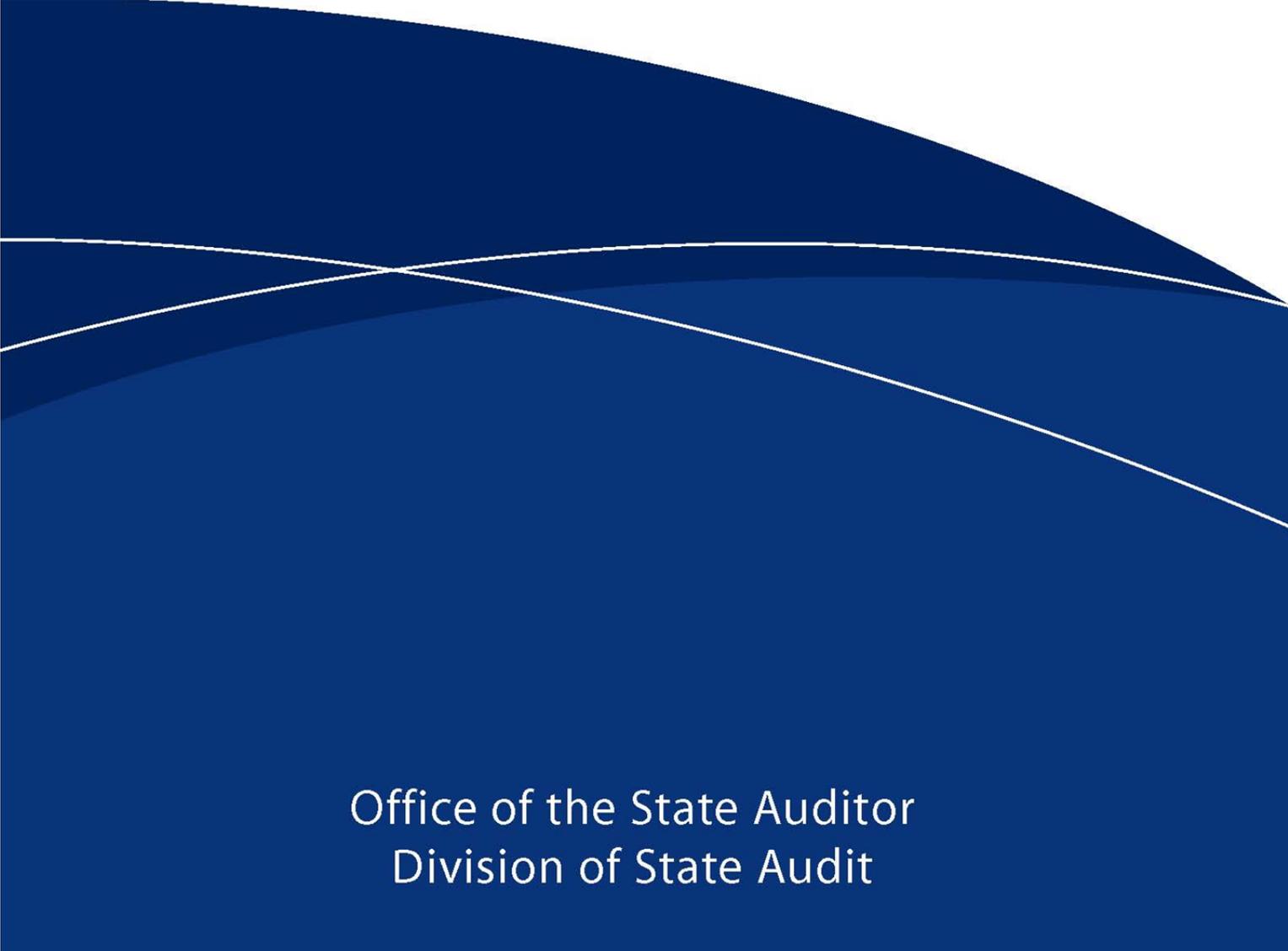


North Dakota
Council on the Arts
BISMARCK, NORTH DAKOTA

Audit Report

For the Biennium Ended
June 30, 2013

ROBERT R. PETERSON
STATE AUDITOR



Office of the State Auditor
Division of State Audit

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Contents

<i>Transmittal Letter</i>	<i>1</i>
<i>Executive Summary</i>	<i>2</i>
<i>Introduction</i>	<i>2</i>
<i>Responses to LAFRC Audit Questions</i>	<i>2</i>
<i>LAFRC Audit Communications</i>	<i>3</i>
<i>Audit Objectives, Scope, and Methodology</i>	<i>4</i>
<i>Discussion and Analysis</i>	<i>6</i>
<i>Financial Summary</i>	<i>6</i>
<i>Financial Statements</i>	<i>7</i>
<i>Statement of Revenues and Expenditures</i>	<i>7</i>
<i>Statement of Appropriations</i>	<i>8</i>
<i>Internal Control</i>	<i>9</i>
<i>Compliance With Legislative Intent</i>	<i>10</i>
<i>Management Letter (Informal Recommendations)</i>	<i>11</i>

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Transmittal Letter

May 14, 2014

The Honorable Jack Dalrymple, Governor
Members of the North Dakota Legislative Assembly
Ms. Janine Webb, Executive Director

We are pleased to submit this audit of the North Dakota Council on the Arts for the biennium ended June 30, 2013. 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. Paul Welk, CPA was the audit manager. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 328-2241. We wish to express our appreciation to Director 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 responses 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 unmodified 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?

Yes.

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 the recommendation included in the prior audit report.

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 11 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, 2013 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 ended June 30, 2013. 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 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, 2013, 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 2011-2013 biennium. These investments totaled \$272,440 at June 30, 2013 and \$228,607 at June 30, 2012. The investments were from the North Dakota Cultural Endowment fund as set up in North Dakota Century Code section 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, contributions and private grants, and miscellaneous revenue. These all remained fairly constant for the North Dakota Council on the Arts. Total revenues were \$730,764 for the year ended June 30, 2013 as compared to \$779,172 for the year ended June 30, 2012.

Total expenditures for the North Dakota Council on the Arts were \$1,451,481 for the year ended June 30, 2013 as compared to \$1,396,048 for the prior year. Expenditures remained fairly constant during the audit period.

Financial Statements

Statement of Revenues and Expenditures

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
<u>Revenues:</u>		
Federal Revenue	\$ 712,100	\$ 764,500
Sale of Publications	11,100	10,147
Contributions and Private Grants	5,116	
Miscellaneous Revenue	2,448	4,525
Total Revenues	<u>\$ 730,764</u>	<u>\$ 779,172</u>
<u>Expenditures:</u>		
Grants	\$ 918,017	\$ 914,895
Salaries and Benefits	376,218	340,947
Travel	42,144	34,132
Professional Development	27,171	27,537
Professional Services	21,874	16,274
Rentals/Leases	20,766	22,045
Information Technology	10,768	12,803
Operating Fees and Services	9,482	6,683
Supplies	8,992	7,035
Printing	6,807	5,954
Postage	4,875	5,748
Equipment	2,795	596
Other Operating Fees	1,572	1,399
Total Expenditures	<u>\$ 1,451,481</u>	<u>\$1,396,048</u>

Statement of Appropriations

For The Biennium Ended June 30, 2013

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	\$ 741,580		741,580	\$ 717,165	\$ 24,415
Operating Expenses	275,575		275,575	269,530	6,045
Grants	2,201,307		2,201,307	1,842,353	358,954
Totals	<u>\$ 3,218,462</u>		<u>\$ 3,218,462</u>	<u>\$ 2,829,048</u>	<u>\$ 389,414</u>
Expenditures by Source:					
General Fund	\$ 1,363,602		\$ 1,363,602	\$ 1,327,296	\$ 36,306
Other Funds	1,854,860		1,854,860	1,501,752	353,108
Totals	<u>\$ 3,218,462</u>		<u>\$ 3,218,462</u>	<u>\$ 2,829,048</u>	<u>\$ 389,414</u>

Expenditures Without Appropriations Of Specific Amounts:

The North Dakota Cultural Endowment Fund was created by the 1979 Legislature and is authorized by NDCC section 54-54-08.1 (\$15,981 of expenditures for this biennium).

Arts and Humanities Fund has a continuing appropriation authorized by NDCC section 54-54-06 (\$60,675 of expenditures for this biennium).

Internal Control

In our audit for the biennium ended June 30, 2013, 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 processing of payroll.
- Controls relating to compliance with legislative intent.
- Controls surrounding the ConnectND (PeopleSoft) system.

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 internal control was adequate.

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 did not identify any significant deficiencies in internal control. However, we noted other matters involving internal control that we have reported to management of the North Dakota Council on the Arts in a management letter dated May 14, 2014.

Compliance With Legislative Intent

In our audit for the biennium ended June 30, 2013, we identified and tested North Dakota Council on the Arts' compliance with legislative intent for the following areas we determined to be significant and of higher risk of noncompliance:

- Proper use of the State Treasurer (State Constitution, article X, section 12).
- Compliance with appropriations and related transfers (2011 North Dakota Session Laws chapter 10).
- Travel-related expenditures are made in accordance with OMB policy and state statute.
- Adequate blanket bond coverage of employees (NDCC section 26.1-21-08).
- Compliance with payroll-related laws including statutory salaries for applicable elected and appointed positions, and certification of payroll.
- Proper authority for investments outside the Bank of North Dakota and interest income deposited in the proper fund.
- Proper fund authorization.

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.

Management Letter (Informal Recommendations)

May 14, 2014

Ms. Janine Webb
Executive Director
North Dakota Council on the Arts
1600 East 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, 2013, 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.

REVENUE

Informal Recommendation 13-1: We recommend the North Dakota Council on the Arts create a remittance list for all receipts. We also recommend the North Dakota Council on the Arts reconcile deposits to receipts.

ACCOUNTS PAYABLE/EXPENDITURES

Informal Recommendation 13-2: We recommend the North Dakota Council on the Arts obtain promotional expense approval to provide meals at board meetings and other events. We also recommend the North Dakota Council on the Arts code these purchases as promotional expenses.

Informal Recommendation 13-3: We recommend the North Dakota Council on the Arts follow OMB Policy 514 for reimbursing cell phone plans and document the business reason for the additional reimbursement on cell phone plans, if applicable.

Management of the 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

You may obtain audit reports on the internet at:

www.nd.gov/auditor/

or by contacting the
Division of State Audit

Office of the State Auditor
600 East Boulevard Avenue – Department 117
Bismarck, ND 58505-0060

(701) 328-2241