



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Montana Arts Council

*For the Two Fiscal Years Ended
June 30, 2017*

MAY 2018

LEGISLATIVE AUDIT
DIVISION

17-24

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FINANCIAL-COMPLIANCE AUDITS

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

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, 2017, was issued March 23, 2018. The Single Audit Report for the two fiscal years ended June 30, 2019, will be issued by March 31, 2020.

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LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
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Cindy Jorgenson
Joe Murray

May 2018

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Montana Arts Council (council) for the two fiscal years ended June 30, 2017. Included in this report are three recommendations related to internal controls and compliance with state law. This report also includes the 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	2018
	Karen Bohlinger	Helena	2018
	Corwin Clairmont	Ronan	2018
	JP Gabriel	Bozeman	2022
	Tracy Linder	Molt	2022
	Mark Kuipers	Missoula	2020
	Lynn Montague	Billings	2020
	Arlene Parisot	Helena	2018
	Jay Pyette	Havre	2018
	Sean Chandler	Harlem	2020
	Jeane Steele	Hamilton	2020
	Elizabeth Albers	Missoula	2022
	G.B. Carson	Townsend	2020
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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 Helena, MT 59601
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MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL-COMPLIANCE AUDIT

Montana Arts Council

For the Two Fiscal Years Ended June 30, 2017

MAY 2018

17-24

REPORT SUMMARY

The Montana Arts Council oversees the National Endowment for the Arts and the state's cultural and aesthetics grant programs. Cultural Trust Investment Earnings were \$96,000 above the estimated revenues established during the 2015 Legislative Session. The Montana Arts Council was able to provide additional funding for cultural and aesthetic projects during the biennium as a result of a new provision allowing for increased appropriation authority when actual revenues exceed the estimate. During our audit, we identified several accounting and compliance errors associated with these federal and state grant programs, impacting the reliability of the council's financial information.

Context

The Montana Arts Council (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 an annual grant from the National Endowment for the Arts (NEA). In addition to funding from the NEA, 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.

Our audit effort focused on Cultural Trust Fund investment earnings and transfers-out, personal services expenditures, administration of cultural and aesthetic grants authorized by the Montana Legislature, direct entries to fund

equity, budget authority and unspent budget authority, and the administration of NEA 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.

Results

Our current audit report contains three recommendations related to internal controls and compliance with state law. We issued unmodified opinions on the Schedules of Changes in Fund Equity and Schedules of Total Revenues & Transfers-In for each of the fiscal years ended June 30, 2017, and 2016, which means the information presented on these schedules can be used for decision-making purposes. We have issued qualified opinions on the Schedules of Total Expenditures & Transfers-Out for each of the fiscal years ended June 30, 2017, and 2016, as a result of unspent budget authority from the 2015 biennium incorrectly continuing

(continued on back)

into the 2017 biennium. For decision-making purposes, the budget information on the Schedule of Total Expenditures & Transfers-Out should be used with caution.

We also identified certain deficiencies in internal control that we consider to be material weaknesses or significant deficiencies. The council's internal controls were not effective in ensuring transactions recorded in the primary accounting system were complete, accurate, and in accordance with state policy, which we consider to be a material weakness. The council also does not have controls in place to ensure the revenues recorded in the Cultural Trust Fund by the Department of Revenue are complete and accurate, which we consider to be a significant deficiency.

Recommendation Concurrence	
Concur	3
Partially Concur	0
Do Not Concur	0
Source: Agency audit response included in final report.	

For a complete copy of the report (17-24) 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 <http://leg.mt.gov/audit>
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Call toll-free 1-800-222-4446, or e-mail lad@mt.gov.

Chapter I – Introduction

Introduction

We performed a financial-compliance audit of the Montana Arts Council (council) for the two fiscal years ended June 30, 2017. The objectives of the audit were:

1. To determine the council's compliance with selected applicable state and federal laws and regulations.
2. 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, 2017, and June 30, 2016.
3. To determine the implementation status of the prior audit recommendation.
4. 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.

Our audit effort focused on Cultural Trust Fund investment earnings and transfers-out, personal services expenditures, administration of cultural and aesthetic grants authorized by the Montana Legislature, direct entries to fund equity, budget authority and unspent budget authority, 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 the Schedules of Changes in Fund Equity and Schedules of Total Revenues & Transfers-In for each of the fiscal years ended June 30, 2017, and 2016, which means the information presented on these schedules can be used for decision-making purposes. We have issued qualified opinions on the Schedules of Total Expenditures & Transfers-Out for each of the fiscal years ended June 30, 2017, and 2016, as a result of unspent budget authority from the 2015 biennium incorrectly continuing into the 2017 biennium. For decision-making purposes, the budget information on the Schedule of Total Expenditures & Transfers-Out should be used with caution. 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 cultural organizations. The council publishes a newspaper called the State of the Arts four times per year to provide timely information about the arts in Montana to artists and organizations. The agency 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 agency provides support for the C&A project advisory committee in reviewing grant applications. The advisory committee recommends a 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 Recommendation

Our office performed the council's financial-compliance audit for the two fiscal years ended June 30, 2015. The report contained one recommendation related to compliance with state procurement requirements. 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. Through review of services procured during fiscal year 2017, we found that the council fully implemented the recommendation.

Chapter II – Findings and Recommendations

Accounting Controls

State accounting policy requires agencies to develop and implement internal control procedures to ensure programs 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 (GAAP). In addition to the agency's responsibility under state accounting policy, state law requires that the receipt, use, and disposition of all public money be accounted for in accordance with GAAP. The following two sections outline areas where internal controls were not effective.

Misstatements

Internal controls did not ensure transactions recorded in the primary accounting system were complete and accurate.

During our audit, we noted several transactions that were either not recorded or recorded incorrectly during both fiscal years 2016 and 2017. The following summarizes the misstatements we identified:

- ◆ The council did not record a transfer-out of the Cultural Trust permanent fund and a transfer-in to the state special revenue fund in fiscal year 2017 of approximately \$42,000, the portion of actual investment earnings in excess of estimated amounts the agency was authorized to use to increase cultural and aesthetic (C&A) grants.
- ◆ Grant Expenditures were misclassified between From State Sources, From Federal Sources, and From Other Sources resulting in various misstatements between \$23,000 and \$148,000 between the three sources for both fiscal years. The aggregated misstatements are show in the table below.

Account	Over (Under) Statement	
	Fiscal Year 2016	Fiscal Year 2017
Grants From State Sources	(\$33,476)	\$93,236
Grants From Federal Sources	\$56,516	(\$93,236)
Grants From Other Sources	(\$23,050)	

- ◆ The council coded payments made for national organization membership fees of \$15,728 and \$15,638 as grants, rather than operating expenses in fiscal year 2017 and 2016, respectively.
- ◆ Unspent budget authority for C&A grants remaining from the 2015 biennium was incorrectly continued into the 2017 biennium, resulting in an overstatement of Budget Authority and Unspent Budget Authority of approximately \$200,000 in the state special revenue fund for both fiscal years. This misstatement is separate from the error described in

Recommendation #3 and is the basis for the opinion qualification described in the Independent Auditor's Report on page A-1.

These errors were the result of a number of situations; including turnover, late identification of errors, incomplete internal control policies and procedures, and lack of knowledge about governmental fund accounting. Council personnel were unaware they needed to record a transaction to transfer investment earnings from the permanent fund to the state special revenue fund. They were also unaware of how accounts roll up on the schedules, which caused the misstatements between Grant Sources. The coding of the membership fee payments was questioned by council personnel, but it was not until after the audit period that the council personnel determined they would record these as operating expenses. The unspent budget authority error was identified during fiscal year-end 2017 and council personnel requested the Office of Budget and Program Planning (OBPP) fix the authority; however, the authority was not corrected prior to the fiscal year-end. Council personnel are unsure why OBPP did not correct the error before the books closed at year-end. Overall, we believe this indicates internal controls are not adequately designed to ensure financial transactions are properly recorded when turnover occurs.

Without proper training and effective internal controls, there is risk errors in the accounting records will not be prevented, detected, or corrected in a timely manner, resulting in misstatements on the financial schedules.

RECOMMENDATION #1

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.*
-

Shared Permanent Fund Monitoring

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.

The Department of Revenue collects the Coal Severance Tax and deposits the council's portion into the Cultural Trust Permanent Fund, a shared fund, throughout the fiscal year. During the fiscal year-end closing process performed by the Department

of Administration, the cash collected and deposited into the shared fund by the Department of Revenue is moved to the council's business unit, as the council is the administering agency of the trust fund. The council's portion of this tax was approximately \$348,000 and \$343,000 for fiscal year-end 2017 and 2016, respectively.

State Accounting policy requires the administering agency of a fund to ascertain the validity of all financial transactions affecting the fund for their agency. The council does not have controls in place to ensure the revenues recorded in the trust fund by the Department of Revenue are complete and accurate. Council staff were not aware they should be monitoring the trust fund activity recorded by the Department of Revenue, so were only monitoring the investment earnings.

We found no financial errors in the coal tax deposited into the shared fund for the two fiscal years ended June 30, 2017. However, without effective controls, the council may not be receiving the correct amount of cash they are entitled to receive per §15-35-108(6), MCA.

RECOMMENDATION #2

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.

Cultural & Aesthetic Grant Appropriation Authority

The council increased the cultural and aesthetic grant appropriation and the associated grant expenditures beyond that allowed by law.

Pursuant to §15-35-108(6), MCA, effective through June 30, 2017, 0.63 percent of the state's coal severance tax collections are allocated to a trust fund to provide funding to protect the works of art in the capital and for other C&A projects. Interest earnings from the trust fund are appropriated by the Legislature each legislative session. For the 2015 biennium, Chapter 401, Laws of 2015 (House Bill 9) appropriated \$384,995 for C&A grants, with the caveat that if interest earnings exceed the projection of \$450,000 in fiscal year 2016 and \$430,000 in fiscal year 2017, both the appropriation and the grants for the projects may be increased by the percent increase of the actual revenue. Section 22-2-305, MCA, requires the council to allocate and disburse C&A project account funds as appropriated by the legislature.

During the biennium the projected interest earnings were \$880,000 while actual interest earnings were just over \$970,000. This represents an increase of just over 10 percent, which allowed the council to increase both the appropriation and the grants for the projects by a total of \$42,196. We estimate the agency increased the appropriation and grants between \$38,000 and \$51,000 more than allowed. We were unable to determine the exact difference because the activity recorded on the primary accounting system differs from council personnel explanations of the process used to increase the grants. Using the state's accounting records, we estimate the council increased the appropriation and grants by 21 percent, \$38,000 more than authorized. Using council personal explanations, the increase was 24 percent, \$51,000 more than authorized. This noncompliance with House Bill 9 appropriation authority limitation was the result of the agency misunderstanding House Bill 9. The provision for increasing the appropriation and grants did not exist prior to the 2015 Legislative Session. The council personnel explained they were involved in the drafting of the bill, so they increased grants according to the intent of the bill rather than the actual language in Chapter 401, Laws of 2015.

RECOMMENDATION #3

We recommend the Montana Arts Council comply with state law governing the disposition of excess actual investment earnings in the Cultural Trust Permanent Fund.

Independent Auditor's Report and Council Financial Schedules

LEGISLATIVE AUDIT DIVISION

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, 2017, and 2016, 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, 2017, and June 30, 2016, or changes in financial position for the years then ended.

Basis for Qualified Opinions on Regulatory Basis of Accounting

Unspent budget authority for cultural and aesthetic grants from the 2015 biennium was incorrectly continued into the 2017 biennium. As a result, State Special Revenue Fund Budget Authority and Unspent Budget Authority are overstated on the Schedules of Total Expenditures and Transfers-Out by \$207,894 for the fiscal year ended June 30, 2017, and \$199,417 for the fiscal year ended June 30, 2016.

Qualified Opinions on Regulatory Basis of Accounting

In our opinion, except for the effects of the matters described in the "Basis for Qualified Opinions" paragraph, the Schedules of Total Expenditures & Transfers-Out for the fiscal years ended June 30, 2017, and 2016, present fairly, in all material respects, the results of operations of the Montana Arts Council for each of the fiscal years ended June 30, 2017, and 2016, in conformity with the basis of accounting described in Note 1.

Unmodified Opinions on Regulatory Basis of Accounting

In our opinion, the Schedules of Changes in Fund Equity and Schedules of Total Revenues & Transfers-In, 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, 2017, and 2016, 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 2, 2018, on our consideration of the Montana Art 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 2, 2018

MONTANA ARTS COUNCIL
 SCHEDULE OF CHANGES IN FUND EQUITY
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Permanent Fund
FUND EQUITY: July 1, 2016	\$ (15,275)	\$ 270,067	\$ 0	\$ 14,631,139
ADDITIONS				
Budgeted Revenues & Transfers-In		549,000	780,317	
Nonbudgeted Revenues & Transfers-In		53,307	244	129,516
Direct Entries to Fund Equity	523,063	(29,983)	(0)	348,796
Total Additions	523,063	572,324	780,561	478,312
REDUCTIONS				
Budgeted Expenditures & Transfers-Out	537,381	702,930	787,590	
Nonbudgeted Expenditures & Transfers-Out	(305)	9,234		392,000
Prior Year Expenditures & Transfers-Out Adjustments		(1,000)	(2,620)	
Total Reductions	537,075	711,164	784,970	392,000
FUND EQUITY: June 30, 2017	\$ (29,287)	\$ 131,227	\$ (4,409)	\$ 14,717,451

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-10.

MONTANA ARTS COUNCIL
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>General Fund</u>	<u>State Special Revenue Fund</u>	<u>Federal Special Revenue Fund</u>	<u>Permanent Fund</u>
FUND EQUITY: July 1, 2015	\$ (26,251)	\$ 380,673	\$ 0	\$ 13,847,597
ADDITIONS				
Budgeted Revenues & Transfers-In		605,000	788,991	
Nonbudgeted Revenues & Transfers-In	551,716	5,839	820	925,027
Direct Entries to Fund Equity	551,716	(18)		343,514
Total Additions	<u>551,716</u>	<u>610,822</u>	<u>789,811</u>	<u>1,268,542</u>
REDUCTIONS				
Budgeted Expenditures & Transfers-Out	541,131	666,089	789,861	
Nonbudgeted Expenditures & Transfers-Out	(391)	55,339	(50)	485,000
Prior Year Expenditures & Transfers-Out Adjustments	540,740	721,427	789,811	485,000
Total Reductions	<u>(15,275)</u>	<u>270,067</u>	<u>0</u>	<u>14,631,139</u>
FUND EQUITY: June 30, 2016	\$ (15,275)	\$ 270,067	\$ 0	\$ 14,631,139

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-10.

MONTANA ARTS COUNCIL
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

TOTAL REVENUES & TRANSFERS-IN BY CLASS	State Special Revenue Fund	Federal Special Revenue Fund	Permanent Fund	Total
Taxes		244		244
Investment Earnings			129,516	129,516
Transfers-in	549,000			549,000
Miscellaneous	53,307			53,307
Federal		780,317		780,317
Total Revenues & Transfers-In	602,307	780,561	129,516	1,512,384
Less: Nonbudgeted Revenues & Transfers-In	53,307	244	129,516	183,067
Prior Year Revenues & Transfers-In Adjustments				0
Actual Budgeted Revenues & Transfers-In	549,000	780,317	0	1,329,317
Estimated Revenues & Transfers-In	613,212	763,800		1,377,012
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>(64,212)</u>	<u>16,517</u>	<u>0</u>	<u>(47,695)</u>
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS				
Transfers-in	\$ (64,212)			\$ (64,212)
Federal		\$ 16,517		\$ 16,517
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>(64,212)</u>	<u>16,517</u>	<u>0</u>	<u>(47,695)</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-10.

MONTANA ARTS COUNCIL
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	State Special Revenue Fund	Federal Special Revenue Fund	Permanent Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS				
Taxes	\$	800		\$ 800
Charges for Services	5,839	20		5,859
Investment Earnings			925,027	925,027
Transfers-in	605,000			605,000
Federal		788,991		788,991
Total Revenues & Transfers-In	610,839	789,811	925,027	2,325,677
Less: Nonbudgeted Revenues & Transfers-In	5,839	820	925,027	931,687
Prior Year Revenues & Transfers-In Adjustments				0
Actual Budgeted Revenues & Transfers-In	605,000	788,991	0	1,393,991
Estimated Revenues & Transfers-In	605,271	762,318		1,367,589
Budgeted Revenues & Transfers-In Over (Under) Estimated	(271)	26,672	0	26,401
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS				
Transfers-in	\$	(271)		\$ (271)
Federal		26,672		26,672
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$	26,672	0	\$ 26,401

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-10.

MONTANA ARTS COUNCIL
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Promotion of the Arts	Total
Personal Services		
Salaries	\$ 483,100	\$ 483,100
Other Compensation	6,150	6,150
Employee Benefits	165,656	165,656
Total	654,906	654,906
Operating Expenses		
Other Services	180,560	180,560
Supplies & Materials	33,331	33,331
Communications	30,368	30,368
Travel	76,548	76,548
Rent	71,177	71,177
Repair & Maintenance	379	379
Other Expenses	70,770	70,770
Total	463,132	463,132
Grants		
From State Sources	608,553	608,553
From Federal Sources	300,869	300,869
Total	909,422	909,422
Transfers-out		
Fund transfers	397,750	397,750
Total	397,750	397,750
Total Expenditures & Transfers-Out	\$ 2,425,209	\$ 2,425,209
 EXPENDITURES & TRANSFERS-OUT BY FUND		
General Fund	\$ 537,075	\$ 537,075
State Special Revenue Fund	711,164	711,164
Federal Special Revenue Fund	784,970	784,970
Permanent Fund	392,000	392,000
Total Expenditures & Transfers-Out	2,425,209	2,425,209
Less: Nonbudgeted Expenditures & Transfers-Out	400,929	400,929
Prior Year Expenditures & Transfers-Out Adjustments	(3,620)	(3,620)
Actual Budgeted Expenditures & Transfers-Out	2,027,900	2,027,900
Budget Authority	2,361,486	2,361,486
Unspent Budget Authority	\$ 333,586	\$ 333,586
 UNSPENT BUDGET AUTHORITY BY FUND		
General Fund	\$ 4,659	\$ 4,659
State Special Revenue Fund	325,717	325,717
Federal Special Revenue Fund	3,210	3,210
Unspent Budget Authority	\$ 333,586	\$ 333,586

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-10.

MONTANA ARTS COUNCIL
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Promotion of the Arts	Total
Personal Services		
Salaries	\$ 540,702	\$ 540,702
Other Compensation	5,375	5,375
Employee Benefits	183,855	183,855
Total	729,932	729,932
Operating Expenses		
Other Services	216,875	216,875
Supplies & Materials	47,569	47,569
Communications	42,922	42,922
Travel	84,063	84,063
Rent	73,693	73,693
Other Expenses	25,025	25,025
Total	490,146	490,146
Grants		
From State Sources	379,754	379,754
From Federal Sources	440,445	440,445
From Other Sources	11,700	11,700
Total	831,899	831,899
Transfers-out		
Fund transfers	485,000	485,000
Total	485,000	485,000
Total Expenditures & Transfers-Out	\$ 2,536,978	\$ 2,536,978
 EXPENDITURES & TRANSFERS-OUT BY FUND		
General Fund	\$ 540,740	\$ 540,740
State Special Revenue Fund	721,427	721,427
Federal Special Revenue Fund	789,811	789,811
Permanent Fund	485,000	485,000
Total Expenditures & Transfers-Out	2,536,978	2,536,978
Less: Nonbudgeted Expenditures & Transfers-Out	539,948	539,948
Prior Year Expenditures & Transfers-Out Adjustments	(50)	(50)
Actual Budgeted Expenditures & Transfers-Out	1,997,080	1,997,080
Budget Authority	2,576,565	2,576,565
Unspent Budget Authority	\$ 579,485	\$ 579,485
 UNSPENT BUDGET AUTHORITY BY FUND		
General Fund	\$ 30,164	\$ 30,164
State Special Revenue Fund	549,245	549,245
Federal Special Revenue Fund	76	76
Unspent Budget Authority	\$ 579,485	\$ 579,485

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-10.

Montana Arts Council
Notes to the Financial Schedules
For the Two Fiscal Years Ended June 30, 2017

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; 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 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 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, 2016 and June 30, 2017.

3. Prior Year Expenditures and Transfers-Out Adjustments

In both fiscal years 2016 and 2017 some prior year payments were returned and had to be re-issued in the Federal Special Revenue Fund. In FY 2017, a prior year coding correction was made to a grant payment in the State Special Revenue Fund.

4. Direct Entries to Fund Balance

Direct entries to fund balances in the General 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. Additional direct entries to the General, State Special Revenue and Federal Special Revenue funds included pre-paid balance moves to and from account 4122 – Fund Balance Prepays. At FYE 2016 there was a fund account correction in the permanent fund. An additional FY 2017 direct entry to the General Fund balance included a transfer of \$156,564 in cash from Fund 03016 to Fund 01100.

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 \$485,000 and \$389,000 in fiscal years 2016 and 2017, respectively. Additional Transfers-In of \$120,000 in both FY 2016 and 2017 in the State Special Revenue Fund were from the Department of Commerce to fund our Montana Artrepreneur Program. In fiscal year 2017 another

transfer in of \$40,000 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 2016 unspent budget authority in the General Fund of \$30,164 is biennial authority carried forward into FY 2017 for Art Glass Blowing Projects, the audit and the workers comp reduction. The fiscal year 2016 unspent budget authority in the State Special Revenue fund includes remaining biennial appropriation for Cultural Trust grants of \$133,747. The appropriation of \$207,894 was remaining from the 2015 biennium and was inadvertently continued into FY 2016. This was corrected during FY 2017 so that it would not continue into FY 2018. It also includes \$204,201 of continuing appropriation authority for unfinished Percent for Art projects and maintenance and remaining funds of \$3,340 for a biennial contract with the Office of Public Instruction (OPI) for Arts Standards Revision to be completed by December 2016.

The fiscal year 2017 unspent budget authority in the General Fund of \$4,659 is the remaining balance for the audit and workers comp reduction. The fiscal year 2017 unspent budget authority in the State Special Revenue fund includes the 2015 remaining appropriation for Cultural Trust grants mentioned above of \$207,894 that was inadvertently continued to FY 2016 and then to FY 2017. It also includes \$114,470 of continuing appropriation authority for Percent for Art projects and maintenance and remaining funds of \$3,340 for a biennial contract with the Office of Public Instruction (OPI) for Art Standards Revision that was completed by FYE 2016. The fiscal year 2017 unspent budget authority in the Federal Special Revenue Fund of \$3,210 is continuing authority carried forward to FY 2018.

Report on Internal Control and Compliance

LEGISLATIVE AUDIT DIVISION

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



B-1
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 for each of the fiscal years ended June 30, 2017, and 2016, and the related notes to the financial schedules, and have issued our report thereon dated April 2, 2018. Our report includes qualified opinions on the Schedules of Total Expenditures & Transfers-Out for the fiscal years ended June 30, 2017, and 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial schedules, we considered the Montana Art 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 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 the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

- ◆ The Montana Arts Council's internal controls were not effective in ensuring transactions recorded on the primary accounting system are complete, accurate, and in accordance with state policy. See the finding and recommendation on page 3 for a description of this material weakness.
- ◆ The Montana Arts Council does not have controls in place to ensure the revenues recorded in the Cultural Trust Fund by the Department of Revenue are complete and accurate. See the finding and recommendation on page 4 for a description of this significant deficiency.

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 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*.

The Montana Arts Council's Response to Findings

The Montana Arts Council's response to the findings identified in our audit are described on page C-1 of this report. The council's response was not subjected to the auditing procedures applied in the audit of the financial schedules and, accordingly, we express no opinion on it.

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 2, 2018

MONTANA ARTS
COUNCIL

COUNCIL RESPONSE



May 29, 2018

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

RECEIVED
MAY 30 2018
LEGISLATIVE AUDIT DIV.

Dear Mr. Maciver:

We have reviewed the audit recommendations for the two fiscal years ending June 30, 2017 and concur with all of them. Below is our position, corrective action and timetable for implementation.

RECOMMENDATION #1: 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 government accounting.

We concur and will comply with this recommendation during the current fiscal year. We have started a review of our current internal control plan and will have a draft completed by fiscal year end. We are also considering a small contract with an independent accountant to assist us with our internal control reviews. Policies and procedures have been put into place to avoid the misstatements that were found during this audit period.

Council staff will attend any future Department of Administration State Accounting training as needed to increase knowledge of government accounting.

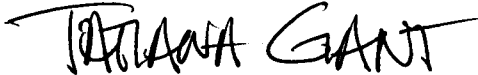
RECOMMENDATION #2: We recommend the Montana Arts Council develop and implement internal controls to ensure the completeness and accuracy of the Coal Severance Tax revenue collected on the council's behalf.

We concur and have complied with this recommendation during the current fiscal year. We have been in contact with the Department of Revenue and they directed us to their online monthly collection report. This report is being checked on a monthly basis and compared to the revenue deposited on the Cultural Trust Permanent Fund trial balance. Any discrepancies will be brought to the Department Of Revenue's attention and we will request a correction if necessary.

RECOMMENDATION #3: We recommend the Montana Arts Council comply with state law governing the disposition of excess actual investment earnings in the Cultural Trust Permanent Fund.

We concur and will comply with this recommendation during the current biennium. Policies and procedures have been put into place to ensure the language related to increased earnings in HB 9 be accurately followed.

Sincerely,

A handwritten signature in black ink that reads "TATIANA GANT". The letters are stylized and connected, with a prominent horizontal stroke at the top of the first letter.

Tatiana Gant
Executive Director