



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Montana Arts Council

*For the Two Fiscal Years Ended
June 30, 2019*

JULY 2020

LEGISLATIVE AUDIT
DIVISION

19-24

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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 and many staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act Amendments of 1996 and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards 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, 2019, was issued March 30, 2020. The Single Audit Report for the two fiscal years ended June 30, 2021, will be issued by March 31, 2022.

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LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

July 2020

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Montana Arts Council (council) for each of the fiscal years ended June 30, 2019, and 2018. Included in this report is one recommendation related to internal controls of the Cultural and Aesthetic Grants. This report also includes the status of prior audit recommendations, Independent Auditor's Report, the council's financial schedules and notes, and our Report on Internal Control Over Financial Reporting and on Compliance and Other Matters.

The council's written response to the audit recommendations is included in the audit report at page C-1. We thank the Director and her staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

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APPOINTED AND ADMINISTRATIVE OFFICIALS

			<u>Term Expires</u>
Montana Arts Council	Cynthia Andrus, Chair	Bozeman	2022
	Tom Cordingley, Vice Chair	Helena	2023
	Angella Ahn	Bozeman	2023
	Corwin Clairmont	Ronan	2023
	JP Gabriel	Bozeman	2022
	Tracy Linder	Molt	2022
	Mark Kuipers	Missoula	2025
	Corby Skinner	Billings	2023
	Angela Russell	Lodge Grass	2025
	Jay Pyette	Havre	2023
	Sean Chandler	Harlem	2025
	Jeane Steele	Hamilton	2025
	Elizabeth Albers	Missoula	2022
	G.B. Carson	Townsend	2025
Renee Westlake	Bozeman	2022	
Administrative	Tatiana Gant, Executive Director		
	Jenifer Alger, Chief Financial Officer		

For additional information concerning the Montana Arts Council, contact:

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FINANCIAL-COMPLIANCE AUDIT

Montana Arts Council

For the Two Fiscal Years Ended June 30, 2019

JULY 2020

19-24

REPORT SUMMARY

The Montana Arts Council (council) does not review Cultural and Aesthetic Grants to determine whether modifications to a grantee’s approved budget and the use of grant funds are allowable under state law. These grant expenditures of \$200,695 and \$239,075 for fiscal years 2019 and 2018, respectively, account for approximately 9 percent of the total expenditures and transfers-out in both fiscal years 2019 and 2018.

Context

The council is 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’s operations are supported through seven full-time equivalent positions. The council receives funding from the National Endowment for the Arts, investment earnings from the Cultural Trust Permanent Fund, Percent for Arts allocations from appropriations for state buildings, private grants, and General Fund appropriations.

Our audit effort focused on Cultural Trust Permanent Fund investment earnings and transfers-out, the associated transfers-in to the Cultural and Aesthetic Project account, and grants from state and federal sources. Throughout the audit, we reviewed and tested selected council control systems and determined compliance with selected state and federal laws and regulations.

Results

Our current audit report contains one recommendation related to internal controls of the Cultural and Aesthetic Grants. We issued unmodified opinions on the financial schedules for the fiscal year ended June 30, 2019, and 2018, which means the information presented can be used for decision-making purposes.

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

For a complete copy of the report (19-24) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to lad@mt.gov; or check the web site at <https://leg.mt.gov/lad/audit-reports>
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 Call toll-free 1-800-222-4446, or e-mail LADHotline@mt.gov.

Chapter I – Introduction and Background

Introduction

We performed a financial-compliance audit of the Montana Arts Council (council) for each of the fiscal years ended June 30, 2019, and 2018. The objectives of the audit were:

1. 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.
2. To determine the council's compliance with selected applicable state and federal laws and regulations.
3. 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, 2019, and June 30, 2018.
4. To determine the implementation status of prior audit recommendations.

Our audit effort focused on Cultural Trust Permanent Fund investment earnings and transfers-out, the associated transfers-in to the Cultural and Aesthetic Project account, and grants from state and federal sources. Throughout the audit, we reviewed and tested selected council control systems and determined compliance with selected state and federal laws and regulations. We issued unmodified opinions on the financial schedules for each of the fiscal years ended June 30, 2019, and 2018. The Independent Auditor's Report begins 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 five-year terms. The council is responsible for the governance, management, and control of the agency. The agency has seven full-time equivalent positions to conduct its operations. 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.

In addition to funding from the National Endowment for the Arts, the council receives investment earnings from the Cultural Trust Permanent Fund, Percent for Arts allocations from appropriations for state buildings, private grants, and General Fund appropriations. The council 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.
6. Nominate three individuals to serve as the state poet laureate.

Along with disbursing grants and awards, the Montana Arts Council administers various programs such as Artists in Schools and Communities, Poetry Out Loud, and Montana Artrepreneur Program (MAP).

The council developed the MAP program to help artists with their business goals and outcomes. In previous years, the program was funded by private grants and state funding. Now, the program relies solely on state funding.

Prior Audit Recommendations

The prior financial-compliance audit report contained three recommendations related to internal controls and compliance with state laws. We performed work during the current audit to determine the status of the implementation. Table 1 summarizes the finding, recommendation, and current status.

Table 1
Prior Audit Recommendations

Finding	Recommendation	Status of Implementation
Internal controls did not ensure transactions recorded in the primary accounting system were complete and accurate.	We recommend the Montana Arts Council: A. Enhance internal control policies and procedures to ensure the financial records are complete, accurate, and in accordance with state policy. B. Provide training to council personnel to enhance knowledge of governmental accounting.	Fully Implemented - The council implemented several internal control policies and procedures (e.g., updated internal control plan, performance of two risk assessments each fiscal year, updates to current review processes) to address the audit recommendation.
The council does not have controls in place to ensure that Coal Severance Tax collected on its behalf by the Department of Revenue is complete and accurate.	We recommend the Montana Arts Council develop and implement internal controls to ensure the completeness and accuracy of the Coal Severance Tax revenue collected on the council's behalf.	Fully Implemented - The council developed and implemented an internal control to calculate the portion of Coal Severance Tax collected for the Cultural Trust Permanent Fund and to review the collection received was complete and accurate.
The council increased the Cultural and Aesthetic Grant appropriation and the associated grant expenditures beyond that allowed by law.	We recommend the Montana Arts Council comply with state law governing the disposition of excess actual investment earnings in the Cultural Trust Permanent Fund.	Fully Implemented - The council implemented procedures related to the disposition of excess actual investment earnings; these procedures align with state law.

Source: Compiled by the Legislative Audit Division.

Chapter II – Findings and Recommendations

Cultural & Aesthetic Grant Internal Controls

The Montana Arts Council (council) does not review Cultural and Aesthetic Grants to determine whether modifications to a grantee approved budget and the use of grant funds are allowable under state law.

State accounting policy requires agencies to develop and implement internal control procedures to ensure programs safeguard agency assets, operate in conformity with laws and regulations, and the related transactions are accurately recorded in the state's accounting records in accordance with generally accepted accounting principles.

Earnings from the Cultural Trust Permanent Fund are appropriated by the Legislature each legislative session to provide funding to protect the works of art in the capital and for other Cultural and Aesthetic (C&A) projects. For the biennium ending June 30, 2019 (2017 Session), the Legislature approved 77 projects. The council incurred expenditures of \$200,000 and \$239,000 in fiscal years 2019 and 2018, respectively, for this purpose.

Cultural and Aesthetic projects are funded by the council as a grant. We reviewed 3 completed grants out of the 77 grants awarded during fiscal years 2019 and 2018. During our review, we were unable to determine if the grantee used the funds according to the grant's original purpose and in compliance with state law. The documentation submitted by the grantees did not contain enough detail to determine whether modification to a grantee's approved budget and the use of grant funds are allowable. We found two of the grantees approved budgets did not provide a line item breakdown that would allow the council to monitor if modification by line item occurred.

Section 22-2-306, MCA, requires the grantee to agree that the funds granted will be expended solely for the purpose and activities described in the approved proposal. State law allows a grantee to modify line items in its approved budget according to the following provisions:

- ◆ Amounts up to 10 percent of the total grant award do not require approval.
- ◆ Amounts between 10 and 20 percent of the total grant award require council approval.
- ◆ Amounts in excess of 20 percent are not allowed.
- ◆ Modifications may not increase the grant award or change the scope or purpose of the award.

Currently, the council collects a final report which includes a narrative on the use of funds and financial details. The council compares these documents to application materials to verify the purpose and use of funds were consistent. This review does not allow the council to identify a modification by line item. The council believes the specificity of the state law makes it inefficient to monitor modifications per budget line item.

We agree the law is specific about the modification that may occur to the approved budget. The grant budget award modification limitations were established in 1987, at a time when the size of the grant awards was much higher. The earnings from the cultural trust have been low in recent years, resulting in a reduction in the size of the grants awarded. Table 2 summarizes the count of the grants awarded by session, by grant amount.

Table 2
Count of Grants Awarded by Session

Grant Amount	2013 Session	2015 Session	2017 Session	2019 Session
\$0 to \$1,999	0	0	0	1
\$2,000 to \$4,000	10	42	20	30
\$4,001 to \$6,000	7	14	37	28
\$6,001 to \$8,000	18	7	9	6
\$8,001 to \$10,000	11	12	10	17
\$10,001 +	35	0	1	0
Total Count of Grants	81	75	77	82
Total Grant Value	\$758,650	\$384,995	\$440,000	\$423,381

Source: Compiled by the Legislative Audit Division.

The 77 projects awarded during fiscal year 2019 and 2018 ranged from \$2,000 to \$12,000. The law requires the council to review a modification to a budget line item of \$200 for the smallest projects. The council could seek legislation altering these monitoring requirements to avoid the inefficiencies associated with small grants. This could involve performing a cost benefit analysis to obtain information about different budget monitoring requirements for various grant sizes. Alternatively, we believe the council should develop a process that will allow the grantees to submit a budget in a format that will allow the council to monitor the modifications to the budget in a more efficient manner. For example, the council could develop a standard grant reporting form used for both the grant application and final reporting processes that delineates major budget and expense categories to allow the council to quickly confirm grantee compliance with state law and the purpose of the grant.

Because documentation was lacking, we were unable to determine whether grant funds were expended solely for the purpose and activities described in the approved proposal as required by §22-2-306, MCA, for fiscal year 2019 and 2018. Without effective controls, the council cannot meet their duty of monitoring the grantee so grant funds are spent as currently specified in state law, even if the budget modification requirements are modified through legislation.

RECOMMENDATION #1

We recommend the Montana Arts Council comply with state law by:

- A. Developing a standard grant reporting form used for both the grant application and final reporting process that delineates major budget and expense categories, or*
 - B. Seeking legislation to limit budget monitoring requirements.*
-

Independent Auditor's Report and Council Financial Schedules

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

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, 2019, and 2018, 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, 2019, and June 30, 2018, or changes in financial position for the years then ended.

Unmodified Opinions on Regulatory Basis of Accounting

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund equity of the council for each of the fiscal years ended June 30, 2019, and 2018, 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 April 20, 2020, on our consideration of the 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

April 20, 2020

MONTANA ARTS COUNCIL
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Permanent Fund
FUND EQUITY: July 1, 2018	\$ <u>(18,702)</u>	\$ <u>126,901</u>	\$ <u>(0)</u>	\$ <u>14,575,350</u>
ADDITIONS				
Budgeted Revenues & Transfers-In		460,572	739,483	
Nonbudgeted Revenues & Transfers-In		17,198		1,134,874
Prior Year Revenues & Transfers-In Adjustments			274	(44)
Direct Entries to Fund Equity	413,768	(27,025)		381,284
Total Additions	<u>413,768</u>	<u>450,745</u>	<u>739,757</u>	<u>1,516,114</u>
REDUCTIONS				
Budgeted Expenditures & Transfers-Out	408,094	453,216	741,966	
Nonbudgeted Expenditures & Transfers-Out	(195)	12,527	(210)	460,572
Total Reductions	<u>407,899</u>	<u>465,743</u>	<u>741,756</u>	<u>460,572</u>
FUND EQUITY: June 30, 2019	\$ <u><u>(12,833)</u></u>	\$ <u><u>111,904</u></u>	\$ <u><u>(1,999)</u></u>	\$ <u><u>15,630,891</u></u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-9.

MONTANA ARTS COUNCIL
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Permanent Fund
FUND EQUITY: July 1, 2017	\$ <u>(29,287)</u>	\$ <u>131,227</u>	\$ <u>(4,409)</u>	\$ <u>14,717,451</u>
ADDITIONS				
Budgeted Revenues & Transfers-In		475,500	773,254	
Nonbudgeted Revenues & Transfers-In		48,639	285	43,312
Prior Year Revenues & Transfers-In Adjustments		74,285	10,208	(53)
Direct Entries to Fund Equity	486,289	(443)		367,425
Total Additions	<u>486,289</u>	<u>597,981</u>	<u>783,747</u>	<u>410,684</u>
REDUCTIONS				
Budgeted Expenditures & Transfers-Out	475,349	507,264	779,337	
Nonbudgeted Expenditures & Transfers-Out	(412)	105,765		552,785
Prior Year Expenditures & Transfers-Out Adjustments	768	(10,723)	1	
Total Reductions	<u>475,705</u>	<u>602,307</u>	<u>779,338</u>	<u>552,785</u>
FUND EQUITY: June 30, 2018	\$ <u>(18,702)</u>	\$ <u>126,901</u>	\$ <u>(0)</u>	\$ <u>14,575,350</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, 2019

	State Special Revenue Fund	Federal Special Revenue Fund	Permanent Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS				
Taxes		\$ 274		\$ 274
Investment Earnings			\$ 1,134,830	1,134,830
Grants, Contracts, and Donations	\$ 40			40
Transfers-in	460,572			460,572
Miscellaneous	17,158			17,158
Federal		739,483		739,483
Total Revenues & Transfers-In	477,770	739,757	1,134,830	2,352,357
Less: Nonbudgeted Revenues & Transfers-In	17,198		1,134,874	1,152,072
Prior Year Revenues & Transfers-In Adjustments		274	(44)	230
Actual Budgeted Revenues & Transfers-In	460,572	739,483	0	1,200,055
Estimated Revenues & Transfers-In	460,572	739,757		1,200,329
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 0	\$ (274)	\$ 0	\$ (274)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS				
Federal		\$ (274)		\$ (274)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 0	\$ (274)	\$ 0	\$ (274)

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, 2018

	State Special Revenue Fund	Federal Special Revenue Fund	Permanent Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS				
Taxes		\$ 285		\$ 285
Investment Earnings			\$ 43,259	43,259
Transfers-in	\$ 549,785			549,785
Miscellaneous	48,639			48,639
Federal		783,462		783,462
Total Revenues & Transfers-In	598,424	783,747	43,259	1,425,429
Less: Nonbudgeted Revenues & Transfers-In	48,639	285	43,312	92,236
Prior Year Revenues & Transfers-In Adjustments	74,285	10,208	(53)	84,440
Actual Budgeted Revenues & Transfers-In	475,500	773,254	0	1,248,754
Estimated Revenues & Transfers-In	475,500	773,539		1,249,039
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 0	\$ (285)	\$ 0	\$ (285)
 BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS				
Federal		\$ (285)		\$ (285)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 0	\$ (285)	\$ 0	\$ (285)

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, 2019

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	<u>Promotion of the Arts</u>	<u>Total</u>
Personal Services		
Salaries	\$ 423,428	\$ 423,428
Other Compensation	3,125	3,125
Employee Benefits	142,303	142,303
Total	<u>568,856</u>	<u>568,856</u>
Operating Expenses		
Other Services	100,563	100,563
Supplies & Materials	18,560	18,560
Communications	24,904	24,904
Travel	44,319	44,319
Rent	50,098	50,098
Other Expenses	59,062	59,062
Total	<u>297,506</u>	<u>297,506</u>
Grants		
From State Sources	364,613	364,613
From Federal Sources	372,152	372,152
From Other Sources	7,500	7,500
Total	<u>744,265</u>	<u>744,265</u>
Transfers-out		
Fund transfers	465,343	465,343
Total	<u>465,343</u>	<u>465,343</u>
Total Expenditures & Transfers-Out	\$ <u>2,075,970</u>	\$ <u>2,075,970</u>
EXPENDITURES & TRANSFERS-OUT BY FUND		
General Fund	\$ 407,899	\$ 407,899
State Special Revenue Fund	465,743	465,743
Federal Special Revenue Fund	741,756	741,756
Permanent Fund	460,572	460,572
Total Expenditures & Transfers-Out	2,075,970	2,075,970
Less: Nonbudgeted Expenditures & Transfers-Out	472,693	472,693
Prior Year Expenditures & Transfers-Out Adjustments		
Actual Budgeted Expenditures & Transfers-Out	<u>1,603,276</u>	<u>1,603,276</u>
Budget Authority	1,794,062	1,794,062
Unspent Budget Authority	\$ <u>190,785</u>	\$ <u>190,785</u>
UNSPENT BUDGET AUTHORITY BY FUND		
General Fund	\$ 109,443	\$ 109,443
State Special Revenue Fund	35,309	35,309
Federal Special Revenue Fund	46,034	46,034
Unspent Budget Authority	\$ <u>190,785</u>	\$ <u>190,785</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, 2018

	Promotion of the Arts	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT		
Personal Services		
Salaries	\$ 465,634	\$ 465,634
Other Compensation	3,050	3,050
Employee Benefits	146,179	146,179
Total	614,863	614,863
Operating Expenses		
Other Services	159,500	159,500
Supplies & Materials	50,288	50,288
Communications	33,468	33,468
Travel	59,125	59,125
Rent	53,038	53,038
Other Expenses	58,447	58,447
Total	413,866	413,866
Grants		
From State Sources	390,044	390,044
From Federal Sources	393,077	393,077
From Other Sources	18,500	18,500
Total	801,621	801,621
Transfers-out		
Fund transfers	579,785	579,785
Total	579,785	579,785
Total Expenditures & Transfers-Out	\$ 2,410,135	\$ 2,410,135
EXPENDITURES & TRANSFERS-OUT BY FUND		
General Fund	\$ 475,705	\$ 475,705
State Special Revenue Fund	602,307	602,307
Federal Special Revenue Fund	779,338	779,338
Permanent Fund	552,785	552,785
Total Expenditures & Transfers-Out	2,410,135	2,410,135
Less: Nonbudgeted Expenditures & Transfers-Out	658,138	658,138
Prior Year Expenditures & Transfers-Out Adjustments	(9,954)	(9,954)
Actual Budgeted Expenditures & Transfers-Out	1,761,950	1,761,950
Budget Authority	2,017,975	2,017,975
Unspent Budget Authority	\$ 256,024	\$ 256,024
UNSPENT BUDGET AUTHORITY BY FUND		
General Fund	\$ 3,693	\$ 3,693
State Special Revenue Fund	252,331	252,331
Unspent Budget Authority	\$ 256,024	\$ 256,024

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, 2019

1. Summary of Significant Accounting Policies

Basis of Accounting

The Montana Arts 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; grant awards that have not been paid by fiscal year-end; 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 (other than private-purpose trusts or major capital projects) that are legally restricted to expenditures for specific state program purposes. Council State Special Revenue Funds include Cultural Aesthetic Projects, Percent for Art, Montana Artrepreneur Program, Private Donations, Arts Education Endowment and Governor's Award for Artists Endowment.

- ♦ **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 Balance

The negative fund equity 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, 2018 and June 30, 2019.

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.

Other direct entries to fund equity in the General, State Special Revenue and Permanent funds also include a fund balance correction, pre-paid balance moves to and from account 4122 – Fund Balance Prepays and a fund equity designation correction made from Committed to Nonspendable and back to Committed. The correction was initially made due to an audit communication and later reversed at the request of the Department of Administration State Accounting Bureau.

4. Prior Year Expenditures and Transfers-Out

In fiscal year 2018 some 2017 biennial cultural and aesthetics grants reverted and the accrual was reversed in the State Special Revenue Fund.

5. Prior Year Revenues and Transfers-In

In fiscal year 2018 corrections were made in the State and Federal Special Revenue funds to record revenue received in the proper year.

6. 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 \$475,500 and \$460,572 in fiscal years 2018 and 2019, respectively. In fiscal year 2018 an additional transfer out of \$25,000 of Percent for Art funding authorized by §22-2-404, MCA, for art projects to be displayed in newly constructed state buildings was returned back to the Department of Administration Architecture and Engineering Division due to the project not being ready to begin.

7. Unspent Budget Authority

The fiscal year 2018 unspent budget authority in the General Fund of \$3,693 is biennial authority carried forward into FY 2019 for audit fees and one Artist in Schools and Communities grant that reverted due to noncompliance with final reporting requirements. The fiscal year 2018 unspent budget authority in the State Special Revenue fund includes remaining biennial appropriation for Cultural Trust grants of \$200,925. It also includes \$51,406 of continuing appropriation authority for unfinished Percent for Art projects and maintenance.

The fiscal year 2019 unspent budget authority in the General Fund of \$109,443 is the remaining balance for the audit, workers comp reduction, State Information Technology Services Division restricted appropriation and personnel services. The fiscal year 2019 unspent budget authority in the State Special Revenue fund includes \$35,061 of continuing appropriation authority for Percent for Art maintenance, one reverted C&A grant and the workers comp reduction. The fiscal year 2019 unspent budget authority in the Federal Special Revenue Fund includes \$46,005 of continuing authority carried forward to FY 2020 and the workers comp reduction.

Report on Internal Control and Compliance

LEGISLATIVE AUDIT DIVISION

B-1

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

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, 2019, and 2018, and the related notes to the financial schedules, and have issued our report thereon dated April 20, 2020.

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 controls 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 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 of 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,

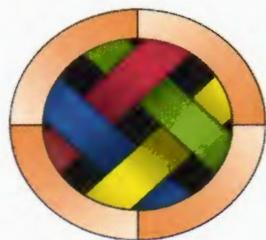
/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

April 20, 2020

MONTANA ARTS
COUNCIL

COUNCIL RESPONSE



MONTANA ARTS COUNCIL

an agency of state government

July 13, 2020

Angus Maciver
Legislative Auditor
Legislative Audit Division
PO Box 201705
Helena, MT 59620-1705

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JUL 10 2020
LEGISLATIVE AUDIT DIV.

Dear Mr. Maciver:

We have reviewed the audit recommendation for the two fiscal years ending June 30, 2019 and concur with it. Below is our position, corrective action plan and timetable for implementation.

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

- A. Developing a standard grant reporting form used for both the grant application and final reporting processes that delineates major budget and expense categories, or
- B. Seeking legislation to limit budget monitoring requirements.

We concur and plan on adopting recommendation A by implementing a revised budget tracking process with the FY 2022 cycle, which opened for applications in July 2020.

Sincerely,

Tatiana Gant
Executive Director