



Minnesota State Arts Board Grant Administration

**2019
EVALUATION REPORT**

Program Evaluation Division
OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Program Evaluation Division

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Evaluation Staff

James Nobles, *Legislative Auditor*
Judy Randall, *Deputy Legislative Auditor*

Joel Alter
Caitlin Badger
Sarah Delacueva
Andrew Duncan
Scott Fusco
Will Harrison
Jody Hauer
David Kirchner
Carrie Meyerhoff
Ryan Moltz
Jodi Munson Rodriguez
Laura Schwartz
Katherine Theisen
Jo Vos
Caitlin Zanoni

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OFFICE OF THE LEGISLATIVE AUDITOR

STATE OF MINNESOTA • James Nobles, Legislative Auditor

February 2019

Members of the Legislative Audit Commission:

The Minnesota State Arts Board administers ten competitive grant programs and legislatively mandated grants to the regional arts councils. In doing so, the board must comply with state laws and policies for grant making.

We found that the Arts Board complied with most of the grant policies and laws that we reviewed, but we also found room for improvement. This report presents our findings and recommendations.

Our evaluation was conducted by Carrie Meyerhoff (project manager) and Katherine Theisen. Paul Rehschuh and Kris Schutta, of our Financial Audit Division, provided valuable help. The Minnesota State Arts Board, Arrowhead Regional Arts Council, Lake Region Arts Council, and Metropolitan Regional Arts Council cooperated fully with our evaluation, and we thank them for their assistance.

Sincerely,

James Nobles
Legislative Auditor

Judy Randall
Deputy Legislative Auditor



Summary

Key Facts and Findings:

- The state of Minnesota funds arts, in part, through the Minnesota State Arts Board and 11 regional arts councils. (p. 3)
- For Fiscal Year 2019, the Legislature appropriated \$31.7 million to the Arts Board from the Arts and Cultural Heritage Fund and \$7.5 million from the General Fund. (p. 5)
- The Legislature designates almost 30 percent of appropriations to the Arts Board for grants to regional arts councils. The board administers these legislatively mandated grants. (p. 12)
- Through its ten Fiscal Year 2018 competitive grant programs, the Arts Board awarded 577 grants totaling just over \$23 million to artists and organizations. (p. 10)
- For the competitive grant programs and grants to regional arts councils we reviewed, the Arts Board complied with most state grant requirements, but we also found opportunities for improvement. (pp. 17, 34, 37)
- The Arts Board awards competitive grants through a transparent process, but the process does not comply with the Minnesota Government Data Practices Act. (p. 24)
- The Arts Board's approach to monitoring Operating Support grants may not be sufficient to detect misuse of state funds, and its reviews of Artist Initiative final reports did not include evidence that staff identified and investigated uses of state grant funds that we questioned. (pp. 39, 42)

- The Arts Board has developed a plan to measure broad impacts of the arts in Minnesota, but it has not measured the outcomes of its grant programs. (p. 53)

Key Recommendations:

- The Legislature should amend the Minnesota Government Data Practices Act to permit grant applications to the Arts Board to become public earlier than the law currently allows. (p. 24)
- The Arts Board should align its grant contracts, program guides, award letters, and grant-making practices with each other and with state laws and policies. (p. 29)
- The Arts Board should send grant contracts to regional arts councils only after it has accepted their final biennial plans. (p. 35)
- The Arts Board should require recipients of Operating Support grants to provide an annual accounting of how they used state funds, and it should conduct monitoring visits with some of the grantees more frequently. (pp. 41, 42)
- The Arts Board staff should document in grant files their questions and conclusions about possible misuse of state grant funds. (p. 44)
- The Arts Board should assess the extent to which grantees' project outcomes align with the board's desired program outcomes. (p. 62)

While the Arts Board complies with most grant-related policies, some of its practices do not fully meet requirements.

The Legislature has reduced the Arts Board's General Fund appropriations, but has increased appropriations from the Arts and Cultural Heritage Fund.

Report Summary

The state of Minnesota funds arts, in part, through the Minnesota State Arts Board and 11 regional arts councils. Between the board and councils, arts-related grants and services are available to artists and organizations throughout the state.

The Legislature funds the Arts Board through General Fund and Arts and Cultural Heritage Fund (ACHF) appropriations.¹ Board appropriations for Fiscal Year 2019 included \$31.7 million from the ACHF and \$7.5 million from the General Fund. The Legislature designated almost 30 percent of the appropriations for grants to regional arts councils.

The Legislature has reduced General Fund appropriations to the Arts Board. The Legislature appropriated over \$20 million from the General Fund to the Arts Board for the 2008-2009 biennium. More recently, the Legislature appropriated just over \$15 million from the General Fund to the board for the 2018-2019 biennium, a reduction of more than 26 percent, before adjusting for inflation.

Since 2010, the ACHF has provided most of the Arts Board's funding. The ACHF appropriations have increased the board's overall funding, but the funds include more requirements related to their use than do General Fund appropriations. For example, recipients of ACHF monies must identify and measure outcomes from the use of the funds.

The Arts Board administers competitive grant programs and legislatively mandated grants to regional arts councils.

The Arts Board administers ten competitive grant programs. We focused our evaluation on two programs: (1) the

Artist Initiative program, which supports individual artists' creative and professional development, and (2) the Operating Support program, which provides support to organizations that produce, present, and exhibit works of art; provide services to artists; or teach arts to Minnesotans of all ages.

The board also administers legislatively mandated grants to the state's 11 regional arts councils. We focused our review on three regional arts councils: the Arrowhead Regional Arts Council (serving northeastern Minnesota), the Lake Region Arts Council (serving west central Minnesota), and the Metropolitan Regional Arts Council (serving the Twin Cities metropolitan area).

In administering grants, the Arts Board must comply with state laws and policies for grant making. In addition, state law includes requirements for grant recipients. For example, state grant funds must be used only for projects located in Minnesota.²

The Arts Board complied with most Office of Grants Management (OGM) policies for awarding grants, but there is room for improvement.

Consistent with state policies, the board publicized information about the Artist Initiative and Operating Support grant opportunities, established rating criteria, required grant reviewers to disclose conflicts of interest, and executed grant contracts. However, the board did not follow some policies, as detailed below.

While the program guides for the two competitive grant programs we reviewed included extensive information, they were missing some information characterized in OGM's grant procedures as "essential."

¹ In 2008, Minnesota voters approved the "Legacy Amendment," which authorized a 25-year, statewide sales tax increase of 3/8 of 1 percent, with 19.75 percent of receipts deposited in the Arts and Cultural Heritage Fund. *Minnesota Constitution*, art. XI, sec. 15.

² *Minnesota Statutes* 2018, 129D.17, subd. 2(f); and *Laws of Minnesota* 2017, First Special Session, chapter 4, art. 1, sec. 25.

For example, the program guides did not include a general overview of the composition of the committee that would review applications.

The board's process for scoring grant applications is transparent, but it does not comply with the Minnesota Government Data Practices Act (MGDPA). The board uses volunteer panelists to discuss and score most grant applications in meetings that are open to the public. During the meetings, the board makes copies of the applications available on computers so members of the public can view them. However, the MGDPA classifies most information in grant applications as "not public" until the state agency and grantee have negotiated a grant agreement.

The board also does not fully comply with requirements related to conflicts of interest. Volunteer panelists, board staff who participate in the panel process, and governing board members who award grants disclose conflicts of interest. But the board does not require all staff involved with grant making to disclose conflicts of interest, contrary to OGM policy.

We found some aspects of the board's Artist Initiative grant contracts unclear or inconsistent with other board documents. For example, the contracts did not identify changes to project budgets or activities that would require a contract amendment. In addition, guidance in the grant award letter about when grantees could begin spending funds was different than, and potentially inconsistent with, the contract language.

Finally, the board's grant contracts with regional arts councils aligned with most requirements. However, the timing of the board's administration of these legislatively mandated grants could be improved. Consistent with state rules and with OGM policy for legislatively mandated grants, the board required regional arts councils to submit biennial plans that described their intended uses of state funds. But, the board sent grant

contracts to the councils we reviewed before receiving the councils' final biennial plans.

We recommend the board align its grant-making practices and related documents with OGM policy, state law, and each other. We also recommend that the Legislature amend the MGDPA to allow the board's transparent application scoring process to continue. Finally, we recommend the board wait to send contracts to regional arts councils until after it has accepted their biennial plans.

The Arts Board did not provide enough oversight of Operating Support grantees.

The board monitors Operating Support grants through reviews of grantees' final reports and through monitoring visits.

However, the board does not require Operating Support grantees to account in their final reports for how they used state funds. While reviewing Operating Support grants, we found it difficult to determine whether grantees used state funds appropriately. For example, one grantee reported sending performers to Oregon to participate in a festival. Using the information available in the final report, we could not determine whether the grantee used state funds for this out-of-state project. As stated above, state grant funds must be used only for projects located in Minnesota.

In addition, the board did not complete monitoring visits for some Operating Support grants over \$50,000, which is inconsistent with OGM policy. The board did monitor grants over \$250,000 each year, which complies with OGM policy.

We recommend that the Arts Board (1) require Operating Support grantees to account for their use of state funds and (2) complete additional monitoring visits with these grantees.

The Arts Board's approaches to monitoring Operating Support and Artist Initiative grantees may be insufficient.

The Arts Board has identified desired outcomes for its grant programs but has not measured them.

We did not find evidence that board staff followed up with Artist Initiative grantees whose final reports included questionable spending.

The board monitors Artist Initiative grantees by reviewing their final reports, which include grantees' accounts of their spending.

We questioned some Artist Initiative grantees' uses of state funds. For example, some artists reported that all or part of their grant-related public events took place after the grant period. Grant contracts stated that all eligible costs must be incurred during the grant period.

While the total amount of expenses we questioned was less than 1 percent of about \$729,000 awarded for our sample grants, we are concerned that grantees' final reports did not show that board staff identified or investigated the expenses.

The board's executive director explained that board staff document issues they have concluded are problematic. However, we recommend that board staff document in grant files all of their questions and conclusions about grantees' uses of funds.

The board did not ensure compliance with all legal requirements when it monitored grants to regional arts councils.

OGM policy requires that state agencies diligently monitor legislatively mandated grants. The Arts Board reviewed final reports, conducted financial reconciliations, and had monitoring conversations for the legislatively mandated grants to the three regional arts councils we reviewed.

However, the board did not check, for example, whether the councils appropriately acknowledged state funds. We recommend the board ensure councils' compliance with all legal requirements.

The Arts Board has identified statewide goals for the arts, but it has not measured the overall impact of its grant programs.

In 2009, the Arts Board and regional arts councils identified five statewide goals for the arts to which the board and regional arts councils aspire. One goal, for example, is "Minnesotans believe the arts are vital to who we are." In 2018, the board identified indicators to track the state's progress on the goals. However, the goals and indicators will not directly measure the outcomes of the board's grant programs.

Consistent with requirements in state law, the Arts Board requires grantees to identify and measure outcomes of their state grants.³ The board also requires competitive grantees to align their intended project outcomes with the board's desired program outcomes.

However, the board has not ensured that competitive grantees' reported project outcomes are consistent with the board's program outcomes, and it has not measured the outcomes of its grant programs.

We recommend that the Arts Board assess whether grantees' project outcomes align with the board's program outcomes.

³ *Minnesota Statutes* 2018, 129D.17, subd. 2(a), requires recipients of ACHF dollars to identify outcomes and measure results of grant funding. The Arts Board requires all recipients of grants, regardless of funding source, to identify outcomes.

Table of Contents

1	Introduction
3	Chapter 1: Background
3	Minnesota State Arts Board
13	Regional Arts Councils
17	Chapter 2: Awarding Grants
17	Competitive Grant Programs
30	Grants to Regional Arts Councils
37	Chapter 3: Monitoring Grantees
37	Minnesota State Arts Board
49	Regional Arts Councils
53	Chapter 4: Measuring Outcomes
54	Statewide Goals and Indicators
57	Program and Project Outcomes
67	Chapter 5: Standards for Use of Funds
67	Supplement Not Substitute
73	Directly Related To and Necessary For
74	Projects Versus Activities
77	List of Recommendations
79	Appendix A: Artist Initiative Grant Program
85	Appendix B: Operating Support Grant Program
93	Appendix C: Arts Learning Panel Scoring Guide
97	Responses
97	Minnesota State Arts Board
101	Forum of Regional Arts Councils



List of Exhibits

Chapter 1: Background

- 4 1.1 The state has developed a network of 11 regional arts councils.
- 5 1.2 Since 2010, most money appropriated to the Arts Board and regional arts councils has come from the Arts and Cultural Heritage Fund.
- 6 1.3 Appropriations to the Arts Board come with restrictions and requirements, depending on the source.
- 9 1.4 The Arts Board's ten competitive grant programs have different purposes.
- 10 1.5 The Arts Board divided nearly \$22 million of its Fiscal Year 2018 appropriations among nine grant programs.
- 11 1.6 The success rates of applications to the Arts Board's Fiscal Year 2018 grant programs varied by program.
- 14 1.7 Overall, regional arts councils planned to distribute approximately two-thirds of state funding as grants in Fiscal Year 2018.
- 15 1.8 In fiscal years 2016 and 2017, regional arts councils provided services and resources to support the arts in their regions.

Chapter 2: Awarding Grants

- 18 2.1 The Arts Board's processes for awarding Artist Initiative and Operating Support grants met most state grant-making policies.
- 22 2.2 Volunteer panelists rate grant applications for funding consideration by the governing board.
- 23 2.3 More than 250 volunteer panelists ranked almost 1,200 Fiscal Year 2018 grant applications for the Arts Board.
- 34 2.4 The Fiscal Year 2018 grant contracts between the Arts Board and regional arts councils included most elements required for grant contracts, but the timing of their execution was contrary to law.

Chapter 3: Monitoring Grantees

- 38 3.1 The Arts Board's approaches to monitoring competitive grants and legislatively mandated grants to regional arts councils met most state grant-making policies.
- 43 3.2 We questioned expenses in some of the Fiscal Year 2017 Artist Initiative final reports we reviewed.

Chapter 4: Measuring Outcomes

- 54 4.1 The Arts Board's framework for measuring the impact of its grants consists of goals, indicators, and program and project outcomes.
- 56 4.2 The Arts Board has established five goals and 16 indicators.
- 58 4.3 Applicants identify outcomes for their projects and link those outcomes with program outcomes.
- 62 4.4 In some competitive grant programs, the majority of Fiscal Year 2017 grantees' expected outcomes aligned with one program outcome.

Chapter 5: Standards for Use of Funds

- 68 5.1 The Arts Board and regional arts councils created guidelines for meeting the "supplement not substitute" restriction.

Appendix A: Artist Initiative Grant Program

- 80 A.1 Eligibility Requirements for Fiscal Year 2018 Artist Initiative Applicants
- 81 A.2 Information Required for Fiscal Year 2018 Artist Initiative Applications
- 82 A.3 Fiscal Year 2018 Artist Initiative Review Criteria
- 83 A.4 Fiscal Year 2018 Artist Initiative Panel Scoring Guide
- 84 A.5 Restrictions on Uses of Funds, Fiscal Year 2017 Artist Initiative Grant Program

Appendix B: Operating Support Grant Program

- 87 B.1 Eligibility Requirements for Fiscal Year 2018 Operating Support Applicants
- 89 B.2 Information Required for Fiscal Year 2018 Operating Support Applications
- 90 B.3 Fiscal Year 2018 Operating Support Review Criteria
- 91 B.4 Fiscal Year 2018 Operating Support Panel Scoring Guide
- 92 B.5 Restrictions on Uses of Funds, Fiscal Year 2017 Operating Support Grant Program

Appendix C: Arts Learning Panel Scoring Guide

- 95 C.1 Fiscal Year 2018 Arts Learning Panel Scoring Guide

Introduction

Minnesota provides some of its public funding for the arts through the Minnesota State Arts Board and 11 regional arts councils. The board and councils distribute arts funds to individuals and organizations through competitive grant programs. The regional arts councils also provide arts-related services to artists and organizations in their regions. State appropriations to the board and councils have increased from around \$10 million in 2008 to over \$30 million a year.¹

While the Office of the Legislative Auditor has completed financial audits and narrow reviews of the Arts Board in recent years, the office had not evaluated the board's grant making since 1980. Thus, the 2018 Legislative Audit Commission directed the office to evaluate the Minnesota State Arts Board. We asked the following questions:

- **To what extent does the Minnesota State Arts Board comply with state grant-making policies?**
- **What approaches do the Arts Board and regional arts councils use to ensure appropriate uses of state grant funds, and how effective are the approaches?**
- **To what extent does the Arts Board measure the outcomes of the grants it makes, including grants to regional arts councils?**

We reviewed state laws and Office of Grants Management policies to familiarize ourselves with Minnesota's overall state grant-making framework. We also reviewed laws and administrative rules specific to the Arts Board and appropriations from the Arts and Cultural Heritage Fund.

To understand the grant-making activities of the board and regional arts councils, we interviewed Arts Board staff and the executive directors of 3 of the state's 11 regional arts councils—the Arrowhead Regional Arts Council (serving northeastern Minnesota), the Lake Region Arts Council (serving west central Minnesota), and the Metropolitan Regional Arts Council (serving the Twin Cities metropolitan area). We also reviewed the board's and councils' grant-making practices, sample contracts, and selected program guides. We reviewed 125 files of grants awarded by the Arts Board to assess the board's approaches for monitoring grants. We provide some examples of specific grants, from our sample grants and others, in callout boxes in chapters 1 through 4. We assessed the three councils' monitoring approaches by reviewing 75 grant files.

We reviewed grant documents related to the board's administration of legislatively mandated grants to regional arts councils as well. Finally, we analyzed board grant and financial data.

¹ In 2008, Minnesota voters created a funding stream for the arts when they approved the Outdoor Heritage, Clean Water, Parks and Trails, and Arts and Cultural Heritage Amendment to the Minnesota Constitution, also called the "Legacy Amendment." The Legacy Amendment authorized a 25-year statewide sales tax increase of 3/8 of 1 percent, with 19.75 percent of receipts to be deposited in the Arts and Cultural Heritage Fund. *Minnesota Constitution*, art. XI, sec. 15.

Parts of our evaluation work focused on two of the Arts Board's ten competitive grant programs. Similarly, we focused on two grant programs at each of the three councils. Though our focus was narrow, our assessment of the board's grant administration processes allowed us to draw conclusions about the Arts Board's grant activities and make recommendations for improvement that may have impact beyond the specific programs and councils we reviewed.

Finally, we did not address the question of whether the state should provide funding for the arts. And, we did not make assessments of the artistic merit or quality of the projects, programs, and activities supported by grants from the Arts Board or regional arts councils.

Chapter 1: Background

The state of Minnesota funds arts, in part, through a network comprising the Minnesota State Arts Board and 11 regional arts councils, shown in Exhibit 1.1. The Legislature appropriates funds to the Arts Board for each biennium, with a portion of the appropriations designated for the councils.

The Arts Board is a state agency that awards grants to artists and organizations. The regional arts councils are nonprofit organizations that award grants and provide services to artists and organizations within their geographic region. Between the board and the councils, grants and services are available to artists and organizations throughout the state. The Arts Board's grant programs typically offer larger dollar amounts per grant than do the regional arts councils' programs. Also, Arts Board grants that are available to organizations tend to be for larger organizations than grants offered by the regional arts councils.

This chapter provides more information about the Minnesota State Arts Board and the regional arts councils.

Minnesota State Arts Board

The Minnesota State Arts Board is charged with “stimulat[ing] and encourag[ing] the creation, performance, and appreciation of arts in the state.”¹ The board comprises 11 members appointed by the governor with the advice and consent of the senate. Each of Minnesota's eight congressional districts is represented by a member on the board, with the remaining members appointed “at large.” Board members, who must have “demonstrated experience or interest in the arts,” serve four-year terms.²

Supporting Creation of a Poetry Podcast

The Arts Board awarded a Fiscal Year 2017 Artist Initiative grant to an individual whose goal was to develop a podcast to engage modern audiences and encourage people to write poetry. During one segment of the podcast, a local artist, musician, politician, or activist read a poem followed by a discussion with the grantee (the podcast host) about the poem they read. Another segment of the podcast featured podcast listeners reading haikus they wrote. The grantee used their \$10,000 grant to develop, produce, and launch the podcast.

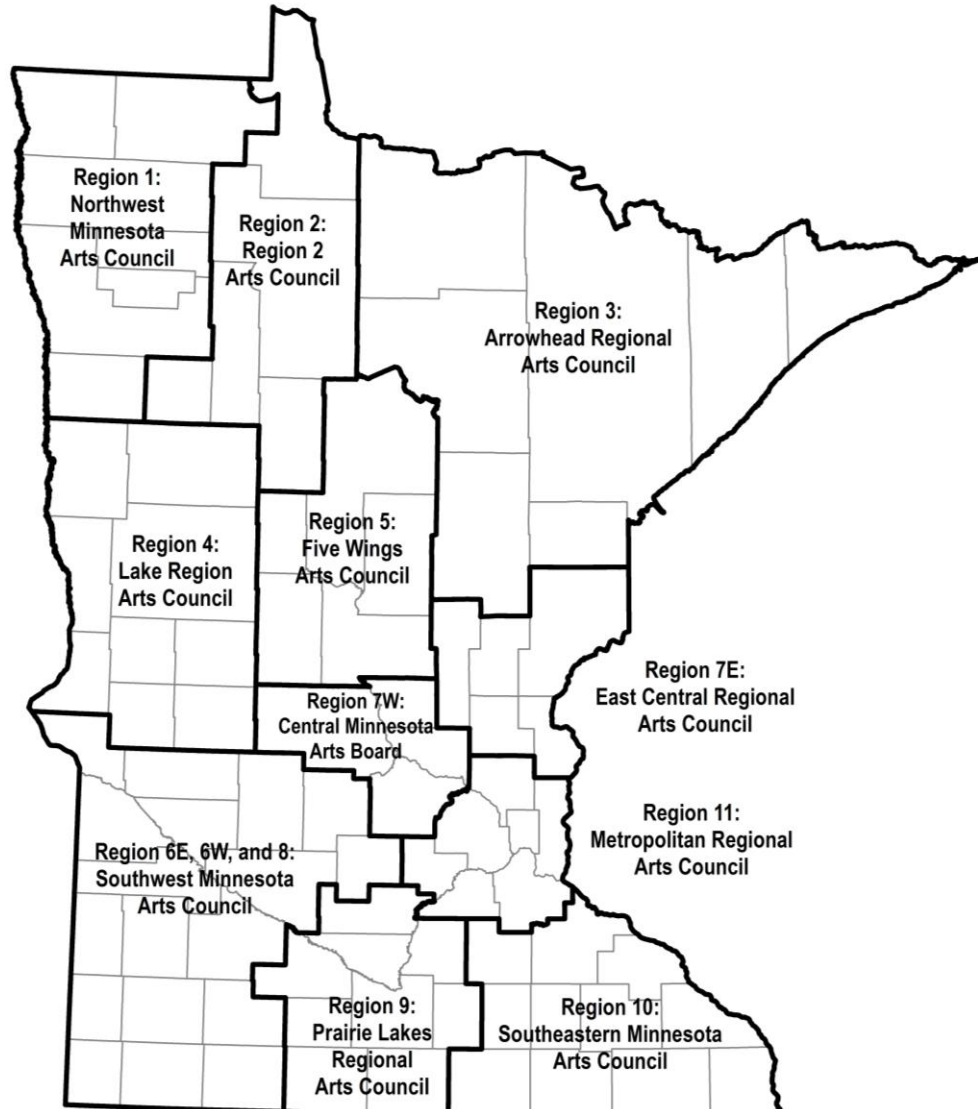
The board appoints an executive director who, along with staff, carry out the board's functions. These include designing and administering competitive grant programs and serving as a resource for state agencies, local units of government, and others. The board also administers legislatively mandated grants to regional arts councils.

In the following sections, we provide more information about the Arts Board's funding and staffing, competitive grant programs, and grants to regional arts councils.

¹ *Minnesota Statutes* 2018, 129D.04, subd. 1.

² *Minnesota Statutes* 2018, 129D.02, subds. 1 and 2. The law provides that a member may serve a second term, with the advice and consent of the senate, if the governor has not appointed a replacement member by July 1 of the year in which their term expires.

Exhibit 1.1: The state has developed a network of 11 regional arts councils.



SOURCE: Office of the Legislative Auditor.

Funding and Staffing

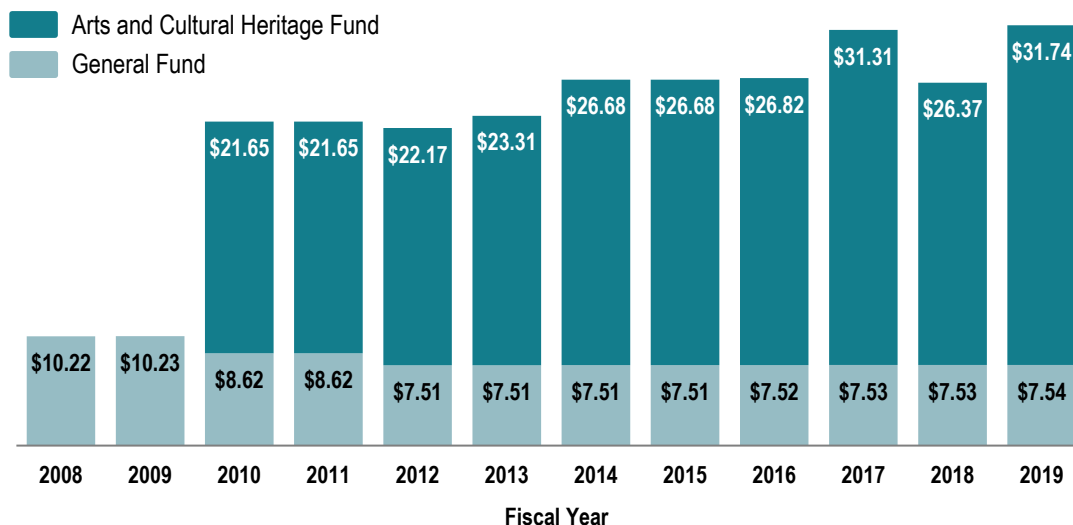
Appropriations from the Arts and Cultural Heritage Fund (ACHF) and the General Fund support the Arts Board and regional arts councils.³

Arts Board funding has increased significantly with appropriations from the Arts and Cultural Heritage Fund, but so have the board's responsibilities to use funds in certain ways and measure and report funding outcomes.

Appropriations from the ACHF have provided most of the state's financial support to the Arts Board and regional arts councils since 2010, as Exhibit 1.2 shows. Prior to 2010, appropriations from the General Fund supported the Arts Board and the regional arts councils. The 2007 Legislature appropriated approximately \$20.4 million to the Arts Board for the 2008-2009 biennium, with just under 30 percent—almost \$6 million—designated for the regional arts councils.⁴

Exhibit 1.2: Since 2010, most money appropriated to the Arts Board and regional arts councils has come from the Arts and Cultural Heritage Fund.

In Millions



NOTES: Dollars are not adjusted for inflation. In 2008, Minnesota voters approved the "Legacy Amendment" to the Minnesota Constitution. The amendment authorized a 25-year statewide sales tax increase of 3/8 of 1 percent, with 19.75 percent of receipts to be deposited in the Arts and Cultural Heritage Fund. *Minnesota Constitution*, art. XI, sec. 15.

SOURCE: Office of the Legislative Auditor, analysis of appropriation laws, 2007 through 2017.

³ In 2008, Minnesota voters approved the Outdoor Heritage, Clean Water, Parks and Trails, and Arts and Cultural Heritage Amendment to the Minnesota Constitution, also called the "Legacy Amendment." The Legacy Amendment authorized a 25-year statewide sales tax increase of 3/8 of 1 percent, with 19.75 percent of receipts to be deposited in the Arts and Cultural Heritage Fund. *Minnesota Constitution*, art. XI, sec. 15.

⁴ *Laws of Minnesota 2007*, chapter 135, art. 1, sec. 10.

Since the 2008-2009 biennium, the Legislature has reduced the biennial General Fund appropriation to the Arts Board by more than 26 percent before adjusting for inflation. For the 2018-2019 biennium, the Legislature appropriated \$15.1 million to the Arts Board from the General Fund.⁵ The Legislature appropriated more than \$58 million to the Arts Board from the Arts and Cultural Heritage Fund for that biennium.⁶

Both General Fund appropriations and ACHF appropriations carry restrictions and requirements related to their use. However, ACHF funding includes more restrictions and requirements than General Fund appropriations, as shown in Exhibit 1.3.⁷

Exhibit 1.3: Appropriations to the Arts Board come with restrictions and requirements, depending on the source.

General Fund

- Grant funds may only be spent on projects located in Minnesota.
- No more than 10 percent of the total grant may be for costs related to travel outside Minnesota.

Arts and Cultural Heritage Fund (ACHF)

- Grant funds must be for projects located in Minnesota.
- Activities must be directly related to and necessary for a specific appropriation.
- Funds must be used to supplement and not substitute for traditional sources of funding.
- Money must be expended for benefits across all regions and residents of the state.
- Funded projects and programs must include measurable outcomes and a plan for measuring and evaluating the results.
- Funds may be spent only for arts, arts education, and arts access, and to preserve Minnesota's history and cultural heritage.
- Up to 4.5 percent of the funds appropriated for arts and arts access, arts education, and arts and cultural heritage may be used by the board for administering grant programs, delivering technical services, providing fiscal oversight for the statewide system, and ensuring accountability.
- A recipient of a direct appropriation of ACHF funds must report to the Legislative Coordinating Commission a range of information for itself and subrecipients of funds.
- When practicable, a recipient of a direct appropriation of ACHF funds shall prominently display on their website home page the Legacy logo, accompanied by the phrase "Click here for more information." The website must direct the person to a webpage that includes both the contact information that a person may use to obtain additional information, as well as a link to the Legislative Coordinating Commission website.
- Where practicable, a recipient of ACHF dollars shall incorporate the Legacy logo into printed and other materials funded with the money.
- Up to 30 percent of the remaining funds appropriated for arts and arts access, arts education, and arts and cultural heritage is for grants to the regional arts councils. Regional arts council grants or other arts council grants for touring programs, projects, or exhibits must ensure the programs, projects, or exhibits are able to tour in their own region as well as all other regions of the state.

SOURCES: *Laws of Minnesota* 2009, chapter 172, art. 5, sec. 10, as amended by *Laws of Minnesota* 2010, chapter 361, art. 3, sec. 5; *Laws of Minnesota* 2017, chapter 91, art. 4, sec. 2, subds. 2 and 3; *Laws of Minnesota*, 2017 First Special Session, chapter 4, art. 1, sec. 25; and *Minnesota Statutes* 2018, 129D.17, and 3.303, subd. 10(6)(b).

⁵ *Laws of Minnesota* 2017, First Special Session, chapter 4, art. 1, sec. 25.

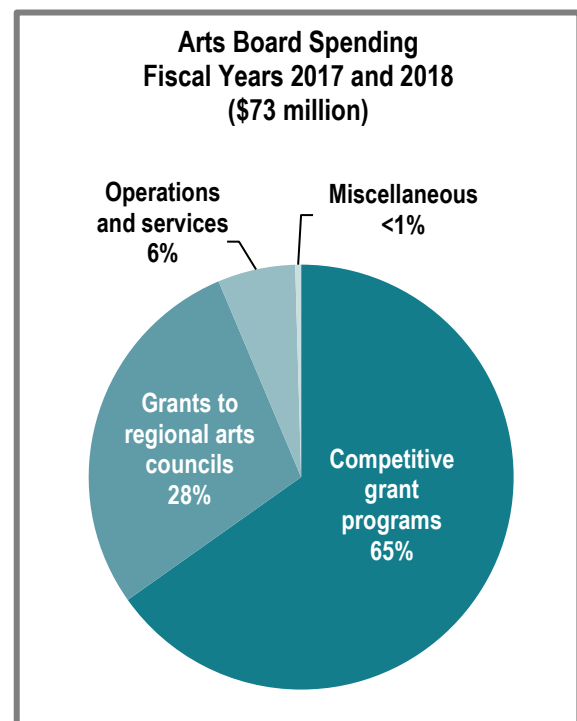
⁶ *Laws of Minnesota* 2017, chapter 91, art. 4, sec. 2, subd. 3.

⁷ We discuss outcomes in Chapter 4 and some of the restrictions on use of funds in Chapter 5.

As the board's appropriations have grown, so has the number of staff. From Fiscal Year 2008 through Fiscal Year 2010, the Arts Board employed fewer than ten full-time-equivalent staff.⁸ Staffing increased by five positions by the start of Fiscal Year 2012, when the board employed almost 15 full-time-equivalent staff. Between Fiscal Year 2014 and Fiscal Year 2017, board staff fluctuated from 17 full-time-equivalent positions to 20 positions.

At the beginning of Fiscal Year 2018, 20 staff, including 1 Office of Minnesota Information Technology Services (MNIT) employee, worked at the Arts Board.⁹ The board's four grant program officers work with applicants, volunteer advisory panels, and grantees for particular grant programs. Two other staff members assess the completeness and eligibility of grant applications and assist with final report reviews and follow up.¹⁰ Other staff coordinate and train the volunteer panelists and facilitate the review of grant applicants' work samples during volunteer panel meetings, for example.¹¹

The figure to the right shows board spending for fiscal years 2017 and 2018. Most of the Arts Board's spending occurred as competitive grants (65 percent) or legislatively mandated grants to regional arts councils (28 percent). Operations and services and miscellaneous spending accounted for the remaining spending (6 percent and less than 1 percent, respectively).¹²



⁸ For each fiscal year, we measured the number of staff working at the board as of July 1, the first day of the fiscal year.

⁹ In 2012, the Arts Board's information technology employees transitioned to become employees of MNIT, state government's consolidated information technology agency. We continued to count the information technology employees as board staff to report comparable staff counts before and after this transition.

¹⁰ We explain the board's processes for awarding and monitoring grants in chapters 2 and 3.

¹¹ Additional staff include a staff person who works with the board's online grant application system, an accounting technician who conducts financial reconciliations for competitively awarded grants and legislatively mandated grants to regional arts councils, a data management assistant, staff who work on program outreach and board programs other than grant programs, and administrative staff (an executive director, a director of finance and grants administration, a director of research and evaluation, an executive assistant, and a program secretary).

¹² "Miscellaneous" includes the Percent for Art in Public Places program, Poetry Out Loud, and other Arts Board activities. Percent for Art in Public Places permits up to 1 percent of an appropriation to construct or alter any state building to be used to acquire art for the building or grounds, provided that the art is regularly accessible to the public. Poetry Out Loud is a national competition sponsored by the National Endowment for the Arts and The Poetry Foundation. We report two years of spending data because appropriations from the ACHF to the Arts Board have fluctuated in recent biennia, with appropriations in the odd year being several million dollars higher than appropriations in the even year.

Competitive Grant Programs

The Arts Board administered ten competitive grant programs for Fiscal Year 2018.

Exhibit 1.4 provides information about the Arts Board’s Fiscal Year 2018 competitive grant programs. As the exhibit shows, the board’s programs have different purposes, and award levels vary. For example, through grants ranging from \$5,000 to \$150,000, the Arts Learning program is designed to support projects that provide participatory learning experiences to Minnesotans. The Cultural Community Partnership program—which is funded entirely with monies from the National Endowment for the Arts—offers grants ranging from \$1,000 to \$8,000 to support projects to enhance careers of artists of color.

Most of the board’s grant programs support an individual artist or organization, for a particular project or program, for a single grant period.¹³ However, the board makes multiyear commitments to provide general operating support through two programs—Community Arts Education Support and Operating Support.

Exhibit 1.5 shows the board’s allocation of Fiscal Year 2018 General Fund and ACHF appropriations among its state-funded competitive grant programs. According to the board’s executive director, the board allocates ACHF monies to its competitive grant programs based on uses for the funds outlined in law: “for arts, arts education, and arts access and to preserve Minnesota’s history and cultural heritage.”¹⁴ For example, the board used its Fiscal Year 2018 appropriation for arts education for its Arts Learning and Community Arts Education Support programs.

Supporting Artist’s Career Development

The Arts Board awarded a \$9,500 Fiscal Year 2018 Artist Initiative grant to a ceramic artist from Crow Wing County. The artist planned to use the grant funds to work with a type of clay and other materials new to the artist, expanding their body of work. The artist planned to end the project with a public exhibition in a gallery in rural Minnesota.

¹³ For simplicity, we use “organization” to refer to applicants that are not individuals. Organizations may include nonprofit organizations, schools, local governments, and other entities.

¹⁴ *Minnesota Constitution*, art. XI, sec. 15.

Exhibit 1.4: The Arts Board's ten competitive grant programs have different purposes.

Grant Program	Purpose	Eligible Applicants	Grant Amount ^a
Artist Initiative	To fund projects related to artists' creative and professional development; grants may or may not fund the creation of new work	Individual artists	\$ 2,000 - \$10,000
Arts Access	To encourage long-term engagement between arts organizations and traditionally underserved communities	Nonprofit or affiliated arts organizations and unincorporated arts groups	\$ 5,000 - \$100,000
Arts Learning	To fund projects that provide participatory learning experiences for Minnesotans of all ages	Individual artists, nonprofit organizations, public agencies, and unincorporated groups	\$ 5,000 - \$150,000
Arts Tour	To provide Minnesotans, regardless of location, access to visual, literary, and performing arts	Individual artists, nonprofit organizations, public agencies, and unincorporated groups	\$ 10,000 - \$150,000
Community Arts Education Support	To provide operating support for arts education organizations or programs that provide arts education opportunities in community settings	Nonprofit arts organizations and programs of Minnesota public institutions or nonprofit organizations ^b	\$ 8,000 - \$25,000
Cultural Community Partnership	To fund projects designed to enhance the careers of artists of color	Individual artists, nonprofit organizations, public agencies, and unincorporated groups	\$1,000 - \$8,000
Folk and Traditional Arts	To fund events or activities that pass on, document, practice, or share folk and traditional arts forms	Individual artists, nonprofit organizations, public agencies, and unincorporated groups	\$ 5,000 - \$75,000
Minnesota Festival Support	To fund festivals that have a primary or significant focus on the arts and provide a showcase for Minnesota artists	Nonprofit organizations, public agencies, and unincorporated groups	\$ 5,000 - \$75,000
Operating Support	To provide operating support to organizations that produce, present, and exhibit works of art; provide services to artists; or teach arts to Minnesotans of all ages	Nonprofit or affiliated arts organizations	\$15,000 - cap ^a
Partners in Arts Participation	To fund opportunities for arts participation for clients of health or human services organizations	Health or human services (1) nonprofit organizations or (2) units of tribal government	\$ 5,000 - \$25,000

NOTES: "Nonprofit" organizations are Minnesota 501(c)(3) tax-exempt organizations. "Affiliated" organizations are hosted within Minnesota nonprofit organizations or public institutions (such as a university or city government). "Unincorporated groups" are Minnesota groups that have a formal, written agreement with a Minnesota nonprofit organization or governmental unit fiscal sponsor. "Public agencies" include units of local, state, or tribal governments.

^a A grantee may not receive more than 50 percent of its total operating expenses from Arts Board grant programs. This cap, which applies to the total grant amount received by a grantee through all programs, may affect a grantee's award in any given program. This cap does not apply to individual artists.

^b Applicants to this program must have a community arts education focus.

SOURCE: Office of the Legislative Auditor, compilation of the Minnesota State Arts Board's Fiscal Year 2018 program guides.

Exhibit 1.5: The Arts Board divided nearly \$22 million of its Fiscal Year 2018 appropriations among nine grant programs.

	Fiscal Year 2018 (in millions)				
	Arts and Cultural Heritage Fund ^a			General Fund	Total
	Arts and Arts Access	Arts Education	Arts and Cultural Heritage		
Artist Initiative	\$ 1.06	\$ 0	\$ 0	\$0.24	\$ 1.29
Arts Access	1.98	0	0	0	1.98
Arts Learning	0	2.57	0	0	2.57
Arts Tour	1.69	0	0	0	1.69
Community Arts Education Support	0	0.16	0	0	0.16
Minnesota Festival Support	0	0	0.55	0	0.55
Folk and Traditional Arts	0	0	0.40	0	0.40
Operating Support	8.09	0	0	4.53	12.62
Partners in Arts Participation	0.60	0	0	0	0.60
Total	\$13.42	\$2.72	\$0.96	\$4.77	\$21.86

NOTES: The board had funding from other sources, not reflected in this exhibit, that supported its programs. The Cultural Community Partnership grant program is not shown because the board funded it solely with federal National Endowment for the Arts monies in 2018. Numbers may not sum to totals due to rounding.

^a The Legislature split most of the Arts and Cultural Heritage Fund appropriation to the Arts Board among three categories of spending: (1) arts and arts access initiatives, (2) arts education, and (3) arts and cultural heritage. *Laws of Minnesota 2017*, chapter 91, art. 4, sec. 2, subd. 3.

SOURCE: Office of the Legislative Auditor, analysis of data from the Minnesota State Arts Board's allotments within appropriations, reflected in the state of Minnesota's accounting system.

The Arts Board awarded more than \$23 million in Fiscal Year 2018 grants.

The Arts Board awarded just over \$23 million through 577 grants to applicants to its ten Fiscal Year 2018 competitive grant programs.¹⁵ Overall, the board funded almost 44 percent of applications. However, the “success rate” varied by program, as Exhibit 1.6 shows.¹⁶ For example, while the Arts Board funded approximately 26 percent of the

¹⁵ “Fiscal Year” refers to the year of the appropriation from which grants are awarded. It may not be the same as the year an application was made or during which grant activities occurred. Grant counts include all recipients of Operating Support and Community Arts Education Support grants. The board commits to multiple years of funding for these programs, four years for Operating Support and two years for Community Arts Education Support. Applicants who receive a grant in the first year must submit an application in subsequent years to receive grants those years. Arts Board staff review these applications to determine the organizations’ continued eligibility for grant funds.

¹⁶ The success rate is the number of grants awarded divided by the number of applications.

applications to the Artist Initiative program, it funded almost all of the applications to its programs that provide general operating support.¹⁷

Approximately 86 percent of Fiscal Year 2018 grant recipients received only one grant from the Arts Board during that grant cycle. Another 11 percent of recipients received two grants.¹⁸ Because some grantees received multiple grants, the board's 577 grants went to 490 grantees. Sixty percent of the grantees received grants totaling less than \$25,000, but one—the Guthrie Theatre Foundation—received three grants totaling more than \$1 million.

Exhibit 1.6: The success rates of applications to the Arts Board's Fiscal Year 2018 grant programs varied by program.

	Applications	Awards	Success Rate
Community Arts Education Support	13	13	100%
Operating Support ^a	177	176	99%
Cultural Community Partnership	22	15	68%
Minnesota Festival Support	36	18	50%
Folk and Traditional Arts	35	17	49%
Arts Access	92	44	48%
Partners in Arts Participation	67	29	43%
Arts Tour	95	40	42%
Arts Learning	158	61	39%
Artist Initiative	626	164	26%
Total	1,321	577	

NOTE: The table shows all eligible applications and all grants awarded by the board.

^a The board awards grants in this program for four years. Applicants who receive a grant in the first year must submit an application in subsequent years to receive grants those years. The success rate for the program reflects new applicants and applicants for continued funding.

SOURCE: Office of the Legislative Auditor, analysis of data from the Minnesota State Arts Board.

Most of the applicants who were awarded Fiscal Year 2018 grants had applied for Arts Board grants previously. More than 75 percent of the 490 Fiscal Year 2018 grantees had applied for a grant at least once during the prior four grant cycles (fiscal years 2014 through 2017).

Most applications for Fiscal Year 2018 Arts Board grants came from artists or organizations in the Twin Cities metropolitan area.¹⁹ Approximately 81 percent of applications for

¹⁷ As explained in a previous footnote, the Arts Board makes multiyear funding commitments to the Operating Support grant program. The success rate of applicants to the program in a given year reflects new applicants and applicants for continued funding. All applicants that meet "basic expectations" for the review criteria receive funding, and all but one of the 2018 applicants reached that bar. See Appendix B for more information about the Operating Support program. The board was able to fund all Fiscal Year 2018 applications to the Community Arts Education Support program.

¹⁸ Fifteen grant recipients received three grants, and one received four.

¹⁹ The Twin Cities metropolitan area comprises Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington counties.

Supporting Exposure to Different Cultures

The Arts Board awarded a \$15,000 Fiscal Year 2018 Operating Support grant to a dance company dedicated to “presenting Middle Eastern dance as a vibrant living art form at its highest artistic level, to bringing the rich folkloric heritage of the Middle East to the theater stage, and to providing education about the dance and music in its authentic form for dance students and the general public.”

Fiscal Year 2018 grants from the Arts Board were from the Twin Cities metropolitan area; approximately 75 percent of all applications were from Hennepin County or Ramsey County. The board did not receive any Fiscal Year 2018 applications from artists or organizations located in the area served by the Northwest Minnesota Arts Council.²⁰ But, artists and organizations from other outstate regions did apply for Arts Board Fiscal Year 2018 grants. For example, 2 percent of the applications (30 applications) came from the area served by the Lake Region Arts Council (west central Minnesota).²¹

The Arts Board awarded over 82 percent of its Fiscal Year 2018 grants to artists and organizations from the Twin Cities metropolitan area.

Grants to Regional Arts Councils

The Legislature designates almost 30 percent of appropriations to the Arts Board for grants to regional arts councils.

For the six biennia we reviewed, the Legislature specified a dollar amount of the board’s General Fund appropriation to be granted to the regional arts councils. These have amounted to between 28 and 29 percent of the General Fund appropriation to the Arts Board.²² Recent appropriations to the board from the ACHF have directed the board to grant up to 30 percent of net appropriations (that is, the appropriation after removing an allowance for the board’s administrative expenses) for arts and arts access, arts education, and arts and cultural heritage to the regional arts councils.²³ The board awarded the full 30 percent of its Fiscal Year 2018 net ACHF appropriation to the regional arts councils. Thirty percent of the net appropriation amounts to almost 29 percent of the total appropriation from the ACHF.

The Arts Board administers the legislatively mandated grants to the regional arts councils. Regional arts councils submit biennial plans and budgets to the board outlining their intended uses of state funds, and the board enters into a fiscal agent agreement, which we call a grant

²⁰ The counties in the Northwest Minnesota Arts Council’s area are: Kittson, Marshall, Norman, Pennington, Polk, Red Lake, and Roseau.

²¹ The counties in the Lake Region Arts Council’s area are: Becker, Clay, Douglas, Grant, Otter Tail, Pope, Stevens, Traverse, and Wilkin.

²² We reviewed appropriations for the 2008-2009 biennium through the 2018-2019 biennium. *Laws of Minnesota* 2007, chapter 135, art. 1, sec. 10, subd. 4; *Laws of Minnesota* 2009, chapter 78, art. 1, sec. 11, subd. 4; *Laws of Minnesota* 2011, First Special Session, chapter 10, art. 1, sec. 20, subd. 4; *Laws of Minnesota* 2013, chapter 142, art. 1, sec. 24, subd. 4; *Laws of Minnesota* 2015, chapter 77, art. 1, sec. 24, subd. 4; and *Laws of Minnesota* 2017, First Special Session, chapter 4, art. 1, sec. 25, subd. 4.

²³ *Laws of Minnesota* 2013, chapter 137, art. 4, sec. 2, subd. 3(f); *Laws of Minnesota* 2015, First Special Session, chapter 2, art. 4, sec. 2, subd. 3(f); and *Laws of Minnesota* 2017, chapter 91, art. 4, sec. 2, subd. 3(g).

contract, with each regional arts council.²⁴ The board is also responsible for monitoring the regional arts councils and reviewing the annual final reports of their activities.²⁵

Of the appropriation amounts designated for the regional arts councils, the amount apportioned to each regional arts council is determined by a formula developed by the Forum of Regional Arts Councils.²⁶ The allocation formula includes a General Fund component and an ACHF component. Each component includes (1) a general operating allocation, (2) a population allocation, and (3) a land area allocation. The legislatively mandated grants to the regional arts councils ensure some grant funds are available to artists or organizations in each region of the state.

Regional Arts Councils

Minnesota's regional arts councils make decisions about the use of state appropriations "for local or regional arts development."²⁷ The Arts Board began developing the network of regional arts councils after the 1976 Legislature tied the board's appropriation to the creation of "13 local arts development task forces using state economic development region lines as district boundaries."²⁸ Under the board's process, regional task forces, which were advisory to the board, could become regional arts councils undertaking "independent, but related, public funding of arts activities at the local level."²⁹ By 1981, the board had designated 11 regional arts councils serving the state's 13 economic development regions.³⁰

Regional arts councils use state funding to award grants and provide services to artists and organizations in their regions.

Overall, regional arts councils planned to distribute 68 percent of their state funding through grant awards in Fiscal Year 2018. The regional arts councils planned to spend 4 percent of their state funding on other programs and services.³¹

²⁴ The board enters into contracts with regional arts councils annually. Regional arts councils submit annual plan updates to receive funding for the second year of the biennium.

²⁵ We discuss the board's process for administering grants to the regional arts councils in Chapter 2. We discuss the board's monitoring activities in Chapter 3.

²⁶ The Forum of Regional Arts Councils is a nonprofit, voluntary membership organization of the state's regional arts councils.

²⁷ *Minnesota Statutes* 2018, 129D.01(e).

²⁸ *Laws of Minnesota* 1976, chapter 3, sec. 5, subd. 4. Each task force would have the "right of review and recommendation for proposals generated by groups and individuals within its region."

²⁹ Minnesota State Arts Board, *Report on Regional Arts Council Issues* (1982), 14. The Legislature required the report in *Laws of Minnesota* 1981, chapter 357, sec. 15.

³⁰ One regional arts council serves economic development regions 6E, 6W, and 8. Prior to its designation as a regional arts council, the Southwest Minnesota Arts and Humanities Council served the three regions.

³¹ Councils planned to use the remainder of state funds on "operations and support" (22 percent) and general administration (almost 6 percent). "Operations and support" includes all expenses related to (1) grant programs and services besides the actual grant awards and (2) staff time to support nongrant programs and services, such as workshops, gallery exhibitions, advocacy work, and planning for these programs and services. "General administration" is general operating costs and might include a percentage of salaries, benefits, and payroll taxes for straight administrative duties; and a percentage of equipment and operating costs that support administrative duties.

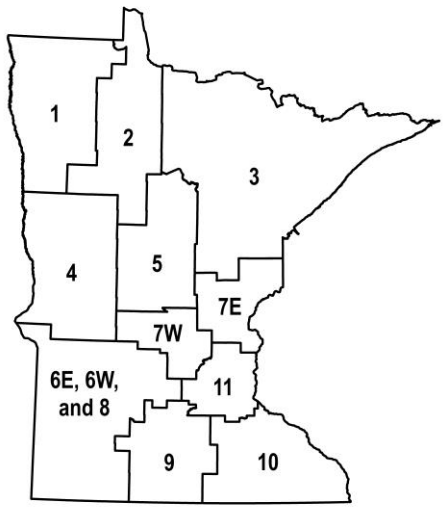
Grant Programs

As Exhibit 1.7 shows, the percentage of state funding that regions planned to award as grants varied. For example, the Metropolitan Regional Arts Council planned to distribute over three-quarters of its state funding through grant awards in Fiscal Year 2018. Other regional arts councils, including the Northwest Minnesota Arts Council, Region 2 Arts Council, and Lake Region Arts Council, planned to distribute just over half of their state funding as grants.

Each regional arts council designs its own grant programs based on the needs of the region. All regional arts councils offered grant programs for individual artists in fiscal years 2016 and 2017. Some programs focused on career development, while others were tied to a specific project proposed by the artist. Several regional arts councils offered grant programs that allowed artists to purchase technology or equipment, and several had programs for grants to students. The Region 2 Arts Council, serving north central Minnesota, used funds from the McKnight Foundation for a program focused on Native American artists. The Metropolitan Regional Arts Council used only McKnight Foundation monies for its grants to individual artists.

Regional arts councils offered grant programs for organizations or other entities, such as local governments, too. Some regional arts council programs provided general operating support to organizations. Other organization grant programs focused on arts projects or projects to build organizational capacity. The Lake Region Arts Council (serving west central Minnesota) developed a grant program for local governments “to encourage local government leaders to use the arts to build healthy communities.”

Exhibit 1.7: Overall, regional arts councils planned to distribute approximately two-thirds of state funding as grants in Fiscal Year 2018.

	Region Number and Council Name	Fiscal Year 2018 (in thousands)		Grants as a Percentage of State Funding
		Grants	State Funding	
	1 Northwest Minnesota Arts Council	\$ 234	\$ 430	54%
	2 Region 2 Arts Council	210	386	54
	3 Arrowhead Regional Arts Council	431	764	56
	4 Lake Region Arts Council	304	595	51
	5 Five Wings Arts Council	331	481	69
	6E, 6W, and 8 Southwest Minnesota Arts Council	419	662	63
	7E East Central Regional Arts Council	325	563	58
	7W Central Minnesota Arts Board	515	800	64
	9 Prairie Lakes Regional Arts Council	351	547	64
	10 Southeastern Minnesota Arts Council	680	919	74
	11 Metropolitan Regional Arts Council	3,128	4,002	78
	Total	\$6,928	\$10,150	68%

NOTES: These dollars reflect regional arts councils' Fiscal Year 2018 budgets, which may include state funds carried forward from the prior year. Grant dollars include only the amount the regions planned to award as grants, not the costs of grant administration. Numbers may not sum to total due to rounding.

SOURCE: Office of the Legislative Auditor, compilation of data from regional arts councils' 2018-2019 biennial plans.

Other Programs and Services

In addition to grant programs, regional arts councils offer other programs and services to artists, organizations, and interested members of the community. Exhibit 1.8 lists examples of the services offered by some of the regional arts councils during fiscal years 2016 and 2017. For example, among the technical assistance services, the Lake Region Arts Council offered a program for individual artists to work with a professional photographer to improve the photographs they use to illustrate their work in applications for grants or to appear in shows.

Exhibit 1.8: In fiscal years 2016 and 2017, regional arts councils provided services and resources to support the arts in their regions.

Awards and recognition events

- Some regional arts councils made awards to recognize artists or arts advocates in their region.
- The Southwest Minnesota Arts Council hosted the Southwest Minnesota Arts Council Annual Celebration to showcase regional artists and arts activities; present awards; and connect artists, arts organizations, arts advocates, and supporters of the arts.

Exhibitions and exhibition space

- The East Central Regional Arts Council held art shows and provided year-round gallery space to highlight work of regional artists.

Technical assistance and workshops

- Regions provided assistance such as grant-writing workshops, online grant training, and professional development programs for artists and arts organizations.
- The Lake Region Arts Council, serving west central Minnesota, offered an Artist Work Sample Improvement program to help individual artists improve the quality of the photographs they use to illustrate their work when applying for grants or to appear in shows.

Resources, outreach, and communications

- Regional arts councils offered resources such as a booklet or registry of artists in the region, reference libraries, and databases of funders or consultants.
- Outreach services included opportunities to network with other arts professionals or make connections with local, regional, state, or national resources.
- All of the regional arts councils reported maintaining a website and publishing a newsletter, and several councils mentioned using social media, such as Twitter, or maintaining a calendar of arts events in the region.

NOTES: Listed services may be funded by nonstate resources, such as the McKnight Foundation, or offered in partnership with another organization. We selected examples to illustrate a range of activities. We categorized regional arts councils' activities based on the councils' descriptions. Every council did not describe services or resources in each category.

SOURCE: Office of the Legislative Auditor, review of regional arts councils' 2016-2017 biennial plans.



Chapter 2: Awarding Grants

This chapter examines the Arts Board’s processes for awarding grants. For its competitive grant programs, the processes include publicizing the programs, rating eligible applications, selecting grantees, and executing grant contracts. Some of our evaluation work focused on two competitive grant programs in particular: Artist Initiative and Operating Support.¹

The chapter also reviews the board’s process for distributing legislatively mandated grants to regional arts councils. Our work focused on three regional arts councils: the Arrowhead Regional Arts Council (serving northeastern Minnesota), the Lake Region Arts Council (serving west central Minnesota), and the Metropolitan Regional Arts Council (serving the Twin Cities metropolitan area).²

We concluded that the Arts Board’s grant-making practices generally align with state standards and laws for grant administration. At the same time, however, we identified opportunities for improvement. We recommend that the Arts Board review its processes and grant-related documents to ensure clarity and consistency with state laws and policies.

Competitive Grant Programs

State laws establish certain requirements for awarding grants.³ They also assign to the Department of Administration the responsibility to create policies and procedures for grants management.⁴ In response, the Office of Grants Management (OGM) in the Department of Administration has developed grant management policies covering topics ranging from addressing conflicts of interest to executing grant contracts, and more.

The Minnesota State Arts Board complied with most Office of Grants Management policies for awarding competitive grants for the programs we reviewed, but we also found room for improvement.

Exhibit 2.1 reflects our assessment of the board’s compliance with several policies for awarding competitive grants. Consistent with state policies, the board publicized information about the Artist Initiative and Operating Support grant opportunities, established rating criteria, required grant reviewers to disclose conflicts of interest, and executed grant contracts.

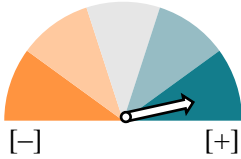
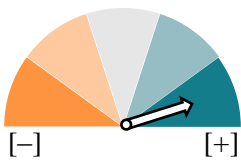
¹ We selected these programs for a number of reasons. The Artist Initiative program is open only to individuals and draws the highest number of applications—626 applications for Fiscal Year 2018 grants. The Operating Support program, in contrast, is open to organizations only. The program’s awards of over \$13 million accounted for more than half of the Fiscal Year 2018 dollars awarded through the Arts Board’s competitive grant programs.

² As we explained in Chapter 1, the state’s 11 regional arts councils serve the state’s 13 economic development regions, with one regional arts council serving three regions. Exhibit 1.1 is a map of the regional arts councils.

³ See, for example, *Minnesota Statutes* 2018, 16B.97, subd. 2; and 16B.98, subds. 1, 2, 3(c), and 5.

⁴ *Minnesota Statutes* 2018, 16B.97, subd. 4(a)(1); and 16B.98, subd. 3.

Exhibit 2.1: The Arts Board's processes for awarding Artist Initiative and Operating Support grants met most state grant-making policies.

Publicizing Grant Opportunities Notices of grant opportunities shall include information about the grant program, application criteria, application requirements, Arts Board contacts, and grant reporting requirements. ^a At a minimum, competitive grant opportunities must be posted on the Arts Board's website and linked to the one-stop website for state grant opportunities. The Arts Board should use additional methods to reach potential applicants.	✓ ✓ ✓	
Rating Applications and Selecting Grantees State competitive grant review processes shall be conducted using: <ul style="list-style-type: none"> Review criteria that are identified in the notice of grant opportunity. A standardized scoring system to rate each application against the chosen criteria. 	✓ ✓	
Addressing Conflicts of Interest Every Arts Board employee and grant reviewer who may be <i>involved with any part of the grant-making process</i> shall be responsible for identifying where an actual, potential, or perceived conflict of interest exists and for informing appropriate parties. All Arts Board employees and grant reviewers <i>involved in the review of grant applications</i> must complete and sign a conflict of interest disclosure form for each grant review in which they participate.	x ✓	
Executing Grant Contracts^b Grant contracts must: <ul style="list-style-type: none"> Conform to <i>Minnesota Statutes</i> 16B.98, subd. 5 ("Creation and Validity of Grant Agreements"). Cite the board's statutory authority (1) to make grants and (2) for the particular grant program. Specify the scope and timeline for the work, the grantee's duties, and information about how grant payments will be made. Contain standard contract language and assurances regarding liability, data practices and intellectual property, workers' compensation, and federal funding. Contain the name and phone number of the board's project manager as well as the grantee's authorized representative. 	✓ ✓ ✓ ✓ ✓	

NOTES: We focused our review on two Arts Board programs: the Artist Initiative program and the Operating Support program. This exhibit is based on the Office of the Legislative Auditor's (OLA's) assessment of the Arts Board's compliance with Office of Grants Management (OGM) policies. Given the timelines of the grant programs we reviewed, we used policies established prior to January 2017. A ✓ indicates the board fully or mostly met the requirement and an x indicates the board did not meet the requirement.

^a We considered information available on the board's website to be information available as part of the notice of grant opportunity.

^b OGM policies for executing grant contracts also include statements regarding amendments and attachments. The sample contracts we reviewed included only one amendment and no attachments. We discuss amendments in Chapter 3.

SOURCE: Office of the Legislative Auditor, assessment of the Arts Board's compliance with the following Office of Grants Management policies: "Policy 08-01: Conflict of Interest Policy for State Grant-Making," "Policy 08-02: Policy on Rating Criteria for Competitive Grant Review," "Policy 08-03: Policy on Writing and Publicizing Grants Notices and Requests for Proposal," and "Policy 08-04: Policy on the Use of Grant Agreements," all accessed April 23, 2018, <https://mn.gov/admin/government/grants/policies-statutes-forms/>.

While our overall assessment of the board's practices was positive, we found room for improvement. In the following sections, we describe the board's grant-making practices, reflected in Exhibit 2.1, in more detail.

Publicizing Grant Opportunities

State policy requires state agencies to publicize and provide information about competitive grant opportunities. The board publicizes its grant programs on its website and, according to the board's executive director, through e-mail announcements and on Facebook. The board's website includes a calendar that lists each grant program, the program's application deadline, the month during which the board will approve the applications, and the dates during which funded activities must take place.⁵ The board's grant information is also available via a link on the state's grants webpage.

The Arts Board's program guides included extensive information, but publications we reviewed missed some details or were unclear.

Between the program guide and program-specific webpages, the Arts Board provided most of the information outlined in OGM policies and procedures.⁶ OGM procedures listed 13 "essential elements" for notices of grant opportunity, such as a description of the grant program, the state's goals and priorities in making the grants, and applicant eligibility requirements. Among other things, the program guides for the Fiscal Year 2018 Artist Initiative and Operating Support programs included:

- A program overview.
- Eligibility criteria.
- A list of what the Arts Board would not fund through the program.
- An outline of the criteria upon which applications would be reviewed.
- Several pages to guide an applicant through the board's online application.⁷

The board also provided links on its website to sample applications for applicants' reference.

However, some information listed among OGM's "essential elements" was missing from the program guides we reviewed or was unclear. Items that were missing from the board's program guides included the amount of money that would be available for distribution, and

⁵ Each grant program listed on the board's calendar links to a program-specific page that includes basic information and a link to a "program overview and application instructions" document, which we call a "program guide."

⁶ Exhibit 2.1 does not include OGM's procedures, which in some cases are more detailed than the policies.

⁷ We list the required application components for the Fiscal Year 2018 Artist Initiative and Operating Support programs in Appendix A and Appendix B. Each appendix also includes the program's eligibility criteria, review criteria, and scoring guide.

a general overview of the composition of the committee that would review applications.⁸ Additionally, details about reporting requirements were unclear or were missing from the program guides.

Rating Applications and Selecting Grantees

The Arts Board's process for rating applications and selecting grantees includes screening applications and a volunteer panel process, which we discuss below. We also explain the Arts Board's criteria for rating applications.

Screening Applications

The Arts Board
received over

1,360

Fiscal Year 2018
applications.

After an application deadline, Arts Board staff screen applications for completeness and eligibility. Staff check applications and attachments, such as resumes and financial information, to make sure applicants have included required information. For example, staff might find that an applicant to the Operating Support grant program has provided financial information for the incorrect fiscal years. If an attachment is missing or incorrect, staff alert the applicant that additional information is needed.

Staff also review applications for project and applicant eligibility. For example, staff check that an applicant's physical address is in Minnesota. And, staff check that applicants do not have past performance issues with board grants. As an example, staff query the board's data for any grantees that have past due final reports, which would make them ineligible to apply for new funding.⁹

After the initial screening, the program officer assigned to a grant program reviews the applications in more depth. In addition to following up on concerns highlighted by other board staff, program officers might identify additional issues. For example, the Artist Initiative program officer might determine that an individual applicant's proposed activities involve an organization where the applicant works.¹⁰ Board staff deemed 43 applications to Fiscal Year 2018 grant programs to be ineligible.

During our file review, we identified a few instances of incorrect information that appeared not to have been identified by board staff during their review process. However, we did not find evidence of widespread problems with the process.¹¹

⁸ The board could not have included the exact amount of money available for the Fiscal Year 2018 programs we reviewed because the appropriations laws that provide funding for them had not become law by the time application materials were available. However, the board could have included funding levels from the recent past and signaled its intention for funding, should money be available.

⁹ *Minnesota Rules*, 1900.1010, subp. 2(H), published electronically August 15, 2016.

¹⁰ The Artist Initiative program guide indicates that an application that includes "activities that involve any organization at which the applicant is employed and/or from whom the applicant receives a W-2 or 1099 form" is ineligible. Minnesota State Arts Board, *Artist Initiative FY 2018 Grant Program, Program Overview and Application Instructions* (St. Paul), 3.

¹¹ In two applications to the Operating Support program, the applicants provided copies of financial reviews, rather than certified audits or IRS form 990s required by the board. We identified these instances in a review of 125 Fiscal Year 2017 grants—75 from the Artist Initiative program and 50 from Operating Support. Because of the small sample size, the results from our file review should not be extrapolated to all of the Arts Board's grants in these programs.

Volunteer Panel Process

Although board staff assess applications' eligibility and completeness, volunteer panels rate most applications to determine whether they will be recommended for funding.

The board convenes panels of volunteers to rate most applications.¹² Volunteers use rating criteria and scoring guides developed by the Arts Board. Persons who agree to serve as panelists are expected to participate in panelist training; review and pre-score applications prior to a panel meeting; and attend the panel meeting, which generally last two days. Panelists submit final scores for each application after discussing it during the meeting, which is open to the public. After panelists have scored applications, the board computes each applicant's overall score and allocates grant funds to applicants in descending order of their scores until no funds remain for the panel.¹³ The governing board votes to award the recommended grants. Exhibit 2.2 outlines the board's volunteer panel process.

Bringing Participatory Music Experience to School Children on the Iron Range

Volunteer panelists for the Arts Learning program considered an application from a Twin Cities music ensemble to work with school children in small towns on the Iron Range. In addition to reviewing the ensemble's application, panelists viewed a video recording of children participating in a "moving to music" exercise during a past performance by the ensemble. Among other strengths, panelists commented on the strong acting, teaching, and music experience of the ensemble members and the high level of participation by the students. The applicant received a Fiscal Year 2018 grant of just over \$47,000.

The board aims to appoint panels of seven volunteers for most of its grant programs.¹⁴ The board staff person who coordinates the panels indicated that they seek volunteers with experience in the arts or other relevant background. For example, financial knowledge is important on a panel considering Operating Support applications. The board also strives for panels that include: (1) volunteers from outstate Minnesota, (2) persons of color, (3) new volunteers, and (4) persons with disabilities. The board reported that 42 percent of its Fiscal Year 2018 panelists were from outstate Minnesota, 28 percent identified as being a person of color, and 3 percent declared a disability.¹⁵

¹² Arts Board staff review some applications to determine the organizations' continued eligibility for grant funds. The board commits to multiple years of funding for recipients of Community Arts Education Support grants and Operating Support grants, two years for Community Arts Education Support and four years for Operating Support. Applicants who are successful in the first year must submit an application in subsequent years to receive grants those years.

¹³ With the exception of its programs that provide general operating support, the board looks at past demand for a program and tries to divide money among programs to achieve similar applicant success rates. The board divides money allocated to a program relatively equally among the panels reviewing program applications.

¹⁴ The board tries to engage ten panelists for the Operating Support grant program because of the time required to review the applications. Panelists must review the numerous application components associated with this program, as well as participate in an administrative visit for one or more applicants.

¹⁵ The board did not report the proportion of panelists who were new volunteers.

Exhibit 2.2: Volunteer panelists rate grant applications for funding consideration by the governing board.



Process: Arts Board staff assign eligible applications to panels.

Arts Board staff identify and train volunteers to review applications. Panelists review applications assigned to their panel prior to the panel meeting.

Example: The Arts Board assigned 220 applications for Fiscal Year 2018 Artist Initiative-Visual Arts grants to four panels.

Thirty-three panelists agreed to volunteer, three of whom were later unable to serve. The governing board approved the panel members at its November 2017 meeting.



Process: During the panel meeting, panelists discuss each application, assessing its strengths and weaknesses based on criteria specific to the grant program.

Panelists individually score each application against each of the program criteria.

The board records the meeting so applicants can listen to the discussion of their application and understand their score.

Example: Each Artist Initiative-Visual Arts panel of seven to eight volunteers convened on a separate date to discuss the 54 to 56 applications assigned to the panel.

The panelists assigned scores to each application, except that panelists did not score applications with which they had a conflict of interest. Criteria were: (1) artistic quality, (2) merit and feasibility of the artist's plan, and (3) impact or benefit to the state and/or creative community.



Process: Arts Board staff average each applicant's scores within each criterion and add the averages to reach a total score for the applicant.

Board staff allocate available panel dollars to applications based on their score.

The board fully funds requests for eligible expenses but may offer a partial grant to an applicant if funds are insufficient to fully fund the request.

Example: The Arts Board allocated between \$138,800 and \$143,600 to each of the four Artist Initiative-Visual Arts panels.

Based on each panel's average scores and dollars available, Arts Board staff allocated funds to 14 to 15 applicants from each panel.

One applicant was offered a partial award, less than what they had requested.



Process: The Arts Board governing board considers and votes on each program's recommendations as a whole.

Example: Board staff presented a list of 58 recommended Artist Initiative-Visual Arts grants to the governing board.

The governing board approved the grants at its January 2018 meeting.

Exhibit 2.3 shows the number of applications, panels, and volunteer panelists for each Fiscal Year 2018 grant program. For example, the board received 220 eligible applications for Artist Initiative projects in the visual arts. The board convened four panels of seven to eight volunteers to review the applications, engaging 30 volunteers in total.

The median Fiscal Year 2018 panelist reported spending 21 to 30 hours reviewing applications before the panel meeting.¹⁶ However some individual panels had higher or lower medians. For example, the median panelist who reviewed theater applications to the Artist Initiative program reported spending 11 to 20 hours reviewing applications, while the median reviewer of Art Access applications reported spending 31 to 40 hours on their review.

Exhibit 2.3: More than 250 volunteer panelists ranked almost 1,200 Fiscal Year 2018 grant applications for the Arts Board.

Grant Program	Applications	Review Panels	Volunteer Panelists
Artist Initiative ^a			
Visual Arts	220	4	30
Prose	93	2	14
Music	90	2	14
Media Arts	62	2	12
Photography	60	2	15
Dance	41	1	9
Poetry	38	1	6
Theater	22	1	9
Arts Learning	158	6	40
Arts Tour	95	3	19
Arts Access	92	3	22
Partners in Arts Participation	67	2	12
Operating Support ^b	48	3	30
Minnesota Festival Support	36	1	4
Folk and Traditional Arts	35	1	7
Cultural Community Partnership	22	1	7
Community Arts Education Support ^b	13	1	6
Total	1,192	36	256

NOTES: We did not include applications that were deemed ineligible, regardless of whether panelists scored them. We included panelists who completed the panel process. A small number of panelists withdrew before or during the panel review.

^a The Arts Board formed Fiscal Year 2018 Artist Initiative volunteer panels around eight artistic disciplines.

^b The exhibit reflects only those applications reviewed by panelists. The Arts Board commits to multiple years of funding for grantees in these programs. Only the first-year application is reviewed by a panel. Board staff review applications for grants in subsequent years.

SOURCE: Office of the Legislative Auditor, analysis of data from the Minnesota State Arts Board.

¹⁶ The Arts Board surveys panelists about their experience as a panelist. These figures are based on the Office of the Legislative Auditor's analysis of responses by Fiscal Year 2018 panelists. The board received responses from 249 of 256 panelists, for a 97 percent response rate.

The board provides or reimburses panelists for meals associated with the panel meeting, reimburses for mileage and parking, and pays for lodging for volunteers from outstate Minnesota. The board does not offer volunteers a stipend for their service. The board's costs for its Fiscal Year 2018 panels neared \$80,000.

The Arts Board's panel process for rating grant applications is open and transparent, but it does not comply with the Minnesota Government Data Practices Act.

The board's rules require panel discussions to be open to the public.¹⁷ The Arts Board's panel discussions we observed were open to the public, and the board made available two laptop computers for members of the public to view applications that the panel discussed. The board's executive director explained that the board has a long-standing practice of open panel discussions and values the transparency the discussions provide. However, state law says that a full grant application becomes public only after "the granting agency has completed negotiating the grant agreement with the selected grantee."¹⁸ Given this law, the board should not make applications accessible to members of the public who attend the panel meetings.

Supporting Work of Minnesota Writers

Volunteer panelists for one of the Artist Initiative-Prose panels reviewed 58 applications for Fiscal Year 2019 grants. Panelists reviewed applicants' writing samples, commenting on whether the writing was engaging or the author used the appropriate "voice." Panelists considered applicants' number of published works, proposed budget, and whether some uses of funds were necessary. Panelists also provided feedback on applicants' proposals to engage the community. For example, a positive comment related to the educational possibilities associated with one applicant's proposal to hold events in a variety of neighborhood libraries.

The Arts Board's process for rating applications offers a level of transparency that is important. Grant applicants and others can observe how the board handles conflicts of interest and manages the panel process, and hear how panelists discuss applications. Public access to applications that the panel discusses might help people observing the process understand the discussion.

Rather than requiring the board to make its process less transparent, we think the Legislature should allow the board to make applications public concurrent with the panel review meeting to discuss the applications, except for data otherwise classified as not public, such as trade secret data.

RECOMMENDATION

The Legislature should amend *Minnesota Statutes* 2018, 13.599, to allow grant applications to the Arts Board to become public concurrent with panel review meetings, except for data otherwise classified as not public.

¹⁷ *Minnesota Rules*, 1900.0610(C), published electronically August 15, 2016.

¹⁸ *Minnesota Statutes* 2018, 13.599, subds. 1(a) and 3.

Rating Criteria

The Arts Board has created a scoring system for each of its grant programs, but the systems' complexity could undermine standardized scoring.

OGM policies require a standardized scoring system to rate applications.¹⁹ The board has established such a system, including criteria and subcriteria, for each of its competitive grant programs. For example, the board identified five criteria for applications to the Fiscal Year 2018 Operating Support program: (1) artistic, (2) administration, (3) engagement, (4) public benefit, and (5) evaluation. The board instructs panelists to consider subcriteria for each criterion during their review. For example, within the “engagement” criterion, panelists consider whether applications show “programs and practices that identify and address barriers to participation” and “efforts to develop strategic relationships with underserved communities that engage those communities meaningfully in the arts.”²⁰

In addition to defining relevant criteria and subcriteria, the Arts Board has developed a scoring guide for each program that specifies point ranges based on the reviewer’s assessments. For example, a panelist for the Fiscal Year 2018 Artist Initiative program who felt that an applicant’s artistic quality was exceptional would assign a score ranging from 33 to 40 for that criterion. The complexity of the scoring guide varies by program.²¹

The complexity of the standardized scoring system, as well as some unclear terminology, could make the system less standardized in practice than in theory. While some Fiscal Year 2018 panelists praised the scoring guide in survey comments to the board, other panelists found the scoring system complex, as expressed in the comment to the right, or wanted more guidance on scoring applications. We observed a practice scoring session for one panel during which the Arts Board



I think the scoring system is complicated and hard to interact with... There are so many overlapping factors (criteria, and then negligible vs. moderate vs. major... vs. how important is that criteria to the project). It is hard to rate these applications based on all these factors and I feel like whether the project is strong or not gets lost or muddled by all of these criteria.

— Arts Board panelist,
Arts Board's Fiscal Year 2018 panelist survey

program officer provided feedback to the panelists about whether their scores were consistent with their comments about the application. While the program officer thought most scores were consistent with panelists’ comments, the program officer thought two scores were too high in one criterion, suggesting that the panelists had different standards or

¹⁹ Minnesota Department of Administration, Office of Grants Management, “Policy 08-02: Policy on Rating Criteria for Competitive Grant Review,” accessed April 23, 2018, <https://mn.gov/admin/government/grants/policies-statutes-forms/>.

²⁰ Appendix B includes the criteria and subcriteria for the Operating Support program. Appendix A includes the same information for the Artist Initiative program.

²¹ To illustrate, we have included scoring guides for three Fiscal Year 2018 programs in Appendix A (Artist Initiative program), Appendix B (Operating Support program), and Appendix C (Arts Learning program).

interpretations of the standards than the program officer expected given the panelists' comments.²²

In addition to the complexity of the scoring system, there is some evidence that panelists do not uniformly interpret criteria upon which they are making assessments. For example, during one panel meeting we observed, panelists discussed what "community" means in the context of the criteria they were reviewing. During the orientation session for that panel, panelists discussed the subjectivity of the concept "broad audience."²³ Panelists at another orientation session had questions about how to judge other criteria, too. For example, one panelist questioned how to judge whether budgeted expenses are reasonable and appropriate. In the board's post-panel survey, some panelists from different panels suggested clarifying terms, such as "community support," "sustainability," and "underserved communities," to create common understanding.

RECOMMENDATION

The Arts Board should remove ambiguous terms from scoring criteria and simplify its current scoring systems.

Addressing Conflicts of Interest

State policy requires individuals involved in grant making to identify and address conflicts of interest. The policy applies to anyone "who may be involved with any part of the grant-making process."²⁴

The Arts Board has a strong conflict of interest policy for individuals involved in rating applications and awarding grants.

The board requires panelists who rate applications to disclose conflicts of interest. The board defines conflicts of interest for panelists to encompass financial, familial, and business relationships, as well as undue bias, personal affiliations, and "significant

²² We observed all or part of a panel meeting for four programs: Artist Initiative-Prose, Arts Learning, Minnesota Festival Support, and Operating Support. For three of the panel meetings, we also observed panelist orientation that occurred before the meetings. In each orientation session, panelists discussed or practiced scoring a sample application, but only one orientation session we observed included feedback on panelists' scores.

²³ The panel was considering applications to the Minnesota Festival Support program. One criterion and related subcriteria for the program consider "commitment to and from the community." Regarding the concept of a "broad audience," a subcriterion for the program's "quality of the arts experience" criterion is: "The festival exposes a broad audience to Minnesota artists or art forms." Minnesota State Arts Board, *Minnesota Festival Support FY 2019 Grant Program, Program Overview and Application Instructions* (St. Paul), 12-14.

²⁴ Minnesota Department of Administration, Office of Grants Management, "Policy 08-01: Conflict of Interest Policy for State Grant-Making," accessed April 23, 2018, <https://mn.gov/admin/government/grants/policies-statutes-forms/>.

adversarial or advocate relationships.”²⁵ During the panelist orientation sessions and panel meetings we observed, a staff person explained the board’s conflict of interest policy. Panelists who disclosed a conflict of interest left the room while the panel discussed and scored the related application.

The board also requires program officers who lead panel discussions and the governing board, which approves grant awards, to declare conflicts of interest. Records of the Fiscal Year 2018 grant panels showed that the program officers for most panels either (1) indicated that they had no conflicts of interest or (2) listed applicants with whom they had a conflict.²⁶ In some cases, the records showed the board made changes so that a person other than the program officer with a conflict could lead discussion of the relevant applications. We also observed one board meeting that included board approval of competitive grant awards. Most of the board members who declared conflicts did not vote, but it appeared that one member voted on a group of applications recommended for funding that included an organization with which the member had declared a conflict.²⁷

The Arts Board does not require all staff involved in the grant process to declare conflicts of interest.

Although the board’s policy manual appears to require all staff to declare conflicts of interest, the board does not require this in practice.²⁸ For example, board staff who initially assess applications for eligibility and completeness do not declare conflicts of interest. Conceivably, a staff person’s judgement of an application could be affected by their relationship with the applicant. Although the board’s process, in which program officers also review applications, could mitigate the risk posed by such a conflict, we think it is important to observe state grant-making policies and avoid situations of even the appearance of a conflict.

RECOMMENDATION

The Arts Board should require all staff who are involved with any part of the grant-making process to disclose conflicts of interest.

²⁵ Minnesota State Arts Board, *Policy Manual* (St. Paul, 2010), policy 407. The board’s policy expands upon the definition in *Minnesota Rules*, 1900.0410, subp. 5, published electronically August 15, 2016. State law also prohibits persons who have an application before a panel from serving on the panel (*Minnesota Statutes* 2018, 129D.04, subd. 1(8)).

²⁶ For 4 of the 36 panels, it appeared that the program officer did not complete the form.

²⁷ Board members voted on groups of recommended grantees, not individual applications, and all votes we observed were unanimous. Therefore, the single vote by someone who declared a conflict with one grantee was not consequential.

²⁸ The Arts Board’s conflicts of interest policy for the governing board states that “all members of the board, staff, or authorized agents must reveal their associations in an application or any transactions which may affect applications, and to absent themselves from all discussions and voting on such issues.” Minnesota State Arts Board, *Policy Manual* (St. Paul, 2010), policy 111.

Executing Grant Contracts

While the Arts Board grant contracts we reviewed were fairly comprehensive, some aspects of the Artist Initiative contracts and related communications were unclear or inconsistent.

We reviewed two sample grants contracts each for the Artist Initiative and Operating Support Fiscal Year 2018 programs. We concluded that the board's grant contracts contained many of the elements required by OGM policy. For example, as we show in Exhibit 2.1, the contracts we reviewed cited the board's granting authority and outlined the scope and timeline of projects. The board's contracts included content referenced in other OGM policies and state law, too. For example, the contracts included a justification for advancing funds to its grantees and an audit clause.²⁹

However, some portions of Artist Initiative grant contracts and related documents were confusing or contradictory. For example, the contract we reviewed for an Artist Initiative grant funded with General Fund money did not identify which state funding source—General Fund or Arts and Cultural Heritage Fund (ACHF)—funded the grant award.³⁰ As we explained in Chapter 1, certain restrictions, which vary by source, accompany the use of state funds; more extensive restrictions accompany the use of ACHF funds compared to General Funds. The board included restrictions regarding the use of ACHF dollars in the sample Fiscal Year 2018 contract for an Artist Initiative grant that did not include ACHF funding.³¹ At the same time, the Arts Board's program guide, which communicates allowable uses of funds to potential applicants, indicated that only recipients of grants that included money from the ACHF would have to certify to using funds according to the restrictions. Omitting information about funding sources and including ACHF restrictions in contracts for grants that do not include ACHF funding could confuse grantees and cause them to unnecessarily restrict how they spend grant money.

The Artist Initiative grant contracts we reviewed also referred generally to grantees' responsibility to comply with legal restrictions and requirements for the funds, as well as "all other relevant state and federal laws and regulations promulgated pursuant to governing these funds."³² Because the contract for grants awarded from the General Fund did not include the source of funds, it could be difficult for a grantee to determine which restrictions and requirements apply to their grant. In addition, while the contracts detailed some restrictions on fund use, they did not include other restrictions that seem important, such as restrictions on using state funds for travel. State law allows General Fund monies to

²⁹ The Arts Board advances 95 percent of grant funds for grants over \$25,000 and 100 percent of grant funds for other grants. The Office of Grants Management Policy on Grant Payments says that agencies that advance grant funds should have a written justification separate from or included in grant contracts. Minnesota Department of Administration, Office of Grants Management, "Policy 08-08: Policy on Grant Payments," accessed April 23, 2018, <https://mn.gov/admin/government/grants/policies-statutes-forms/>. *Minnesota Statutes* 2018, 16B.98, subd. 8, requires an audit clause.

³⁰ In contrast, the Operating Support grant contracts we reviewed provided the sources of the grant funds and the amount of money from each source.

³¹ The contract read: "[F]unds awarded through this grant contract shall be used to: (1) Supplement and not substitute for traditional sources of funding. (4) Only support administrative, indirect, or institutional overhead costs that are directly related to and necessary for the proposed project." [Emphasis in original.] Minnesota State Arts Board, *Fiscal Year 2018 Grant Contract, Artist Initiative*, sec. E.

³² *Ibid.*

be used for out-of-state travel, as long as the costs do not exceed 10 percent of the total grant.³³ The Artist Initiative program guide has stricter prohibitions. It says that grant funds may only be used for the artist's travel within Minnesota.³⁴ With two conflicting standards, including the relevant travel restriction in the legally binding grant contract would help grantees understand and comply with the applicable requirements.

We also found that language in the award letter and grant contract for Artist Initiative Fiscal Year 2018 grants was confusing as to when the grantee could spend money, which we illustrate below. Unclear language could lead to a grantee spending money on a project before the grant is effective and costs can be incurred.

Artist Initiative Grant Award Letter	Artist Initiative Grant Contract
<p>The Arts Board cannot make payments, nor can you begin your project or use grant funds for activities until all parties have signed the contract. [Emphasis added.]</p>	<p>This grant contract shall take effect on [date], or the date the Board obtains all required signatures..., whichever is later. All eligible costs must be incurred between the effective date and the expiration date of the grant contract. [Emphasis added.]</p>

For example, one contract we reviewed had been signed by all parties February 12, 2018, but the contract said it would take effect March 1, 2018. Grantees' reported expenditures are not dated so we could not determine if grantees spent funds earlier than allowed.

Finally, the Artist Initiative grant contract is unclear about project changes that require a grantee to notify the board in writing. The grant contract requires that amendments be made in writing, but it does not provide information about the types of changes (such as certain dollar amounts, participating artists, or performance venues) for which amendments would be appropriate.³⁵

RECOMMENDATION

The Arts Board should align its grant contracts, program guides, award letters, and grant-making practices with each other and with state laws and policies.

While the issues we described above related specifically to Artist Initiative grant documents, the board should review materials for all of its grant programs. It is important to clearly communicate requirements, restrictions, and expectations to potential applicants and grantees.

In the process of ensuring that its practices and documents align with state law and policy, the board may identify sections of state law or parts of its administrative rules that need

³³ *Laws of Minnesota* 2017, First Special Session, chapter 4, art. 1, sec. 25.

³⁴ Minnesota State Arts Board, *Artist Initiative FY 2018 Grant Program, Program Overview and Application Instructions* (St. Paul), 2.

³⁵ We reviewed 75 Fiscal Year 2017 Artist Initiative grant files for changes we thought could warrant amendments, such as changes between grantees' budgets and final spending and changes between proposed projects or programs and actual actions. We discuss this in Chapter 3.

change or clarification. If that is the case, the board should work with legislators and others to accomplish those changes.

Grants to Regional Arts Councils

As we explained in Chapter 1, the Legislature designates a portion of Arts Board appropriations for the state's 11 regional arts councils. Minnesota's grant management policies require executive branch agencies "to manage legislatively mandated grants with the same level of oversight applied to other state grants, while respecting and maintaining the legislative intent."³⁶ According to OGM policy, agencies must require a work plan and budget from these grantees. The policy indicates that these documents, along with the grant legislation and negotiations between the grantee and state agency, should provide the basis for grant contracts outlining grantee duties.

We reviewed the work plans, budgets, and fiscal agent agreements—which we call grant contracts—for the Arrowhead Regional Arts Council (serving northeastern Minnesota), the Lake Region Arts Council (serving west central Minnesota), and the Metropolitan Regional Arts Council (serving the Twin Cities metropolitan area).

Work Plan and Budget

Minnesota rules require regional arts councils to submit biennial plans to the Arts Board.³⁷ A biennial plan is a work plan that outlines the programs and services a council plans to provide during the biennium. Rules list ten detailed components that must be in a biennial plan. The components include, for example, descriptions of the council's (1) planning process; (2) grants, programs, and services; and (3) grant awarding and monitoring process. The council must also include organizational documents, such as bylaws, and a budget.³⁸

A six-member committee of Arts Board and regional arts council representatives, called the regional arts advisory committee, reviews councils' preliminary biennial plans. The committee's role is to review the plans and provide "advice about the plan's adherence to the applicable rules."³⁹ In the comments we reviewed, the committee provided feedback on each council's plan to both the board and regional arts council. For example, the committee might ask for clearer descriptions of a council's grant programs or praise a council for its work building relationships with groups in the region.

Regional arts councils must submit their final plans to the board after receiving comments from the committee. Minnesota rules do not require regional arts councils to revise their plans based on the regional arts advisory committee's comments.⁴⁰

³⁶ Minnesota Department of Administration, Office of Grants Management, "Policy 08-011: Policy on Legislatively Mandated Grants," accessed April 23, 2018, <https://mn.gov/admin/government/grants/policies-statutes-forms/>.

³⁷ *Minnesota Rules*, 1900.2310, subp. 5, published electronically August 15, 2016. Regional arts councils must submit plan updates for the second year of the biennium. The plan updates must include anticipated changes or confirm no changes to the biennial plan.

³⁸ *Minnesota Rules*, 1900.2710, published electronically August 15, 2016.

³⁹ *Minnesota Rules*, 1900.2310, subp. 12, published electronically August 15, 2016.

⁴⁰ We saw evidence that the three regional arts councils we reviewed responded to committee comments on their 2018-2019 biennial plans.

The regional arts advisory committee did not require councils to address all biennial plan requirements outlined in Minnesota rules.

The three 2018-2019 biennial plans we reviewed did not align with all requirements in Minnesota rules. The regional arts advisory committee offered constructive comments on regional arts councils' plans and asked questions that reflected careful plan reviews. However, the committee's comments did not address plan components that we found lacking.

The clearest example in which plan components did not align with Minnesota rules is provided by councils' needs assessments. Councils' biennial plans are supposed to be based on the needs in their region, as determined by a needs assessment. Without a complete assessment of needs, regional arts councils may fail to identify and develop grant programs and services that would be beneficial to their region, or might continue to offer unneeded programs and services.



Needs Assessment

- Must be carried out in a manner that ensures input from the arts community and the arts involved public.
- Shall be conducted to:
 - Assess and prioritize constituent needs.
 - Evaluate appropriate community and regional resources to meet those needs.
 - Determine the practicality of continuing existing programming activities, or the feasibility of developing new programs.
- Shall be updated at least once every four years.

— *Minnesota Rules*, 1900.2710, subp. 3, published electronically August 15, 2016

Minnesota rules list several standards that a needs assessment must meet, listed in the box to the left. However, the needs assessments described in one of the three biennial plans we reviewed appeared to focus on grant applicants, rather than reaching out to the broader “arts involved public,” as required by rules.⁴¹ In a second plan, the methodology of the needs assessment was unclear. The regional arts advisory committee's comments on the 2018-2019 plans did not raise either of these issues.

In contrast, one regional arts council described efforts it made to expand the reach of its needs assessment after feedback provided by the regional arts

advisory committee on its 2016-2017 biennial plan. The council reportedly sent more than 2,000 invitations to members of the public to complete the survey for its needs assessment (compared to 290 invitations for its prior survey) and received 155 responses (compared to 55 from the prior survey).

Holding a timely public meeting is another example of a requirement that one council did not meet when developing its biennial plan. One rule requires councils to hold a public meeting to receive feedback on their preliminary plans, allowing sufficient time to revise the plan. Another rule requires that councils hold a public meeting on their biennial plans.⁴² Although the rules are unclear about the timing of the public meeting, the board's interpretation is that councils should hold one meeting before submitting their preliminary plans for the regional arts advisory committee's review. Of the three plans we reviewed, one regional arts council held a public meeting on its preliminary plan after submitting the

⁴¹ *Minnesota Rules*, 1900.2710, subp. 3, published electronically August 15, 2016.

⁴² *Minnesota Rules*, 1900.2710, subps. 4 and 11, published electronically August 15, 2016.

plan to the committee. The regional arts advisory committee did not comment on the late public meeting.

One could argue that a biennial plan that does not address all of the requirements in Minnesota rules is incomplete and could be rejected by the board.⁴³ A plan's rejection would delay the execution of the grant contract between the board and regional arts council and, consequently, the release of state funds to the council.⁴⁴ However, we think it is important that councils' biennial plans reflect all of the elements required by rules. One cannot know how a council's plan might be different if, for example, they conducted a needs assessment that met all rule requirements or held a timely public meeting.

Minnesota rules require duplicative and insufficient information in regional arts councils' biennial plans.

Minnesota rules related to regional arts councils' biennial plans request information in a duplicative and inefficient way. This may contribute to plans that do not meet all rule requirements, and plan reviews that do not fully assess the plans against those requirements.

For example, rules require regional arts councils to submit their bylaws, as well as provide information that was already provided, at least in some cases, in the bylaws in the plans we reviewed.⁴⁵ In addition to being duplicative, this could lead to unclear or erroneous information. For example, explaining the requirements for board members in its 2018-2019 biennial plan, one council indicated it had a 17-member board. However, the council's bylaws limit the board to 13 members, and the roster of board members included with the plan listed 14 board positions.

Another section of rules requires "a detailed description of the council's grant making process including...the terms of the grant contract with grant recipients."⁴⁶ A contract template would provide information more efficiently and thoroughly than a written description. A contract template could be useful for assuring the board that councils' grant contracts include necessary clauses, too. It is unclear how the board can assess whether councils' contracts include all clauses the board requires through its grant contract with councils—such as residency requirements—without examples of the councils' actual contracts.⁴⁷

⁴³ Minnesota rules state that the Arts Board "shall reject [a] plan only if it determines that the plan is incomplete." *Minnesota Rules*, 1900.2810, subp. 5, published electronically August 15, 2016.

⁴⁴ Minnesota rules require the board to send a grant contract to a council within ten days of accepting its plan and release funds to the council after the grant contract has been signed by both the board and the council. *Minnesota Rules*, 1900.3010, subp. 1; and 1900.2310, subp. 15, published electronically August 15, 2016.

⁴⁵ *Minnesota Rules*, 1900.2710, subp. 7, published electronically August 15, 2016.

⁴⁶ *Minnesota Rules*, 1900.2710, subp. 10, published electronically August 15, 2016.

⁴⁷ Sample contracts we reviewed from three regional arts councils did not include an audit clause alerting grantees that they could be audited by the Office of the Legislative Auditor and should retain documents for six years. Such a clause is not required in contracts of nonprofit entities, but it is advisable so grantees are aware of the possibility of a legislative audit of their grant.

RECOMMENDATIONS

The regional arts advisory committee should review biennial plans to ensure they comply with the specific requirements outlined in Minnesota rules.

The Arts Board, working with the Forum of Regional Arts Councils, should revise *Minnesota Rules*, 1900.2710, to (1) streamline and clarify the requirements for regional arts council biennial plans, and (2) require regional arts councils to address comments made by the regional arts advisory committee about their biennial plans.

We understand that the Arts Board and regional arts councils work together to deliver grants and services to artists and organizations throughout the state. At the same time, the board must diligently oversee grants of state funds.

With these recommendations, we are not proposing that the board interfere with councils' efforts to meet local needs. In addition, we are not advocating an adversarial or punitive approach that could needlessly jeopardize regional arts councils' funding. Rather, we are emphasizing the board's responsibility to diligently monitor legislatively mandated grants. We think the Arts Board should work with regional arts councils to ensure their biennial plans are sufficient to meet all rule requirements. Only a repeated disregard for rule requirements and committee comments should have more severe consequences.

Grant Contracts

The board enters into a grant contract with each regional arts council each fiscal year. State law says that, "insofar as reasonably possible, ...[the board shall] distribute appropriations to regional arts councils upon receipt of the biennial plan."⁴⁸ And, Minnesota rules direct the board to send the regional arts councils their grant contracts within ten days of accepting their biennial plans.⁴⁹ Exhibit 2.4 shows our assessment of the timing and content of the board's grant contracts with regional arts councils. As the exhibit shows, the content of contracts aligned with most policies and laws we reviewed.

The Arts Board sent grant contracts to the three regional arts councils we reviewed before receiving their final biennial plans.

In fact, the Arts Board's due date for regional arts councils' 2018-2019 final biennial plans was *after* the board had executed the grant contracts and released funds to the councils.

According to the board's executive director, the board's process with the councils reflects (1) the timing of legislative appropriations and (2) councils' need for operating funds. After the board learns what its appropriation will be, she said, the board allows time for councils to revise their biennial plans. The executive director said that councils might have to close for a period of time if the board did not release some funds at the beginning of the fiscal year, before receiving the final plan. Finally, the executive director said that the board can

⁴⁸ *Minnesota Statutes* 2018, 129D.04, subd. 2.

⁴⁹ *Minnesota Rules*, 1900.3010, subp. 1, published electronically August 15, 2016. One can reasonably interpret the requirement to mean "within ten days *after* accepting their biennial plans."

Exhibit 2.4: The Fiscal Year 2018 grant contracts between the Arts Board and regional arts councils included most elements required for grant contracts, but the timing of their execution was contrary to law.

Timing of Grant Contracts		
Within ten days of the Arts Board's acceptance of a biennial plan, the board must provide the regional arts council with a grant contract.	x	
Insofar as reasonably possible, the board shall distribute appropriations to regional arts councils upon receipt of the biennial plan.	x	
Contents of Grant Contracts		
Contracts must:		
• Cite the board's statutory authority (1) to make grants and (2) for the particular grant program.	✓	
• Specify the scope and timeline for the work, the grantee's duties, and information about how grant payments will be made.	✓	
• Contain standard contract language and assurances regarding liability, data practices and intellectual property, workers' compensation, and federal funding.	x	
• Include an audit clause mentioning the Office of the Legislative Auditor and the need to retain relevant records for a minimum of six years.	✓	
• Contain the name and phone number of the board's project manager and grantee's authorized representative.	✓	
• Incorporate all attachments.	✓	
• Include an effective date that references <i>Minnesota Statutes</i> , 16C.05, subd. 2, or 16B.98, subds. 5 and 7. ^a	x	
• Include a description of the responsibilities of the board and regional arts councils and identify the board as having statutory responsibility for the proper management of disbursed funds.	✓	
• Be signed by the parties and are not considered to be in effect until they are signed by the Arts Board and regional arts council.	✓	
The regional arts council must agree to minimize administrative costs, and the Arts Board is responsible for negotiating appropriate limits.	✓	
Grant contracts must ensure that Arts and Cultural Heritage Fund (ACHF) monies are used to supplement and not substitute for traditional sources of funding.	✓	
A recipient of a grant from the ACHF must incorporate the Legacy logo, when practicable, into printed and other materials funded by the grant.	x	
Any changes made to the terms of the grant contract must be made via a fully executed amendment or other legally approved method.	✓	

NOTES: This exhibit is based on the Office of the Legislative Auditor's assessment of the Arts Board's compliance with state law and Office of Grants Management (OGM) policies and procedures. We reviewed a sample 2018 grant contract between the board and a regional arts council and the timing of three regional arts councils' grant contracts. A ✓ indicates the board fully or mostly met the requirement and an x indicates the board did not meet the requirement.

^a Both of these sections of state law relate to when the state considers grant contracts to be valid and binding, when payment can be made, and when work under the contract can begin.

SOURCE: Office of the Legislative Auditor, assessment of the Arts Board's compliance with the following: Office of Grants Management, "Policy 08-04: Policy on the Use of Grant Agreements," accessed April 23, 2018, <https://mn.gov/admin/government/grants/policies-statutes-forms/>; *Minnesota Statutes* 2018, 16B.98, subds. 1, 5, and 8; and 129D.04, subd. 2(4); *Laws of Minnesota* 2017, chapter 91, art. 4, sec. 2, subd. 3(a); *Laws of Minnesota* 2009, chapter 172, art. 5, sec. 10, as amended by *Laws of Minnesota* 2010, chapter 361, art. 3, sec. 5; and *Minnesota Rules*, 1900.2310, subp. 15; and 1900.3010, subp. 1, published electronically August 15, 2016.

only reject a final plan if it is incomplete; her experience is that the plans are always complete. In other words, delaying the grant contract and release of funds would have no impact on the contents of biennial plans, it would only harm the councils and the regions they serve.

While we understand the board's rationale, we discussed above that regional arts councils' biennial plans have not been held to the detailed requirements in Minnesota rules; the board may be accepting plans that are incomplete.⁵⁰ By entering into contracts with councils prior to receiving their final plans, the board gives up any leverage it has to hold councils accountable to plan requirements in Minnesota rules.

RECOMMENDATION

The Arts Board should send grant contracts to regional arts councils only after it has accepted their final biennial plans.

The Arts Board should work with the Forum of Regional Arts Councils to develop a timeline that considers both the board's need to accept a biennial plan before releasing funds to the councils and the councils' needs for ongoing funding. For example, perhaps the Arts Board could accept biennial plans that are responsive to regional arts advisory committee comments and include a preliminary budget by mid-June preceding the start of the biennium. Contracts with regional arts councils could require a final budget and brief narrative explaining significant changes, if any, at a later date.

⁵⁰ Minnesota rules do not require the board to reject incomplete plans. The board could use its discretion and accept an incomplete plan if it deemed the plan's deficiencies to be inconsequential.



Chapter 3: Monitoring Grantees

The Arts Board and regional arts councils monitor grantees to ensure that they use funds appropriately. This chapter examines the Arts Board’s monitoring activities, as well as those of a sample of three regional arts councils.¹

We concluded that the board complied with most state monitoring policies. However, its approaches for monitoring Operating Support and Artist Initiative grants may not be sufficient to detect inappropriate uses of state funds, and some approaches were inconsistent with requirements.² While the Arts Board monitored legislatively mandated grants to regional arts councils according to state policy, it did not assess all legal requirements for those grants.

We found that the regional arts councils we reviewed used different approaches to monitor their grants. Based on a sample of grants, these approaches were generally effective; we questioned grantees’ uses of funds in only a small number of grants we reviewed.

Minnesota State Arts Board

Minnesota law requires the Arts Board to “diligently administer and monitor any contract it has entered into.”³ The board uses three approaches to monitor competitive grants and legislatively mandated grants to regional arts councils: final report reviews, monitoring visits, and financial reconciliations. The Office of Grants Management (OGM) in the Department of Administration has developed policies outlining requirements for these approaches.

The Minnesota State Arts Board complied with most Office of Grants Management policies for monitoring grants, but some of its approaches may be ineffective.

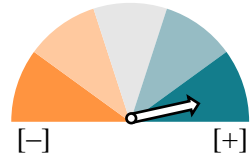
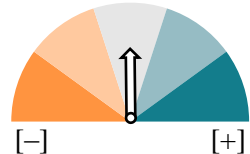
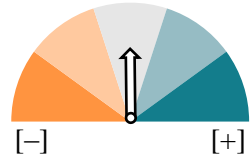
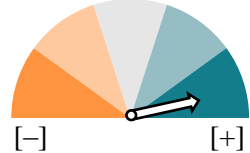
Exhibit 3.1 reflects our assessment of the board’s compliance with several policies for monitoring grants. Consistent with state policies, the board required grantees to submit written progress reports, documented monitoring visits in the grant files we reviewed, and reconciled the grants to regional arts councils we reviewed. The Arts Board did not, however, conduct some monitoring visits required by OGM policy.

¹ Our work focused on the Arrowhead Regional Arts Council (serving northeastern Minnesota), the Lake Region Arts Council (serving west central Minnesota), and the Metropolitan Regional Arts Council (serving the Twin Cities metropolitan area).

² We focused our work on these two programs for a number of reasons. The Artist Initiative program is open only to individuals and draws the highest number of applications—626 applications for Fiscal Year 2018 grants, of which approximately one-quarter received grants. The Operating Support program, in contrast, is open to organizations only. The program’s awards of over \$13 million accounted for more than half of the Fiscal Year 2018 dollars awarded through the Arts Board’s competitive grant programs.

³ *Minnesota Statutes* 2018, 16C.05, subd. 4.

Exhibit 3.1: The Arts Board's approaches to monitoring competitive grants and legislatively mandated grants to regional arts councils met most state grant-making policies.

Final Reports The board must require grantees to submit written progress reports at least annually until all grant funds have been expended and all of the terms in the grant contract have been met. ^{a, b}	✓	
	✓	
Grant payments shall not be made on grants with past due progress reports unless the board has given the grantee a written extension. ^c	✓	
Monitoring Visits The board must conduct at least one monitoring visit on all grants over \$50,000, and at least annual monitoring visits on grants over \$250,000. <ul style="list-style-type: none"> Competitive grants^c 	x	
<ul style="list-style-type: none"> Grants to regional arts councils^b 	✓	
Documentation from monitoring visits must be kept in the grant file. ^{b, d}	✓	
Financial Reconciliations The board must conduct a financial reconciliation of grantees' expenditures at least once on grants over \$50,000. ^b	✓	

NOTES: This exhibit is based on the Office of the Legislative Auditor's assessment of the Arts Board's compliance with Office of Grants Management (OGM) policies. Given the timelines of the grant programs we reviewed, we used policies established prior to January 2016. A ✓ indicates the board fully or mostly met the requirement and an x indicates the board did not meet the requirement.

^a Assessment is based on a review of Fiscal Year 2017 grants from two Arts Board competitive grant programs (Artist Initiative and Operating Support).

^b Assessment is based on a review of the Arts Board's Fiscal Year 2018 grants and activities related to three regional arts councils (Arrowhead Regional Arts Council, Lake Region Arts Council, and Metropolitan Regional Arts Council).

^c Assessment is based on a review of Fiscal Year 2017 grants from all Arts Board competitive grant programs.

^d Assessment is based on a review of Fiscal Year 2017 grants from one Arts Board competitive grant programs (Operating Support).

SOURCE: Office of the Legislative Auditor, assessment of the Arts Board's compliance with the following Office of Grants Management policies: "Policy 08-09: Policy on Grant Progress Reports" and "Policy 08-10: Policy on Grant Monitoring," both accessed April 23, 2018, <https://mn.gov/admin/government/grants/policies-statutes-forms/>.

While the board's practices generally complied with OGM policy, we had some concerns about the approaches the Arts Board took to monitor grants awarded through the two competitive grant programs we reviewed. We also found that the board did not ensure compliance with all legal requirements when it monitored legislatively mandated grants to regional arts councils. We describe our concerns in the following sections.

Competitive Grants

When reviewing competitive grantees' final reports, Arts Board staff assess (1) whether grantees did the activities they said they would do, (2) how grantees responded to any challenges they faced during the grant period, (3) whether grantees evaluated their projects, and (4) whether grantees acknowledged grant funds in their printed materials. For grant programs that require an accounting of how grantees spend grant funds, staff also review final reports to determine whether grantees' actual expenditures reflect their proposed budget.

Operating Support for a Metropolitan-Area Arts School

The Arts Board awarded a Fiscal Year 2017 Operating Support grant of over \$60,000 to a community arts school located in Minneapolis. The arts school teaches performing arts to children, youth, and young adults. The organization reported using its grant funds to provide scholarships for youth to attend dance and music classes, provide outreach programs in schools, and produce 16 shows for live audiences.

During a monitoring visit, Arts Board staff and the grantee discuss the grantee's progress toward meeting their goals, changes to grant activities, and how the grantee is meeting legal requirements, among other things. Grantees are required to provide an income and expense report for grant-funded activities.

We assessed how the board reviews final reports and conducts monitoring visits for grants awarded through two of the board's grant programs—Operating Support and Artist Initiative.⁴ We reviewed 125 grants from these programs and compared grantees' reported activities with requirements in state law and grant contracts.⁵ We also analyzed Arts Board data on monitoring visits.

For most of the Operating Support and Artist Initiative grants we reviewed, grantees spent grant dollars consistent with Minnesota law and grant contracts. Below we discuss concerns we had about the board's monitoring approaches and the standards it used to monitor grants from these programs.

Monitoring Operating Support Grants

The Arts Board's approach to monitoring Operating Support grants may not be sufficient to detect misuse of state funds.

We identified two concerns with the board's approach to monitoring Operating Support grants: (1) limited financial reporting and (2) too few monitoring visits.

⁴ We did not assess the board's financial reconciliation process for competitive grants. The board does not conduct financial reconciliations for our two sample programs.

⁵ We reviewed 75 grants from the Artist Initiative grant program and 50 grants from the Operating Support grant program. Because of the small sample size, the results from our file review should not be extrapolated to all of the grants awarded through these programs. As we show in Exhibit 1.3, Minnesota laws restrict the use of appropriations from the General Fund and Arts and Cultural Heritage Fund (ACHF). The Arts Board places additional requirements on its grantees through its grant contracts. Appendices A and B provide information about the Artist Initiative and Operating Support programs, including a list of additional restrictions on the use of funds granted through those programs.

Financial Reporting

The Arts Board does not require Operating Support grantees to report their spending, which limits its ability to identify possible misuse of state funds. Among other things, Operating Support grantees state in their final reports whether they met their year-end budget, indicate whether they have a system to track how they spent grant dollars, and provide the amount of administrative expenses attributable to the portion of the grant funded by Arts and Cultural Heritage Fund (ACHF) dollars. However, these reporting requirements do not provide sufficient detail about how grantees used funds.

Supporting Revitalization of a Historic Theater

The Arts Board awarded a Fiscal Year 2017 Operating Support grant of \$81,500 to an arts producing organization in outstate Minnesota. Among other things, the grantee reported that they used grant funds to complete a business plan and hire staff for the revitalization of a historic theater. According to the grantee, the theater would provide the organization with new programming opportunities and increased audience capacity.

While reviewing Operating Support grants, we found it difficult to determine whether grantees used their grant funds appropriately. For example, one Operating Support grantee wrote in their final report that the organization traveled to Oregon for a festival. The final report states, “The cost of sending a full production with 7 actors, a full set, and production team across the country is prohibitive; having access to general operating funding makes these projects accessible.” Minnesota law mandates that state grant funds be spent only on projects located in the state.⁶ However, because Operating Support grantees are not required to report their spending, we could not determine whether the grantee spent state grant dollars on this out-of-state project.⁷

According to the Arts Board executive director, the board does not require Operating Support grantees to account for their spending because the Operating Support program does not provide funding for “projects.” Rather, Operating Support grants are for organizations to use to support organizational goals and to maintain ongoing programs, services, and facilities.

Over 80 percent of Fiscal Year 2017 Operating Support grants did not meet the board’s threshold for conducting a monitoring visit. Consequently, these grants did not undergo the detailed review of grant expenditures that occurs during monitoring visits. And, the board did not conduct financial reconciliations for Operating Support grants because it had an exception from the Department of Administration.⁸ We believe that the Arts Board must confirm that its grantees spend grant funds according to requirements in Minnesota law and grant contracts in order to “diligently administer and monitor any contract it has entered into.”⁹

⁶ *Minnesota Statutes* 2018, 129D.17, subd. 2(f); and *Laws of Minnesota* 2015, chapter 77, art. 1, sec. 24. This requirement applies to General Fund and ACHF monies.

⁷ According to the Arts Board executive director, the program officer for the Operating Support grant program would investigate questions about whether grantees inappropriately used funds. In this case, the executive director said the program officer was satisfied that there had not been inappropriate use of funds, but did not document their analysis or determination in the grant file.

⁸ The exception expired in April 2018. The board has requested another exception, but it had not been granted at the time of this report’s publication. During a financial reconciliation, board staff compare grant expenses with supporting documentation, such as accounting reports, bank statements, receipts, and invoices.

⁹ *Minnesota Statutes* 2018, 16C.05, subd. 4.

RECOMMENDATION

The Arts Board should require recipients of Operating Support grants to provide an annual accounting of how they used state funds.

The board's Operating Support grants contain money from both the General Fund and the ACHF, requiring compliance with requirements for two streams of state funding. While the board reviews Operating Support applicant organizations' financial statements during the application process, a judgement that an organization is financially sound does not ensure it will use state grant funds appropriately.

One of the regional arts councils we reviewed requires its operating support grantees to account for how they spent grant funds. While we recognize that the council awards smaller operating support grants than the Arts Board, the council could serve as a model for the board. The Arrowhead Regional Arts Council (which serves northeastern Minnesota) requires that its operating support grantees report detailed operating revenues and expenses. Grantees indicate which line items they funded with the grant, as well as the amount of the grant used for each line item (for example, a grantee could report that it used \$4,000 for employee salaries and \$1,000 for marketing and publicity).

Monitoring Visits

The Arts Board did not conduct monitoring visits for Operating Support grants consistent with OGM policy. As we report in Exhibit 3.1, OGM policy requires that executive branch agencies conduct at least one monitoring visit for all grants over \$50,000. And, for grants over \$250,000, OGM policy requires that agencies conduct at least one monitoring visit per year.¹⁰ The board awarded 80 grants over \$50,000 through its Fiscal Year 2017 Operating Support program; 10 of the 80 grants were over \$250,000. While the Arts Board conducted monitoring visits for all 10 Fiscal Year 2017 Operating Support grants over \$250,000, it conducted monitoring visits for only 19 of the 70 grants between \$50,000 and \$250,000.¹¹

The board describes an Operating Support grant as a multiyear commitment, provided that (1) the Legislature appropriates funding; and (2) the grantee continues to meet contractual and eligibility requirements, submits an application each fiscal year, and receives a favorable interim review. The board's grant contract for Operating Support grants says that the board will conduct monitoring visits with grantees receiving more than \$50,000 and up to \$250,000 "once during the multiyear Operating Support grant period." Our analysis of the 40 Operating Support grantees that received an initial grant in Fiscal Year 2014 (the final grant in the four-year period would be in Fiscal Year 2017) indicated that the board conducted at least one monitoring visit during the four-year period with all but two of the organizations with at least one year's grant exceeding \$50,000.

However, we think that each year of funding in the Operating Support program is a grant. The board administers the program through a new grant contract each year and includes all of the grants—both those reflecting new and continued funding—as "grants" in its reports

¹⁰ Minnesota Department of Administration, Office of Grants Management, "Policy 08-10: Policy on Grant Monitoring," accessed April 23, 2018, <https://mn.gov/admin/government/grants/policies-statutes-forms/>.

¹¹ Among the other nine Fiscal Year 2017 competitive grant programs, the Arts Board awarded 50 grants over \$50,000. It reported completing monitoring visits for all but 1 of the 50 grants.

of grants awarded each year. Additionally, OGM defines a “grant period” as the start and end dates of a grant, as detailed in grant contracts.

RECOMMENDATION

The Arts Board should conduct monitoring visits for each Operating Support grant over \$50,000.

The additional monitoring visits we recommend will increase the Arts Board’s administrative costs. Returning to the 40 Operating Support grantees that received an initial grant in Fiscal Year 2014, our recommendation would have required the board to conduct 70 monitoring visits, rather than the 27 recommended by its current policy. To reduce administrative costs associated with additional monitoring visits, the board could—at its discretion—conduct some monitoring visits by telephone.¹² And, consistent with current practice and when appropriate, the board could combine the additional monitoring visits for Operating Support grants with monitoring visits required for awards grantees receive from other Arts Board grant programs. Finally, if the Arts Board has awarded multiple grants to a single grantee, OGM policy allows the board to monitor a sample of these grants as long as (1) the grants have similar start and end dates, and (2) the board identifies the sample through a documented risk assessment.

If the board is unable to conduct monitoring visits according to OGM’s grant monitoring policy, it should request an exception from the Department of Administration.¹³

Monitoring Artist Initiative Grants

The Arts Board caps Artist Initiative grants at \$10,000, so the board monitors these grants only by reviewing final reports.¹⁴ The Arts Board requires Artist Initiative grantees to record in their final reports their spending relative to their approved budget.

The Artist Initiative final reports we reviewed did not include evidence that Arts Board staff identified or investigated uses of state funds that we found questionable.

We identified some grant expenses in the final reports we reviewed that may have been for purposes prohibited by Minnesota law and grant contracts. We outline examples of the questionable expenses we found in Exhibit 3.2. For example, one grantee used state funds to pay for an AppleCare protection plan, an expense we thought could be prohibited by state law and grant contracts requiring that expenses be necessary for a project.¹⁵

¹² OGM policy allows the board to conduct monitoring visits by telephone. Minnesota Department of Administration, Office of Grants Management, “Policy 08-10: Policy on Grant Monitoring,” accessed April 23, 2018, <https://mn.gov/admin/government/grants/policies-statutes-forms/>.

¹³ OGM policy allows granting agencies to request exceptions to its monitoring policy. Minnesota Department of Administration, Office of Grants Management, “Policy 08-10: Policy on Grant Monitoring,” accessed April 23, 2018, <https://mn.gov/admin/government/grants/policies-statutes-forms/>.

¹⁴ OGM requires monitoring visits and financial reconciliations for grants over \$50,000.

¹⁵ AppleCare protection plans are offered by Apple. They extend the warranty on a product and provide the user accidental damage coverage.

Other final reports we reviewed lacked information we thought was necessary to determine whether grantees used grant funds consistent with requirements in state law and grant contracts. In some of the final reports we reviewed, illustrated by two examples in Exhibit 3.2, we saw indications that public events took place after the end of the grant periods. However, we were unable to determine if the grantees incurred expenses for their events after the end of the project period—which is prohibited by Artist Initiative grant contracts—because the grantees’ expenditures were not dated.

Exhibit 3.2: We questioned expenses in some of the Fiscal Year 2017 Artist Initiative final reports we reviewed.

Standard	Examples of Questionable Uses	Our Determination
Directly Related To and Necessary For		
Grant contracts state that “Eligible costs must be directly related to and necessary for completion of the project.” ^a	<ul style="list-style-type: none"> One grantee used \$379 of their \$10,000 grant to purchase an AppleCare plan. The purpose of the grant was, in part, to purchase a new computer to allow the grantee to document their work, create a website, and assist with creating new artwork. One grantee spent less than \$100 of their \$8,500 grant on beverages for their public event. One grantee spent \$1,150 of their \$10,000 grant on taxes. The grant was for creating and exhibiting new artwork. 	<ul style="list-style-type: none"> While the expense was directly related to the grantee’s project, we questioned whether it was necessary for the completion of the project. The grantee did not include the expense in the application budget. While the expense was directly related to the grantee’s event, we questioned whether it was necessary for the completion of the project. The grantee did not include the expense in the application budget. The grantee did not specify the type of taxes they paid. And, the grantee did not include the expense in the application budget. As a result, we could not determine whether the expense was directly related to or necessary for the completion of the project.
Expenses Incurred Outside the Grant Period		
Grant contracts state that “All eligible costs must be incurred between the effective date and the expiration date of the grant contract.”	<ul style="list-style-type: none"> One grantee held three of eight performances after the end of the grant period. They reported spending \$2,800 of their \$10,000 grant to compensate themselves for the time it took to set up and perform at their events. One grantee’s final exhibition began after the end of the grant period. They reported spending \$450 of their \$10,000 grant on promotional materials for their exhibitions. 	<ul style="list-style-type: none"> Because the expenditures the grantee reported were not dated, we were unable to determine if the grantee incurred expenses for their events after the end of the project period. Because the expenditures the grantee reported were not dated, we were unable to determine if the grantee incurred expenses for their event after the end of the project period.

^a Minnesota law contains similar language regarding the use of Arts and Cultural Heritage Fund (ACHF) dollars. The law states that ACHF funds “may not be spent on activities unless they are directly related to and necessary for a specific appropriation.” (*Laws of Minnesota 2015, First Special Session, chapter 2, art. 4, sec. 2, subd. 2.*)

According to one board staff person, grantees' final reports sometimes include information that goes beyond activities funded by state funds. Grantees can also report how they used money from other sources—such as income generated by an event—to pay for costs associated with their project. This additional information reflects the broader impact of state funds. But, for the issues we raised in Exhibit 3.2, grantees either (1) did not report other funding sources or (2) did not indicate whether they used other sources of funds to pay for costs we questioned.

The expenses we questioned accounted for less than 1 percent of the approximately \$729,000 awarded in our sample of Fiscal Year 2017 Artist Initiative grants. However, in no case did we find evidence in the grant file that staff identified the expenses as questionable or contacted grantees to obtain clarification or additional documentation.¹⁶ According to the Arts Board executive director, the program officer for the Artist Initiative program follows up with grantees about any questionable expenses. But, the program officer might not document the phone call or e-mail exchange in the grant file. The executive director said program officers document issues in the grant files when concerns need to be addressed or when additional attention or action is needed by the grantee, the program officer, or both.

RECOMMENDATION

When Arts Board staff question grantees' uses of state funds, they should document their questions and final conclusions in grant files.

We think that Arts Board staff should document in grant files any communications with grantees about how grantees used state funds, even if staff ultimately determine the uses were appropriate. Documentation of questions and resolutions could provide useful information if similar issues arise with other grantees, or if the grantee receives another grant.¹⁷

Monitoring Standards

Standards—such as those contained in the Arts Board's grant contracts—inform grantees about the board's expectations for how they must comply with legal requirements. Standards also provide criteria against which staff monitor grantees' uses of state funds. We found issues with the board's monitoring standards regarding (1) Artist Initiative and Operating Support grantees' acknowledgements of their grants and (2) changes to Artist Initiative projects.

¹⁶ According to Arts Board procedures, if staff identify issues with a grantee's use of funds, staff contact the grantee "informing them of the questionable costs, the consequences if [the] issue [is] not remedied, and the [board's] appeal process" (Minnesota State Arts Board, *Grants Office Procedures, Inappropriate Use of Funds—Staff Process on Grants \$50,000 or Less* (St. Paul, September 28, 2016)). The grantee must remove the questionable expense from their reported spending. In some cases, removing expenses could result in a grantee returning grant funds to the board.

¹⁷ We note that OGM policy states that state agencies should ensure that data about "any fraud, waste, or abuse concerns with grant performance" are available for review when awarding subsequent grants (Minnesota Department of Administration, Office of Grants Management, "Policy 08-13: Policy on Grant Closeout Evaluation," accessed April 23, 2018, <https://mn.gov/admin/government/grants/policies-statutes-forms/>).

Grant Acknowledgements

While the Arts Board's grant contracts provide a clear standard for how grantees must acknowledge funding from the board, board staff did not monitor grants according to the standard.

Minnesota law and Artist Initiative and Operating Support grant contracts require grantees to acknowledge that they received a state grant using prescribed text and logos, and the contracts prohibit changes.¹⁸ Grantees provide a sample of their acknowledgement of grant funds with their final report. More than one-third of sample acknowledgements we reviewed did not have the text and/or logos required by the grant contracts.

Rather than judging sample acknowledgments against the contract requirements or law, Arts Board staff said they look for acknowledgements that are consistent with the intent of the language required by the grant contracts. Specifically, two program officers for grant programs funded with ACHF monies said they look for text that states that grant funds (1) came from the Arts Board, (2) came from the ACHF, and (3) were made possible by Minnesota voters. For sample acknowledgements that do not identify the correct source of funding, or where acknowledgement text is significantly incorrect or missing, Arts Board procedures direct staff to request that grantees provide to the board a proper acknowledgment.¹⁹ If a grantee cannot provide a proper acknowledgment, the board asks the grantee to submit a written plan on how they will make proper acknowledgements in the event that they receive a grant in the future.

Support for Completing and Exhibiting Paintings

The Arts Board awarded a Fiscal Year 2017 Artist Initiative grant of \$10,000 to an artist in outstate Minnesota. The grantee reported using their grant funds to create a set of abstract paintings depicting rural architecture. The grantee also exhibited their work in two outstate Minnesota galleries.

Arts Board staff told us that missing words or commas in a sample acknowledgment are not enough of an issue to warrant the administrative work to have the grantee provide a proper acknowledgment or acknowledgement plan. While we understand the board's perspective, some of the sample acknowledgements we reviewed were missing most or all of the required text or logos. Yet, we found no evidence in the grant files that Arts Board staff noted problems with the acknowledgments. For example, one grantee's sample acknowledgment mentioned only Arts Board support. It did not include the name of the grantee, grant program, or fiscal year, and contained neither of the two logos required by

¹⁸ Minnesota law states that "Every publication, program, or other graphic material prepared by...[an] organization in connection with an activity paid for by the board shall bear the legend: 'This activity is made possible in part by a grant provided by the Minnesota State Arts Board through an appropriation by the Minnesota state legislature,'" and "Each publication, program, or other graphic material prepared by an individual artist in connection with an activity paid for by the board shall bear the legend: '(artist's name) is a (fiscal year) recipient of a (program) grant from the Minnesota State Arts Board from funds appropriated by the Minnesota legislature'" (*Minnesota Statutes* 2018, 129D.05). Additionally, recipients of ACHF monies must, where practicable, incorporate the Legacy Amendment logo into printed and other materials funded with ACHF monies (*Laws of Minnesota* 2009, chapter 172, art. 5, sec. 10, as amended by *Laws of Minnesota* 2010, chapter 361, art. 3, sec. 5). The contract language is different than the language in state law, but it allows ACHF dollars and funding from other sources to be acknowledged. It also requires the use of the Arts Board's logo and logos of other funders.

¹⁹ Minnesota State Arts Board, *Grants Office Procedures, Final Report Follow-up: Improper Acknowledgment* (St. Paul, February 16, 2018).

the grant contract. During their review of the final report, staff did not flag the sample acknowledgement as one that fell short of the board's standards.

RECOMMENDATION

The Arts Board should follow its contract standards when reviewing grantees' sample acknowledgements.

We recommended in Chapter 2 that the board “align its grant contracts, program guides, award letters, and grant-making practices with each other and with state laws and policies.” While addressing that recommendation, the board should revise the acknowledgement language required by its grant contracts so that it reflects the law. It should then ensure that grantees comply with standards established by state law and grant contracts. If the Arts Board thinks the acknowledgement language required by law needs to be updated, the board should work with the Legislature to amend *Minnesota Statutes* 2018, 129D.05.

Changes to Artist Initiative Projects

The Arts Board has allowed Artist Initiative grantees to make significant changes to their projects without requesting a contract amendment.

As we stated in Chapter 2, the Artist Initiative grant contract does not specify what project changes require a contract amendment. While the grant contract requires that grantees request amendments in writing at least 30 days before making any desired changes, it does not provide information about the types of changes—such as certain dollar amounts—that require amendments.²⁰

According to the Arts Board executive director, the board has not established a standard for when changes to Artist Initiative projects need a contract amendment. Absent a standard, we reviewed Artist Initiative final reports for changes between line items in grantees' budgets and final spending that exceeded \$1,000.²¹ Fifteen of the 74 Artist Initiative final reports we reviewed showed revenue and/or expenditure line items adjusted by more than \$1,000 without a contract amendment.²² For example, one grantee who received a \$10,000 grant used \$3,000 that was originally budgeted to purchase a laptop computer for their own compensation (\$1,500) and rent for their studio (\$1,500).

Besides changes to grant budgets, other changes to a planned project might be necessary for an Artist Initiative grantee to carry out their project. For example, due to unforeseen challenges, a grantee may need to use a different exhibition space or extend the time period in which they can use grant funds. While the Artist Initiative grant contract says that grantees must use their grant for the activities described in their application, the contract does not define which activities would warrant a contract amendment should they change.

²⁰ The cover letter for Fiscal Year 2017 Artist Initiative grant contracts state that “contract amendments are required for significant changes to [the grantee’s] proposed project.” Neither the letter nor the grant contract define what a “significant change” might be.

²¹ Since Artist Initiative grants are \$10,000 or less, a change of \$1,000 would be at least 10 percent of the grant amount.

²² We reviewed 75 grants from the Artist Initiative grant program; 74 grantees had submitted a final report at the time of our review.

Without this specificity, it could be difficult for grantees to know when they should request an amendment.

We saw during our review of Artist Initiative final reports instances where grantees may have had different understandings of when contract amendments were required. For example, one grantee's goal for their grant was to improve their skill in Flamenco dance. The grantee requested two amendments to change the artists who the grantee originally identified as mentors and performers. Another grantee was awarded a grant to compose original music for a jazz quintet, and perform and record the music with the quintet. While the grantee changed members of the quintet, they did not request a contract amendment.

As another example, one grantee described in their application a ceramics workshop they intended to hold for local artists. The grantee requested an amendment to instead hold a moderated artist talk at their planned exhibition. A different grantee proposed teaching a half-day writing workshop, but instead collaborated with writers to develop a curriculum for an ongoing writing program. While the first grantee requested an amendment for the change in their grant activities, the second did not.

The board considers the failure to file amendments as a "past performance" issue that staff would address with the grantee if they are awarded a subsequent grant. The failure to submit an amendment is not an issue that would cause a grantee to return grant funds or become ineligible for future grants (unless the grantee used funds for inappropriate purposes).

RECOMMENDATION

The Arts Board should develop and follow clear standards for Artist Initiative contract amendments.

As we stated previously, we recommend in Chapter 2 that the board align its grant contracts with requirements in state law and grant-making policy. While it is revising its grant contracts, the board should develop and include in the grant contracts clear standards for when Artist Initiative grantees must submit contract amendments. After developing these standards, the board should hold grantees accountable to them.

Grants to Regional Arts Councils

The Arts Board monitors regional arts councils by reviewing the councils' final reports and conducting monitoring conversations and financial reconciliations. The board's final-report reviews assess report completeness and identify differences between the reports and the councils' biennial plans.²³ The board also looks for explanations for differences and assesses their reasonableness.

Monitoring conversations between Arts Board staff and regional arts councils include questions about: (1) financial issues (such as deficits or carry forward amounts); (2) anticipated changes, if any, to programs and services; (3) assignment of administrative

²³ Minnesota rules require regional arts councils to submit biennial plans to the board. The plans outline each council's grant programs, services, and budgets for the biennium. Regional arts councils submit final reports to the board within 90 days after the end of each fiscal year of the biennium (*Minnesota Rules*, 1900.2310, subp. 5, published electronically August 15, 2016; and 1900.4110, subp. 3a, published electronically August 15, 2016).

costs to the General Fund and ACHF; and (4) how the council meets the requirement to use ACHF dollars to supplement General Fund dollars, rather than substitute for them.²⁴

To reconcile regional arts councils' grants, a board staff person selects one month with relatively high grant spending. According to the staff person, the board reconciles expenses over \$500, matching the expenses to receipts and expense authorizations.

We reviewed the Arts Board's assessments of regional arts councils' final reports, and the board's monitoring and financial reconciliation reports, for the Arrowhead Regional Arts Council (serving northeastern Minnesota), Lake Region Arts Council (serving west central Minnesota), and Metropolitan Regional Arts Council (serving the Twin Cities metropolitan area).²⁵

The Arts Board reviewed final reports and conducted monitoring conversations and reconciliations for the three regional arts councils we reviewed, but the board did not check compliance with all legal requirements.

The Arts Board reviewed the Fiscal Year 2017 final reports of the three regional arts councils we sampled and did not identify any concerns. Board staff also completed monitoring conversations and conducted reconciliations for its Fiscal Year 2018 grants to the three sample regional arts councils. Board staff did not indicate concerns identified during the reconciliations, and notes from the monitoring conversations indicate that the three regional arts councils answered all questions asked of them.

However, the board's final report reviews, monitoring conversations, and financial reconciliations did not confirm that regional arts councils appropriately acknowledged state grant funds.²⁶ In addition, the board's monitoring approaches did not ensure that regional arts councils identified measurable outcomes for their ACHF-funded grant programs or required their grantees to identify expected outcomes for their projects.²⁷

²⁴ The final question speaks to the constitutional requirement that Legacy funds "must supplement traditional sources of funding for [arts, arts education, and arts access and to preserve Minnesota's history and cultural heritage] and may not be used as a substitute" (*Minnesota Constitution*, art. XI, sec. 15). The Arts Board and regional arts councils understand "traditional sources of funding" to mean funding by which the state "has traditionally provided for arts through the state's General Fund and Capital Investment budgets." Minnesota State Arts Board and Forum of Regional Arts Councils, "Arts and Cultural Heritage Fund Fundamental Issues: Supplement versus Substitute," approved by the Minnesota State Arts Board governing board, St. Paul, March 2013.

²⁵ Exhibit 1.1 in Chapter 1 provides a map of Minnesota's regional arts councils.

²⁶ As we stated in an earlier footnote, recipients of ACHF monies must include the Legacy Amendment logo on printed materials when practicable (*Laws of Minnesota* 2009, chapter 172, art. 5, sec. 10, as amended by *Laws of Minnesota* 2010, chapter 361, art. 3, sec. 5). The board's contracts with regional arts councils seem to require councils to acknowledge state funding in other ways, but the contract language is not clear about the board's expectations.

²⁷ Minnesota law requires that programs and projects funded with ACHF dollars have measurable outcomes and a plan for measuring and evaluating the results (*Minnesota Statutes* 2018, 129D.17, subd. 2(a)). The Arts Board's grant contract with regional arts councils reiterates this requirement and states that councils must provide in their final reports a description of their outcomes for ACHF-funded programs and services (Minnesota State Arts Board, *Fiscal Year 2018 Regional Arts Council Fiscal Agent Agreement*, secs. E and H). We further discuss program and project outcomes in Chapter 4.

RECOMMENDATION

The Arts Board should ensure that regional arts councils comply with all legal requirements associated with state funding.

Because we focused on the Arts Board's *approaches* to monitoring, we cannot report the extent to which the three sample regional arts councils complied with all applicable legal requirements. If the board were to find that a council was not in compliance with state laws or their grant contract, the board could take disciplinary action against the council. The board's grant contracts with the councils specify disciplinary actions including (1) an ethics complaint filed with the Forum of Regional Arts Councils; and (2) termination of the grant contract, which could result in the council returning funds to the board.²⁸ The board may allow a council up to 30 working days to remedy an issue before terminating a grant contract.

In some cases, the disciplinary actions stated in the grant contract could be quite punitive; a graduated approach that focuses on bringing a council into compliance could be more appropriate. We think that the disciplinary actions referenced above should only be used in a case where a council makes no sincere effort to comply with legal requirements.

Regional Arts Councils

As we explained in Chapter 1, Minnesota's 11 regional arts councils receive legislatively mandated grants to provide grants and services to artists and organizations in their regions. Because regional arts councils are not state agencies, they are not required to comply with OGM monitoring policies. However, through the Arts Board's grant contracts with regional arts councils, councils have a legal obligation to ensure their grantees use funds consistent with state law.

To learn about regional arts councils' approaches to monitoring, we visited and spoke with representatives from three regional arts councils. We also reviewed a sample of Fiscal Year 2017 grants from two of each of the councils' grant programs to assess the effectiveness of the approaches.²⁹

With some exceptions, the three regional arts councils we reviewed had different approaches for monitoring how grantees used grant funds.

All three regional arts councils review final reports as a form of monitoring. Two of the three regional arts councils (Arrowhead Regional Arts Council and Lake Region Arts Council) conduct some informal site visits with their grantees.

²⁸ The Forum of Regional Arts Councils is a nonprofit, voluntary membership organization of the state's regional arts councils.

²⁹ We reviewed 75 grants made by the three regional arts councils (19 grants from the Arrowhead Regional Arts Council, 17 grants from the Lake Region Arts Council, and 39 grants from the Metropolitan Regional Arts Council). Because of our sampling approach, the results from our file review should not be extrapolated to all of the grants awarded by the three regional arts councils.

Only the Lake Region Arts Council conducts financial reconciliations. The Lake Region Arts Council advances only part of the full grant amount.³⁰ This approach makes it easier to reduce funding if the council identifies a problem with how the grantee spent its grant award. If the council finds any issues with the way a grantee spent their funds, the council adjusts its final payment to reflect the lesser of: (1) the budget approved by the council, or (2) the actual eligible amount spent by the grantee. In contrast, the Arrowhead Regional Arts Council and Metropolitan Regional Arts Council advance the entire grant amount.

For most of the regional arts council grants we reviewed, grantees spent grant dollars consistent with Minnesota law.

We focused our review on requirements in state law relating to grantees' uses of grant funds, listed in the box below, including projects' geographic location and out-of-state travel. We questioned whether grantees used funds according to state law in only a few cases.

We had some questions about grants made by the Arrowhead Regional Arts Council and Lake Region Arts Council. Three of the 16 final reports we reviewed from the Arrowhead Regional Arts Council showed expenditures for travel outside of Minnesota. Two grantees used state funds to attend conferences in New York and Washington, DC (the grants were \$3,000 and \$2,380), and one grantee used state funds to tour venues in North Dakota (the grant was \$3,000). All three grantees' travel expenses exceeded 10 percent of the total grant amount, but since the grants included General Fund dollars, ACHF dollars, and other funding, we do not know which funds paid for the travel. As the box below shows, the restriction on use of grant funds for travel is in the General Fund appropriations law.



Legal Requirements Related to Uses of State Funds

Grants with General Fund dollars:

- Grant funds may be spent only on projects located in Minnesota.
- No more than 10 percent of the total grant may be for costs related to travel outside Minnesota.

— *Laws of Minnesota 2015, chapter 77, art. 1, sec. 24*

Grants with Arts and Cultural Heritage Fund dollars:

- Grant funds must be for projects located in Minnesota.
- Activities must be directly related to and necessary for a specific appropriation.
- Funds must be used to supplement and not substitute for traditional sources.
- Funds must be spent only for arts, arts education, and arts access, and to preserve Minnesota's history and cultural heritage.
- Grants for touring programs, projects, or exhibits must ensure the programs, projects, or exhibits are able to tour in their own region as well as all other regions of the state.

— *Minnesota Constitution, art. XI, sec. 15; Minnesota Statutes 2018, 129D.17, subd. 2(f); and Laws of Minnesota 2015, First Special Session, chapter 2, art. 4, sec. 2, subds. 2 and 3(f)*

³⁰ The council pays the first 80 percent of the grant award after it receives the signed grant contract and the remaining 20 percent after either the council's executive director or the council's board approves the final report.

One of the 17 Lake Region Arts Council grants we reviewed contained an invoice for a theater space in Fargo, North Dakota, which suggests that at least part of this \$6,000 state-funded grant was spent on a project located outside Minnesota.

We had no concerns with the 34 Metropolitan Regional Arts Council final reports we reviewed. While some grantees had not completed some parts of their final reports, we did not find any indications in the grant files that the grantees spent grant funds in a way that did not comply with the legal requirements we assessed.



Chapter 4: Measuring Outcomes

It can be easy to count activities resulting from the Arts Board's and regional arts councils' grants, such as the number of concerts an organization produces and the number of paintings an artist completes. But, counting activities alone does not contribute to a larger understanding of the effects the arts have on Minnesotans and Minnesota communities.

The Arts Board has developed a plan to measure broad impacts of the arts in Minnesota, but it has not measured the outcomes of its grant programs.

The Arts Board and regional arts councils have developed statewide goals to guide their use of state funds. The board intends to begin measuring the state's progress towards achieving these goals in 2019. Consistent with requirements in state law, the Arts Board (1) established intended outcomes for its competitive grant programs and (2) requires grantees from these programs to identify and measure outcomes of their state grants.¹ However, while the board has a plan for measuring the outcomes of its grant programs, it has only recently begun to collect data needed for its analysis.

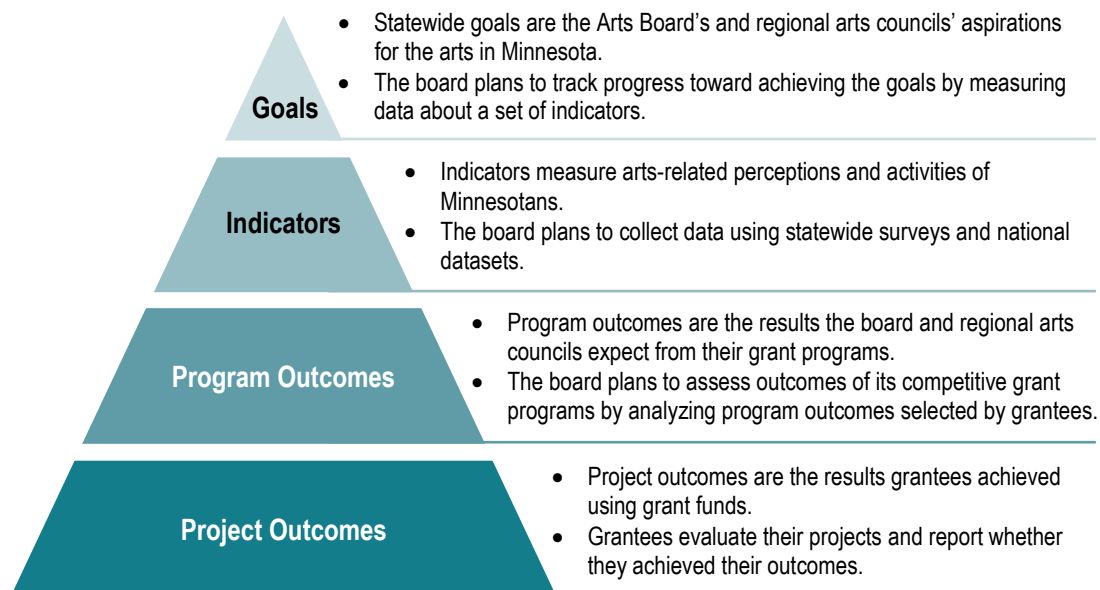
Additionally, state law and the board's grant contracts require regional arts councils to identify measurable outcomes for their grant programs. However, we questioned whether the three regional arts councils we reviewed had complied with these requirements.

Exhibit 4.1 provides an overview of the Arts Board's framework for measuring the impact of its grants and the framework's components: statewide goals, indicators, and program and project outcomes.² In this chapter, we describe the components in more detail, explain the board's planned approaches for evaluating each component, and identify the limitations of the approaches.

¹ *Minnesota Statutes* 2018, 129D.17, subd. 2(a), requires recipients of Arts and Cultural Heritage Fund (ACHF) dollars to identify outcomes and measure results of grant funding. The Arts Board requires all applicants to its grant programs to identify outcomes, regardless of the programs' funding source. The board must annually report to the Legislative Coordinating Commission information about the actual measured outcomes and evaluation of ACHF-funded projects (*Minnesota Statutes* 2018, 3.303, subd. 10(a)(3) and 10(b); and 129D.17, subd. 2(d)).

² For simplicity, we use the term "project outcomes" to refer to the outcomes applicants and grantees hope to achieve using grant funds, regardless of the type of support the grant provides. As we stated in Chapter 1, most of the board's grant programs support an individual artist or organization, for a particular project or program. But, the Arts Board provides general operating support through two programs—Community Arts Education Support and Operating Support.

Exhibit 4.1: The Arts Board’s framework for measuring the impact of its grants consists of goals, indicators, and program and project outcomes.



NOTES: For simplicity, we use the term “project outcomes” to refer to the outcomes applicants and grantees hope to achieve using grant funds, regardless of the type of support the grant provides. Most of the board’s grant programs support an individual artist or organization, for a particular project or program. But, the Arts Board provides general operating support through two programs—Community Arts Education Support and Operating Support.

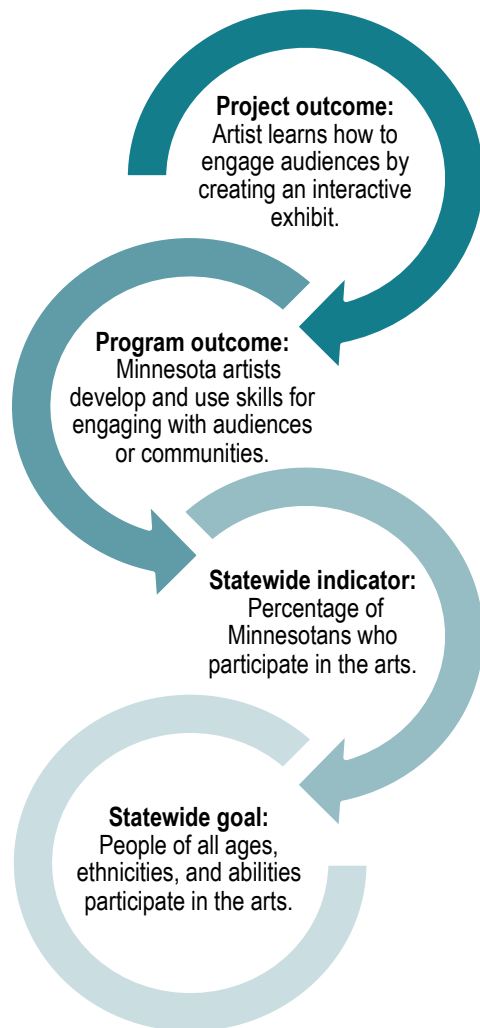
SOURCE: Office of the Legislative Auditor.

Statewide Goals and Indicators

In 2009, the Arts Board and regional arts councils developed a 25-year strategic framework for the arts in Minnesota. The framework outlines the board’s and councils’ shared vision, guiding principles, and goals. The goals are broad statements that reflect the Arts Board’s and regional arts councils’ aspirations for the arts in Minnesota. One goal, for example, is “Minnesotans believe the arts are vital to who we are.”³

³ “Arts Board Dashboard,” approved by the Minnesota State Arts Board governing board, St. Paul, May 2, 2018.

Because the goals reflect population-level observations, many forces may influence whether the state meets them. The Arts Board is committed to designing its grant programs to be among the forces influencing the goals, and regional arts councils tie their grant programs and services to the goals.⁴



In other words, if a grantee from an Arts Board competitive grant program aligns their project with a desired outcome for one of the board's grant programs, which in turn is aligned with a statewide goal, the grantee's project could contribute to meeting the statewide goal. For example, an Artist Initiative grant for a project that addresses the program outcome "Minnesota artists develop and use skills for engaging with audiences or communities" could ultimately contribute to an increase in the percentage of Minnesotans who participate in the arts, a statewide indicator. An increase in participation might help the state achieve the goal "People of all ages, ethnicities, and abilities participate in the arts."

Until recently, the Arts Board did not have a strategy for measuring progress toward achieving statewide goals.

In 2018, the Arts Board established a set of indicators that it will eventually use to track progress toward achieving statewide goals. The indicators measure arts-related perceptions and activities of Minnesotans. Exhibit 4.2 provides a list of the statewide goals and their indicators. For example, one indicator measures the percentage of Minnesotans who believe the arts have a positive effect on Minnesota's quality of life. Another calculates the average number of arts experiences Minnesotans have per year.⁵

The board has identified data it can use to assess some of the indicators. However, according to an Arts Board staff person, some of the indicators have never been studied at a statewide scale. The board plans to contract with a research firm to collect data for these indicators so that it will have baseline data for all indicators by June 30, 2019.

⁴ According to the Arts Board executive director, the board is currently working to better align its grant programs to the statewide goals. For example, to address the goal "people of all ages, ethnicities, and abilities participate in the arts," the board considered revising review criteria for all ten of its competitive grant programs to give greater weight to projects that serve certain groups of people. The board expects regional arts councils to undertake a similar process.

⁵ "Arts Board Dashboard," approved by the Minnesota State Arts Board governing board, St. Paul, May 2, 2018.

Exhibit 4.2: The Arts Board has established five goals and 16 indicators.

Goal 1 The arts are interwoven into every facet of community life.

Indicators:

- Percentage of Minnesotans who develop greater acceptance of others through arts experiences.
- Percentage of Minnesotans who use arts to improve their health and well-being.
- Percentage of Minnesota curriculum directors who believe that arts experiences are important to student success.
- Percentage of Minnesota employers who say that a vibrant arts sector is important to the success of their businesses.
- Percentage of Minnesotans who believe having the arts in their built environment gives them pride in their community.

Goal 2 Minnesotans believe the arts are vital to who we are.

Indicators:

- Percentage of Minnesotans who believe the arts have a positive effect on Minnesota's quality of life.
- Percentage of Minnesotans who make financial contributions to the arts.
- Percentage of Minnesotans who volunteer with an arts organization, program, or activity.
- Percentage of Minnesota towns/cities that commit resources to the arts.

Goal 3 People of all ages, ethnicities, and abilities participate in the arts.

Indicators:

- Percentage of Minnesotans who participate in the arts.
- Average number of arts experiences Minnesotans have per year.
- Variance in participation among key demographic groups.

Goal 4 People trust Minnesota's stewardship of public arts funding.

Indicator:

- Percentage of Minnesotans who are satisfied with the benefits of public funding for the arts.

Goal 5 The arts thrive in Minnesota.

Indicators:

- Percentage of Minnesotans who say the art forms and kinds of arts experiences they want are not available to them.
- Percentage of Minnesota nonprofit arts organizations that report increases in total net assets (unrestricted and restricted).
- Percentage of artists and arts organizations that say they are able to achieve their annual goals.

SOURCE: "Arts Board Dashboard," approved by the Minnesota State Arts Board governing board, St. Paul, May 2, 2018.

While the goals and indicators reflect statewide perceptions of the arts, they will not directly measure the outcomes of the Arts Board's grant programs.

Measuring impacts from state arts funding will be challenging for two reasons. First, the effects of Arts Board and regional arts council grants may be undetectable given other factors that can affect Minnesotans' experiences and perceptions of art, such as changes in the economy and population. For example, an economic recession could cause reductions in public and private support for arts organizations, in turn influencing the extent to which the state meets the goals identified by the Arts Board and regional arts councils.

Second, if the board observes changes in the statewide indicators, it will be difficult to determine what share of the change, if any, is directly attributable to state funding. Grants funded by the Arts Board and regional arts councils are only one source of financial support for the arts in Minnesota; other sources include foundations and the income artists derive from their work.

Given these limitations, the Arts Board may only observe changes to its indicators and hypothesize whether state funds had any effect on the change. If, for example, the board sees a change in the percentage of artists and arts organizations that say they are able to achieve their annual goals (an indicator for the goal “The arts thrive in Minnesota”), the board cannot conclude that its or regional arts councils’ grants caused the change.

Program and Project Outcomes

As we illustrated in Exhibit 4.1, program outcomes reflect the results the board and regional arts councils expect from the grant programs they offer. Project outcomes, identified by grant applicants, reflect the results applicants hope to achieve if they are awarded grant funds. In this section, we discuss program and project outcomes for competitive grant programs and grants to regional arts councils.

Competitive Grants

Grantees use their grant awards to pay for a variety of different projects, programs, and activities. For example, an Artist Initiative grantee could use their grant to pay for a professional development workshop, while an Operating Support grantee might use its grant to pay for its ongoing theater program. In order to measure the aggregate effects of its competitive grant programs, the board has established desired outcomes for each of its ten competitive grant programs.⁶

The board requires competitive grant applicants to develop at least one measurable statement that identifies outcomes for their projects. Applicants must link each of their *project* outcome statements with one of three to four grant *program* outcomes. Exhibit 4.3 provides examples of hypothetical project outcome statements linked to the three Artist Initiative program outcomes. In each of the Arts Board’s programs, at least one review criterion includes volunteer panelists’ assessments of applicants’ outcome statements. In

Supporting the Creation of a Cross-Genre Ensemble

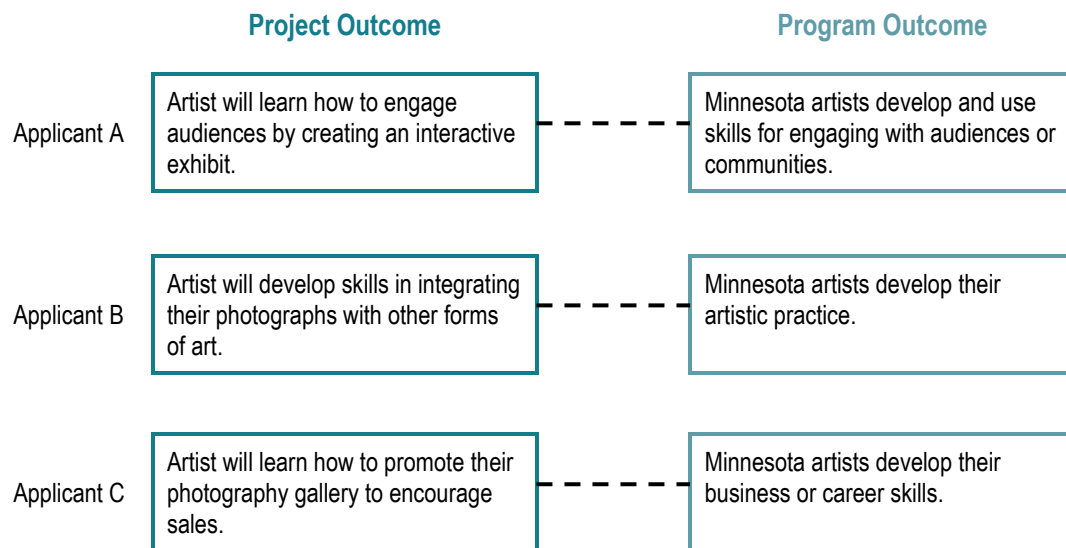
The Arts Board awarded a Fiscal Year 2017 Artist Initiative grant of \$9,950 to an artist who wanted to develop their artistic practice by arranging music for a ten-piece ensemble that combined traditional Celtic instruments with horn and rhythm sections. The grantee reported that they achieved their intended project outcome. The grantee also directed the ensemble, which presented a live performance in the Twin Cities metropolitan area.

the Arts Learning program, for example, panelists score projects on the extent to which applicants’ project outcomes are specific, measurable, and can be reasonably achieved by the proposed activities.

In addition, the Arts Board requires that applicants explain how they plan to evaluate their activities, such as by surveying participants of a class or analyzing ticket data from a series of performances. “Evaluation” is a review criterion considered by panelists in most of the board’s grant programs. For this criterion, panelists consider the extent to which

⁶ The Arts Board identified outcomes for most of its grant programs in Fiscal Year 2010.

Exhibit 4.3: Applicants identify outcomes for their projects and link those outcomes with program outcomes.



NOTES: Project outcomes are identified by applicants, and program outcomes were developed by the board. Project outcomes in this exhibit are hypothetical Artist Initiative outcomes and are linked to Artist Initiative program outcomes.

SOURCE: Office of the Legislative Auditor.

the evaluation plan and methods proposed by the applicant are appropriate to measure and document progress towards meeting the project outcomes. Panelists for most programs also assess whether the applicant has a plan to use the results. At the conclusion of the project, grantees report the actual outcomes of their projects and the evaluation methods they used.

To assess the outcomes of its grant programs, the board plans to analyze the portion of its grantees that selected each grant program outcome. The board relies on grantees' evaluations to determine whether the grantees achieved their project outcomes.⁷

Because the board does not want to restrict the types of projects it funds, it does not require grantees to use prescribed evaluation questions and methods. But, without common measures and tools, there are limits to how much the board can aggregate findings from individual grantees.

⁷ The Arts Board started collecting standardized responses regarding whether grantees achieved their outcomes for Fiscal Year 2018 grants. Because not all Fiscal Year 2018 grants were completed at the time of our analysis, we cannot report on the extent to which grantees said they met their outcomes.

The Arts Board's strategy for evaluating its grant programs has limitations.

For example, two grantees might align their projects with the Artist Initiative program outcome "Minnesota artists develop their artistic practice." One grantee may use grant funds to pay for classes to improve their writing and measure the result of their efforts using qualitative feedback received by an editor. Another grantee may learn a new style of dance and measure the effects their dance had on audience members by surveying the audience. While both approaches may produce information about whether the grantees achieved their project outcomes, the board cannot combine these findings and conclude, for example, that grantees improved their artistic practices by 50 percent. Rather, the board can only report the number of grantees that intended to develop their artistic practice, whether the grantees achieved their project outcomes, and the scale of the projects' reach.

Even though the board's approach to measuring the outcomes of its programs limits the conclusions it can make, the information the board collects about how grant projects align with program outcomes could help the governing board make decisions about whether to encourage certain types of projects. We identified two areas where the board could make improvements related to program and project outcomes: (1) applicants' outcome statements, and (2) project outcome and program outcome alignment.

Applicant Outcome Statements

Although the Arts Board requires applicants to identify expected project outcomes, the quality of outcome statements varied in the Artist Initiative and Operating Support grants we reviewed.

We saw in the Artist Initiative and Operating Support grant files we reviewed a varying degree of competence with writing outcome statements.⁸ The board defines outcomes as changes in knowledge, attitude, skill, behavior, or condition. As an example of an outcome statement that does not satisfy the board's standard, one applicant wrote the following outcome: "[six] public performance events at which a variety of musical and poetry artists will perform with the applicants [sic] group." Another wrote "completion of an edition of handmade artist's books." While these outcome statements describe activities the applicants expected to complete, the statements do not describe changes in the artists' or their audiences' knowledge, attitude, skill, behavior, or condition. In contrast, one applicant's well-written outcome statement was "Through enhanced documentation of artwork, art exhibits and website development, I will increase my professionalism and visibility as an artist." The outcome statement meets the board's standard because it describes a change in the artist's skill and condition.

⁸ We reviewed 75 grants from the Artist Initiative grant program, and 50 grants from the Operating Support grant program. Because of the small sample size, the results from our file review should not be extrapolated to all of the grants awarded through these programs.

In an Arts Board survey of Fiscal Year 2018 panelists, the majority of panelists did not comment on applicants' outcome statements.⁹ However, some comments suggest that applicants to other Arts Board grant programs also have difficulties writing outcome statements. Comments included, for example:

“The narrative we received from the Arts Board talks about how the goal is that the outcomes go beyond just saying what will happen but address the impact that activities will have, and yet many of the project outcomes I encountered stopped at the descriptive ‘this is what we will do’ level.”
—Arts Learning panelist

“Is there a way to help applicants learn how to write outcome statements? Many seemed to be written as noted in your DO NOT DO examples - which makes it harder to score.”—Arts Tour panelist

“The outcomes section is so critical and I see issues with it so frequently.”—Partners in Arts Participation panelist

Outcome statements matter because the Arts Board considers well-written outcome statements to be an indicator of a well-developed project. Applicants who identify activities, and not outcomes, may spend their grant money on increasing the number of people they serve, for example, without knowing whether their project has changed participants' lives or circumstances. In contrast, applicants who identify outcomes for their projects may focus their work on achieving a certain level of performance through their grant funded activities, such as ensuring all students master an art form.

According to Arts Board staff, applicants' outcome statements have gotten better over time. Arts Board staff described a variety of activities they conducted with applicants and grantees to improve their outcome statements and capacity for evaluating their activities. For example, staff reported that they held a webinar specifically for Operating Support applicants about how to write outcome statements. Additionally, a staff person told us they provided several training sessions at local and statewide meetings where the board's applicants were likely to attend. This staff person also reported providing one-on-one technical assistance to applicants and grantees; for example, a grantee might contact the staff person for help with designing a survey to evaluate their grant activities.

We do not offer a recommendation in this area because the board is aware of the issue and has already made some efforts to improve applicants' outcome statements.

Project Outcome and Program Outcome Alignment

Arts Board staff do not confirm that grantees' project outcomes align with the board's program outcomes.

As we explained earlier in this chapter, applicants to the Arts Board's competitive grant programs identify intended outcomes for their projects and link those outcomes to the board's desired program outcomes. According to the Arts Board's executive director, program officers review the relationship between applicants' proposed project outcomes

⁹ As we explained in Chapter 2, panels of volunteers score most applications. The board received responses from 249 of 256 Fiscal Year 2018 panelists, for a 97 percent response rate.

and selected program outcomes when they review applications before volunteer panel meetings. However, if the proposed project outcomes and selected program outcomes do not align, staff do not ask the applicant to revise the outcomes they identified.

After a grantee completes their project, the grantee reports in their final report whether they achieved their desired project outcomes. The Arts Board plans to use this information, and information about which program outcomes the grantee linked their project to when they wrote their application, to evaluate its grant programs. As part of the board's review of grantees' final reports, program officers for most grant programs answer a series of questions that reflect their assessment of grantees' activities, compliance with legal requirements, and evaluation methods. While program officers for these grant programs judge, for example, whether grantees' evaluation methods were appropriate to address their project outcomes, staff do not assess whether grantees' actual project outcomes aligned with the program outcomes they selected.

If the program outcomes grantees selected in their applications do not align with the actual outcomes of their projects, the board may not have an accurate picture of the effectiveness of its grant programs. For example, one Operating Support grantee in our file review selected the program outcome "Arts organizations effectively manage and strategically apply resources to maximize impact for Minnesotans." The organization reported that it used its grant funds to offer performances of classic ballet and provide ballet classes, an outcome that may be better reflected by a different program outcome—"Minnesotans learn, grow, or change because they participate in quality arts experiences."

Supporting a Literary Center

The Arts Board awarded a Fiscal Year 2017 Operating Support grant of over \$110,000 to a literary center located in the Twin Cities metropolitan area. Among other things, the literary center offers creative writing education and writing fellowships, mentorships, and grants. The organization requested funding to achieve several outcomes, including (1) increasing access to creative writing programs, and (2) refining programs to respond to community interests and priorities. The grantee reported that it achieved its project outcomes.

We also found that in some programs, grantees' expected project outcomes aligned with certain program outcomes more frequently than others. In four grant programs (Artist Initiative, Arts Tour, Cultural Community Partnership, and Partners in Arts Participation), a majority of Fiscal Year 2017 grantees' expected outcomes aligned with a single program outcome, as Exhibit 4.4 shows. As an example, 52 percent of the 328 outcomes identified by Fiscal Year 2017 Artist Initiative grantees were connected with the program outcome "Minnesota artists develop their artistic practice." Only 9 percent of the outcomes reportedly aligned with "Minnesota artists develop their business or career skills."

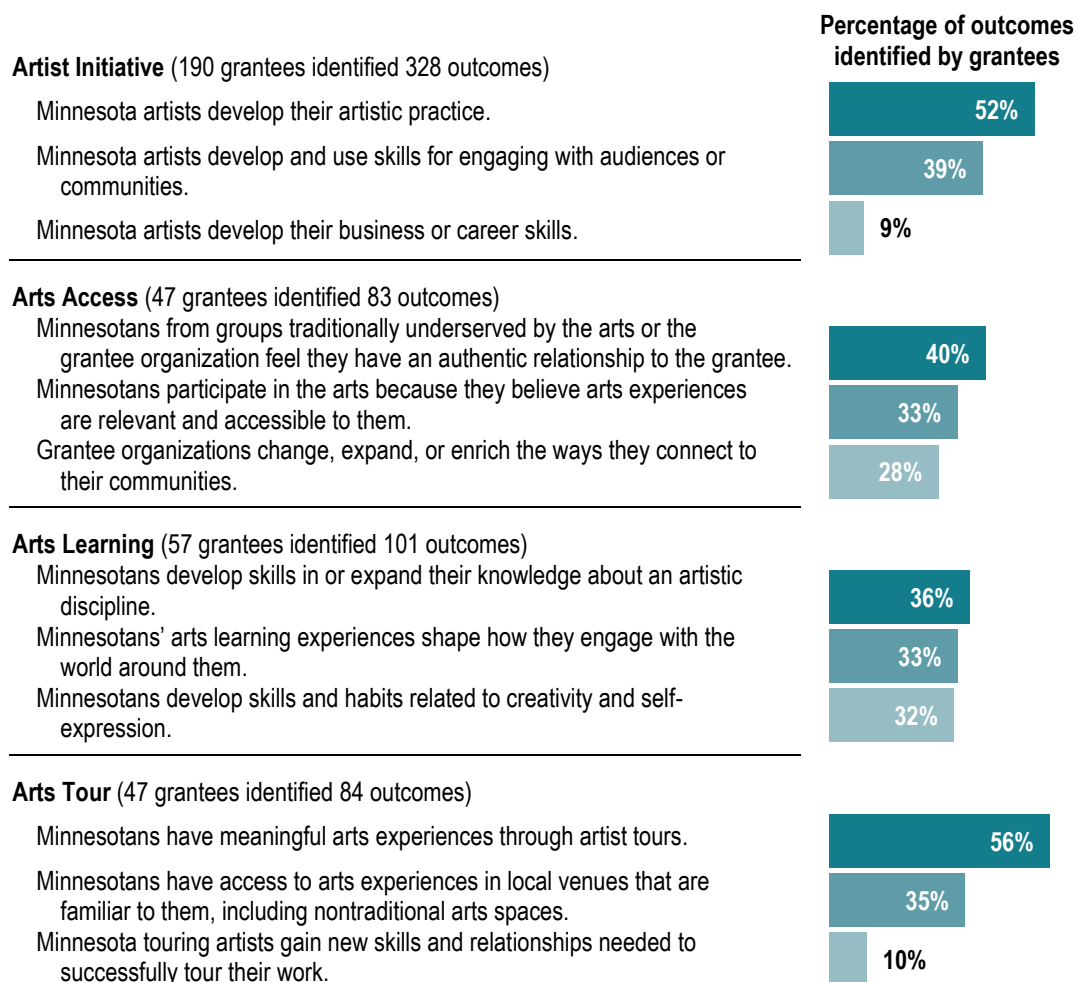
If among the three Artist Initiative program outcomes, the board wanted to encourage applicants to design their projects to address the program outcome "Minnesota artists develop their business or career skills," it could alter the design of the program. However, without assessing the alignment of grantees' actual project outcomes to grant program outcomes, it would be difficult to know with certainty whether changes to its programs are warranted.

RECOMMENDATION

The Arts Board should assess whether grantees' outcomes align with the program outcomes they select.

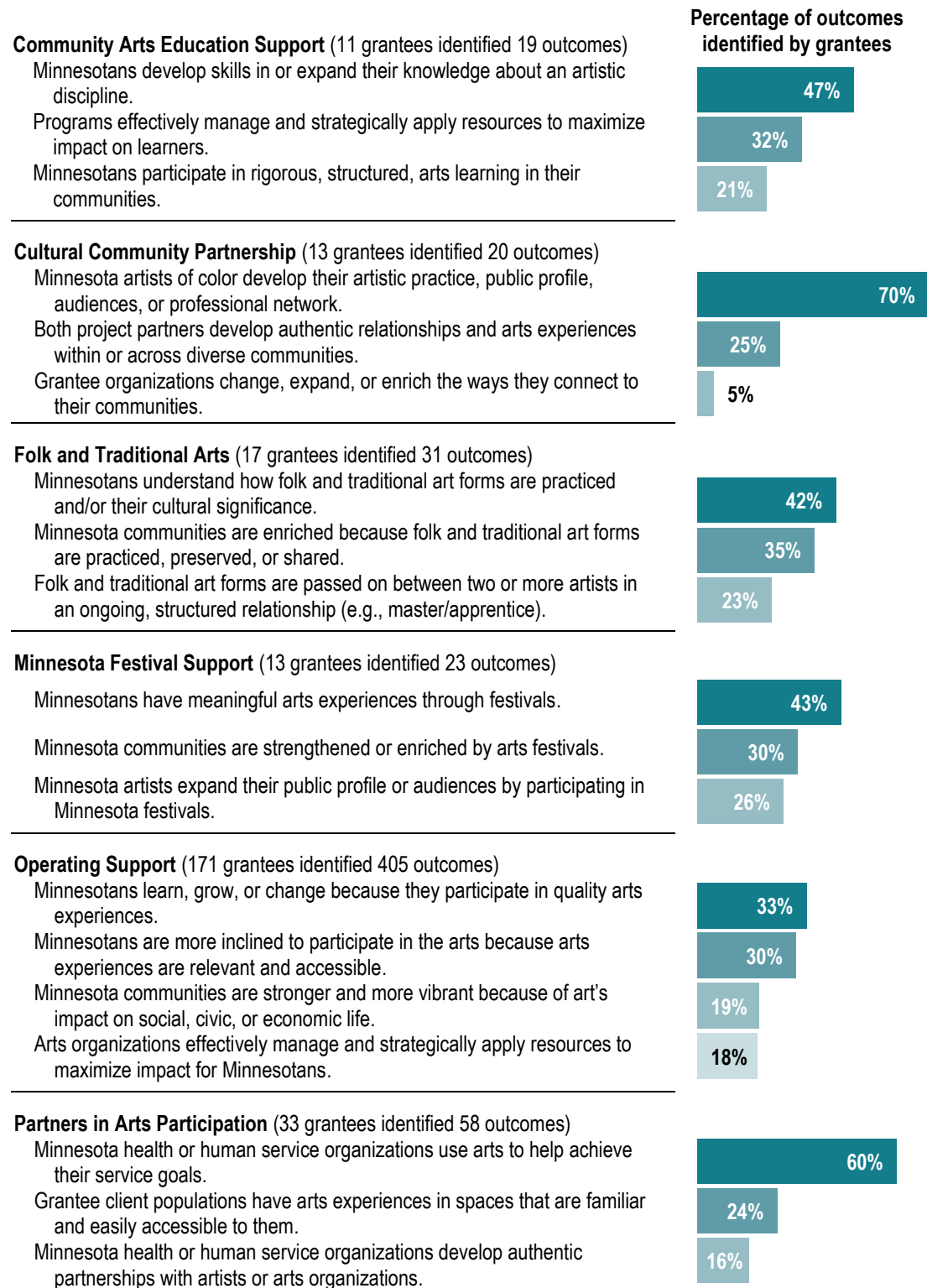
The Arts Board should measure the outcomes of its grant programs, even as it continues to align its grant programs with statewide goals for the arts in Minnesota and addresses the limitations we have outlined above. With improved applicant outcome statements and assurance that the project outcomes align with the board's program outcomes, the board's reporting of program outcomes will be more meaningful.

Exhibit 4.4: In some competitive grant programs, the majority of Fiscal Year 2017 grantees' expected outcomes aligned with one program outcome.



Continued next page.

Exhibit 4.4 (continued)



NOTE: Percentages may not sum to 100 percent due to rounding.

SOURCE: Office of the Legislative Auditor, analysis of data from the Minnesota State Arts Board.

Grants to Regional Arts Councils

The Arts Board's executive director told us that the board expects regional arts councils to evaluate the impact of their grant programs and services. In order to evaluate impact, the councils must define the outcomes they intend their programs and services to achieve.

Additionally, as with all projects or programs that receive Arts and Cultural Heritage Fund (ACHF) monies, state law requires regional arts councils to identify measurable outcomes for grant programs they fund with ACHF dollars.¹⁰ The Arts Board's grant contracts with regional arts councils reiterate this requirement and mandate that councils describe in their final reports "distinct goals and measurable outcomes" for ACHF-funded grant programs.¹¹ State law also requires councils to report grant program goals and objectives in their biennial plans.¹²

We reviewed three regional arts councils' Fiscal Year 2017 final reports and Fiscal Year 2018-2019 biennial plans for program outcome statements.¹³ All three of the regional arts councils described their *organizational* goals in their final reports and biennial plans. For example, a Fiscal Year 2017 goal for the Lake Region Arts Council was to provide services and support to individuals and organizations that provide arts activities in the region. However, the organizational goals the councils report do not satisfy legal requirements mandating regional arts councils to identify *program* outcomes.¹⁴

The regional arts councils we reviewed may not have complied with legal requirements to identify measurable program outcomes.

We focused on six grant programs from three councils; all six programs were partially or fully funded using money from the ACHF.¹⁵ While the three regional arts councils required grantees from these programs to report the outcomes of their projects, we questioned whether the three councils we reviewed complied with state law and grant contracts to identify measurable program outcomes.

¹⁰ *Minnesota Statutes* 2018, 129D.17, subd. 2(a).

¹¹ Minnesota State Arts Board, *Fiscal Year 2017 Regional Arts Council Fiscal Agent Agreement*, secs. E and H. As we explained in Chapter 2, the board enters into a grant contract, called a fiscal agent agreement, with each regional arts council each fiscal year. Minnesota rules require regional arts councils to submit final reports within 90 days after the end of each fiscal year of the biennium (*Minnesota Rules*, 1900.4110, subp. 3a, published electronically August 15, 2016).

¹² *Minnesota Rules*, 1900.2710, subp. 5, published electronically August 15, 2016. Minnesota rules require regional arts councils to submit biennial plans to the Arts Board (*Minnesota Rules*, 1900.2310, subp. 5, published electronically August 15, 2016).

¹³ The regional arts councils we reviewed were: Arrowhead Regional Arts Council (serving northeastern Minnesota), Lake Region Arts Council (serving west central Minnesota), and Metropolitan Regional Arts Council (serving the Twin Cities metropolitan area).

¹⁴ We interpret "program," as referenced in *Minnesota Statutes* 2018, 129D.17, subd. 2(a), and the board's grant contracts with regional arts councils, to mean "grant program."

¹⁵ For the Arrowhead Regional Arts Council, we reviewed the Career Development and Two-Year Operating Support grant programs. For the Lake Region Arts Council, we reviewed the Legacy Arts and Cultural Heritage and Operating Support grant programs. For the Metropolitan Regional Arts Council, we reviewed the Arts Activities Support and Organizational Development grant programs.

For all but one of the sample grant programs, the regional arts councils did not identify measurable outcomes that were specific to the programs. In some cases, the councils tied their programs to organizational or statewide goals. For example, the Metropolitan Regional Arts Council identified outcomes for its grant programs in its Fiscal Year 2017 final report, but the outcomes were not specific to its programs. Rather, the outcomes were the statewide goals we discussed earlier in this chapter. The council did not report goals or outcomes for its programs in its Fiscal Year 2018-2019 biennial plan.

We also checked the councils' Fiscal Year 2017 program guides for statements that reflected the councils' desired program outcomes. While each council's program guides included statements describing the purposes of the grant programs we reviewed, not all of these statements described a change in knowledge, attitude, skill, behavior, or condition for either the grantee or the grantee's intended audience. For example, one council's program guide indicated that the goal of the grant program was to recognize that arts are essential to a vibrant region. The statement does not describe a change in the community's knowledge, attitude, skill, behavior, or condition.

RECOMMENDATION

Regional arts councils should develop measurable program outcomes for their grant programs and plans for measuring them.

According to representatives of the Forum of Regional Arts Councils, the councils have tried different approaches to outcome measurement and evaluation throughout the last 15 years.¹⁶ As an example, the representatives said the forum hired a consultant after the passage of the Legacy Amendment to instruct regional arts councils about how to identify and measure intended outcomes. More recently, forum members attended Arts Board training on outcome evaluation and agreed to use the same process as the board.

In Chapter 3, we recommend that the Arts Board ensure that regional arts councils comply with all legal requirements associated with state funding. This would include ensuring that regional arts councils identify desired program outcomes and plans for how they will measure the results. We encourage the board and councils to work together to bring the councils into compliance with legal requirements.

¹⁶ The Forum of Regional Arts Councils is a nonprofit, voluntary membership organization of the state's regional arts councils.



Chapter 5: Standards for Use of Funds

Throughout this evaluation, unclear standards challenged our ability to gauge grantees' use of Arts Board grant funds. In this chapter, we discuss three challenging standards for evaluating the use of state grant funds: (1) supplement not substitute, (2) directly related to and necessary for, and (3) projects versus activities. While these standards posed challenges to evaluating the use of state funds, they could also be confusing to applicants for or recipients of grant funds.

Supplement Not Substitute



Supplement Not Substitute

The money dedicated under this section shall be appropriated by law. The dedicated money under this section **must supplement traditional sources of funding** for [arts, arts education, and arts access and to preserve Minnesota's history and cultural heritage] **and may not be used as a substitute**. [Emphasis added.]

— *Minnesota Constitution, art. XI, sec. 15*

Grant agreements entered into by the Minnesota State Arts Board and other recipients of appropriations in this subdivision must ensure that these funds are used to **supplement and not substitute** for traditional sources of funding. [Emphasis added.]

— *2017 appropriation law*

the board's grant contracts should ensure use of Arts and Cultural Heritage Fund (ACHF) monies as a supplement, rather than a substitute.²

However, interpretation of this requirement is unclear. The Office of the Legislative Auditor and others have written about this constitutional restriction on the use of Legacy funds. Questions surrounding this requirement have included: (1) What is a "traditional" funding source, and (2) What is the standard against which one should determine whether substitution has occurred?³

In 2011, the Legislative Auditor recommended that "Recipients of Legacy money should document their consideration of the 'supplement not

¹ *Minnesota Constitution*, art. XI, sec. 15. The Arts and Cultural Heritage Fund is a "Legacy" fund created by Minnesota voters in 2008 when they approved the Outdoor Heritage, Clean Water, Parks and Trails, and Arts and Cultural Heritage Amendment to the constitution, also called the "Legacy Amendment."

² *Laws of Minnesota* 2009, chapter 172, art. 4, sec. 2, subd. 2(a); *Laws of Minnesota* 2011, First Special Session, chapter 6, art. 4, sec. 2, subd. 3; *Laws of Minnesota* 2013, chapter 137, art. 4, sec. 2, subd. 3(a); *Laws of Minnesota* 2015, First Special Session, chapter 2, art. 4, sec. 2, subd. 3(a); and *Laws of Minnesota* 2017, chapter 91, art. 4, sec. 2, subd. 3(a).

³ Mark Shepard, Research Department, Minnesota House of Representatives, Memo to Interested Legislators, *Constitutional Issue: Supplement/Substitute*, February 18, 2009; Office of the Legislative Auditor, Program Evaluation Division, *The Legacy Amendment* (St. Paul, 2011), 45-53; Office of the Legislative Auditor, Financial Audit Division, *Minnesota State Arts Board: Arts and Cultural Heritage Fund Expenditures* (St. Paul, 2015), 9-10; and Office of the Legislative Auditor, Program Evaluation Division, *Clean Water Fund Outcomes* (St. Paul, 2017), 67-70.

substitute’ provision.” The Legislative Auditor further recommended that agencies document how their use of Legacy funds complies with the “supplement not substitute” provision.⁴

The Arts Board and the Forum of Regional Arts Councils documented how they would implement the “supplement not substitute” restriction on Legacy funds.

In 2009, the Arts Board and Forum of Regional Arts Councils began developing a document that includes a general discussion of the “supplement not substitute” requirement, as well as specific and related statements about the use of ACHF funds for (1) capital projects and (2) projects serving children in kindergarten through grade 12.⁵ The board and forum interpret “traditional sources of funding” to include the state General Fund and Capital Investment budgets. They also created guidelines for using funds in ways that they believe supplement traditional sources of funding, shown in Exhibit 5.1.

Exhibit 5.1: The Arts Board and regional arts councils created guidelines for meeting the “supplement not substitute” restriction.

Supplementing can mean any of the following:

- Adding to existing programs to more fully fund them.
- Creating new programs with Legacy Amendment funds, unrelated to programs supported by General Fund dollars.
- Making additional grants to previous grantees for the same types of activities, so that more of the activities can occur.
- Making additional grants to previous grantees for new activities.
- Making grants to new grantees for previously unfunded activities.

Substituting does not occur when the board or a council discontinues or replaces a program that has been funded with either General Fund or Legacy Amendment dollars because the program has (1) outlived its usefulness, (2) become a lower priority than some other needs, or (3) achieved its goals.

In order to avoid issues of **substituting**, the board and councils will not use Legacy funds to:

- Build new buildings.
- Substitute for funds used for core arts teaching and curriculum in K-12 schools.

NOTES: The constitution requires that Legacy funds “must supplement traditional sources of funding for [arts, arts education, and arts access and to preserve Minnesota’s history and cultural heritage] and may not be used as a substitute.” The Outdoor Heritage, Clean Water, Parks and Trails, and Arts and Cultural Heritage Amendment to the Minnesota Constitution, also called the “Legacy Amendment,” created Legacy funds with a 25-year statewide sales tax increase of 3/8 of 1 percent, with 19.75 percent of receipts to be deposited in the Arts and Cultural Heritage Fund. The document developed by the Arts Board and Forum of Regional Arts Councils includes a section about how the “supplement not substitute” restriction applies to grantees. We did not include that section in this exhibit.

SOURCES: Minnesota State Arts Board and Forum of Regional Arts Councils, “Arts and Cultural Heritage Fund Fundamental Issues,” approved by the Minnesota State Arts Board governing board, St. Paul, September 2009, April 2010, and March 2013; and Minnesota Constitution, art. XI, sec. 15.

⁴ Office of the Legislative Auditor, *The Legacy Amendment*, 52.

⁵ Minnesota State Arts Board and Forum of Regional Arts Councils, “Arts and Cultural Heritage Fund Fundamental Issues,” approved by the Minnesota State Arts Board governing board, St. Paul, September 2009, April 2010, and March 2013. The Forum of Regional Arts Councils is a nonprofit, voluntary membership organization of the state’s regional arts councils.

In the following sections, we explain how the Arts Board and three regional arts councils said they comply with the “supplement not substitute” provision. We also discuss the provision with specific attention to grant programs that provide general operating support to organizations.

Arts Board Grant Programs and Funding

The Arts Board has used Arts and Cultural Heritage Fund dollars to create new grant programs and supplement funding of existing programs.

According to the board’s executive director, the board divides appropriations among its nine state-funded competitive grant programs to comply with restrictions tied to ACHF funding.⁶ The board discontinued some of its grant programs and created seven new grant programs after passage of the Legacy Amendment, with state funding for the programs including ACHF dollars only.

The board’s executive director explained that the board has maintained General Fund support for its two programs that predate the Legacy Amendment—the Artist Initiative and Operating Support programs—and supplemented the General Fund support with ACHF dollars. The board has reduced the absolute level of General Fund support for both programs as the Legislature has reduced General Fund appropriations for the board’s grant programs from \$6.6 million in 2008 to \$4.8 million in 2012 and thereafter. However, the board still directs a portion of its General Fund appropriation to the programs.⁷

We compared the percentages of the 2008-2009 General Fund grant program appropriation that the Arts Board distributed as Artist Initiative and Operating Support grants with the percentages distributed in subsequent biennia, when the board also received ACHF appropriations. The board distributed just under 5 percent of its 2008-2009 grant program appropriation through Artist Initiative grants, and it distributed over 5 percent of grant program appropriations in the following four biennia (2010-2011 through 2016-2017). The board also allocated ACHF funds for the program each of the four biennia. The board allocated over \$2 million in ACHF monies for the program in the 2016-2017 biennium.

The Arts Board has also increased the percentage of its General Fund grant program appropriations that it distributes as Operating Support grants. The board distributed approximately 87 percent of its 2008-2009 General Fund grant program appropriation as Operating Support grants. The board distributed a slightly smaller percentage of its 2010-2011 General Fund grant program appropriation as Operating Support grants, but it distributed over 90 percent of the appropriations as Operating Support grants in the remaining three biennia (2012-2013 through 2016-2017). Similar to the Artist Initiative program, the board has used ACHF funds to supplement the General Fund dollars. The board supplemented the 2016-2017 General Fund support for the program with over \$19 million in ACHF monies from the 2016-2017 biennial appropriation.

⁶ The board funds its tenth competitive grant program, Cultural Community Partnership, with federal funds.

⁷ Exhibit 1.5 in Chapter 1 shows the board’s allocation of Fiscal Year 2018 appropriations among its nine state-funded grant programs.

Arts Board Program Guides and Grant Contracts

The Arts Board has communicated the “supplement not substitute” restriction to grantees, but it has not defined “traditional sources of funding” for them.

The Fiscal Year 2018 program guides for the Artist Initiative and Operating Support grant programs highlight the “supplement not substitute” restriction associated with Legacy funds.⁸ The guides also indicate that recipients of grants that include ACHF funding will need to certify their compliance with this and other ACHF restrictions. The Operating Support guide explains that applicants to the program must describe how they will meet the requirement, and grantees “will be expected to track and document” that their use of ACHF funds supplemented traditional funding sources, rather than substituting for them.⁹

The board included language that requires grantees to use ACHF funds only to supplement and not substitute for traditional sources of funding in the Fiscal Year 2018 Operating Support grant contracts we reviewed. The board included similar language in its grant contracts with regional arts councils. As we explained in Chapter 2, the board included the language in Artist Initiative contracts, too, regardless of whether the grant included ACHF dollars.

However, the program guides and contracts did not define “traditional sources” of funding. As we noted above, the board and regional arts councils have defined traditional funding as comprising other sources of state funds (that is, the General Fund and bonding for capital projects). But, a universally accepted interpretation of “traditional sources” has not been settled and conceivably could include sources beyond those reflected in the board’s and councils’ interpretation.

Regional Arts Council Approaches

Representatives of three regional arts councils said the “supplement not substitute” restriction on the use of grant monies has affected how they fund certain programs or award grants.

We interviewed representatives from the Arrowhead Regional Arts Council (serving northeastern Minnesota), the Lake Region Arts Council (serving west central Minnesota), and the Metropolitan Regional Arts Council (serving the Twin Cities metropolitan area).

⁸ As we explained in earlier chapters, we focused our evaluation work on the Artist Initiative and Operating Support programs. The Artist Initiative program is open only to individuals and draws the highest number of applications—626 applications for Fiscal Year 2018 grants. The Operating Support program, in contrast, is open to organizations only. The program’s awards of over \$13 million accounted for more than half of the Fiscal Year 2018 dollars awarded through the Arts Board’s competitive grant programs.

⁹ Minnesota State Arts Board, *Operating Support FY 2018 Grant Program, Program Overview and Application Instructions* (St. Paul), 20 and 27. According to the executive director, this is required of Operating Support applicants because they may receive funding year after year, and the board wants to make sure a grantee is not using Legacy dollars for something they used to fund with General Fund monies. A similar explanation is not required of Artist Initiative applicants, the executive director explained, under the assumption that those projects are new and not funded year after year, so there would not be a traditional source of funding.

The executive director from the Arrowhead Regional Arts Council, who began serving in the position in 2017, provided an example of a new grant program to illustrate how the council used ACHF funds to supplement its programming. He explained that the council's Artist Access program is a new program created to meet a need in the region, and it is funded with ACHF dollars. The executive director noted, however, that other programs had changed over time without clear documentation of how the changes aligned with the restriction that funds must supplement traditional sources of funding. He said that documenting how the region's programs meet the restriction is a council priority in the next biennium.

The executive director from the Lake Region Arts Council explained that applications to their grant programs cannot contain funding requests to supplant programs, projects, or activities that were previously funded by other sources. She said that the "supplement not substitute" requirement generally affects organizational grants because individual artists' projects would not have been funded by the council before. We noted that the guidelines for the region's ACHF-funded grant program for individual artists said that the region does not fund "projects that are a routine completion of work in progress or are a continuation of past work unless there is a new or expanded focus or audience."¹⁰ This phrasing articulates that the council does not allow ACHF funding to be used to substitute for funding that previously supported a project.

A staff person from the Metropolitan Regional Arts Council said that all of the council's grant programs are for projects; the council does not have a grant program to support organizations' general operating expenses. In addition, the staff person illustrated how the council implements the "supplement not substitute" requirement through its Arts Activities Support program. He said the program predates the Legacy Amendment. Within the program, the council funds the highest-rated projects first using General Fund dollars, and then funds projects with ACHF monies. Because the projects funded by ACHF monies would not have been funded at all in the absence of ACHF funds, the question of using ACHF dollars as a substitute does not arise.

General Operating Support Grant Programs

The sections above focused on how the Arts Board and regional arts councils have implemented programs or awarded grants to avoid substituting ACHF dollars for traditional funding. This section focuses on a particular type of program: general operating support.

We described in Chapter 1 that two of the Arts Board's grant programs—Community Arts Education Support and Operating Support—provide general operating support to grantees. The Arts Board describes the general operating support it provides through the Operating Support program as funding to support "organizational goals and objectives, and to maintain their ongoing programs, services, and facilities without special emphasis on new initiatives as justification for funding."¹¹ Some regional arts councils also have developed grant programs that provide general operating support.

¹⁰ Lake Region Arts Council, *2017-2018 LRAC Grant Program Grant Guidelines and Application Instructions, Individual Legacy Arts & Cultural Heritage* (Fergus Falls, MN), 6.

¹¹ Minnesota State Arts Board, *Operating Support FY 2018 Grant Program, Program Overview and Application Instructions* (St. Paul), 1.

Grant programs that provide general operating support raise questions about compliance with the “supplement not substitute” restriction of Legacy funds.

When a grant program focuses on grantees’ ongoing programs and services rather than new initiatives, it may be hard for grantees to demonstrate that they have used ACHF funds to supplement traditional sources of funding, rather than as a substitute for them.

We have established above that the concept of “traditional sources” of funding is ambiguous. For the sake of argument, let us assume that it is not. Let us further assume that we have determined that an organization is entirely funded by traditional sources. The questions then become: (1) At what level of organization spending should one assess whether substitution has occurred? And, (2) How should one assess substitution in the event of reductions in traditional sources of funding?

An assessment of compliance with the “supplement not substitute” restriction could occur at various levels of organization spending: the individual budget line item, total program or project spending, or total organization spending. One could argue that grantees’ use of ACHF funds is substituting for traditional sources if they use funds to pay for individual costs or programs previously funded by traditional sources. However, it is not clear that the “supplement not substitute” restriction applies to grantees’ individual budget line items, programs, or projects. An alternative perspective is that ACHF funds supplement traditional sources of funding for arts, arts access, or arts and cultural heritage as long as (1) an organization is dedicated to one or more of those purposes, (2) the organization has stable funding from traditional sources, and (3) ACHF funds increase the organization’s overall budget and capacity to address those purposes.

Assessment of compliance with the “supplement not substitute” restriction is less clear if an organization’s traditional funding is reduced, however. For example, if a longtime private donor discontinues its financial support for an organization, the organization might use ACHF grant funds to make up for the lost funds. If grantee organizations were not permitted to use ACHF funds in this way, they could be put in the position of having to use Legacy money to support new activities while their core programs suffer due to reductions in “traditional sources” of funding.¹² For example, an arts organization might have to reduce programming, services, or hours of operation. If one of the purposes of the Legacy Amendment is to support arts access, it is difficult to contemplate an interpretation that could result in reduced access.¹³

In spite of the challenges in doing so, the Arts Board requires—and we would expect—Community Arts Education Support and Operating Support grantees to be able to describe, document, and track how they are complying with the “supplement not substitute” requirement. This is consistent with the Legislative Auditor’s recommendation referenced

¹² We made this observation previously in Office of the Legislative Auditor, *The Legacy Amendment*, 49.

¹³ The Arts Board and Forum of Regional Arts Councils consider the scenario of reduced private funding in their interpretation of the “supplement not substitute” restriction. They hold: “Substituting for traditional sources of funding does not occur if a private funder or donor discontinues its support of the arts, or of a particular arts organization, and that organization seeks funding from the board or a council to support activities that haven’t previously been supported by the board or council.” Minnesota State Arts Board and Forum of Regional Arts Councils, “Arts and Cultural Heritage Fund Fundamental Issues: Supplement versus Substitute,” approved by the Minnesota State Arts Board governing board, St. Paul, March 2013.

earlier, that recipients of Legacy money document their consideration of and compliance with the “supplement not substitute” provision.

As we discussed in Chapter 3, organizations that receive Operating Support grants from the Arts Board do not have to report how they used grant funds. Therefore, we could not assess the extent to which grantees may be using ACHF dollars to substitute for traditional sources of funding, or whether legislators or others should be concerned. In Chapter 3, we recommended that Operating Support grantees be required to report how they use state funds. Such information might contribute to assessments of the “supplement not substitute” restriction in future audits or evaluations.

Directly Related To and Necessary For

Another restriction tied to ACHF monies is that expenditures of the funds must be “directly related to and necessary for a specific appropriation.”¹⁴ As with the “supplement not substitute” restriction discussed above, the “directly related to and necessary for” restriction has generated some confusion about its meaning and invited repeated discussion by the Office of the Legislative Auditor.¹⁵ Beginning with the 2015 Legislature, appropriation laws have instructed ACHF recipients to follow guidance from Minnesota Management and Budget.¹⁶



Directly Related To and Necessary For

Money appropriated in this article may not be spent on activities unless they are **directly related to and necessary for** a specific appropriation. Money appropriated in this article must not be spent on institutional overhead charges that are not **directly related to and necessary for** a specific appropriation. [Emphasis added.]

— 2017 appropriation law

When reviewing grant applicants’ budgets, it can be unclear whether budget items are directly related to and necessary for their projects.

The Arts Board included language about the “directly related to and necessary for” restriction in the grant contracts we reviewed. For example, regardless of the funding source, the board’s contract language for Fiscal Year 2017 Artist Initiative grantees stated: “Eligible costs shall be those costs directly incurred by the recipient in actual conduct of the project during the effective term of this grant contract. Eligible costs must be directly

¹⁴ *Laws of Minnesota* 2011, First Special Session, chapter 6, art. 4, sec. 2, subd. 2; *Laws of Minnesota* 2013, chapter 137, art. 4, sec. 2, subd. 2; *Laws of Minnesota* 2015, First Special Session, chapter 2, art. 4, sec. 2, subd. 2; and *Laws of Minnesota* 2017, chapter 91, art. 4, sec. 2, subd. 2.

¹⁵ Office of the Legislative Auditor, *The Legacy Amendment*, 53-58; Office of the Legislative Auditor, *Minnesota State Arts Board: Arts and Cultural Heritage Fund Expenditures*, 8-9; Office of the Legislative Auditor, *Clean Water Fund Outcomes*, 80-82; and Jim Nobles, Legislative Auditor, and Joel Alter, Director of Special Reviews, letter to Senator Carrie Ruud, Chair, Senate Environment and Natural Resources Policy and Legacy Finance Committee, *Legacy Money Used for Administrative Expenses*, May 10, 2018.

¹⁶ *Laws of Minnesota* 2015, First Special Session, chapter 2, art. 4, sec. 2, subd. 2; and *Laws of Minnesota* 2017, chapter 91, art. 4, sec. 2, subd. 2.

related to and necessary for completion of the project.” The Fiscal Year 2017 Operating Support contract stated:

Arts and cultural heritage funds may not be spent on administrative, indirect, or institutional overhead costs unless they are directly related to and necessary for Grantee’s projects, programs, or activities that are supported by arts and cultural heritage fund dollars. [Emphasis in original.]

Our questions related to this restriction had to do with some expenditures we saw during our review of 125 Fiscal Year 2017 grant files.¹⁷ However, we acknowledge that it may be only with the benefit of hindsight that one can truly know if an expense is necessary for a project. One Artist Initiative grant provides a clear example of an expenditure that was approved by the board but ultimately was not necessary for the proposed project. The grantee’s approved budget included \$3,000 of their \$10,000 grant request to purchase a computer to produce a blog related to their work, catalog new work, and perform business functions for their studio. While the expense was related to the project, it was not necessary; the grantee ended up using the \$3,000 for other purposes and the Arts Board deemed the project “successful.”

We highlighted several other questionable Artist Initiative expenses in Chapter 3. Because the board does not require a budget or reporting of final expenditures from Operating Support grantees, we could not evaluate whether those grantees may have used grant funds in ways that were unrelated to or unnecessary for ACHF supported activities.

Projects Versus Activities

Minnesota statutes require that ACHF dollars be used only on *projects* located in Minnesota.¹⁸ General Fund appropriation laws have imposed a similar restriction.¹⁹ However, Minnesota rules use different terminology. Rules indicate that applications that request funds to support *activities* that take place outside the state are ineligible for Arts Board grants.²⁰

Inconsistent language about where state-funded projects and activities must occur could lead to different interpretations of allowable uses of state funds.

Our concern is with the use of the word “activities” in Minnesota rules. The absence of definitions for the terms “projects” and “activities” could cause the Arts Board and regional arts councils to use different standards for allowable uses of state funds. In fact, while working on a “misuse of funds” policy in late 2018, representatives from the Arts Board

¹⁷ We reviewed 75 grants from the Artist Initiative grant program and 50 grants from the Operating Support grant program. Because of the small sample size, the results from our file review should not be extrapolated to all of the grants awarded through these programs.

¹⁸ *Minnesota Statutes* 2018, 129D.17, subd. 2(f).

¹⁹ *Laws of Minnesota* 2013, chapter 142, art. 1, sec. 24; *Laws of Minnesota* 2015, chapter 77, art. 1, sec. 24; and *Laws of Minnesota* 2017, First Special Session, chapter 4, art. 1, sec. 25.

²⁰ *Minnesota Rules*, 1900.1010, subp. 2(M), published electronically August 15, 2016.

and the regional arts councils discussed what the word “activities” means and the implications for identifying misuse of funds depending on the interpretation.²¹

Our difficulty reviewing sample Artist Initiative grants illustrates the consequences of different interpretations. Based only on reading laws and rules, we concluded that one Artist Initiative grant may have been ineligible for state funds. The artist’s project was to create a book to present their photography, but one of the activities described in the artist’s application—book design and fabrication—would be completed by an artist based in another state. One interpretation of Minnesota rules is that the application should have been ineligible for an Arts Board grant because one of the activities would not occur in Minnesota. And, under that interpretation, funding an ineligible grant would constitute misuse of state funds.

According to the Arts Board’s executive director, restrictions about the location of projects and activities apply to the main project or activity funded by the grant. For example, a grant-funded film might be made in Minnesota, while the score is written by an artist in another state. From the executive director’s perspective, the project or activity is the film being made in Minnesota, not the score. In other words, the terms “project” and “activity” are interchangeable. However, this interpretation is not explicit in Minnesota rules.

RECOMMENDATION

The Arts Board should clarify in Minnesota rules what “projects” and “activities” are and where they may occur.

To encourage consistent interpretation of eligible uses of state funds, we think the board should include regional arts councils in crafting language to clarify the terms “projects” and “activities” and the restrictions on where they may occur.

Depending on how Minnesota rules ultimately define projects and activities and where they may occur, the board will need to be careful about how it uses the terms throughout its grant program documents. We note, for example, that the board uses the word “activity” in its Artist Initiative program guide to refer to community events that might be part of an artist’s efforts to benefit the state or creative community. We are of the opinion that these activities must occur within the state if supported with state dollars, and the board’s position would seem to agree.

In Chapter 2, we recommended that the board align its grant contracts and other grant documents with each other and with state laws and policies. If the board clarifies the terms “projects” and “activities” in rules, as we recommend, it should include this clarification as part of its effort to align grant materials.

²¹ We note that the rule that uses the word “activities” does not apply to regional arts councils.



List of Recommendations

- The Legislature should amend *Minnesota Statutes* 2018, 13.599, to allow grant applications to the Arts Board to become public concurrent with panel review meetings, except for data otherwise classified as not public. (p. 24)
- The Arts Board should remove ambiguous terms from scoring criteria and simplify its current scoring systems. (p. 26)
- The Arts Board should require all staff who are involved with any part of the grant-making process to disclose conflicts of interest. (p. 27)
- The Arts Board should align its grant contracts, program guides, award letters, and grant-making practices with each other and with state laws and policies. (p. 29)
- The regional arts advisory committee should review biennial plans to ensure they comply with the specific requirements outlined in Minnesota rules. (p. 33)
- The Arts Board, working with the Forum of Regional Arts Councils, should revise *Minnesota Rules*, 1900.2710, to (1) streamline and clarify the requirements for regional arts council biennial plans, and (2) require regional arts councils to address comments made by the regional arts advisory committee about their biennial plans. (p. 33)
- The Arts Board should send grant contracts to regional arts councils only after it has accepted their final biennial plans. (p. 35)
- The Arts Board should require recipients of Operating Support grants to provide an annual accounting of how they used state funds. (p. 41)
- The Arts Board should conduct monitoring visits for each Operating Support grant over \$50,000. (p. 42)
- When Arts Board staff question grantees' uses of state funds, they should document their questions and final conclusions in grant files. (p. 44)
- The Arts Board should follow its contract standards when reviewing grantees' sample acknowledgements. (p. 46)
- The Arts Board should develop and follow clear standards for Artist Initiative contract amendments. (p. 47)
- The Arts Board should ensure that regional arts councils comply with all legal requirements associated with state funding. (p. 49)
- The Arts Board should assess whether grantees' outcomes align with the program outcomes they select. (p. 62)
- Regional arts councils should develop measurable program outcomes for their grant programs and plans for measuring them. (p. 65)
- The Arts Board should clarify in Minnesota rules what "projects" and "activities" are and where they may occur. (p. 75)



Artist Initiative Grant Program

APPENDIX A

The Artist Initiative grant program is one of the two Arts Board competitive grant programs that we focused on during our evaluation.¹ The board awarded 164 Fiscal Year 2018 Artist Initiative grants, totaling almost \$1.6 million.

The Artist Initiative grant program provides funding for artists to undertake career-building activities, such as attending Minnesota-based workshops and conferences. The Arts Board also awards Artist Initiative grants for activities that encourage artistic development. Among other things, grant funds may be used to pay for supplies; equipment (totaling less than \$5,000); and artists' time to research, complete, or present art work. Fiscal Year 2018 Artist Initiative grants could range from \$2,000 to \$10,000.

The Arts Board awards Artist Initiative grants in eight artistic disciplines: prose, poetry, dance, music, theater, media arts, photography, and two- and three-dimensional visual arts. Each Artist Initiative project must include a “community component,” or a live event that engages the public and draws attention to the artist’s work. Community components may include public performances, demonstrations, or exhibitions.

In this appendix, we include:

- Eligibility requirements for applicants (Exhibit A.1).
- Information required for applications (Exhibit A.2).
- Review criteria for applications (Exhibit A.3).
- The panel scoring guide (Exhibit A.4).
- Additional restrictions on the uses of grant funds (Exhibit A.5).²

¹ We reviewed program documents—including the program guide, panel scoring guide, and grant contract—against requirements specified in state grant-making policies. We also reviewed 75 grant files to assess the effectiveness of the Arts Board’s monitoring approach. We selected the Artist Initiative program for a number of reasons. The program is open only to individuals and draws the highest number of applications—626 applications for Fiscal Year 2018 grants.

² We include Fiscal Year 2018 information in most exhibits. Because we reviewed a sample of Fiscal Year 2017 grants, we include information for funding restrictions in that year.

Exhibit A.1: Eligibility Requirements for Fiscal Year 2018 Artist Initiative Applicants

General Eligibility Requirements for Applicants to All Arts Board Grant Programs

An application is not eligible to be funded if any of the following items are true:

- Artists are required to pay excessive entry or exhibition fees in order to exhibit or perform in the project or program for which funding is sought.
 - Funds are requested for payment of debts incurred before the grant activities begin.
 - Funds are requested to support activities that are essentially for the religious socialization of the participants or audience.
 - Funds are requested to support activities in primary or secondary level parochial schools.
 - Funds are requested for activities that attempt to influence any state or federal legislation or appropriation.
 - Funds are requested to pay for capital costs, such as improvements, construction, property, equipment costing \$5,000 or more, or endowment funds.
 - The application form and all required materials are not received in the Arts Board office by 4:30 p.m. on the deadline specified in the program information.
 - The applicant has any overdue reporting requirements as specified in a previous contract with the board.
 - The applicant is not in compliance with any active contract with the board.
 - The applicant does not make all events open to the general public.
 - The applicant does not establish admission charges for the events, although it would be feasible to do so.
 - Funds are requested to start, match, add to, or complete any type of capital campaign.
 - Funds are requested to support activities that will not take place within the geographic boundaries of Minnesota.
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General Eligibility Requirements for Individual Applicants to All Arts Board Grant Programs

An eligible individual applicant must:

1. be a professional artist applying as an individual;
2. be a United States citizen or have attained permanent resident status;
3. be at least 18 years old; and
4. have been a Minnesota resident (as defined by state law) for at least six months prior to the application date, and must continue to reside in Minnesota throughout the contract period.

An eligible individual applicant must not use granted funds to:

1. cover the costs of activities involving any organization that is the applicant's employer;
 2. pay for tuition, fees, or work toward any degree;
 3. pay for the translation of another artist's literary work;
 4. develop curriculum plans, teaching materials, or teaching programs that are intended to be used in the applicant's regular course of employment;
 5. cover the costs of relocating the applicant's legal residence outside of Minnesota; or
 6. pay for the establishment of any type of nonprofit or for-profit organization.
-

Additional Eligibility Requirements for Artist Initiative Applicants

To be eligible for an Artist Initiative grant, the applicant must:

1. not have received an Artist Initiative grant for the previous fiscal year;
2. not have received a Cultural Community Partnership grant, as applicant or collaborator, in either the previous or current fiscal year; and
3. be applying on behalf of the applicant and not on behalf of a duo, group, or organization.

SOURCES: *Minnesota Rules*, 1900.1010, subps. 2 and 5; and 1900.2215, subp. 4, both published electronically August 15, 2016.

Exhibit A.2: Information Required for Fiscal Year 2018 Artist Initiative Applications

Application Components

- General information, such as contact information and the project title.
- At least one measurable outcome and how it will be evaluated, and at least one Arts Board outcome. (Evaluation approach and Arts Board outcome must be indicated for each measurable outcome listed.)
- Artist plan, comprising:
 1. a public statement for publicity purposes;
 2. a narrative including (a) artist background, (b) intended project outcomes, (c) barriers to achieving the outcomes, (d) actions the artist will take to achieve the outcomes, (e) identification of how the public will be able to participate in the project, and (f) a discussion of the ways the project will impact the artist, the artist's community, and the state; and
 3. a resume.
- Estimates of the number of artists involved in the project and individuals who will engage with the arts through the project.
- A budget (using an Arts Board form) with an explanation for every revenue and expense dollar amount.
- Work sample(s), including a description of the work sample(s).
- National Endowment for the Arts statistical information about the project and populations to benefit from the project.
- Demographic information, through which an applicant who is not a U.S. citizen must attach a copy of their permanent resident card, but which is otherwise optional.

SOURCE: Minnesota State Arts Board, *Artist Initiative FY 2018 Grant Program, Program Overview and Application Instructions* (St. Paul), 8-17.

Exhibit A.3: Fiscal Year 2018 Artist Initiative Review Criteria

	Maximum Points
Artistic Quality When considering artistic quality, the panel will take into account where each applicant is in his or her career. The applicant's work sample, resume, and artist background should demonstrate: <ul style="list-style-type: none"> • Originality. • Technical skill. • Personal artistic vision/voice. • Professional commitment. • Work that evokes or provokes emotion, intellectual inquiry, or other response from an audience. 	40
Merit and Feasibility of the Artist Plan The applicant's outcome(s), artist plan, and budget demonstrate: <ul style="list-style-type: none"> • Project outcome(s) is specific, and promotes artistic and/or professional growth. • Project outcome(s) is achievable, and is appropriate to the applicant's current career level. • Actions are logical, detailed, and will lead to the achievement of the project outcome(s). • Budget is appropriate to the actions and outcome(s). • Impact on the applicant's career is clearly identified, and goes beyond current skills and strengths. 	35
Impact or Benefit to the State and/or Creative Community The community component and statements about the applicant's impact on the state and/or creative community demonstrate: <ul style="list-style-type: none"> • A live and in-person public activity, appropriate to the applicant and project. • An event that will draw visibility to the applicant's work. • The audience for the event is clearly defined and estimated attendance is reasonable. • That adequate funds are budgeted for the community component. • Ways in which the applicant has an impact on the state and/or the creative community. 	25

NOTE: Panelists score each of the three criteria based on the degree to which the applicant addresses the bulleted statements.

SOURCE: Minnesota State Arts Board, *Artist Initiative FY 2018 Grant Program, Program Overview and Application Instructions* (St. Paul), 4.

Exhibit A.4: Fiscal Year 2018 Artist Initiative Panel Scoring Guide

		Review Criteria and Point Ranges		
		Artistic Quality	Merit and Feasibility of the Artist Plan	Impact or Benefit to the State and/or Creative Community
Exceptional	Evidence demonstrates exceptional understanding, skills, and/or capacity in this criterion. Materials go beyond addressing essential components to include innovative approaches and strategies that have and/or could reasonably achieve exceptional results.	33-40 points	29-35 points	21-25 points
Accomplished	Evidence demonstrates accomplished understanding, skills, and/or capacity in this criterion. All essential components are included and addressed at a high level. Consistent quality and multiple successful strategies are in place.	25-32 points	22-28 points	16-20 points
Meets Expectations	Evidence demonstrates adequate understanding, skills, and/or capacity in this criterion for success. Most essential components are included and appropriately considered. Where gaps or weaknesses exist, achievable plans are in place to address them.	17-24 points	15-21 points	11-15 points
Below Expectations	Evidence demonstrates understanding, skills, and/or capacity in this criterion that are below what is needed for success. There is periodic but inconsistent quality in activities related to this criterion. Noticeable gaps or weaknesses exist that impact ability to achieve results.	9-16 points	8-14 points	6-10 points
Considerably Below Expectations	Evidence demonstrates understanding, skills, and/or capacity in this criterion that are considerably below what is needed to successfully achieve results. Significant gaps or weaknesses exist without plans in place to address them.	1-8 points	1-7 points	1-5 points
Insufficient/Incomplete	Evidence demonstrates insufficient understanding, skills, and/or capacity in this criterion to successfully achieve results; or there is insufficient information to assess.	0 points	0 points	0 points

SOURCE: Minnesota State Arts Board, *Artist Initiative FY 2018 Grant Program, Panelist Training Guide* (St. Paul), 11.

Exhibit A.5: Restrictions on Uses of Funds, Fiscal Year 2017 Artist Initiative Grant Program

Grant Contract

- All eligible costs must be incurred between the effective date and the expiration date of the grant contract.
 - The grantee shall use the funds received under this grant contract only for the eligible costs of the project as described in the approved project description in the grantee's application.
 - Eligible costs must be directly related to and necessary for completion of the project.
 - Funds must be used to:
 1. Supplement and not substitute for traditional sources of funding.
 2. Support projects or programs that have measurable outcomes, and a plan for measuring and evaluating the results.
 3. Support projects, programs, or activities that take place within the state of Minnesota.
 4. Only support administrative, indirect, or institutional overhead costs that are directly related to and necessary for the proposed project.
-

Program Guide

The following activities do not make an application ineligible, but Arts Board funds may not be used for the following purposes:

1. Activities that take place outside of the project period.
2. Activities primarily intended to serve elementary or secondary school students.
3. Travel for individuals or organizations brought into the state to participate in the project.
4. Activities not directly related to the enhancement of an artist's career.
5. Work on scholarly manuscripts or standard journalism.

NOTES: In Chapter 1, we explained that state appropriations to the Arts Board come with restrictions and requirements, depending on the source (General Fund or Arts and Cultural Heritage Fund). We outlined the restrictions and requirements by funding source in Exhibit 1.3. The board includes some of these restrictions and requirements, and others, in its grant contracts. In addition, the board communicates other restrictions in its program guides, though program guides are not legally binding.

SOURCES: Minnesota State Arts Board, *Artist Initiative FY 2017 Grant Program, Program Overview and Application Instructions* (St. Paul), 2; and Minnesota State Arts Board, *Fiscal Year 2017 Grant Contract, Artist Initiative*, secs. C and E.

Operating Support Grant Program

APPENDIX B

The Operating Support grant program is one of the two Arts Board competitive grant programs that we focused on during our evaluation.¹ The board awarded 176 Fiscal Year 2018 Operating Support grants, totaling over \$13 million.

The Arts Board provides general operating support for established organizations through the Operating Support grant program. Eligible organizations include those whose primary mission is to produce, present, or exhibit works of art; provide services to artists; or offer art education opportunities to individuals of all ages and abilities. The board defines general operating support as funding for organizations to address “organizational goals and objectives, and to maintain their ongoing programs, services, and facilities without special emphasis on new initiatives as justification for funding.”² The minimum allowable grant amount for Fiscal Year 2018 grants was \$15,000; the maximum allowable grant amount was capped so that an organization would receive no more than 50 percent of its operating expenses from the Arts Board. The largest Fiscal Year 2018 Operating Support grant was nearly \$860,000.

The board awards Operating Support grants based on a formula and on applicants’ merit. To receive a formula award, applicants must meet basic expectations in all five review criteria shown in Exhibit B.3. The amount of the formula award depends on the (1) amount of money available for the program, (2) number of grants awarded, and (3) applicant’s two-year qualifying expenses.³ Applicants that receive a formula award are considered for a merit award. To receive a merit award, applicants must “greatly exceed expectations” in one or more review criteria. (Exhibit B.4 shows categories that reflect reviewers’ assessments of applicants against review criteria.) The amount of the merit award depends on (1) the number of applicants in a budget group that are recommended for merit awards, and (2) the applicant’s panel review score relative to other applicants in the budget group.⁴

The board considers Operating Support grants as four-year commitments, provided that the Legislature appropriates funding and grantees continue to meet eligibility criteria. While applicants must submit an application for each year of the multiyear cycle, only applications in the first year of the cycle (“full” applications) are reviewed by volunteer review panelists.

¹ We reviewed program documents—including the program guide, panel scoring guide, and grant contract—against requirements specified in state grant-making policies. We also reviewed 50 grant files to assess the effectiveness of the Arts Board’s monitoring approaches. We selected the Operating Support program for a number of reasons. The program is open to organizations only, and its grant awards accounted for more than half of the Fiscal Year 2018 dollars awarded through the board’s competitive grant programs.

² Minnesota State Arts Board, *Operating Support FY 2018 Grant Program, Program Overview and Application Instructions* (St. Paul), 1.

³ Two-year qualifying expenses are unrestricted expenses that do not include in-kind expenses, nonoperating expenses, nonarts expenses, or Arts Board Operating Support funds (*Minnesota Rules*, 1900.2245, subp. 1(D), published electronically August 15, 2016). For Fiscal Year 2018 applicants, two-year qualifying expenses represented average qualifying expenses for the applicant’s fiscal years 2014 and 2015.

⁴ In Fiscal Year 2018, the Arts Board separated Operating Support applicants into four budget groups based on their two-year qualifying expenses: (1) \$5,000,000 and above; (2) \$830,000 to \$4,999,999; (3) \$390,000 to \$829,999; and (4) \$166,000 to \$389,999.

For applicants in the first year of the cycle, volunteer panelists or other Arts Board volunteers conduct an artistic visit prior to the panel meeting to assess the quality of the applicant's arts activities. Additionally, Arts Board staff and volunteer panelists conduct administrative visits during which they discuss with the applicant questions raised by the application and significant updates since the applicant submitted its application. An oral report on the administrative visit is presented as part of the panel meeting.

Arts Board staff review applications for grants in years two, three, and four of the multiyear cycle ("interim" applications). Volunteer panelists or other Arts Board volunteers also conduct artistic visits for these applications.

In this appendix, we include:

- Eligibility requirements for applicants (Exhibit B.1).
- Information required for applications (Exhibit B.2).
- Review criteria for applications (Exhibit B.3).
- The panel scoring guide (Exhibit B.4).
- Additional restrictions on the uses of grant funds (Exhibit B.5).⁵

⁵ We include Fiscal Year 2018 information in most exhibits. Because we reviewed a sample of Fiscal Year 2017 grants, we include information for funding restrictions in that year.

Exhibit B.1: Eligibility Requirements for Fiscal Year 2018 Operating Support Applicants

General Eligibility Requirements for Applicants to All Arts Board Grant Programs

An application is not eligible to be funded if any of the following items are true:

- Artists are required to pay excessive entry or exhibition fees in order to exhibit or perform in the project or program for which funding is sought.
- Funds are requested for payment of debts incurred before the grant activities begin.
- Funds are requested to support activities that are essentially for the religious socialization of the participants or audience.
- Funds are requested to support activities in primary or secondary level parochial schools.
- Funds are requested for activities that attempt to influence any state or federal legislation or appropriation.
- Funds are requested to pay for capital costs, such as improvements, construction, property, equipment costing \$5,000 or more, or endowment funds.
- The application form and all required materials are not received in the Arts Board office by 4:30 p.m. on the deadline specified in the program information.
- The applicant has any overdue reporting requirements as specified in a previous contract with the board.
- The applicant is not in compliance with any active contract with the board.
- The applicant does not make all events open to the general public.
- The applicant does not establish admission charges for the events, although it would be feasible to do so.
- Funds are requested to start, match, add to, or complete any type of capital campaign.
- Funds are requested to support activities that will not take place within the geographic boundaries of Minnesota.

General Eligibility Requirements for Organization Applicants to All Arts Board Grant Programs

An eligible organization must be one of the following:

1. A 501(c)(3) tax-exempt organization;
2. a public entity such as a unit of state, local, or tribal government; or
3. an unincorporated group that has a written agreement with a Minnesota 501(c)(3) tax-exempt fiscal agent.

In addition, an eligible organization must:

1. be located and operating within Minnesota; and
2. employ at least one paid individual, at the time of application, in a contract or salaried position, to provide administrative or artistic oversight of the project, program, or organization.

In addition, arts affiliates must:^a

1. be hosted by a Minnesota organization;
2. have a public presence and identity that is distinct from the host organization;
3. have professional staff with the expertise, training, or qualifications necessary for bringing arts programming or services to the public;
4. provide ongoing arts programming or services throughout the year or season;
5. demonstrate broad community support through ticket sales, memberships, or class attendance;
6. have an advisory board or committee that is separate and distinct from that of the host organization;
7. have a budget that is separate and distinct from that of the host organization;
8. demonstrate charitable support from multiple sources other than the host organization; and
9. provide programming or services that are intended for the public rather than the host organization or its constituents.

Continued next page.

Exhibit B.1: Eligibility Requirements (continued)

Additional Eligibility Requirements for Operating Support Applicants

The applicant must be an arts organization or affiliate and also must be one or more of the following:

1. an arts producer;
2. an arts presenter;
3. a community arts school and conservatory; or
4. an artist service organization.

The applicant must:

1. be physically located in Minnesota, and produce the majority of its programming in Minnesota, primarily for Minnesotans;
2. have been in existence, actively providing arts programming or services for at least two consecutive years before applying for operating support for the first time; and
3. meet the average qualifying expense and charitable arts support requirements printed in the most current program materials.

The following are not eligible to receive Arts Board operating support funding:

- Any state agency, public institution, or nonprofit organization that receives a legislative appropriation or legislatively mandated grant from Minnesota's Arts and Cultural Heritage Fund is not eligible to receive an Arts Board Operating Support grant for the same fiscal year that it receives the appropriation or legislatively mandated grant.
- Any project, program, or division housed within or affiliated with a state agency, public institution, or nonprofit organization that receives a legislative appropriation or legislatively mandated grant from Minnesota's Arts and Cultural Heritage Fund is not eligible to receive an Arts Board Operating Support grant for the same fiscal year that it receives the legislative appropriation or legislatively mandated grant.
- An affiliate and its host institution may not both receive funding in the Operating Support program. However, more than one affiliate of the same host institution may receive contemporaneous funding.
- Two separate organizations whose work supports or is based upon the same artists or arts programming may not both receive funding in the Operating Support program.

^a"Arts affiliate" means a distinct program or division within a public or nonprofit Minnesota nonarts organization that satisfies all of the following: (1) has an arts-focused mission; (2) demonstrates charitable support from multiple sources other than the host organization; (3) provides programming or services that are intended for the public rather than the host organization or its constituents; and (4) arts programming or services represents at least 90 percent of its annual operating expenses. (*Minnesota Rules*, 1900.0310, subp. 4b, published electronically September 14, 2007.)

SOURCES: *Minnesota Rules*, 1900.1010, subps. 2 and 3; and 1900.2245, subp. 3, both published electronically August 15, 2016.

Exhibit B.2: Information Required for Fiscal Year 2018 Operating Support Applications

Application Components

- General information, such as contact information and project title.
- At least one measurable outcome and how it will be evaluated, and at least one Arts Board outcome. (Evaluation approach and Arts Board outcome must be indicated for each measurable outcome listed.)
- The organization's mission statement and background, including its general history, a broad description of regular artistic programs, and a broad description of the community in which the applicant is located and the role it plays in the community.^a
- Application narrative including:
 1. What the applicant will achieve with grant funds and how activities will make a difference (addressing six specific items).
 2. Evidence of accomplishments and capacity in relation to five review criteria.^a
- Financial information including:
 1. Three years of financial statements approved by the applicant's board.
 2. Two years of certified financial audits or IRS form 990s.
 3. Arts Board form for nonqualifying expense.
 4. Cultural Data Project report, including narratives to explain the applicant's finances and changes to them.^b
- Organizational leadership information, including (1) a list of the organization's board of directors and (2) titles, years of service, short biographies, and resumes of the organization's principle artistic and administrative leaders.^a
- Other support information^a, including:
 1. Federal tax-exempt 501(c)(3) determination letter.
 2. One or two program attachments (such as brochures or catalogs).
 3. One or two examples of evaluation tools or results.
 4. Planning document approved by the applicant's board.
 5. Americans with Disabilities Act Access plan.
 6. One or two "background" documents, such as annual reports, news articles, or reviews.
- A form reflecting the organization's financial management practices (such as the organization's board practices for reviewing financial information).^a

NOTES: The Operating Support program provides funding for four years. Applicants complete **full** applications for grants in the first year and **interim** applications for grants in the last three years. Unless otherwise specified, application components in this table are required for both full and interim applications.

^a Not required as part of interim applications.

^b The Cultural Data Project report uses information provided by the applicant to calculate measures of financial health.

SOURCE: Minnesota State Arts Board, *Operating Support FY 2018 Grant Program, Program Overview and Application Instructions* (St. Paul), 14-28.

Exhibit B.3: Fiscal Year 2018 Operating Support Review Criteria

	Maximum Points
Artistic	20
<ul style="list-style-type: none"> Ongoing programming that demonstrates creativity, mastery of craft, and a distinct artistic vision that is consistent with the applicant's mission, position in the community, and stated artistic context. Activities that contribute to the artistic development of the applicant's constituencies, participating artists, and/or the art form. Qualifications, achievements, and reputation of individuals leading and providing artistic content, programming, and learning (at the local, state, national, or international level as appropriate to the applicant's stated community context). 	
Administration	20
<ul style="list-style-type: none"> Capacity to effectively manage operations and resources as reflected by organizational stability and fiscal position, board and staff qualifications, and effective governance and management relationships. Sound planning strategies, involving appropriately varied viewpoints, to establish and achieve mission and meaningful outcomes. Demonstrated ability to maximize earned and contributed income, develop and maintain a diversity of revenue sources, and achieve sustainable operations. 	
Engagement	20
<ul style="list-style-type: none"> Programming, activities, and materials that make work relevant and accessible to the widest range of participants. Programs and practices that identify and address barriers to participation (e.g., economic, geographic, demographic, physical, cultural, and perceptual barriers). Efforts to develop strategic relationships with underserved communities that engage those communities meaningfully in the arts. Demonstrated understanding of the accessibility challenges and opportunities associated with the applicant's artistic discipline, activities offered, and facilities. 	
Public Benefit	20
<ul style="list-style-type: none"> Programming or activities that incorporate the arts into varied facets of community life and help accomplish broader community goals, including, but not limited to: <ol style="list-style-type: none"> Making the arts a vital part of economic development for the organization's home community, region, or the state of Minnesota. Utilizing the arts to build community, improve quality of life, or address social issues related to the organization's constituencies. Contributions to public goals or community service that is unique to or otherwise unavailable to Minnesotans living in the organization's geographic community. 	
Evaluation	20
<ul style="list-style-type: none"> Strength and appropriateness of proposed organizational outcomes and an evaluation plan that will effectively measure those outcomes. Appropriate evaluation tools that are regularly being used to shape the applicant's planning processes, goals, strategies, and programming. A continuous improvement orientation that incorporates effective self-reflection, feedback, and data analysis to strengthen programs and operations. 	

NOTE: Volunteer panelists score full applications on each of the five criteria and are instructed to look for evidence of accomplishment for the bulleted subcriteria.

SOURCE: Minnesota State Arts Board, *Operating Support FY 2018 Grant Program, Program Overview and Application Instructions* (St. Paul), 7-8.

Exhibit B.4: Fiscal Year 2018 Operating Support Panel Scoring Guide

		Review Criteria and Point Ranges				
		Artistic	Administration	Engagement	Public Benefit	Evaluation
Exceptional	Overwhelming evidence in application demonstrating a wide range of successful strategies in this operational area. Substantial record of ongoing accomplishments documented; applicant recognized for work and/or innovation in this area. Plans are ambitious and visionary, and there is significant evidence of capacity to achieve those plans. Significant, sustained level of human and financial resources dedicated to achieving continued and increasing excellence in this operational area.	17-20 points	17-20 points	17-20 points	17-20 points	17-20 points
Greatly Exceeds Expectations	Strong evidence in application demonstrating multiple successful strategies or activities in this area. Accomplishments are numerous and well documented. Plans are carefully considered, well articulated, and will further accomplishments. A high level of human and financial resources is dedicated to achieving results in this operational area.	13-16 points	13-16 points	13-16 points	13-16 points	13-16 points
Somewhat Exceeds Expectations	Evidence of consistent success and commitment to ongoing high performance in this operational area. Accomplishments are recent with achievable plans in place to maintain high performance. Ongoing, appropriate commitment of human and financial resources is evident.	10-12 points	10-12 points	10-12 points	10-12 points	10-12 points
Meets Basic Expectations	Evidence of adequate quality in the processes and activities related to this operational area; at least some evidence that programs and services are responsive to and effective in serving the identified communities. Where gaps or weaknesses exist they are being managed effectively, do not have significant impact, or the applicant has reasonably achievable plans in place to address them. Sufficient human and financial resources are typically available to maintain essential activity in this area.	6-9 points	6-9 points	6-9 points	6-9 points	6-9 points
Somewhat Below Expectations	Minimal evidence of periodic but inconsistent quality in the processes and activities related to this operational area. Noticeable gaps or weaknesses exist, which have negative impact on applicant's ability to deliver consistent results. Plans to improve may not be in place, or may be unrealistic to achieve. Sufficient human and financial resources are not consistently available to maintain activity or adequate quality in this area.	3-5 points	3-5 points	3-5 points	3-5 points	3-5 points
Considerably Below Expectations	Insufficient evidence that the applicant is achieving adequate quality in this operational area. Evidence shows that there are significant gaps or weaknesses in processes or outcomes. Plans to address weaknesses are insufficient, nonexistent, or not being given high enough priority. Insufficient human and financial resources dedicated to this area.	0-2 points	0-2 points	0-2 points	0-2 points	0-2 points

SOURCE: Minnesota State Arts Board, *Operating Support FY 2018 Grant Program, Panelist Training Guide* (St. Paul), 10.

Exhibit B.5: Restrictions on Uses of Funds, Fiscal Year 2017 Operating Support Grant Program

Grant Contract

- All eligible costs must be incurred between the effective date and the expiration date of the grant contract.
- Funds received from the board shall not be used to support any of the following purposes:
 1. To support activities in which artists are required to pay excessive artist entry or exhibition fees.
 2. To pay debts incurred before the grant period begins.
 3. To support activities which are essentially for the religious socialization of the participants or audience.
 4. To support activities in primary or secondary level parochial schools.
 5. To pay for capital costs, such as improvements, construction, property, or equipment costing \$5,000 or more.
 6. To pay bad debts or contingency funds, fines and penalties, interest and other financial costs, or the under-recovery of costs from one grant contract charged to other grant contracts.
 7. To start, match, add to, or complete any type of capital campaign (such as endowment, debt retirement, or building campaign).
 8. To make political contributions or donations, pay lobbyists' fees, to cover entertainment costs, or to support activities that attempt to influence any state or federal legislation or appropriation.
 9. To support activities taking place after the end of the grant period.
 10. To support an event that is not open to the general public or an event that does not establish admission charges when feasible.
 11. To support activities with combined funding from the board and one or more of the regional arts councils that amounts to more than one-half of the grantee's total cash operating resources.
 12. To support projects, programs, or activities that take place outside the state of Minnesota.
- Arts and Cultural Heritage Fund dollars shall be used to:
 1. Supplement and not substitute for traditional sources of funding.
 2. Support projects or programs that have measurable outcomes, and a plan for measuring and evaluating the results.
- Arts and Cultural Heritage Fund dollars may not be spent on administrative, indirect, or institutional overhead costs unless they are directly related to and necessary for grantees' projects, programs, or activities that are supported by Arts and Cultural Heritage Fund dollars.

Program Guide^a

The following activities do not make an application ineligible, but Operating Support funds may not be used for the following purposes:

1. Payment of debts incurred before the grant activities begin.
2. Capital costs (such as improvements, construction, property, and equipment costing \$5,000 or more).
3. To start, match, add to, or complete any type of capital campaign (such as endowment, debt-retirement, or building campaigns).
4. Payment of costs for activities that take place outside the geographic boundaries of the state of Minnesota.

NOTES: In Chapter 1, we explained that state appropriations to the Arts Board come with restrictions and requirements, depending on the source (General Fund or Arts and Cultural Heritage Fund). We outlined the restrictions and requirements by funding source in Exhibit 1.3. The board includes some of those restrictions and requirements, and others, in its grant contracts. In addition, the board communicates other restrictions in its program guides, though program guides are not legally binding.

^aWhile the Fiscal Year 2017 program guide indicates that the listed activities do not make an application ineligible, *Minnesota Rules*, 1900.1010, subp. 2, indicates they do (see Exhibit B.1). The Arts Board corrected this discrepancy in its Fiscal Year 2018 program guide.

SOURCES: Minnesota State Arts Board, *Operating Support FY 2017 Grant Program, Program Overview and Application Instructions* (St. Paul), 4; and Minnesota State Arts Board, *Fiscal Year 2017 Grant Contract, Operating Support*, secs. C and E.

Arts Learning Panel Scoring Guide

APPENDIX C

The Arts Learning grant program is not one of our sample Arts Board grant programs. However, its scoring guide provides another example of the board's complex scoring systems.¹ The board awarded 61 Fiscal Year 2018 Arts Learning grants, totaling about \$2.7 million.

The Arts Learning grant program provides funding for participatory learning projects. Among other things, projects may include artist residencies in elementary and high schools and activities that teach an arts discipline, genre, or form. Fiscal Year 2018 Arts Learning grants could range from \$5,000 to \$150,000.

The Arts Learning program has four review criteria, each with numerous subcriteria, which we list below:²

1. Quality of the arts experience

- a) Arts content is delivered by highly competent artists with appropriate artistic skills and significant teaching experience with identified learners.
- b) Lessons are appropriate for the learners and are designed to accomplish the learning outcome.
- c) Opportunities are provided in an intentional manner and will advance the learning outcomes through direct participation.
- d) Arts learning activities are designed to achieve project outcomes resulting in specific and meaningful benefit.
- e) Participants have artistic experiences that spark their interest and engagement so that learning can occur.

2. Commitment to and from the community

- a) Project outcomes are responsive to the broader goals of the intended learners.
- b) Project collaborators have clearly defined roles and responsibilities and their involvement is carefully tailored to achieve the intended learning outcomes.
- c) Project collaborators are making meaningful commitments of resources that are appropriate to achieve the learning outcome(s).

¹ Exhibits A.4 and B.4 are two other examples of scoring guides.

² Minnesota State Arts Board, *Arts Learning FY 2018 Grant Program, Program Overview and Application Instructions* (St. Paul), 13-16.

- d) Accessibility needs of participants and/or audiences are understood and well addressed.
- e) Evidence demonstrates that the project provides an arts opportunity that would not otherwise be available for the identified community/audience.

3. Project administration

- a) The project team is inclusive of relevant stakeholders and demonstrates the capacity to design and execute the proposed activities. Team members have appropriate and clearly articulated roles and responsibilities which fully support the project needs.
- b) An effective promotion and marketing plan is in place which supports the project's participation goals and fosters public awareness and/or engagement (as appropriate).
- c) The budget demonstrates the project will do the following: (a) generate realistic and attainable earned revenue including cash match, (b) incur reasonable and appropriate expenses, (c) honor the work of artists and arts organizations, and (d) include only appropriate and reasonable administrative expenses.
- d) A complete and realistic project timeline is in place.
- e) If professional development is a part of the proposal, those activities have been fully described and are appropriately designed to enhance the applicant's capacity to carry out the project and/or sustain project impact.
- f) Operating Support and Community Arts Education Support grantees and applicants have described how the proposed activities reach beyond regular activities of the organization supported through the general operating grant.

4. Evaluation and assessment

- a) The applicant has identified one to two effective project outcomes.
- b) The evaluation plan and methods are appropriate to measure and document progress toward project outcome(s).
- c) The team responsible for the design and implementation of the evaluation process is appropriate for the project with clearly articulated roles, achievable responsibilities, and sufficient financial support.
- d) The applicant has demonstrated plans to use the results.

Exhibit C.1: Fiscal Year 2018 Arts Learning Panel Scoring Guide

	Review Criteria and Point Ranges			
	Quality of the Arts Experience	Commitment to and from the Community	Project Administration	Evaluation and Assessment
Presents exemplary strategies and evidence in all subcriteria; negligible weaknesses.	13-15 points	13-15 points	9-10 points	9-10 points
Presents effective strategies and evidence; a few minor weaknesses present in subcriteria.	10-12 points	10-12 points	7-8 points	7-8 points
Presents effective strategies and evidence; one major or several moderate weaknesses in subcriteria.	7-9 points	7-9 points	5-6 points	5-6 points
Presents some effective strategies and evidence; major weaknesses in more than one subcriteria.	4-6 points	4-6 points	3-4 points	3-4 points
Major weaknesses in most or all subcriteria.	1-3 points	1-3 points	1-2 points	1-2 points

NOTES: "Minor weakness" is a weakness in strategy or description that is easily addressable or does not substantially lessen project effectiveness. "Moderate weakness" is a weakness in strategy or description that leaves project effectiveness unclear. "Major weakness" is a weakness in strategy or a lack of information that raises significant concerns about project feasibility.

SOURCE: Minnesota State Arts Board, *Arts Learning FY 2018 Grant Program, Panelist Training Guide* (St. Paul), 12.





January 28, 2019

James Nobles, Legislative Auditor
Judy Randall, Deputy Legislative Auditor
Office of the Legislative Auditor
First Floor, Centennial Building
658 Cedar Street
Saint Paul, Minnesota 55155

Dear Mr. Nobles and Ms. Randall,

Thank you for the opportunity to review and respond to the findings and recommendations in the Office of the Legislative Auditor's (OLA) evaluation of the Minnesota State Arts Board's grant making and grants administration functions. We commend the OLA staff members who conducted the evaluation and prepared the report. They were thorough and objective; they devoted a significant amount of time and attention, and asked thoughtful questions, in order to learn about our work and that of Minnesota's regional arts councils.

Stewardship, accountability, and transparency are guiding principles of the Arts Board. We take our roles—as a grant maker and as fiscal agent for the state's regional arts council system—seriously. We agree on the importance of ensuring that state funds are used for intended purposes, and in ways that comply with state requirements. We also believe it is vital to have consistent processes and clear communication so that applicants and grantees will understand what is expected of them.

We are pleased that the report highlights some of the strengths of our work, and agree there is room for improvement in areas noted. In general, the Arts Board supports the recommendations in the report. We will work internally, with the regional arts councils, and with legislators, to address the recommended improvements.

On a few of the recommendations, we hope that the following additional context will be helpful:

- Regarding the recommendation on page 26 – We believe that using Minnesota volunteers to review and score grant applications is one of our key strengths. It is a human process that intentionally brings a range of perspectives into public decision making. In the 2018 grant cycle, when panelists completed the post panel survey, only 16 out of 250 panelists said they disagreed or strongly disagreed with the following statement: "I understood how to use the scoring rubric." Similarly, after the FY 2019 grant cycle, only 14 out of 246 panelists said they disagreed or strongly disagreed with the same statement. So, while a significant majority of the panelists understand and feel confident using the

200 Park Square Court
400 Sibley Street
Saint Paul, Minnesota
55101-1928

(651) 539-2650
(800) 866-2787

www.arts.state.mn.us

board's current scoring system, we will revisit our process and look for ways to make it simpler and clearer for those who may not.

- Regarding the recommendation on page 35 – We appreciate the auditors' concern about the date that regional arts council block grant contracts are executed. As we work with regional arts councils to address this recommendation we will need to balance a number of factors. Councils need sufficient time to craft their two-year plan and gather public input on the plan, the regional arts advisory committee needs sufficient time to carefully review each plan and provide feedback to councils, and councils need time to revise and resubmit the plan. This latter step can only be completed *after* the legislature and governor have agreed upon appropriations for the biennium. The regional arts council system was created by the Minnesota Legislature to be a mechanism to deliver state resources to all counties. For councils to be open and fully functional throughout the entire fiscal year, their contracts must be signed and funds must be available as early in the year as possible.
- Regarding the recommendation on page 41 – The Arts Board's Operating Support program is designed to provide flexibility for arts organizations to use funds for their mission-driven programs or services, rather than for "projects." For most grantees, the Operating Support grant they receive represents a small percentage (on average, five percent) of their total qualifying expenses. When a grantee describes the broad range of its activities in its final report to the Arts Board it is not saying that all those activities were supported by state dollars. Rather, it is describing its organizational accomplishments for the year and its impact on the state. Going forward, we will better document how questions related to use of funds are asked and answered. And, we will explore ways to address this recommendation that allow grantees some level of flexibility to determine how best to use public funds to achieve their public mission to provide rich arts programming, experiences, and services for Minnesotans.
- Regarding the recommendation on page 42 – The Arts Board designed and launched the Operating Support grant program in FY 2012. It is based on the model that the National Endowment for the Arts uses with state arts agencies; it awards multiyear grants that require a contract each year because funding levels change from year to year. Using that model, the guidelines for this program state that "The Operating Support grant program uses a four-year grant cycle." As the program was being designed and launched, we consulted the Office of Grants Management, asking if it would be sufficient to conduct one monitoring visit within the four-year grant cycle and we were told it would. That is the practice we implemented and have followed since the program's inception. The OLA is interpreting the grant period differently. We will need to explore how best to address this recommendation with the understanding that, as the report points out, "The additional monitoring visits we recommend will increase the Arts Board's administrative costs."
- Regarding the recommendation on page 47 – Rather than specifying a set of changes that require contract amendments, the Arts Board's current practice is to encourage Artist Initiative grantees to contact the program officer to discuss *any* changes to their projects. We do this so that the program officer can keep in touch with grantees and can help address any issues that might arise during the grant period. Whether a change is significant, or not, often depends on the project and its intended outcome. We will continue to encourage grantees to contact the program officer to discuss project changes, and we will consider what type or magnitude of change would *require* a contract amendment for *any* grantee and be explicit about that requirement in future program materials and grant contracts.

- Regarding the recommendation on page 75 – Footnote 21 on this page notes that the word “activities” appears in a section of Minnesota Rules that does not apply to regional arts councils. Because two Arts Board grant programs do not fund “projects” the broader word “activities” is used in some sections of rules. We do, however, agree that the use of the words “project” and “activities,” especially when used interchangeably, can cause confusion. We will work with regional arts councils to develop a clearer understanding of these words and when they apply, and will clarify any uses of the words in rules that may be confusing.

We appreciate the Office of the Legislative Auditor’s careful review of our work, its suggestions on ways we might be able to improve that work, and the opportunity to respond to this report.

Best regards,

A handwritten signature in black ink, appearing to read "Sue Gens", followed by a horizontal line.

Sue Gens
Executive director





January 28, 2019

James Nobles, Legislative Auditor
Centennial Office Building
658 Cedar Street
St Paul, MN 55155

Dear Mr. Nobles:

Thank you for the opportunity to review and comment on findings and recommendations from your office's evaluation of arts programs and services in Minnesota. We appreciated the thorough examination of the Minnesota State Arts Board and the Regional Arts Councils of Minnesota. During the audit, your staff was professional, pleasant and insightful.

There are recommendations in the report that are specifically for the Regional Arts Councils. As the Forum of Regional Arts Councils of Minnesota, we are prepared to work toward all the recommendations. They all improve our system and we, as a group, have been committed to improvement with bi-monthly best practices sessions. We will add the recommendations to upcoming sessions.

The Forum of Regional Arts Councils of Minnesota will follow up on all audit findings that mention regional arts councils and will evaluate the progress being made to resolve them. This will be monitored by the Forum of Regional Arts Council's Executive Committee until full resolution has occurred.

We agree that the Arts Board should send grant contracts to regional arts councils only after it has accepted the Biennial Plans. Historically, the Minnesota State Arts Board staff received the plans, ensured that they had all the required components, and that they followed Minnesota Rules and Statutes. They also reviewed final plans for inclusion of any required changes brought forward from the Arts Advisory Committee during the Biennial Plan review.

We also agree Minnesota Rules 1900.2710 should be revised to streamline and clarify the biennial plan components and process. Priority will be given to ensure that Regional Arts Councils have Legacy Grant program outcomes in place in all eleven regions.

Thanks again for the thorough examination of the Minnesota arts funding system. We look forward to making the system even better.

Sincerely,

A handwritten signature in black ink that reads "Mara Hanel". The signature is fluid and cursive, written in a professional style.

Mara Hanel

President of the Forum of Regional Arts Councils on behalf of the Executive Committee
Executive Director of NW Minnesota Arts Council, 109 S Minn St, Warren, MN 56762

cc: Mary Minnick-Daniels and Robin Pearson



Forthcoming OLA Evaluations

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May 2016

Agricultural Commodity Councils, March 2014
“Green Acres” and Agricultural Land Preservation
Programs, February 2008
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Guardian ad Litem Program, March 2018
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Health Services in State Correctional Facilities,
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Law Enforcement’s Use of State Databases, February
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Public Defender System, February 2010

Economic Development

Minnesota Investment Fund, February 2018
Minnesota Research Tax Credit, February 2017
Iron Range Resources and Rehabilitation Board (IRRRB),
March 2016
JOBZ Program, February 2008

Education, K-12 and Preschool

Early Childhood Programs, April 2018
Minnesota State High School League, April 2017
Standardized Student Testing, March 2017
Perpich Center for Arts Education, January 2017
Minnesota Teacher Licensure, March 2016
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MnSCU System Office, February 2010
MnSCU Occupational Programs, March 2009

Energy

Renewable Energy Development Fund, October 2010
Biofuel Policies and Programs, April 2009
Energy Conservation Improvement Program,
January 2005

Environment and Natural Resources

Public Facilities Authority: Wastewater Infrastructure
Programs, January 2019
Clean Water Fund Outcomes, March 2017
Department of Natural Resources: Deer Population
Management, May 2016
Recycling and Waste Reduction, February 2015
DNR Forest Management, August 2014
Sustainable Forest Incentive Program, November 2013

Government Operations

Mineral Taxation, April 2015
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Process, March 2015
Councils on Asian-Pacific Minnesotans, Black
Minnesotans, Chicano/Latino People, and Indian
Affairs, March 2014
Helping Communities Recover from Natural Disasters,
March 2012
Fiscal Notes, February 2012

Health

Office of Health Facility Complaints, March 2018
Minnesota Department of Health Oversight of HMO
Complaint Resolution, February 2016
Minnesota Health Insurance Exchange (MNsure),
February 2015
Financial Management of Health Care Programs,
February 2008

Human Services

Home- and Community-Based Services: Financial
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Managed Care Organizations’ Administrative Expenses,
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Child Protection Screening, February 2012
Civil Commitment of Sex Offenders, March 2011
Medical Nonemergency Transportation, February 2011

Housing and Local Government

Consolidation of Local Governments, April 2012

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State Protections for Meatpacking Workers, 2015
State Employee Union Fair Share Fee Calculations,
July 2013
Workforce Programs, February 2010
E-Verify, June 2009
Oversight of Workers’ Compensation, February 2009

Miscellaneous

Minnesota State Arts Board Grant Administration,
February 2019
Board of Animal Health’s Oversight of Deer and
Elk Farms, April 2018
Voter Registration, March 2018
Minnesota Film and TV Board, April 2015
The Legacy Amendment, November 2011
Public Libraries, March 2010
Economic Impact of Immigrants, May 2006

Transportation

MnDOT Highway Project Selection, March 2016
MnDOT Selection of Pavement Surface for Road
Preservation, March 2014
MnDOT Noise Barriers, October 2013
Governance of Transit in the Twin Cities Region,
January 2011
State Highways and Bridges, February 2008

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OFFICE OF THE LEGISLATIVE AUDITOR
CENTENNIAL OFFICE BUILDING – SUITE 140
658 CEDAR STREET – SAINT PAUL, MN 55155