

North Dakota  
Council on the Arts  
BISMARCK, NORTH DAKOTA  
**Audit Report**

For the Biennium Ended  
June 30, 2017

**Joshua C. Gallion**  
State Auditor



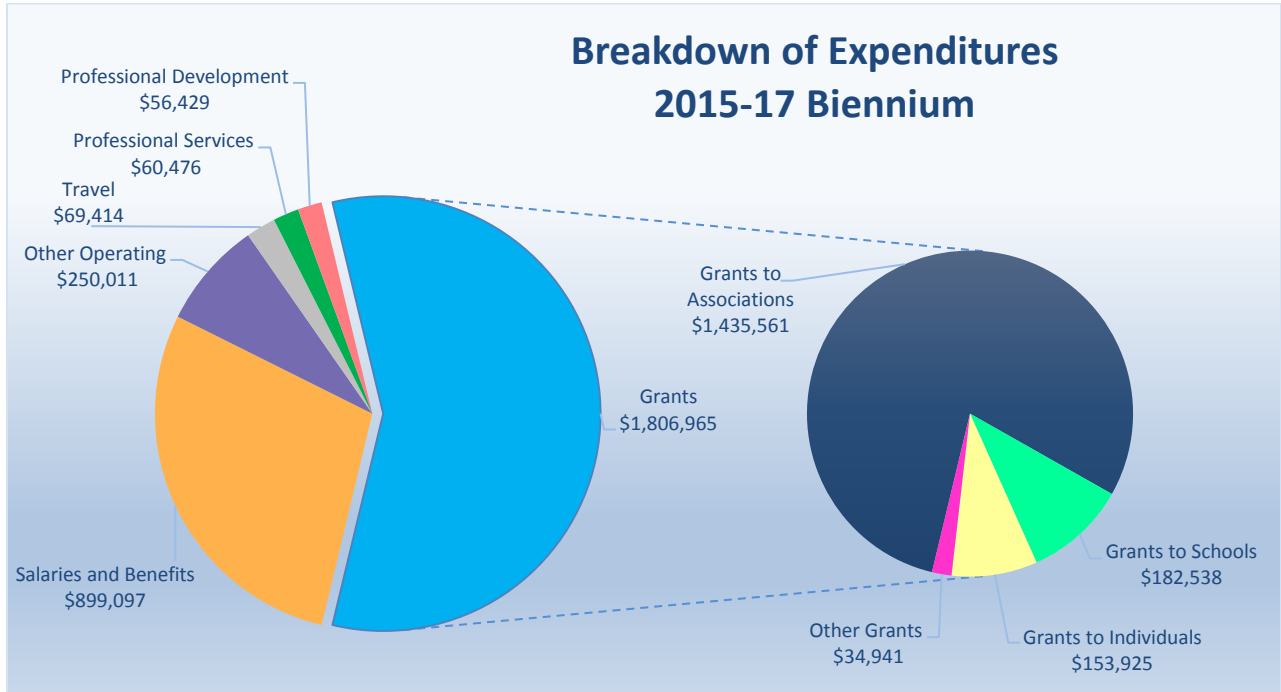
Office of the State Auditor  
Division of State Audit

# Office of the State Auditor

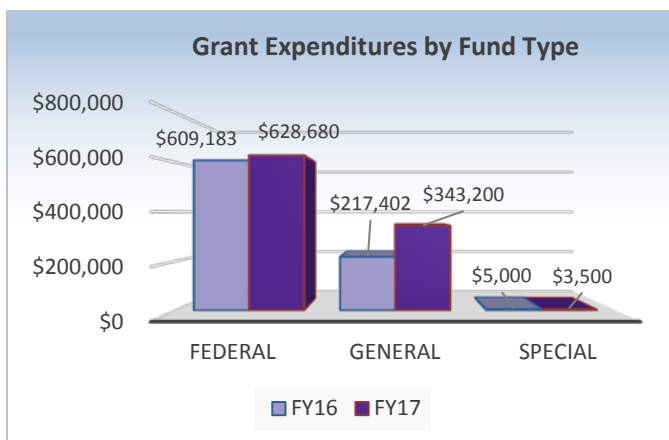
## North Dakota Council on the Arts Report Highlights

The North Dakota Council on the Arts (NDCA) is a service and program agency of the state, established in 1967 by the State Legislature to develop, promote and support the arts in North Dakota.

- The NDCA operates with an annual budget of over \$1.5 million through the support of the National Endowment for the Arts and an appropriation from the North Dakota State Legislature.
- During the 2015-17 biennium, approximately 58% of the NDCA's budget was awarded to organizations and individuals through various grant programs. The remaining 42% was used for operating expenditures, with a majority being expended on salaries and benefits for the agency's five full time employees.



Source: ConnectND amounts.



Source: ConnectND amounts.

#### Top 10 2015-17 Biennium Grant Recipients:

- North Dakota Humanities Council (4)
- The Arts Center (12)
- Arts North Dakota (4)
- Bismarck Arts and Galleries Association (6)
- Prairie Public Broadcasting Inc. (2)
- Dakota West Arts Council (5)
- Dakota Prairie Regional Center for the Arts (5)
- North Dakota Art Gallery Association (6)
- Solen-Cannonball School (4)
- Minot Area Council of the Arts Inc. (3)

Total grant funds paid to each during the biennium range from \$26,000 to \$90,000, and include multi-region and statewide programming. Number of grants to each noted in parentheses above.

**Internal Control, Legislative Intent and Financial:** We evaluated and tested high-risk areas including: revenues, expenditures (including use of private grants), appropriation laws, and blanket bond coverage.

- We did not note any deficiencies that are required to be brought to the attention of those charged with governance.

**LEGISLATIVE AUDIT AND FISCAL REVIEW  
COMMITTEE MEMBERS**

**Senator Jerry Klein – Chairman  
Representative Chet Pollert – Vice Chairman**

**Representatives**

**Bert Anderson  
Patrick Hatlestad  
Mary Johnson  
Keith Kempenich  
Gary Kreidt  
Andrew G. Maragos  
Mike Nathe  
Marvin E. Nelson  
Wayne A. Trottier**

**Senators**

**Dwight Cook  
Judy Lee  
Richard Marcellais**

**AUDITOR AND AGENCY PERSONNEL**

**State Auditor Personnel**

**Allison Bader, MBA, MSM, Audit Manager  
Erin Maslowski, In-Charge  
Elizabeth Rogers, Auditor**

**Primary State Agency Contacts**

**Kim Konikow, Executive Director  
Robin Bosch, Administrative Officer**

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STATE OF NORTH DAKOTA  
**OFFICE OF THE STATE AUDITOR**  
STATE CAPITOL  
600 E. BOULEVARD AVENUE – DEPT 117  
BISMARCK, NORTH DAKOTA 58505

## *Transmittal Letter*

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May 22, 2018

Members of the North Dakota Legislative Assembly

Ms. Kim Konikow, Executive Director

We are pleased to submit this audit of the North Dakota Council on the Arts for the biennium ended June 30, 2017. 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.

Allison Bader 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 Ms. Konikow and her staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

/S/

Joshua C. Gallion  
State Auditor

# *Executive Summary*

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## *Introduction*

The North Dakota Council on the Arts 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 for 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?*

There were no recommendations 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.*

No, a management letter was not issued.

## **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, management conflicts of interest, contingent liabilities, or significant unusual transactions identified.

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***

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## ***Audit Objectives***

The objectives of this audit of the North Dakota Council on the Arts for the biennium ended June 30, 2017 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, 2017. We conducted our 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.
- 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.

# Financial Statements

## Statement of Revenues and Expenditures

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
<b>Revenues:</b>		
Federal Revenue	\$ 727,100	\$ 698,000
Sale of Publications	3,820	6,933
Contributions and Private Grants	20	100,250
Other Revenue	63	1,633
<b>Total Revenues</b>	<u>\$ 731,003</u>	<u>\$ 806,816</u>
<b>Expenditures:</b>		
Grants	\$ 975,380	\$ 831,585
Salaries and Benefits	468,924	430,173
Printing	43,654	7,461
Travel	30,204	39,209
Professional Development	29,430	26,999
Office Equipment and Furniture	27,074	1,400
Operating Expenses	27,042	2,462
Professional Fees and Services	22,668	37,808
Rent of Building Space, Booth Rental	22,370	21,171
IT Data Processing/Communications	20,732	35,838
Office and Miscellaneous Supplies	11,538	4,613
IT Equipment and Software	9,494	4,144
Postage	5,520	5,499
<b>Total Expenditures</b>	<u>\$ 1,694,030</u>	<u>\$ 1,448,362</u>

The North Dakota Council on the Arts had investments managed by the State Investment Board during the 2015-17 biennium. These investments totaled \$431,308 at June 30, 2017 and \$386,228 at June 30, 2016. The investments are held in the North Dakota Cultural Endowment Fund as authorized by North Dakota Century Code sections 54-54-08.1 and 54-54-08.2.

## Statement of Appropriations

For the Biennium Ended June 30, 2017

<b>Expenditures by Line Item:</b>	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Salaries and Benefits	\$ 886,297	\$ 12,800	\$ 899,097	\$ 899,097	\$ 0
Operating Expenses	372,224	100,000	472,224	433,842	38,382
Grants	2,117,390	(8,000)	2,109,390	1,801,965	307,425
<b>Totals</b>	<u>\$ 3,375,911</u>	<u>\$ 104,800</u>	<u>\$ 3,480,711</u>	<u>\$ 3,134,904,</u>	<u>\$ 345,807</u>
<b>Expenditures by Source:</b>					
General Fund	\$ 1,630,444	\$ 4,800	\$ 1,635,244	\$ 1,629,722	\$ 5,522
Other Funds	1,745,467	100,000	1,845,467	1,505,182	340,285
<b>Totals</b>	<u>\$ 3,375,911</u>	<u>\$ 104,800</u>	<u>\$ 3,480,711</u>	<u>\$ 3,134,904</u>	<u>\$ 345,807</u>

### Expenditures without Appropriations of Specific Amounts:

The Cultural Endowment Fund was created by the 1979 Legislature and is authorized by NDCC section 54-54-08.2 (\$7,488 of expenditures for this biennium).

## *Internal Control*

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In our audit for the biennium ended June 30, 2017, 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 relating to compliance with legislative intent.
- Controls surrounding the ConnectND (PeopleSoft) system.

The criteria used to evaluate internal control is published in the publication *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States (Green Book, GAO-14-704G). Agency management must establish and maintain effective internal control in accordance with policy of the Office of Management and Budget (OMB Policy 216) and, for programs receiving Federal funds, the Code of Federal Regulation as set forth by the Federal Government (2 CFR 200.303).

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: misstatements in financial or performance information, violations of laws and regulations, or 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.

## *Compliance with Legislative Intent*

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In our audit for the biennium ended June 30, 2017, we identified and tested the 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 Community Creativity Cohort Grant funds.
- Proper use of the State Treasurer (State Constitution, article X, section 12).
- Compliance with appropriations (House Bill 1010 of the 2015 North Dakota Session Laws).
- Compliance with OMB's Purchasing Procedures Manual.
- 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 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.

## *Operations*

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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.

You may obtain audit reports on the internet at:

[www.nd.gov/auditor](http://www.nd.gov/auditor)

or by contacting the Office of the State Auditor at:

**Email:** [ndsao@nd.gov](mailto:ndsao@nd.gov)

**Phone:** (701) 328-2241

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