



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Montana Arts Council

*For the Two Fiscal Years Ended
June 30, 2015*

APRIL 2016

LEGISLATIVE AUDIT
DIVISION

15-24

FINANCIAL-COMPLIANCE AUDITS

LEGISLATIVE AUDIT COMMITTEE

REPRESENTATIVES

RANDY BRODEHL, CHAIR
Randybrodehl57@gmail.com

TOM BURNETT
Burnett.tom@gmail.com

VIRGINIA COURT
virginacourt@yahoo.com

DENISE HAYMAN
Rep.Denise.Hayman@mt.gov

KENNETH HOLMLUND
rep.ken.holmlund@mt.gov

MITCH TROPILA
tropila@mt.net

SENATORS

DEE BROWN
senatordee@yahoo.com

TAYLOR BROWN
taylor@northernbroadcasting.com

MARY McNALLY, VICE CHAIR
McNally4MTLeg@gmail.com

J.P. POMNICHOWSKI
pomnicho@montanadsl.net

BRUCE TUTVEDT
tutvedt@montanasky.us

GENE VUCKOVICH
Sen.Gene.Vuckovich@mt.gov

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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.

The Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports in addition to those reports required by Government Auditing Standards. 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

JOHN FINE
KAREN E. SIMPSON

KATIE MAJERUS

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LEGISLATIVE AUDIT DIVISION

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



Deputy Legislative Auditors:
Cindy Jorgenson
Angus Maciver

April 2016

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, 2015. This report contains one recommendation related to compliance with procurement requirements. We issued unmodified opinions on each of the council's six financial schedules.

The council's response to this report is included on page C-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	2020
	Lynn Montague (effective February 2015)	Billings	2020
	Arlene Parisot	Helena	2018
	Jay Pyette	Havre	2018
	Rob Quist	Kalispell	2020
	Jean Steele	Hamilton	2020
	Youpa Stein	Arlee	2020
	Judy Ulrich	Dillon	2017
	Jane Waggoner Deschner	Billings	2017
	Wilbur Wood (through February 2015)	Roundup	2015
Administrative	Arlynn Fishbaugh, Exective 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, 2015

APRIL 2016

15-24

REPORT SUMMARY

The Montana Arts Council is charged with governance, management, and control of the agency. The agency's mission is to develop the creative potential of all Montanans through involvement in the arts. The council performs this mission by distributing funds made available by the National Endowment for the Arts, Cultural Trust interest earnings, General Fund moneys, 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. The council consists of 15 members appointed by the governor to serve five-year terms. The council has seven full-time equivalent positions to conduct their operations.

The council receives an annual grant from the National Endowment for the Arts (NEA) to fund its State Arts Plan, Arts Education, and Arts in the Underserved Communities programs. Federal funds awarded to the council totaled \$721,000 and \$757,200 in fiscal years 2014 and 2015, respectively.

The council is appropriated interest earnings of the Cultural Trust fund to award grants for cultural and aesthetic projects. The council was appropriated \$758,650 for the biennium ending June 30, 2015. Grants of approximately \$300,000 and \$255,000 were made to counties, cities, local agencies, state agencies, and universities in fiscal years 2014 and 2015, respectively.

Additional funding was received through transfers from other state agencies in fiscal year 2015. A transfer of \$250,000 was made to the council for the Percent for Art program from the Department of Administration. The council also received a transfer of approximately \$47,000 from the Office of Public Instruction for the Art Standards Revision project. The council also receives general fund appropriations to fund its operations.

Our audit efforts focused on the review of Cultural Trust fund investment earnings and transfers-out, NEA federal grant funds, cultural and aesthetic grants, and council personal services. We reviewed and tested the council's internal controls and determined compliance with selected state and federal laws and regulations.

Results

Our current audit report contains one recommendation related to compliance with state procurement requirements. We issued unmodified opinions on the financial schedules for each of the two fiscal years ended June 30, 2015.

(continued on back)

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, 2015. 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, 2015, and June 30, 2014.
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 the prior audit recommendation.
4. To determine the council's compliance with selected state and federal laws and regulations.

Our audit effort focused on Cultural Trust Fund investment revenues and transfers-out, council personal services expenditures, administration of Cultural and Aesthetic grants authorized by the Montana Legislature, and the administration of National Endowment for the Arts federal grant funds. Throughout the audit, we reviewed and tested the council's control systems and determined compliance with selected state and federal laws and regulations. We issued unmodified opinions on each of the six financial schedules presented in this report. You will find the Independent Auditor's Report, beginning on page A-1, followed by the financial schedules and accompanying notes.

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 the agency. 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 and Communities, Governor's Awards for the Arts, and Montana Artrepreneur Program, 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 to provide timely information about the arts in Montana to artists and organizations. The council has seven full-time equivalent positions to conduct its 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. Grants may be used for projects including the visual, performing, literary and media arts. Grants may also be used for history, archaeology, folklore, archives, collections, research, historic preservations, and the construction or renovation of cultural facilities. 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, 2013. The report contained one recommendation related to reviews of transactions and internal controls. The council fully implemented the recommendation.

Chapter II – Findings and Recommendations

Procurement of Services

The council did not use a limited solicitation procedure when procuring services with a value over \$5,000 as required by Administrative Rules of Montana.

The Montana Arts Council (council) procured services from a vendor in fiscal years 2014 and 2015 to provide human resource consulting services to the council. Administrative Rules of Montana 2.5.603(3) states a "...state agency, if authorized in a written delegation agreement, may procure services with a total contract value between \$5,001 and \$25,000, using a limited solicitation procedure." The council had a written delegation agreement in place during the audit period that outlined the same requirements. The total value of the services provided in fiscal year 2014 exceeded \$11,000.

The council did not use a limited solicitation procedure in procuring these services and therefore is not in compliance with administrative rules. Per discussion with council staff, they have worked with this vendor for several years and they did not anticipate costs being that high in fiscal year 2014. Through review of past payments, however, payments to the same vendor in fiscal year 2012 also exceeded the threshold in administrative rules indicating limited solicitation should have occurred as early as fiscal year 2012.

RECOMMENDATION #1

We recommend the Montana Arts Council comply with procurement requirements in the Administrative Rules of Montana for services provided to the council.

Independent Auditor's Report and Department 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 (council) for each of the fiscal years ended June 30, 2015, and 2014, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, 2015, and June 30, 2014, or changes in financial position for the years then ended.

Unmodified Opinions on Regulatory Basis of Accounting

In our opinion, the Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out present fairly, in all material respects, the results of operations and changes in fund equity of the Montana Arts Council for each of the fiscal years ended June 30, 2015, and 2014, in conformity with the basis of accounting described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2016, on our consideration of the Montana Arts Council's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the council's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

January 29, 2016

MONTANA ARTS COUNCIL
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Permanent Fund
FUND EQUITY: July 1, 2014	\$ (21,790)	\$ 264,047	\$ 0	\$ 13,539,718
ADDITIONS				
Budgeted Revenues & Transfers-In		802,953	774,688	
Nonbudgeted Revenues & Transfers-In		55,129		424,330
Direct Entries to Fund Equity	548,017	(10,195)		389,592
Total Additions	548,017	847,886	774,688	813,922
REDUCTIONS				
Budgeted Expenditures & Transfers-Out	552,767	625,824	774,688	
Nonbudgeted Expenditures & Transfers-Out	(289)	105,437		506,043
Total Reductions	552,478	731,261	774,688	506,043
FUND EQUITY: June 30, 2015	\$ (26,251)	\$ 380,673	\$ 0	\$ 13,847,597

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, 2014

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Permanent Fund
FUND EQUITY: July 1, 2013	\$ (28,824)	\$ 167,562	\$ 0	\$ 12,943,406
ADDITIONS				
Budgeted Revenues & Transfers-In		504,033	829,214	745,059
Nonbudgeted Revenues & Transfers-In		50,012		
Prior Year Revenues & Transfers-In Adjustments		162,356		
Direct Entries to Fund Equity	529,075	(305)		357,787
Total Additions	529,075	716,097	829,214	1,102,846
REDUCTIONS				
Budgeted Expenditures & Transfers-Out	522,270	577,551	838,576	
Nonbudgeted Expenditures & Transfers-Out	(229)	42,061	(52)	506,533
Prior Year Expenditures & Transfers-Out Adjustments			(9,310)	
Total Reductions	522,041	619,612	829,214	506,533
FUND EQUITY: June 30, 2014	\$ (21,790)	\$ 264,047	\$ 0	\$ 13,539,718

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, 2015

TOTAL REVENUES & TRANSFERS-IN BY CLASS

Charges for Services	\$ 5,129			
Investment Earnings		\$ 424,330		\$ 424,330
Grants, Contracts, and Donations	50,000			50,000
Transfers-in	802,953			802,953
Federal				774,688
Total Revenues & Transfers-In	858,082			2,057,099
Less: Nonbudgeted Revenues & Transfers-In	55,129			479,458
Prior Year Revenues & Transfers-In Adjustments				0
Actual Budgeted Revenues & Transfers-In	802,953			1,577,641
Estimated Revenues & Transfers-In	866,750			1,557,159
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>(63,797)</u>	<u>84,278</u>	<u>0</u>	<u>\$ 20,481</u>

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

Transfers-in	\$ (63,797)			\$ (63,797)
Federal				84,278
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>(63,797)</u>	<u>84,278</u>	<u>0</u>	<u>\$ 20,481</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, 2014

TOTAL REVENUES & TRANSFERS-IN BY CLASS	State Special Revenue Fund	Federal Special Revenue Fund	Permanent Fund	Total
Investment Earnings	\$ 12		\$ 745,059	\$ 745,070
Grants, Contracts, and Donations	212,356			212,356
Transfers-in	504,033			504,033
Federal		\$ 829,214		829,214
Total Revenues & Transfers-In	716,402	829,214	745,059	2,290,674
Less: Nonbudgeted Revenues & Transfers-In	50,012		745,059	795,070
Prior Year Revenues & Transfers-In Adjustments	162,356			162,356
Actual Budgeted Revenues & Transfers-In	504,033	829,214	0	1,333,247
Estimated Revenues & Transfers-In	566,000	761,602		1,327,602
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (61,967)	\$ 67,612	\$ 0	\$ 5,645
 BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS				
Transfers-in	\$ (61,967)		\$ (61,967)	\$ (61,967)
Federal		67,612		67,612
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (61,967)	\$ 67,612	\$ 0	\$ 5,645

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, 2015

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Promotion of the Arts	Total
Personal Services		
Salaries	\$ 558,072	\$ 558,072
Other Compensation	10,543	10,543
Employee Benefits	179,629	179,629
Total	<u>748,244</u>	<u>748,244</u>
Operating Expenses		
Other Services	181,696	181,696
Supplies & Materials	26,744	26,744
Communications	43,954	43,954
Travel	69,685	69,685
Rent	70,160	70,160
Other Expenses	16,921	16,921
Total	<u>409,160</u>	<u>409,160</u>
Grants		
From State Sources	520,752	520,752
From Federal Sources	371,470	371,470
From Other Sources	9,300	9,300
Total	<u>901,522</u>	<u>901,522</u>
Transfers-out		
Fund transfers	505,543	505,543
Total	<u>505,543</u>	<u>505,543</u>
Total Expenditures & Transfers-Out	\$ <u>2,564,469</u>	\$ <u>2,564,469</u>
EXPENDITURES & TRANSFERS-OUT BY FUND		
General Fund	\$ 552,478	\$ 552,478
State Special Revenue Fund	731,261	731,261
Federal Special Revenue Fund	774,688	774,688
Permanent Fund	506,043	506,043
Total Expenditures & Transfers-Out	<u>2,564,469</u>	<u>2,564,469</u>
Less: Nonbudgeted Expenditures & Transfers-Out	611,191	611,191
Prior Year Expenditures & Transfers-Out Adjustments		
Actual Budgeted Expenditures & Transfers-Out	<u>1,953,278</u>	<u>1,953,278</u>
Budget Authority	<u>2,466,555</u>	<u>2,466,555</u>
Unspent Budget Authority	\$ <u>513,277</u>	\$ <u>513,277</u>
UNSPENT BUDGET AUTHORITY BY FUND		
General Fund	\$ 17,653	\$ 17,653
State Special Revenue Fund	485,801	485,801
Federal Special Revenue Fund	9,824	9,824
Unspent Budget Authority	\$ <u>513,277</u>	\$ <u>513,277</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, 2014

	<u>Promotion of the Arts</u>	<u>Total</u>
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT		
Personal Services		
Salaries	\$ 496,693	\$ 496,693
Other Compensation	7,400	7,400
Employee Benefits	153,301	153,301
Total	<u>657,393</u>	<u>657,393</u>
Operating Expenses		
Other Services	195,619	195,619
Supplies & Materials	27,516	27,516
Communications	38,497	38,497
Travel	83,297	83,297
Rent	68,029	68,029
Other Expenses	27,294	27,294
Total	<u>440,252</u>	<u>440,252</u>
Grants		
From State Sources	480,211	480,211
From Federal Sources	393,012	393,012
From Other Sources	2,500	2,500
Total	<u>875,722</u>	<u>875,722</u>
Transfers-out		
Fund transfers	504,033	504,033
Total	<u>504,033</u>	<u>504,033</u>
Total Expenditures & Transfers-Out	<u>\$ 2,477,401</u>	<u>\$ 2,477,401</u>
EXPENDITURES & TRANSFERS-OUT BY FUND		
General Fund	\$ 522,041	\$ 522,041
State Special Revenue Fund	619,612	619,612
Federal Special Revenue Fund	829,214	829,214
Permanent Fund	506,533	506,533
Total Expenditures & Transfers-Out	2,477,401	2,477,401
Less: Nonbudgeted Expenditures & Transfers-Out	548,313	548,313
Prior Year Expenditures & Transfers-Out Adjustments	(9,310)	(9,310)
Actual Budgeted Expenditures & Transfers-Out	1,938,397	1,938,397
Budget Authority	2,548,202	2,548,202
Unspent Budget Authority	<u>\$ 609,804</u>	<u>\$ 609,804</u>
UNSPENT BUDGET AUTHORITY BY FUND		
General Fund	\$ 63,437	\$ 63,437
State Special Revenue Fund	527,659	527,659
Federal Special Revenue Fund	18,708	18,708
Unspent Budget Authority	<u>\$ 609,804</u>	<u>\$ 609,804</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, 2015

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, Percent for Art and Office of Public Instruction Art Standards Revision.
- ♦ **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 and the United States Department of Agriculture.

- ♦ **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, 2015 and June 30, 2014.

3. Prior Year Revenues and Transfers-In Adjustments

In fiscal year 2013, an entry to recognize \$81,000 in unearned revenue from a private grant was incorrectly reversed, thereby increasing the deferral and reducing the revenue recognized. This error was corrected in fiscal year 2014 and the correction becomes the doubled amount of \$162,000 reflected in Prior Year Revenue & Transfers in Adjustments in the State Special Revenue Fund.

4. 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—in this case closing cash at fiscal year end to the administering business unit.

5. 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 \$505,543 and \$504,033 in fiscal years 2014-2015 and 2013-14, respectively. Additional Transfers-In of \$250,000 in the State Special Revenue Fund in fiscal year 2014-2015 consisted of Percent for Art funding authorized by §22-2-404, MCA, for art projects to be displayed in newly constructed state buildings.

6. Unspent Budget Authority

The fiscal year 2013-2014 unspent budget authority in the General Fund of \$63,437 is biennial authority carried forward into FY 2014-2015 for Artists in the Schools Projects and the audit. The fiscal year 2013-2014 unspent budget authority in the State Special Revenue fund includes remaining biennial appropriation established by Chapter 215, Session Law of 2013 for Cultural Trust grants of \$456,805. It also includes \$70,776 of continuing appropriation authority for unfinished Percent for Art projects and maintenance.

The fiscal year 2014-2015 unspent budget authority in the State Special Revenue fund includes reverted biennial appropriation caused by shortfall in earnings for the Cultural Trust grants mentioned above of \$199,504—this is the shortfall including the contingently awarded grants that were not able to be funded because funds were not available. It also includes \$240,536 of continuing appropriation authority for Percent for Art projects and maintenance and remaining funds of \$45,761 for a continuing contract with the Office of Public Instruction (OPI) for Art Standards Revision to be completed by December of 2016.

Report on Internal Control and Compliance

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



Deputy Legislative Auditors:
Cindy Jorgenson
Angus Maciver

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL SCHEDULES PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

The Legislative Audit Committee
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Montana Arts Council (council) for each of the fiscal years ended June 30, 2015, and 2014, and the related notes to the financial schedules, and have issued our report thereon dated January 29, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial schedules, we considered the council's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial schedules, but not for the purpose of expressing an opinion on the effectiveness of the council's internal control. Accordingly, we do not express an opinion on the effectiveness of the council's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of 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 a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify

any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Montana Arts Council's financial schedules are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination on financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the council's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the council's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

January 29, 2016

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>

Monday, April 04, 2016

TO: Tori Hunthausen
 Legislative Auditor

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

FROM: Arlynn Fishbaugh
 Executive Director

RE: Review of FY 2015 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 procurement requirement in the Administrative Rules of Montana for services provided to the council.

We concur and will comply with this recommendation during the current fiscal year. We have already begun the process and plan to have this recommendation implemented with a limited solicitation in place before the Legislative Audit Committee meeting.

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APR 04 2016

LEGISLATIVE AUDIT DIV.