668)	\$ (102,396)			\$ (4,668)
Transfers-in					(102,396)
Federal			\$ (113,509)		(113,509)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (4,668)	\$ (102,396)	\$ (113,509)	\$ 0	\$ (220,573)

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-9.

MONTANA ARTS COUNCIL  
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

**TOTAL REVENUES & TRANSFERS-IN BY CLASS**

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Permanent Fund	Total
Taxes	\$ 132	\$ 102			\$ 234
Investment Earnings		53			1,292,661
Grants, Contracts, and Donations		39,977		\$ 1,292,608	39,977
Transfers-in		553,130			553,130
Federal			\$ 982,392		982,392
Total Revenues & Transfers-In	132	593,262	982,392	1,292,608	2,868,394
Less: Nonbudgeted Revenues & Transfers-In	132	40,132		1,292,608	1,332,872
Prior Year Revenues & Transfers-In Adjustments	0	553,130	982,392	0	1,535,522
Actual Budgeted Revenues & Transfers-In	4,668	645,000	1,102,101		1,751,769
Estimated Revenues & Transfers-In	<u>(4,668)</u>	<u>(91,870)</u>	<u>(119,709)</u>	<u>0</u>	<u>(216,247)</u>
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (4,668)	\$ (91,870)	\$ (119,709)	\$ 0	\$ (216,247)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS					
Charges for Services	\$ (4,668)	\$ (91,870)			\$ (4,668)
Transfers-in					(91,870)
Federal			\$ (119,709)		(119,709)
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>(4,668)</u>	<u>(91,870)</u>	<u>(119,709)</u>	<u>0</u>	<u>(216,247)</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-9.



MONTANA ARTS COUNCIL  
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Promotion of the Arts
Personal Services	
Salaries	\$ 441,991
Hourly Wages	198
Other Compensation	17,876
Employee Benefits	139,045
Total	<u>599,110</u>
Operating Expenses	
Other Services	134,863
Supplies & Materials	38,120
Communications	41,644
Travel	45,620
Rent	57,246
Other Expenses	24,448
Total	<u>341,941</u>
Grants	
From State Sources	619,154
From Federal Sources	546,032
Total	<u>1,165,186</u>
Transfers-out	
Fund transfers	560,604
Total	<u>560,604</u>
Total Expenditures & Transfers-Out	<u>\$ 2,666,841</u>

EXPENDITURES & TRANSFERS-OUT BY FUND

General Fund	\$ 440,133
State Special Revenue Fund	800,563
Federal Special Revenue Fund	865,541
Permanent Fund	560,604
Total Expenditures & Transfers-Out	2,666,841
Less: Nonbudgeted Expenditures & Transfers-Out	606,496
Actual Budgeted Expenditures & Transfers-Out	2,060,345
Budget Authority	2,492,540
Unspent Budget Authority	<u>\$ 432,195</u>

UNSPENT BUDGET AUTHORITY BY FUND

General Fund	\$ 23,010
State Special Revenue Fund	204,119
Federal Special Revenue Fund	205,066
Unspent Budget Authority	<u>\$ 432,195</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-9.

MONTANA ARTS COUNCIL  
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Promotion of the Arts
Personal Services	
Salaries	\$ 470,102
Other Compensation	12,550
Employee Benefits	143,065
Total	<u>625,717</u>
Operating Expenses	
Other Services	109,543
Supplies & Materials	36,738
Communications	43,564
Travel	44,882
Rent	60,876
Other Expenses	25,637
Total	<u>321,240</u>
Grants	
From State Sources	434,024
From Federal Sources	635,620
From Other Sources	3,000
Total	<u>1,072,644</u>
Transfers-out	
Fund transfers	553,130
Total	<u>553,130</u>
Total Expenditures & Transfers-Out	<u>\$ 2,572,731</u>

EXPENDITURES & TRANSFERS-OUT BY FUND

General Fund	\$ 465,541
State Special Revenue Fund	568,667
Federal Special Revenue Fund	982,392
Permanent Fund	556,131
Total Expenditures & Transfers-Out	<u>2,572,731</u>
Less: Nonbudgeted Expenditures & Transfers-Out	577,225
Prior Year Expenditures & Transfers-Out Adjustments	12,214
Actual Budgeted Expenditures & Transfers-Out	<u>1,983,292</u>
Budget Authority	2,912,181
Unspent Budget Authority	<u>\$ 928,889</u>

UNSPENT BUDGET AUTHORITY BY FUND

General Fund	\$ 2,985
State Special Revenue Fund	744,997
Federal Special Revenue Fund	180,907
Unspent Budget Authority	<u>\$ 928,889</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-9.

# Montana Arts Council

## Notes to the Financial Schedules

### For the Two Fiscal Years Ended June 30, 2011

## 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). 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 was adopted by 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 Cultural Aesthetic Projects and Percent for Art.
- ♦ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Council Federal Special Revenue Funds include 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 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 fiscal years ended June 30, 2011 and June 30, 2010.

## **3. Direct Entries to Fund Balance**

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

## **4. Transfers-In and Out:**

The council transfers investment earnings from the Cultural Trust Permanent Fund to the State Special Revenue Fund for payment of grants and agency operations as authorized under §22-2-304, MCA. Transfers-Out in the Cultural Trust Permanent Fund and Transfers-In in the State Special Revenue Fund are \$560,604 and \$553,130 in fiscal years 2010-11 and 2009-10, respectively. Additional Transfers-In of \$60,000 in the State Special Revenue Fund in fiscal year 2010-11 consisted of Percent for Art funding authorized by §22-2-404, MCA, for art projects to be displayed in newly constructed state buildings.

## **5. Unspent Budget Authority:**

The fiscal year 2009-10 unspent budget authority in the State Special Revenue fund includes remaining biennial appropriation established by Chapter 457, Session Law of 2009 for Cultural Trust grants of \$568,385. It also includes \$166,122 of continuing appropriation authority for Percent for Art projects and maintenance.

MONTANA ARTS  
COUNCIL

COUNCIL RESPONSE



# MONTANA ARTS COUNCIL

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



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Tuesday, November 22, 2011

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NOV 25 2011

LEGISLATIVE AUDIT DIV.

TO: Tori Hunthausen  
Legislative Auditor

*Arlynn Fishbaugh*

FROM: Arlynn Fishbaugh  
Executive Director

RE: Review of FY 2011 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 and listen to our concerns. 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 the council:**

- A. Record Cultural and Aesthetic grant accruals based on funds available and authorized to pay grants.
- B. Strengthen internal controls over the Cultural and Aesthetic grants year-end accrual.

We concur and will comply with recommendation A during the next biennial close—this is when the Cultural and Aesthetic grant accruals will next occur—and with recommendation B, i.e. institution of a checklist during the FYE process by the next FYE. We also plan to work with a contract accountant during the current fiscal year to further strengthen internal controls in all areas, including this one.

**RECOMMENDATION #2: We recommend the council comply with state law by charging only appropriate expenditures to reverted appropriations.**

We concur and will comply with the recommendation. It is our goal in future years, as was done in FY 2011, to only retain any unexpended federal balances in budget amended funds, which are continuing into the next biennium. This will eliminate the problem noted in the recommendation altogether.