



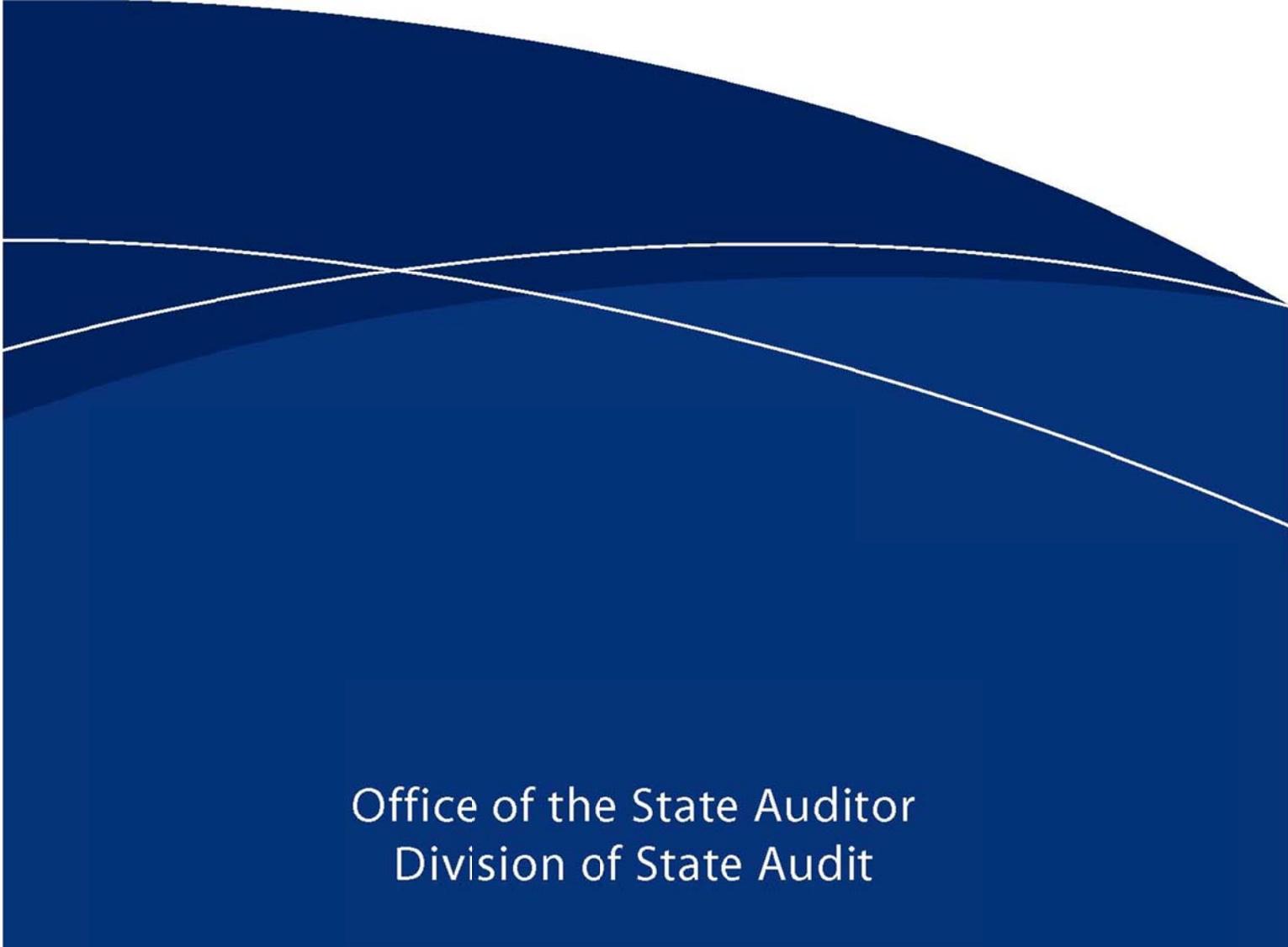
NORTH DAKOTA COUNCIL
ON THE ARTS

BISMARCK, NORTH DAKOTA

Audit Report

For the Biennium Ended
June 30, 2009

ROBERT R. PETERSON
STATE AUDITOR



Office of the State Auditor
Division of State Audit

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Transmittal Letter

May 5, 2010

The Honorable John Hoeven, Governor
Members of the North Dakota Legislative Assembly
Ms. Janine Webb, Executive Director, North Dakota Council on the Arts

We are pleased to submit this audit of the North Dakota Council on the Arts for the biennium ended June 30, 2009. This audit resulted from the statutory responsibility of the State Auditor to audit or review each state agency once every two years. The same statute gives the State Auditor the responsibility to determine the contents of these audits.

In determining the contents of the audits of state agencies, the primary consideration was to determine how we could best serve the citizens of the state of North Dakota. Naturally we determined financial accountability should play an important part of these audits. Additionally, operational accountability is addressed whenever possible to increase efficiency and effectiveness of state government.

The in-charge auditor for this audit was Kristi Morlock. Fred Ehrhardt, CPA, was the audit supervisor and Paul Welk, CPA, was the audit manager. Inquiries or comments relating to this audit may be directed to the audit supervisor or audit manager by calling (701) 328-2241. We wish to express our appreciation to Ms. Janine Webb and her staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

A handwritten signature in cursive script that reads "Bob Peterson".

Robert R. Peterson
State Auditor

Executive Summary

Introduction

The North Dakota Council on the Arts (NDCA) is a state agency responsible for the support and development of the arts and artists throughout North Dakota. The Council functions as a community partner and catalyst for artists and organizations. It offers educational opportunities, technical advice, collects and disseminates arts information, and provides financial assistance in the form of grants to not-for-profit organizations.

The Legislative Audit and Fiscal Review Committee (LAFRC) requests that certain items be addressed by auditors performing audits of state agencies. Those items and the Office of the State Auditor's response are noted below.

Responses to LAFRC Audit Questions

1. What type of opinion was issued on the financial statements?

Financial statements were not prepared by the North Dakota Council on the Arts in accordance with generally accepted accounting principles so an opinion is not applicable. The agency's transactions were tested and included in the state's basic financial statements on which an unqualified opinion was issued.

2. Was there compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning?

Yes.

3. Was internal control adequate and functioning effectively?

Other than our finding addressing the "reconciliation of federal revenue" (page 9) we determined internal control was adequate.

4. Were there any indications of lack of efficiency in financial operations and management of the agency?

No.

5. Has action been taken on findings and recommendations included in prior audit reports?

The North Dakota Council on the Arts has implemented all recommendations included in the prior audit report except the recommendation regarding "reconciliation of federal revenue" (page 13).

6. Was a management letter issued? If so, provide a summary below, including any recommendations and the management responses.

Yes, a management letter was issued and is included on page 14 of this report, along with management's response.

LAFRC Audit Communications

7. *Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.*

There were no significant changes in accounting policies, no management conflicts of interest were noted, no contingent liabilities were identified or significant unusual transactions.

8. *Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of those estimates.*

The North Dakota Council on the Arts' financial statements do not include any significant accounting estimates.

9. *Identify any significant audit adjustments.*

Significant audit adjustments were not necessary.

10. *Identify any disagreements with management, whether or not resolved to the auditor's satisfaction relating to a financial accounting, reporting, or auditing matter that could be significant to the financial statements.*

None.

11. *Identify any serious difficulties encountered in performing the audit.*

None.

12. *Identify any major issues discussed with management prior to retention.*

This is not applicable for audits conducted by the Office of the State Auditor.

13. *Identify any management consultations with other accountants about auditing and accounting matters.*

None.

14. *Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission, or whether any exceptions identified in the six audit report questions to be addressed by the auditors are directly related to the operations of an information technology system.*

ConnectND Finance and Human Resource Management System (HRMS) are high-risk information technology systems critical to the North Dakota Council on the Arts.

Audit Objectives, Scope, and Methodology

Audit Objectives

The objectives of this audit of the North Dakota Council on the Arts for the biennium ended June 30, 2009 were to provide reliable, audited financial statements and to answer the following questions:

1. What are the highest risk areas of the North Dakota Council on the Arts' operations and is internal control adequate in these areas?
2. What are the significant and high-risk areas of legislative intent applicable to the North Dakota Council on the Arts and are they in compliance with these laws?
3. Are there areas of the North Dakota Council on the Arts' operations where we can help to improve efficiency or effectiveness?

Audit Scope

This audit of the North Dakota Council on the Arts is for the biennium period ended June 30, 2009. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The North Dakota Council on the Arts' sole location is its Bismarck office which was included in the audit scope.

Audit Methodology

To meet the objectives outlined above, we:

- Prepared financial statements from the legal balances on the state's accounting system tested as part of this audit and the audit of the state's Comprehensive Annual Financial Report and developed a discussion and analysis of the financial statements.
- Performed detailed analytical procedures including computer-assisted auditing techniques. These procedures were used to identify high-risk transactions and potential problem areas for additional testing.
- Tested internal control and compliance with laws and regulations which included selecting representative samples to determine if controls were operating effectively and to determine if laws were being followed consistently. Non-statistical sampling was used and the results were projected to the population. Where applicable, populations were stratified to ensure that particular groups within a population were adequately represented in the sample, and to improve efficiency by gaining greater control on the composition of the sample.
- Interviewed appropriate agency personnel.

- Queried the ConnectND (PeopleSoft) system. Significant evidence was obtained from ConnectND.
- Observed North Dakota Council on the Arts' processes and procedures.

In aggregate there were no significant limitations or uncertainties related to our overall assessment of the sufficiency and appropriateness of audit evidence.

Discussion and Analysis

The accompanying financial statements have been prepared to present the North Dakota Council on the Arts' revenues and expenditures on the legal (budget) basis. The accompanying financial statements are not intended to be presented in accordance with generally accepted accounting principles (GAAP).

For the biennium ended June 30, 2009, operations of the North Dakota Council on the Arts were primarily supported by federal funding from the National Endowment for the Arts (NEA) and appropriations from the state's general fund.

Financial Summary

The North Dakota Council on the Arts had investments held at the State Investment Board during the 2007-2009 biennium. These investments totaled approximately \$205,000 at June 30, 2009. The investments were from the North Dakota Cultural Endowment fund as set up in NDCC sections 54-54-08.1 and 54-54-08.2.

Revenues consisted primarily of federal funds. Other revenues during the audited period included sales of publications and miscellaneous revenue. These all remained fairly constant for the North Dakota Council on the Arts, increasing only slightly. Total revenues were \$742,269 for the year ended June 30, 2009 as compared to \$608,725 for the year ended June 30, 2008. The amount of federal revenue for the year ended June 30, 2008 was \$593,163, which increased to \$716,700 for the year ended June 30, 2009. As the North Dakota Council on the Arts receives both federal and general fund appropriation to spend on their grants, their request for reimbursement from the NEA was greater in 2009 than in 2008.

Total expenditures for the North Dakota Council on the Arts were \$1,341,793 for the year ended June 30, 2009 as compared to \$1,125,722 for the prior year. The increase in total expenditures for fiscal year 2009 reflects primarily grants (which also accounts for approximately 64% of total expenditures in both years). All other expenditures remained fairly constant.

Financial Statements

Statement of Revenues and Expenditures

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
<u>Revenues:</u>		
Federal Revenue	\$716,700	\$593,163
Interest and Investment Earnings	10,521	
Sale of Publications	8,316	750
Miscellaneous Revenue	4,037	14,677
Program Income	2,695	135
Total Revenues	<u>\$742,269</u>	<u>\$608,725</u>
<u>Expenditures:</u>		
Grants, Benefits, and Claims	\$886,260	\$695,709
Salaries and Benefits	326,421	291,276
Travel	32,891	36,866
Professional Development	24,980	24,814
Rental/Leases	18,878	18,745
Information Technology	18,596	17,371
Operating Fees and Services	11,299	6,753
Fees – Professional Services	7,653	16,093
Printing	6,157	5,249
Postage	4,952	5,999
Supplies	2,132	3,964
Insurance	702	684
Repairs	630	720
Equipment under \$5,000	242	1,479
Total Expenditures	<u>\$1,341,793</u>	<u>\$1,125,722</u>

Statement of Appropriations

For The Biennium Ended June 30, 2009

Expenditures by Line Item:	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Salaries and Benefits	\$ 591,977	\$ 28,248	\$ 620,225	\$ 617,698	\$ 2,527
Operating Expenses	246,862		246,862	227,187	19,675
Grants	1,615,278	47,000	1,662,278	1,610,027	52,251
Totals	<u>\$ 2,454,117</u>	<u>\$ 75,248</u>	<u>\$ 2,529,365</u>	<u>\$ 2,454,912</u>	<u>\$ 74,453</u>
Expenditures by Source:					
General Fund	\$ 1,165,799	\$ 3,248	\$ 1,169,047	\$ 1,140,756	\$ 28,291
Other Funds	1,288,318	72,000	1,360,318	1,314,156	46,162
Totals	<u>\$ 2,454,117</u>	<u>\$ 75,248</u>	<u>\$ 2,529,365</u>	<u>\$ 2,454,912</u>	<u>\$ 74,453</u>

Appropriation Adjustments:

An increase of \$3,248 in the Salaries and Benefits line was for an equity adjustment authorized by Senate Bill 2189 of the 2007 Session.

Increases of \$25,000 in the Salaries and Benefits line and \$47,000 in the Grants line were to accept federal funds from the National Endowment for the Arts for temporary part-time staff and to support existing grant programs. These adjustments were approved by the Emergency Commission.

Expenditures Without Appropriations Of Specific Amounts:

The North Dakota Cultural Endowment Fund was created by the 1979 Legislature and is authorized by NDCC 54-54-08.1. Only the interest earned on this fund may be spent. For the 2007-2009 biennium, \$12,605 was spent from this fund for grants given to the Individual Artist Fellowships.

Internal Control

In our audit for the biennium ended June 30, 2009, we identified the following areas of the North Dakota Council on the Arts' internal control as being the highest risk:

Internal Controls Subjected to Testing:

- Controls surrounding the processing of revenues.
- Controls surrounding the processing of expenditures.
- Controls effecting the safeguarding of assets.
- Controls relating to compliance with legislative intent.
- Controls surrounding the ConnectND (PeopleSoft) system.
- Controls surrounding the processing of payroll.
- Controls surrounding the investments.

The criteria used to evaluate internal control is published in the publication *Internal Control – Integrated Framework* from the Committee of Sponsoring Organizations (COSO) of the Treadway Commission.

We gained an understanding of internal control surrounding these areas and concluded as to the adequacy of their design. We also tested the operating effectiveness of those controls we considered necessary based on our assessment of audit risk. We concluded that internal control was not adequate, noting a certain matter involving internal control and its operation that we consider to be a significant deficiency.

Auditors are required to report deficiencies in internal control that are significant within the context of the objectives of the audit. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect (1) misstatements in financial or performance information, (2) violations of laws and regulations, or (3) impairments of effectiveness or efficiency of operations, on a timely basis. Considering both qualitative and quantitative factors, we identified the following significant deficiency in internal control. We also noted other matters involving internal control that we have reported to management of North Dakota Council on the Arts in a management letter dated May 5, 2010.

Reconciliation of Federal Revenue (Finding 09-1)

The North Dakota Council on the Arts is not reconciling revenue received from the federal government to revenue deposited on PeopleSoft.

The lack this federal revenue reconciliation could make it possible for the individual responsible for requesting federal revenue to divert a drawdown into an incorrect account which would not be detected.

Recommendation:

We recommend the North Dakota Council on the Arts have someone independent of requesting federal draws reconcile the amount received to the amount deposited on PeopleSoft.

North Dakota Council on the Arts Response:

The ND Council on the Arts agrees with the finding and will change the manner in which federal receipts are verified after they are posted to the general ledger. Administrative staff will print out a copy of the federally prepared "request activity" and the Executive Director will compare those amounts to the actual amounts on PeopleSoft.

Compliance With Legislative Intent

In our audit for the biennium ended June 30, 2009, we identified and tested North Dakota Council on the Arts' compliance with legislative intent for the following areas that we determined to be significant and of higher risk of noncompliance:

- Compliance with appropriations (2007 North Dakota Session Laws chapter 10).
- Adequate blanket bond coverage of employees (NDCC section 26.1-21-08).
- Proper authorization of funds used by North Dakota Council on the Arts.

The criteria used to evaluate legislative intent are the laws as published in the *North Dakota Century Code* and the *North Dakota Session Laws*.

Government Auditing Standards require auditors to report all instances of fraud and illegal acts unless they are inconsequential within the context of the audit objectives. Further, auditors are required to report significant violations of provisions of contracts or grant agreements, and significant abuse that has occurred or is likely to have occurred.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. Thus, we concluded there was compliance with the legislative intent identified above.

Operations

This audit did not identify areas of North Dakota Council on the Arts' operations where we determined it was practical at this time to help to improve efficiency or effectiveness.

Prior Recommendations Not Implemented

Prior recommendations have been implemented with the exception of the following:

Reconciliation of Federal Revenue (Finding 07-3)

Recommendation:

We recommend the North Dakota Council on the Arts have someone independent of requesting federal draws reconcile the amount received to the amount deposited on PeopleSoft.

Status:

Not Implemented. This recommendation will be reissued on page 9.



STATE OF NORTH DAKOTA
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BISMARCK, NORTH DAKOTA 58505

Management Letter (Informal Recommendations)

May 5, 2010

Ms. Janine Webb
Executive Director
North Dakota Council on the Arts
1600 E. Century Avenue, Suite 6
Bismarck, ND 58503

Dear Ms. Webb:

We have performed an audit of the North Dakota Council on the Arts for the biennium ended June 30, 2009, and have issued a report thereon. As part of our audit, we gained an understanding of the North Dakota Council on the Arts' internal control structure to the extent we considered necessary to achieve our audit objectives. We also performed tests of compliance as described in the same report.

Our audit procedures are designed primarily to enable us to report on our objectives including those related to internal control and compliance with laws and regulations and may not bring to light all weaknesses in systems and procedures or noncompliance with laws and regulations which may exist. We aim, however, to use our knowledge of your organization gained during our work to make comments and suggestions which we hope will be useful to you.

In connection with the audit, gaining an understanding of the internal control structure, and tests of compliance with laws and regulations referred to above, we noted certain conditions we did not consider reportable within the context of your audit report. These conditions relate to areas of general business practice or control issues that have no significant bearing on the administration of federal funds. We do, however, want to present our recommendations to you for your consideration and whatever follow-up action you consider appropriate. During the next audit we will determine if these recommendations have been implemented, and if not, we will reconsider their status.

The following present our informal recommendations.

ACCOUNTS PAYABLE/EXPENDITURES

Informal Recommendation 09-1: We recommend the ND Council on the Arts look for ways to increase their usage of the P-card as a form of payment. We further recommend, if necessary, they meet with officials from OMB to facilitate this process by raising P-card limits, determining which of their vendors they could be making P-card payment to, or changing the accounting on their P-cards so as to limit or eliminate the need to re-allocate P-card expenditures.

GENERAL

Informal Recommendation 09-2: We recommend the ND Council on the Arts establish and perform a fraud risk assessment on a comprehensive and recurring basis. We recommend control activities be designed and documented to ensure each significant fraud exposure identified during the risk assessment process has been adequately mitigated.

Management of North Dakota Council on the Arts agreed with these recommendations.

I encourage you to call myself or an audit manager at 328-2241 if you have any questions about the implementation of recommendations included in your audit report or this letter.

Sincerely,



Kristi Morlock
Auditor in-charge

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www.nd.gov/auditor/

or by contacting the
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