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Janice Mueller
State Auditor

May 14, 2008

Mr. George Tzougros, Executive Director
Wisconsin Arts Board
101 East Wilson Street, 1st Floor
Madison, Wisconsin 53702

Dear Mr. Tzougros:

We have completed our audit work at the Wisconsin Arts Board to help meet our audit requirements under s. 13.94, Wis. Stats. The primary focus of our audit was to review the Arts Board's fiscal operations and administrative activities, to ensure these activities are well controlled and in compliance with statutory requirements.

We identified several control issues over receipts and disbursements and found the Arts Board is not consistently following state disbursement policies. We also noted issues with its involvement with Wisconsin-Chiba, Inc. The Arts Board's responses and corrective action plans to implement recommended improvements are included in the text so that readers may see its intended resolution of the matters discussed. The Arts Board is partially responsive to our recommendations and indicates it is taking some steps to address our concerns. However, we encourage it to consider implementing all of the improvements included in our recommendations. In future audits, the Audit Bureau will determine the extent to which the concerns discussed in this letter have been resolved.

Our auditors found Arts Board staff to be helpful and responsive to their requests. We appreciate the courtesy and cooperation extended to us during the audit.

Sincerely,

Janice Mueller
State Auditor

JM/DA/kc

Enclosure

cc: Senator Jim Sullivan
Senator Julie Lassa
Senator Mark Miller
Senator Alan Lasee
Senator Robert Cowles

Representative Suzanne Jeskewitz
Representative Samantha Kerkman
Representative Kitty Rhoades
Representative David Cullen
Representative Joe Parisi

FISCAL MANAGEMENT PRACTICES

We have completed audit work at the Wisconsin Arts Board as part of our responsibilities under s. 13.94, Wis. Stats. The primary focus of our audit was to review the Arts Board's fiscal operations and administrative activities, to ensure these activities are well controlled and in compliance with statutory requirements. We identified several control issues over receipts and disbursements and found the Arts Board was not consistently following state disbursement policies. We also noted issues with its involvement with Wisconsin-Chiba, Inc.

Fiscal Controls

For an optimal control environment, responsibility for key fiscal procedures should be adequately segregated and completed by different individuals in order to prevent any one staff person from having the ability to misappropriate funds without detection. However, the Department of Tourism does not assist the Arts Board with fiscal activities and the limited number of staff makes optimal segregation of responsibilities difficult: key fiscal responsibilities are completed primarily by one Arts Board staff person who works with limited management oversight, which increases the risk for misappropriation of assets. Consequently, we believe additional steps are needed to address limited segregation of responsibilities and improve controls over receipts and disbursements.

Controls over Receipts

A large portion of the Arts Board's receipts are federal grants and funds from other state agencies, which are generally well-controlled. However, during fiscal year (FY) 2006-07, the Arts Board received approximately \$53,000, or 6.8 percent of its receipts, in the form of checks for a variety of purposes, including conference registration and fees for its annual arts and crafts fair directory.

The office operations associate typically opens the mail and restrictively endorses the checks, which provides for some level of control. However, the responsibility for safeguarding, recording, depositing, and reconciling the checks is all handled by the associate director for administration, which could provide her the opportunity to misappropriate checks without detection. Further, the Arts Board has limited procedures to track checks received, which limits its ability to detect a theft of checks.

Of particular concern are the Arts Board's procedures for payments received for its annual arts and crafts fair directory. Artists and cultural organizations typically send checks ranging from \$25 to \$250 to publicize an event in the directory. In addition to handling both deposit and reconciliation activities for the checks, the associate director for administration has other responsibilities or access to records that would allow her to conceal theft of these checks. She is allowed to make updates to Arts Board records and would be able to include event information in the directory regardless of whether a check is deposited. She is also responsible for creating and canceling accounts receivable amounts for directory invoices, which would allow her to adjust the accounts to cover the theft of checks.

The Arts Board also does not maintain an adequate audit trail to identify whether payments were received and deposited for directory entries. Before 2005, Arts Board staff maintained a log of all entries in each directory published, which included supporting details for each entry. However, when administrative staff was subsequently reduced, a separate log for each year's directory was no longer maintained. Instead, data for each new directory is recorded over data for the previous directory. Without an adequate audit trail, we were unable to identify whether payments had been received and deposited for each of the directory entries. Further, specific coding is not assigned to directory receipts, so that an analysis of trends that might help to compensate for the lack of optimal segregation of receipt handling responsibilities is difficult to complete. While we did not identify any misappropriation of assets, we believe the Arts Board should give priority to improving controls over its receipts.

☑ **Recommendation**

We recommend the Arts Board implement steps to improve controls over receipt processing, including:

- logging checks as the mail is opened and independently comparing this listing with the bank deposit and receipts recorded on the accounting system;
- using a more specific accounting code level to facilitate independent review and trend analyses of different types of receipts;
- segregating responsibilities for generating accounts receivable invoices from recording subsequent receipts; and
- limiting administrative staff's access to program information, such as the arts and craft fair directory.

Agency Response: The Arts Board believes it has implemented a safeguard for this suggestion. When checks arrive and the mail is opened, the office operations associate stamps "for deposit only" on the back of each check and the checks are photocopied. The photocopies go directly to the communications specialist, who then enters the check information into a database that matches the appropriate arts and crafts listing. The actual checks go into a locked drawer until the associate director for administration creates a deposit and takes the checks to the State Treasurer. Bank deposits are compared with the database. In addition, the office operations associate will keep one complete copy of all checks arriving at the Arts Board for comparison purposes. Coordination with the office operations associate and the communication specialist assures that all of the arts and crafts advertising fees are collected and deposited accurately.

Subsequent to this response, Arts Board staff have worked with a software vendor to require log-on IDs and passwords to access its program information database and to limit administrative staff's access to program information such as the arts and crafts fair directory. While these are important steps in strengthening internal controls, we encourage the Arts Board staff to further control access to the program information database and to consider implementing the other steps outlined in the recommendation to further improve controls over receipts.

Controls over Disbursements

The Arts Board's disbursements are primarily grant awards to individuals and organizations, payroll, and payment for goods and services to support its activities. The State's accounting system, WiSMART, provides some level of control over disbursements through the required use of log-on IDs and budgetary checks. However, the effectiveness of these controls is dependent upon the adequacy of controls at the agency level.

Agency controls should not allow the person who prepares disbursement entries to also have the authority to approve them. At the Arts Board, the information technology staff person enters disbursement information into WiSMART, while the associate director for administration approves the transactions. However, the WiSMART access granted to the associate director for administration also allows her to correct a transaction and provide the approval necessary to produce a check. With this access, she could generate an additional check, change the check amount, or change other characteristics of the transaction, such as the name or address of the payee. Further, both the information technology staff person and the associate director for administration have the ability to add or make changes to vendors on WiSMART and have control over the mailing of checks, which increases the ease with which inappropriate disbursements could be made.

The Arts Board does complete reconciliations, including reconciliations between grant disbursements recorded on WiSMART and its own system for tracking grant awards. However, the associate director for administration completes these reconciliations, which limits their effectiveness in detecting inappropriate transactions that she may have processed. We also found that other key controls to help prevent unauthorized disbursements are not operating effectively. For example, the Arts Board's procedures require that an employee other than administrative staff indicate that a payment is appropriate by initialing the payment request. However, in our review of 14 disbursements, we found 7 instances in which an approving signature was not present.

Recommendation

We recommend the Arts Board implement steps to improve controls over disbursement processing, including:

- *removing the ability for staff to both correct and approve disbursement transactions on WiSMART;*
- *limiting the ability of staff who generate checks to also control their mailing;*
- *removing the ability of fiscal staff to modify grant-tracking system records;*
- *assigning grant award reconciliation duties to program staff; and*
- *enforcing existing policies requiring approval of disbursements.*

If it is unable to sufficiently segregate key responsibilities for processing receipts and disbursements, the Arts Board could consider seeking assistance from fiscal staff in the departments of Administration (DOA) and Tourism. Further, the importance of internal controls and any policy and procedural changes made to reinforce its internal control plan should be communicated to all employees.

Agency Response: The Arts Board believes it has implemented steps to improve controls over disbursement processing. It has removed the ability for staff to both correct and approve disbursement transactions in WiSMART. The office operations associate, rather than the information technology staff, will now mail all checks. Governing board members set the budget for the agency and the grant-tracking system is based on this budget, as are the awards approved by the governing board members. Program staff oversee activity in both grant awards and their appropriate program operations budget on a monthly basis. Adjustments are made should something get charged to the wrong operations budget. Management will impress upon staff the importance of documenting these adjustments, as well as the importance of following invoice approval policies. With these controls, we are certain that the agency would notice any modification to either a grant award or budgeted expenditures.

Subsequent to this response, Arts Board staff have worked with a software vendor to require log-on IDs and passwords to access the grant-tracking system and have begun to remove administrative staff's ability to update grant-tracking system records. While these are important steps in strengthening internal controls, we encourage the Arts Board staff to address access to the grant-tracking system and to further improve controls over disbursements by implementing the other steps outlined in the recommendation.

Compliance with State Disbursement Policies

A compliance review of Arts Board disbursements completed by DOA in May 2005 noted many internal control issues and instances of noncompliance with state policies for purchasing card transactions and travel reimbursements, including general coding errors resulting in misstatements in taxable versus nontaxable employee travel reimbursements, lack of oversight for transactions, and overall concerns related to travel reimbursement policies. We reviewed similar transactions and found that some of the same concerns remain and recommended procedures had not been fully implemented. Specifically, we found:

- inconsistent review of purchasing card logs to ensure appropriate purchases were made;
- limited or inconsistent supporting documentation or missing approvals for payment requests; and
- inclusion of non-travel expenses on employee travel reimbursement requests.

☑ **Recommendation**

We recommend the Arts Board ensure it is complying with the 2005 recommendations made by the Department of Administration and specifically take steps to:

- review all purchasing card logs for compliance and accuracy;
- improve its understanding and enforcement of state travel requirements when reviewing and approving employee travel reimbursement requests;
- require adequate support for all disbursements, including signature approval of invoices; and
- educate employees as to what type of expenses can be included on a travel reimbursement request.

Agency Response: The Arts Board indicates it will continue to educate staff as to the appropriateness of purchasing card expenses and will more thoroughly review all purchasing card transactions.

These are important steps in implementing our recommendation, and we encourage the Arts Board to consider implementing the other steps outlined in the recommendation to further improve compliance with state disbursement policies.

Sister State Relationship

Since 1964, Wisconsin has established “sister state” relationships with five other countries or their political subdivisions. These partnerships, which vary in purpose and scope, encompass business, tourism, media contacts, and exchanges in science, the arts, and education. In May 1990, Governor Thompson signed an agreement with Chiba Prefecture, Japan, to create a sister state between Wisconsin and Chiba.

A nonprofit organization, Wisconsin-Chiba, Inc., was established to promote educational, cultural, science, and technological exchanges between the two states. The nonprofit organization provides the primary financial support for the relationship through fund-raising activities. One of Wisconsin-Chiba’s primary activities is participation in annual exchange trips. Each year, Wisconsin either sends a delegation to or hosts delegates from Chiba. The delegations typically include cultural, education, science, and technology delegates.

The Arts Board also has been an active participant in the relationship and the annual exchange trips, and its Executive Director has served as the president of Wisconsin-Chiba, Inc., since it was established in 1990. During our review of the Arts Board’s involvement with this sister state relationship, we identified the need for improvements in two areas. First, we believe the Arts Board needs to more formally establish its relationship with Wisconsin-Chiba, Inc., in some type of written agreement, such as a memorandum of understanding, to ensure all parties understand and agree to the arrangement. Of particular concern is the need to formalize the financial and staffing relationships between the two entities.

When Wisconsin serves as the host state, Wisconsin-Chiba, Inc., is responsible for covering the expenses of the exchange visit other than airfare, which is paid by the delegates. Under current practice, the Arts Board initially pays the host costs such as lodging or meal costs when Chiba delegates visit Wisconsin, and the airfare costs when Wisconsin delegates travel to Chiba. Most of these costs are subsequently reimbursed by Wisconsin-Chiba, Inc., and the Wisconsin delegates. However, in one case, reimbursement of \$7,109 was delayed by seven months, which resulted in a loss of approximately \$150 to \$200 in interest income to the State.

Because Wisconsin-Chiba, Inc., has no staff, Arts Board staff also have been extensively involved in planning and participating in the annual exchange trips. As part of these activities, Arts Board staff plan program activities and select cultural delegates to travel to Chiba. The Executive Director and a program person also typically travel with the delegations to Chiba, and the Arts Board pays for their airfare. Arts Board staff estimate that approximately 220 staff hours were spent organizing and facilitating cultural events when the Chiba delegation visited in 2007. Additional staff time was spent on administrative functions, such as coordinating travel arrangements. The Arts Board receives no reimbursement for these costs.

Wisconsin's only other sister state relationship with active exchanges is the relationship with Hessen, Germany, which is a teacher exchange coordinated through the Department of Public Instruction (DPI). DPI develops programs for visiting teachers and assists in selecting teachers to travel to Hessen and funds individual airfare costs for a DPI staff person who typically travels with the Wisconsin delegation. However, according to DPI staff, administrative responsibilities for the exchanges, such as coordinating visits and making travel arrangements, are coordinated by a separate nonprofit organization, the Hessen-Wisconsin Society, rather than DPI staff.

The second area the Arts Board needs to address is ensuring that expenses it incurs for the sister state relationship are appropriate under state and federal requirements. When two Arts Board employees traveled to Chiba in 2004 as part of the Wisconsin delegation, the Arts Board paid their airfare of \$2,047 using federal funding. However, these costs were unallowable under federal regulations because the Arts Board did not seek prior approval for international airfare. In 2006, the Arts Board did not use federal funds but instead used program revenue funds from its gifts and grants appropriation to pay the airfare costs of its two employees traveling to Chiba.

We reviewed other selected expenses related to the exchange trips and found that the Arts Board was appropriately reimbursed for most of them. We did note one small exception in 2006 when the Arts Board made a \$200 donation to Wisconsin-Chiba, Inc., on behalf of the two employees because all delegates were asked to make a \$100 donation. The employees did not reimburse the Arts Board for this donation.

Concerns with the Arts Board's financial activities related to Wisconsin-Chiba, Inc., predate our review. For example, DOA's 2005 compliance review of the Arts Board's disbursements questioned the appropriateness of the use of state funds to purchase gifts for the visiting Chiba delegation.



Recommendation

We recommend the Arts Board formalize its arrangement with Wisconsin-Chiba, Inc., in a written agreement that clearly establishes each entity's responsibilities, including parameters for compensating or reimbursing the Arts Board in a timely manner for costs incurred. Further, we recommend the Arts Board ensure that costs it incurs for participation in the exchange trips are allowable and reasonable under federal and state requirements.

Agency Response: The Arts Board agrees with the recommendation and will pursue a more formal agreement should the Arts Board's Executive Director continue to be the president of Wisconsin-Chiba, Inc. In addition, the Arts Board will ensure that the costs incurred for participation in exchange trips are allowable and reasonable under federal and state requirements.
