

Letter Report

Wisconsin Arts Board

May 2008



Legislative Audit Bureau

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Janice Mueller
State Auditor

May 14, 2008

Senator Jim Sullivan and
Representative Suzanne Jeskewitz, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Sullivan and Representative Jeskewitz:

We have completed audit work at the Wisconsin Arts Board to help meet our audit requirements under s. 13.94, Wis. Stats. We have reviewed the Arts Board's fiscal operations to assess whether they are well-controlled and in compliance with statutory requirements. One of the Arts Board's major activities is to administer artistic and cultural grant and fellowship programs for cultural organizations and individual artists. It also administers the State's Percent for Art Program, which coordinates the acquisition of artwork for public state buildings with building projects exceeding \$250,000.

The Arts Board is primarily funded by general purpose revenue. It also receives program revenue from the federal government, Indian gaming compacts, and funds from other state agencies. Grant expenditures represented 61.3 percent and the Percent for Art Program represented 15.6 percent of the Arts Board's total expenditures of \$3.9 million during fiscal year 2006-07.

We identified several significant concerns with the Arts Board's fiscal controls. The major factor contributing to our concerns is that key fiscal responsibilities are primarily completed by one fiscal person with limited management oversight. The Arts Board has taken some steps to address our concerns, but we encourage it to implement all of the improvements we have recommended in a separate management letter.

The Arts Board is an active participant in Wisconsin's sister state relationship with Chiba Prefecture, Japan. The Board's Executive Director serves as the president of the nonprofit organization, Wisconsin-Chiba, Inc., which provides the primary financial support for the relationship. The Arts Board provides program and administrative support to the organization. Our management letter includes recommendations for formalizing the Arts Board's arrangement with Wisconsin-Chiba, Inc., in a written agreement and ensuring costs incurred for annual exchange trips are allowable and reasonable under state and federal requirements. The Arts Board has agreed to implement these recommendations.

We appreciate the courtesy and cooperation extended to us by Arts Board staff during our review.

Sincerely,

Janice Mueller
State Auditor

JM/DA/ss

WISCONSIN ARTS BOARD

The Wisconsin Arts Board was created in 1973 and promotes, studies, and assists artistic and cultural activities throughout the state. The Governor appoints its 15 governing members, who serve staggered three-year terms and are required to represent all geographic areas of the state. The Lieutenant Governor currently serves as chairperson. The Arts Board is attached to the Department of Tourism for administrative purposes and has 10.0 full-time equivalent (FTE) employees, including the Executive Director, who is appointed by the governing board; six program staff; and three administrative staff.

One of the Arts Board's major activities is to administer artistic and cultural grant and fellowship programs for cultural organizations and individual artists. As shown in Table 1, most of the grant programs are directed toward nonprofit organizations and provide support for a variety of purposes, ranging from general operations to specific art experiences. Two of the programs provide grants to individual artists, including a fellowship program that provides support for artists as they create new work, complete work in progress, or pursue activities that contribute to their artistic growth.

The Arts Board uses panels for awarding grants for six of its programs, to encourage community involvement and vary the perspectives in its award decisions. Each panel is chaired by a member of the governing board, with other panel members selected from the artistic community that reflects the subject of the particular grant program. Panel members vary from year to year to provide cultural diversity and geographic dispersion across the state. Members of the governing board review panel recommendations and provide final approval of grant awards.

The Arts Board also administers the State's Percent for Art Program, which coordinates the selection, acquisition, and installation of artwork for public state buildings when major construction, remodeling, or renovation projects exceed \$250,000. Statutes require that at least 0.2 percent of the total construction cost of new state building or renovation projects with budgets over \$250,000 be designated for the commission or purchase of artwork. The Arts Board uses 20.0 percent of the funding received for each of the Percent for Art Program projects for costs it incurs to administer the program. Only state buildings with a high degree of public access are eligible for the program.

Table 1

Arts Board’s Major Grant and Fellowship Programs

Program	Description
Awards to Organizations	
Arts Challenge Initiative	Encourages nonprofit arts organizations to leverage income from private sources. Formula-based grants are awarded to organizations whose fund-raising efforts meet or exceed the amount of eligible income raised in the previous year.
Artistic Program Support ¹	Provides consistent operational support to nonprofit artistic organizations. Grants are awarded based on panel recommendations.
Community Development Projects ²	Supports folk arts, local arts, and arts experiences for K-12 students. Grants providing up to 50 percent of the cost of a project are awarded to nonprofit organizations based on panel recommendations.
Performing Arts Network ¹	Provides support for art organizations that engage nonlocal, professional touring artists for a series of four or more performances. Grants are awarded based on panel recommendations.
Regranting	Provides funds to local arts agencies and their partner community foundations, which then regrant the funds to arts groups and artists located within their service region.
Cultural Facilities Assistance Program	Assists new performing arts presenters to meet the needs of their communities and provides professional technical assistance. Grants are awarded to a nonprofit partner based on panel recommendations.
Individual Awards	
Artist Fellowship Awards	Provides unrestricted funds to enable Wisconsin artists to create new work, complete work in progress, and pursue activities that contribute to their artistic growth. Fellowship awards are typically \$8,000 and are based on panel recommendations.
Artist and Community Collaborations Grant	Provides funds to artists to develop special projects in collaboration with community-based organization partners. Grants are awarded based on panel recommendations.

¹ The Artistic Program Support and Performing Arts Network grant programs are being replaced with a new program, the Creation and Presentation Grant program, for FY 2008-09. The new program will provide artistic program and operational support to established nonprofit arts organizations whose primary mission is to create or present ongoing arts programming that makes a significant local, regional, or statewide impact on the cultural life of Wisconsin and that furthers the Arts Board’s community development and arts education goals.

² The Community Development Projects grant has been renamed the Creative Communities Grant starting with the FY 2008-09 grant period. It will continue to support local arts, folk arts, and arts in education, with a renewed focus on developing the creative economy.

The Arts Board provides several resources, including grant-writing advice and technical assistance to grant applicants and recipients and networking opportunities for artists, arts organizations, and cultural organizations. It also holds town hall meetings throughout the state to educate arts and cultural organizations and citizens regarding new grant programs and to highlight the public value of the arts and the effect of creative culture on Wisconsin’s economy.

As part of our statutory audit responsibilities to periodically audit every state agency, we completed a review of the Arts Board’s fiscal practices, internal controls, and compliance with selected statutory requirements. We found that the Arts Board needs to take steps to improve its fiscal controls for processing receipts and disbursements and to improve fiscal management practices associated with its sister state relationship with Chiba Prefecture, Japan.

Financial Operations

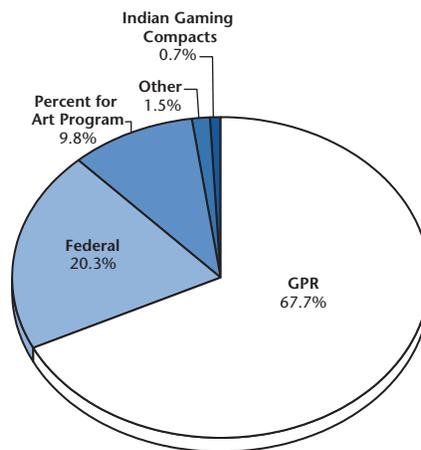
The Arts Board is primarily funded by general purpose revenue (GPR). However, it also receives program revenue from the federal government, Indian gaming compacts, and funds from other state agencies.

Revenue

GPR provided 67.7 percent of the Arts Board’s \$3.6 million in revenue for fiscal year (FY) 2006-07, as shown in Figure 1. GPR provides funding for general operations and six grant programs. Similarly, federal funding from the National Endowment for the Arts provides funding for general operations and seven grant programs. As noted, funding for the Percent for Art Program comes from funds used by state agencies to build or renovate state buildings. The Arts Board receives \$25,200 annually from Indian gaming compacts to provide grants to American Indian individuals or groups, and miscellaneous funding from a variety of sources such as fees paid for inclusion in an annual arts and craft fair directory.

Figure 1

Arts Board Revenue
FY 2006-07



Overall, funding levels for the Arts Board have remained fairly stable over the last five years. As shown in Table 2, GPR funding has been approximately \$2.4 million each year. Federal funding levels have fluctuated somewhat, while funding for the Percent for Art Program has ranged from \$350,024 to \$806,600.

Table 2
Arts Board Revenue
FY 2002-03 through FY 2006-07

Funding Source	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07	Percentage Change
GPR	\$2,430,000	\$2,369,800	\$2,369,800	\$2,412,700	\$2,412,600	(0.7)%
Federal	624,500	619,400	691,700	653,600	722,700	15.7
Percent for Art Program	494,700	806,600	618,900	515,500	350,024	(29.2)
Indian Gaming Revenues ¹	25,200	0	0	25,200	25,200	0.0
Other	22,100	34,400	44,600	52,000	52,548	137.8
Total	\$3,596,500	\$3,830,200	\$3,725,000	\$3,659,000	\$3,563,072	(0.9)

¹ The Legislature did not appropriate any Indian gaming revenues to the Arts Board for the 2003-05 biennium. It again appropriated Indian gaming revenues for the 2005-07 and 2007-09 biennia.

Variability in Percent for Art funding is attributable, in part, to large building projects at the University of Wisconsin (UW)-Madison during this period. From FY 2002-03 through FY 2005-06, the Percent for Art Program received almost \$1.2 million in funding related to six UW-Madison building projects, as shown in Table 3. The Interdisciplinary Research Center and Microbial Sciences Building represented the largest projects and provided over one-half of the Percent for Art funding for FY 2003-04. Similarly, funding for artwork at Camp Randall, which was used to commission the stacked football obelisk, represented over one-half of the program's funding for FY 2002-03.

There were large building projects at several other campuses during this period as well, including a student center at UW-River Falls and a sports center at UW-Green Bay. The appendix provides a listing of the building projects that provided \$30,000 or more to the Percent for Art Program from FY 1999-2000 through FY 2006-07.

Table 3

Percent for Art Funding for Large UW-Madison Building Projects¹

Building Project	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06	Total
Interdisciplinary Research Complex	\$ 0	\$200,000	\$100,000	\$ 34,800	\$ 334,800
Microbial Sciences Building	10,200	239,800	0	28,000	278,000
Camp Randall Stadium Renovation	250,000	0	0	0	250,000
Mechanical Engineering Building Renovation	0	0	115,000	12,000	127,000
Grainger Hall Addition	0	0	0	103,000	103,000
Dayton Street Residence Hall	0	0	89,600	0	89,600
Total	\$260,200	\$439,800	\$304,600	\$177,800	\$1,182,400

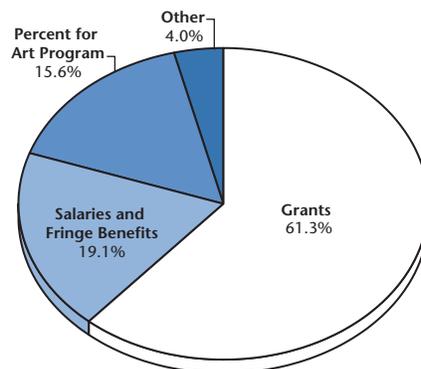
¹ The table includes only those funds received for the Percent for Art Program. Not all new artwork for building projects is purchased or commissioned through the Percent for Art Program. The Arts Board retains 20 percent of the funding received for each project for administrative costs it incurs.

Expenditures

As shown in Figure 2, 61.3 percent of the Arts Board’s expenditures in FY 2006-07 funded grants, while 19.1 percent went for staff salaries and fringe benefits. Percent for Art program expenditures, which largely included payments to artists for their services and related costs, were 15.6 percent of total expenditures in FY 2006-07. Other expenditures included overhead and administrative expenditures such as rent, staff travel, and supplies.

Figure 2

**Arts Board Expenditures
FY 2006-07**



Overall, the Arts Board’s expenditures increased by 16.2 percent from FY 2002-03 through FY 2006-07, as shown in Table 4. While grant expenditures remained relatively steady, salary and fringe benefit costs fluctuated over the five-year period and increased notably during FY 2006-07, when an additional staff person was hired for the Percent for Art Program. Other Percent for Art Program expenditures increased primarily because of the major building projects undertaken at UW-Madison and other campuses during this period.

Table 4

Arts Board Expenditures
FY 2002-03 through FY 2006-07

Expenditure	FY 2002-03	FY 2003-04	FY 2004-05	FY 2005-06	FY 2006-07 ²	Percentage Change
Grant Expenditures	\$2,272,963	\$2,076,652	\$2,108,109	\$2,347,543	\$2,365,590	4.1%
Salaries and Fringe Benefits	631,736	642,985	615,713	662,511	737,583	16.8
Percent for Art Program ¹	288,246	260,586	546,596	447,770	603,230	109.3
Other	127,118	155,408	167,530	170,586	151,462	19.2
Total	\$3,320,063	\$3,135,631	\$3,437,948	\$3,628,410	\$3,857,865	16.2

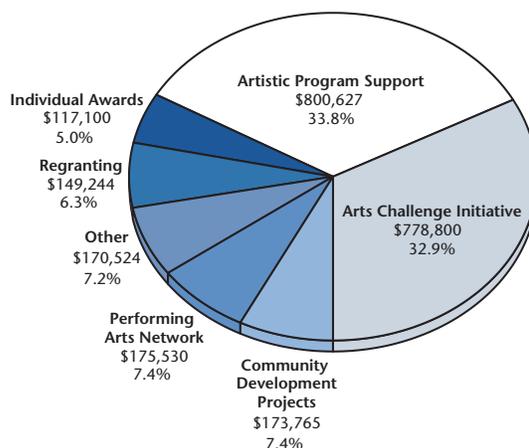
¹ Includes payments to artists for their services and related costs, such as travel. Administrative expenses incurred by the Arts Board for the program are included in the other categories.

² Expenditures exceeded revenues in FY 2006-07 because revenues received for the Percent for Art Program in prior years were available in a continuing appropriation to fund expenditures in FY 2006-07.

As shown in Figure 3, the Arts Board’s largest grant program is Artistic Program Support, which represents 33.8 percent of FY 2006-07 grant expenditures. That program is being replaced with a new program—the Creation and Presentation Grant program—for FY 2008-09. The new program will provide artistic program and operational support to established nonprofit arts organizations whose primary mission is to create or present ongoing arts programming that has a significant local, regional, or statewide effect on the cultural life of Wisconsin and that furthers the Arts Board’s community development and arts education goals. The grants will be capped, with the intention of providing more funding to smaller arts organizations.

Figure 3

**Arts Board Grant Expenditures
FY 2006-07**



The Arts Challenge Initiative program, which is funded entirely by GPR, was the Arts Board's second-largest grant program during FY 2006-07, with 32.9 percent of grant expenditures. However, 2007 Wisconsin Act 20 significantly reduced the size of this program for the 2007-09 biennium by transferring most of its funding to the state aid for the arts appropriation. That transfer was designed to increase the Arts Board's flexibility in allocating funds among its other grant programs, and staff indicate grant funds will be more evenly distributed among the Regranting, Community Development Projects (renamed Creative Communities for FY 2008-09), and the new Creation and Presentation Grant programs. Under Act 20, \$90,000 remains available annually for the Arts Challenge Initiative program, which the Arts Board indicates will be used to focus on nonprofit minority arts organizations.

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.

During our audit, we identified several control issues over receipts and disbursements and found the Arts Board was not consistently following state disbursement policies. In a separate management letter, we discuss these concerns and make several recommendations to address the limited segregation of responsibilities and to improve fiscal controls. In its responses, the

Arts Board is partially responsive to our recommendations and indicates that some steps are being taken to address our concerns. However, we encourage the Arts Board to consider implementing all of the improvements we included in our recommendations.

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 relationship 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, 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. Because Wisconsin-Chiba, Inc., has no staff, Arts Board staff have been extensively involved in planning and participating in the annual exchange trips.

Second, the Arts Board needs to ensure that expenses it incurs for the sister state relationship are appropriate under state and federal requirements. In a review completed in 2005, the Department of Administration found several concerns with the Arts Board's disbursements related to Wisconsin-Chiba, Inc. During our audit, we questioned whether costs were allowable in two instances.

Our management letter to the Arts Board includes recommendations for addressing our concerns with its involvement with Wisconsin-Chiba, Inc., that the Arts Board has agreed to implement.

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Appendix

Percent for Art Projects Receiving More than \$30,000

Fiscal Years 1999-2000 through 2006-07

Agency	Project	Percent for Art Funding ¹
UW System		
UW-Madison	Interdisciplinary Research Complex	\$ 334,800
	Microbial Sciences Building	278,000
	Camp Randall Stadium Renovation	250,000
	Health Sciences Center	171,650
	Engineering Center	167,000
	Mechanical Engineering Building Renovation	127,000
	Grainger Hall Addition	103,000
	Dayton Street Residence Hall	89,600
	Biotechnology Department	67,500
	Veterinary Diagnostic Laboratory	62,500
	Chamberlin Hall	56,000
	Medical School	30,000
	UW-Madison Subtotal	
Other UW Campuses		
UW-Green Bay	Phoenix Sports Center	80,000
	Lab Science Building	44,800
	Academic Building	34,000
UW-Oshkosh	Student Center, Wellness Center, and Residence Hall	84,950
	Reeve Memorial Union Renovation	35,000
	Halsey Science Center	30,500
UW-Milwaukee	Klotsche Center	91,000
	Sandburg Hall	56,900
UW-Stevens Point	Fine Arts Center	65,300
	Dreyfus Student Center Addition and Remodel	60,805
UW-Whitewater	Upham Science Addition	67,100
	Conner Center	50,600
UW-Platteville	Ullsvik Center	63,000
	Student Technology Center	33,700
UW-River Falls	Student Center	85,000
UW-Parkside	Student Center Expansion	63,000
UW-LaCrosse	Residence Hall	56,000
UW-Superior	Gates Physical Education Building Remodel	52,100
UW-Stout	North Campus Residence Hall	42,000
Campus Subtotal		1,095,755
UW System Subtotal		\$2,832,805

Agency	Project	Percent for Art Funding ¹
State Agencies		
Department of Administration	Waukesha State Office Building	\$ 51,000
	GEF I Renovation	48,115
Department of Revenue	State Revenue Building	60,000
Department of Justice	Crime Lab Remodeling	50,000
Department of Veterans Affairs	Southeast Wisconsin Veterans Home	42,700
State Fair Park	Grandstand Renovation	41,836
State Agency Subtotal		293,651
Total		\$3,126,456

¹ Includes funding received for artwork and for administrative costs incurred by the Arts Board.