



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Montana Arts Council

*For the Two Fiscal Years Ended
June 30, 2013*

APRIL 2014

LEGISLATIVE AUDIT
DIVISION

13-24

**LEGISLATIVE AUDIT
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REPRESENTATIVES

RANDY BRODEHL, CHAIR
Randybrodehl57@gmail.com

VIRGINIA COURT
Vjchd52@yahoo.com

MIKE CUFFE
mcuffe@interbel.net

MARY McNALLY
mcnallyhd49@gmail.com

RYAN OSMUNDSON
Ryanosmundson@gmail.com

J.P. POMNICHOWSKI
pomnicho@montanadsl.net

SENATORS

DEE BROWN
repdee@yahoo.com

TAYLOR BROWN
taylor@northernbroadcasting.com

GREG JERGESON, VICE CHAIR
jergeson4senator@yahoo.com

SUE MALEK
senatormalek@gmail.com

FREDRICK (ERIC) MOORE
mail@SenatorEricMoore.com

MITCH TROPILA
tropila@mt.net

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine whether 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) licenses.

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, 2013, was issued March 28, 2014. The Single Audit Report for the two fiscal years ended June 30, 2015, will be issued by March 31, 2016. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
Room 277, State Capitol
P.O. Box 200802
Helena, MT 59620-0802

Legislative Audit Division
Room 160, State Capitol
P.O. Box 201705
Helena, MT 59620-1705

AUDIT STAFF

JEANE CARSTENSEN-GARRETT JESSICA CURTIS
VANESSA SHAW

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LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors:
Cindy Jorgenson
Angus Maciver

April 2014

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report of the Montana Arts Council (council) for the two fiscal years ended June 30, 2013. This report contains one recommendation related to weaknesses identified in transaction and internal control reviews.

This report includes the department's financial schedules. The financial schedule presentation is intended to provide the legislative body with information necessary for decision-making purposes; it is not intended to conform to the financial reporting requirements established in generally accepted accounting principles (GAAP). The financial schedule presentation has not changed, but audit reporting standards have changed. Auditing standards require us to clearly communicate that the financial schedule presentation is not intended to, and does not, conform to GAAP reporting requirements. The Independent Auditor's Report on page A-1 contains language to this effect in the section titled "Adverse Opinions on U.S. Generally Accepted Accounting Principles." This section does not imply the amounts presented on the department's financial schedules are not fairly stated. Page A-1 also communicates the extent to which the user can rely on the information contained in the financial schedules in the section titled "Unmodified Opinions on Regulatory Basis of Accounting."

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,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

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APPOINTED AND ADMINISTRATIVE OFFICIALS

			<u>Term Expires</u>
Montana Arts Council	Cynthia Andrus, Chair	Bozeman	2017
	Karen Bohlinger	Helena	2018
	Corwin Clairmont	Ronan	2018
	Tom Cordingley, Vice Chair	Helena	2018
	JP Gabriel	Bozeman	2017
	Tracy Linder	Molt	2017
	Mark Kuipers	Missoula	2015
	Arlene Parisot	Helena	2018
	Jay Pyette	Havre	2018
	Rob Quist	Kalispell	2015
	Jean Steele	Hamilton	2015
	Youpa Stein	Arlee	2015
	Judy Ulrich	Dillon	2017
	Jane Waggoner Deschner	Billings	2017
	Wilbur Wood	Roundup	2015
Administrative	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



MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL-COMPLIANCE AUDIT

Montana Arts Council

For the Two Fiscal Years Ended June 30, 2013

APRIL 2014

13-24

REPORT SUMMARY

The Montana Arts Council is charged with governance, management, and control of staff hired to perform its mission to receive and distribute funds made available by the National Endowment for the Arts and to administer Cultural Trust interest earnings and funds appropriated by the legislature.

Context

The Montana Arts Council (council) is an agency of state government established to develop the creative potential of all Montanans, advance education, spur economic vibrancy, and revitalize communities through involvement in the arts. In promoting the state's arts industry, the council works with arts educators, arts organizations, and artists around the state. The council consists of 15 members appointed by the Governor and confirmed by the Senate to serve staggered five year terms. The council has seven full-time equivalent positions to conduct their operations.

As of June 30, 2013, there was approximately \$13 million in the Cultural Trust. The trust provides interest earnings that are appropriated by the Legislature to award grants for authorized cultural and aesthetic projects. The Legislature appropriated \$666,299 of the interest earnings to the council for the biennium ending June 30, 2013.

The council also receives an annual partnership grant from the National Endowment for the Arts (NEA) in order to fund their State Arts Plan, Arts Education, and Arts in Underserved Communities programs. The council was awarded \$814,500 and \$769,300 in fiscal years 2012 and 2013, respectively. The federal funds

received must be matched on a one-to-one basis with state funds.

We focused our audit effort on the review of Cultural Trust fund investment revenues and transfers-out, council personal services expenditures, and the administration of cultural and aesthetic grants authorized by the Montana Legislature and the NEA federal grant funds. Throughout the audit, we reviewed and tested the department's control systems and determined compliance with selected state and federal laws and regulations.

Results

Our current report contains one recommendation related to weaknesses identified in transaction and internal control reviews. We issued unmodified opinions on the financial schedules for each of the two fiscal years ended June 30, 2013.

Recommendation Concurrence	
Concur	1
Partially Concur	0
Do Not Concur	0
Source: Agency audit response included in final report.	

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Call toll-free 1-800-222-4446, or e-mail ladhotline@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, 2013. 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 equity for each of the fiscal years ended June 30, 2013, and June 30, 2012.
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 determine the council's compliance with selected state and federal laws and regulations.

We addressed these objectives by focusing our audit effort on Cultural Trust Fund investment revenues and transfers-out, council personal services expenditures, and the administration of Cultural and Aesthetic grants authorized by the Montana Legislature and National Endowment for the Arts federal grant funds. Throughout the audit, we reviewed and tested the department's control systems and determined compliance with selected state and federal laws and regulations.

Internal Controls

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 identifies the material weakness we identified during this audit.

Table 1
Summary of Deficiencies in Internal Control

Subject	Type of Deficiency	Page
Internal Controls	Material Weakness	5-6

Our consideration of internal control was not for the purpose of expressing an opinion on the effectiveness of internal controls. Therefore, material weaknesses or significant deficiencies may exist that were not identified.

Background

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, 2011. The report contained two recommendations related to grant accruals and reverted appropriations. The council fully implemented both recommendations.

Chapter II – Findings and Recommendations

Internal Controls

Internal controls are defined as a coordinated set of policies and procedures to ensure operating efficiency and effectiveness in conformance with applicable laws and regulations, and that the related transactions are accurate, properly recorded, and executed in accordance with management's directives. State Accounting Policy places responsibility for establishing and maintaining internal controls on management. This responsibility includes reviews, tests and analyses of internal controls throughout the year to ensure their proper operation. The following report section discusses weaknesses we found in the Montana Arts Council's (council) internal controls.

Transaction and Internal Control Reviews

Reviews of transactions are not sufficient to identify errors in a timely manner. A review of internal controls was not performed during the audit period.

Transaction Reviews

Internal controls should include reviews of transactions sufficient to prevent, or detect and correct, misstatements in a timely manner and in compliance with state accounting policy. Several accounting entry errors occurred during the audit period. These include:

- ♦ One error doubled estimated federal revenue resulting in a \$165,000 misstatement. Each agency is required to record estimates of the revenues that they expect to receive for the fiscal year. The council recorded the estimate twice in fiscal year 2012.
- ♦ Another identified error understated private grant revenue resulting in a \$80,000 misstatement. Revenue is either recognized in the current year or deferred to the subsequent year based on circumstances surrounding the transaction. The council deferred revenue for private grants that should have been recognized in fiscal year 2013. Council staff identified this error but did not correct it until November of 2013.
- ♦ A \$13,000 irreconcilable difference in personal services expenditures occurred during the audit period. Actual expenditures paid exceeded the amount recorded for personal services. Council brought this error to our attention during the audit. Council staff believe that the error occurred at year-end, but cannot pinpoint the exact cause of the error, so it remains uncorrected.

The misstatements described above indicate review procedures are not sufficient to prevent or detect and correct accounting errors in a timely manner. Additionally, the previous two audits reported accounting entry errors. Unless adequate review

procedures are in place, errors are likely to continue to occur. Council personnel attribute the transaction errors to limited staff.

Review of Internal Controls

State Accounting Policy requires management to conduct reviews of internal controls at least annually. Internal controls are reviewed to ensure controls are adequately designed and to ensure proper recording of financial activity in compliance with applicable laws and regulations. The last review of the council's internal controls was conducted in December of 2010.

Performing annual reviews as required could have identified the transaction review control weakness described above. According to council personnel, an attempt was made to establish an annual review of controls during the audit period. The council attributed the lack of review due to workload and scheduling issues and has since contracted for a review of internal controls that was performed subsequent to the completion of our audit.

RECOMMENDATION #1

We recommend the Montana Arts Council comply with state accounting policy by:

- A. *Performing more comprehensive reviews of transactions.*
 - B. *Performing reviews of internal controls at least annually.*
-

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
Angus Maciver

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the accompanying Schedules of Changes in Fund Equity, 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, 2013, and 2012, and the related notes to the financial schedules.

Management's Responsibility for the Financial Schedules

Management is responsible for the preparation and fair presentation of these financial schedules in accordance with the regulatory format prescribed by the Legislative Audit Committee, based on the transactions posted to the state's accounting system without adjustment; this responsibility includes recording transactions in accordance with state accounting policy; and designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of the financial schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the council's preparation and fair presentation of the financial schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the council's internal control, and accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles

As described in Note 1, the financial schedules are prepared from the transactions posted to the state's primary accounting system without adjustment, in the regulatory format prescribed by the Legislative Audit Committee. This is a basis of accounting other than accounting principles generally accepted in the United States of America. The financial schedules are not intended to, and do not, report assets and liabilities.

The effects on the financial schedules of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinions on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles" paragraph, the financial schedules referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the council as of June 30, 2013, and June 30, 2012, or changes in financial position for the years then ended.

Unmodified Opinion on Regulatory Basis of Accounting

In our opinion, Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures and Transfers-Out for the two fiscal years ended June 30, 2013, and June 30, 2012, present fairly, in all material respects, the results of operations of the Montana Arts Council, in conformity with the basis of accounting described in Note 1.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

February 6, 2014

MONTANA ARTS COUNCIL
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Permanent Fund
FUND EQUITY: July 1, 2012	\$ (21,630)	\$ 229,087	\$ 0	\$ 12,902,365
ADDITIONS				
Budgeted Revenues & Transfers-In		547,318	920,314	
Nonbudgeted Revenues & Transfers-In		8,076		224,723
Direct Entries to Fund Equity	440,733	(22,751)		343,635
Total Additions	440,733	532,643	920,314	568,358
REDUCTIONS				
Budgeted Expenditures & Transfers-Out	448,088	522,886	920,322	
Nonbudgeted Expenditures & Transfers-Out	(161)	71,282	(8)	527,318
Total Reductions	447,927	594,168	920,314	527,318
FUND EQUITY: June 30, 2013	\$ (28,824)	\$ 167,562	\$ 0	\$ 12,943,406

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 EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Permanent Fund
FUND EQUITY July 1, 2011	\$ (24,964) \$	99,053 \$	0 \$	12,153,956
ADDITIONS				
Budgeted Revenues & Transfers-In		568,049	886,488	
Nonbudgeted Revenues & Transfers-In		51,869		968,098
Direct Entries to Fund Equity	454,528	(35,509)		351,360
Total Additions	454,528	584,409	886,488	1,319,458
REDUCTIONS				
Budgeted Expenditures & Transfers-Out	451,286	555,607	887,523	
Nonbudgeted Expenditures & Transfers-Out	(92)	53,398	(1,035)	571,049
Prior Year Expenditures & Transfers-Out Adjustments		(154,630)		
Total Reductions	451,194	454,375	886,488	571,049
FUND EQUITY June 30, 2012	\$ (21,630) \$	229,087 \$	0 \$	12,902,365

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, 2013

TOTAL REVENUES & TRANSFERS-IN BY CLASS

Investment Earnings				
Grants, Contracts, and Donations				
Transfers-in				
Federal				
Total Revenues & Transfers-In				
Less: Nonbudgeted Revenues & Transfers-In				
Prior Year Revenues & Transfers-In Adjustments				
Actual Budgeted Revenues & Transfers-In				
Estimated Revenues & Transfers-In				
Budgeted Revenues & Transfers-In Over (Under) Estimated				
	\$	41	\$	
		8,035		
		547,318		
	\$		920,314	
	555,394		920,314	224,723
	8,076			224,723
				0
	547,318		920,314	1,467,632
	586,000		943,084	1,529,084
	<u>\$ (38,682)</u>	<u>\$</u>	<u>(22,770)</u>	<u>\$ (61,452)</u>

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

Transfers-in	\$	(38,682)	\$	(38,682)
Federal				
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$	<u>(38,682)</u>	\$	<u>(22,770)</u>
				<u>0</u>
				<u>\$ (61,452)</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 REVENUES & TRANSFERS-IN
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012

TOTAL REVENUES & TRANSFERS-IN BY CLASS	State Special Revenue Fund	Federal Special Revenue Fund	Permanent Fund	Total
Investment Earnings	\$ 49			\$ 968,147
Grants, Contracts, and Donations	51,820		968,098	51,820
Transfers-in	568,049			568,049
Federal		\$ 886,488		886,488
Total Revenues & Transfers-In	619,918	886,488	968,098	2,474,504
Less: Nonbudgeted Revenues & Transfers-In	51,869		968,098	1,019,967
Prior Year Revenues & Transfers-In Adjustments				0
Actual Budgeted Revenues & Transfers-In	568,049	886,488	0	1,454,537
Estimated Revenues & Transfers-In	547,000	1,145,990		1,692,990
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 21,049	\$ (259,502)	0	\$ (238,453)
 BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS				
Transfers-in	\$ 21,049		\$	21,049
Federal		\$ (259,502)		(259,502)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 21,049	\$ (259,502)	0	\$ (238,453)

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, 2013

	<u>Promotion of the Arts</u>	<u>Total</u>
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT		
Personal Services		
Salaries	\$ 486,956	\$ 486,956
Other Compensation	11,714	11,714
Employee Benefits	145,346	145,346
Total	<u>644,016</u>	<u>644,016</u>
Operating Expenses		
Other Services	172,233	172,233
Supplies & Materials	37,760	37,760
Communications	49,110	49,110
Travel	91,253	91,253
Rent	69,066	69,066
Other Expenses	20,438	20,438
Total	<u>439,860</u>	<u>439,860</u>
Grants		
From State Sources	401,294	401,294
From Federal Sources	477,239	477,239
Total	<u>878,534</u>	<u>878,534</u>
Transfers-out		
Fund transfers	527,318	527,318
Total	<u>527,318</u>	<u>527,318</u>
Total Expenditures & Transfers-Out	<u>\$ 2,489,727</u>	<u>\$ 2,489,727</u>
EXPENDITURES & TRANSFERS-OUT BY FUND		
General Fund	\$ 447,927	\$ 447,927
State Special Revenue Fund	594,168	594,168
Federal Special Revenue Fund	920,314	920,314
Permanent Fund	527,318	527,318
Total Expenditures & Transfers-Out	2,489,727	2,489,727
Less: Nonbudgeted Expenditures & Transfers-Out	598,431	598,431
Prior Year Expenditures & Transfers-Out Adjustments		
Actual Budgeted Expenditures & Transfers-Out	1,891,296	1,891,296
Budget Authority	2,193,813	2,193,813
Unspent Budget Authority	<u>\$ 302,517</u>	<u>\$ 302,517</u>
UNSPENT BUDGET AUTHORITY BY FUND		
State Special Revenue Fund	\$ 136,590	\$ 136,590
Federal Special Revenue Fund	165,927	165,927
Unspent Budget Authority	<u>\$ 302,517</u>	<u>\$ 302,517</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, 2012

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	<u>Promotion of the Arts</u>	<u>Total</u>
Personal Services		
Salaries	\$ 417,453	\$ 417,453
Other Compensation	6,650	6,650
Employee Benefits	133,388	133,388
Total	<u>557,491</u>	<u>557,491</u>
Operating Expenses		
Other Services	162,106	162,106
Supplies & Materials	47,117	47,117
Communications	41,407	41,407
Travel	75,067	75,067
Rent	63,367	63,367
Other Expenses	29,304	29,304
Total	<u>418,368</u>	<u>418,368</u>
Grants		
From State Sources	281,747	281,747
From Federal Sources	514,451	514,451
From Other Sources	23,000	23,000
Total	<u>819,198</u>	<u>819,198</u>
Transfers-out		
Fund transfers	568,049	568,049
Total	<u>568,049</u>	<u>568,049</u>
Total Expenditures & Transfers-Out	<u>\$ 2,363,106</u>	<u>\$ 2,363,106</u>
EXPENDITURES & TRANSFERS-OUT BY FUND		
General Fund	\$ 451,194	\$ 451,194
State Special Revenue Fund	454,375	454,375
Federal Special Revenue Fund	886,488	886,488
Permanent Fund	571,049	571,049
Total Expenditures & Transfers-Out	2,363,106	2,363,106
Less: Nonbudgeted Expenditures & Transfers-Out	624,354	624,354
Prior Year Expenditures & Transfers-Out Adjustments	(155,665)	(155,665)
Actual Budgeted Expenditures & Transfers-Out	1,894,417	1,894,417
Budget Authority	2,617,546	2,617,546
Unspent Budget Authority	<u>\$ 723,129</u>	<u>\$ 723,129</u>
UNSPENT BUDGET AUTHORITY BY FUND		
General Fund	\$ 3,195	\$ 3,195
State Special Revenue Fund	437,594	437,594
Federal Special Revenue Fund	282,340	282,340
Unspent Budget Authority	<u>\$ 723,129</u>	<u>\$ 723,129</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, 2013

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 Equity

The negative fund equity 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 Equity for each of the fiscal years ended June 30, 2013, and June 30, 2012.

3. Direct Entries to Fund Equity

Direct entries to fund equity 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 \$527,318 and \$568,049 in fiscal years 2012-13 and 2011-12, respectively. Additional Transfers-In of \$20,000 in the State Special Revenue Fund in fiscal year 2012-13 consisted of Percent for Art funding authorized by §22-2-404, MCA, for art projects to be displayed in newly constructed state buildings.

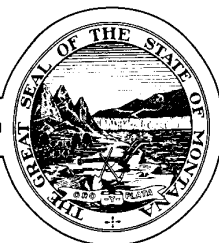
5. Unspent Budget Authority

The fiscal year 2011-12 unspent budget authority in the State Special Revenue fund includes remaining biennial appropriation established by Chapter 457, Session Law of 2011 for Cultural Trust grants of \$322,699. It also includes \$114,875 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*



STEVE BULLOCK
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>

Thursday, April 17, 2014

TO: Tori Hunthausen
Legislative Auditor

RECEIVED
APR 18 2014
LEGISLATIVE AUDIT DIV.

A handwritten signature in cursive script, reading "Arlynn Fishbaugh".

FROM: Arlynn Fishbaugh
Executive Director

RE: Review of FY 2013 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 always seek to provide outstanding public value for the tax dollars entrusted to us.

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

RECOMMENDATION #1: We recommend the Montana Arts Council comply with state accounting policy by:

- A. Performing more comprehensive reviews of transactions.
- B. Performing reviews of internal controls at least annually.

We concur and will comply with recommendation A during the current fiscal year—and with recommendation B after FYE. We have been working with a contract accountant since the past fiscal year and that work will continue in the current fiscal year to further strengthen internal controls in all areas. This contract will be reviewing transactions, especially those near year end and those initiated by the Council's accountant, and performing annual internal controls. Internal controls for the two years of the audit period were reviewed by this contract in December of 2013.

We would like to mention that except for the error mentioned in the first bullet, the other errors mentioned by the auditor were identified by MAC staff and reported to the auditors. The error mentioned in the third bullet has not been corrected because Department of Administration staff do not believe that there is in fact an error.