



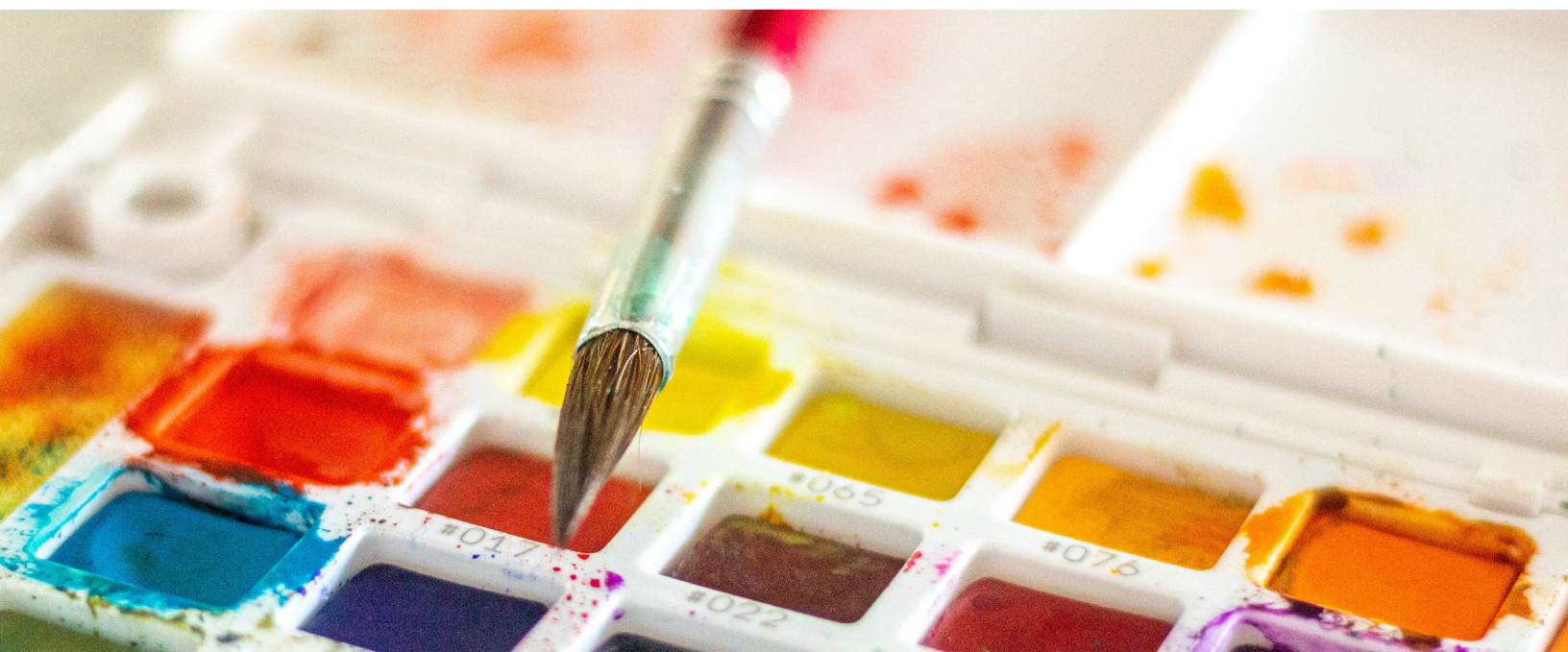
NORTH DAKOTA OFFICE OF THE STATE AUDITOR

State Auditor Joshua C. Gallion

North Dakota Council on the Arts

Audit Report for the Biennium Ended June 30, 2021

Client Code 709





WHAT WE LOOKED AT AND WHY

North Dakota state law requires that our team perform an audit once every two years. This includes a review of financial transactions and determining that expenditures are correct. Our audit reports any errors, internal control weaknesses or potential violations of law identified in significant or high-risk functions of the agency.

WHAT WE FOUND



Payroll Charged to Federal Awards

We found that the North Dakota Council on the Arts incorrectly paid bonuses with federal funding, and other payroll charges to federal programs were unsupported.

Read more on page 4

TABLE OF CONTENTS

INTRODUCTION

Terms Used in Report 3

AUDIT RESULTS

Primary Objective 4

Payroll Charged to Federal Funds Not Supported 4

AUDIT PROCEDURES

Primary Objective 5

Authority and Standards 7

LEGISLATIVE AUDIT AND FISCAL REVIEW COMMITTEE

Responses to LAFRC Audit Questions 8

LAFRC Audit Communications 9

FINANCIALS

Revenues and Expenditures 10

Appropriations 11



HAVE QUESTIONS? ASK US.

**NORTH DAKOTA STATE
AUDITOR'S OFFICE**

600 E. Boulevard Ave. Dept. 117
Bismarck, North Dakota 58505

- 701-328-2241
- NDSAO@nd.gov
- ND.gov/Auditor
- Facebook - [ndsao.link/ebs](https://www.facebook.com/ndsao.link/ebs)
- LinkedIn - [ndsao.link/wsw](https://www.linkedin.com/company/ndsao.link/wsw)
- YouTube - [ndsao.link/f2d](https://www.youtube.com/channel/ndsao.link/f2d)

Introduction

North Dakota Council on the Arts

May 16, 2022

We are pleased to submit this audit of the North Dakota Council on the Arts for the biennium ended June 30, 2021. 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.

The primary consideration in determining the contents of these audits is to produce informative audits to improve government. Statutory audit requirements are an important part of these audits and are addressed by our standard audit objective. Whenever possible, additional audit objectives are included to increase responsiveness 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 the ND Council on the Arts staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

/s/

JOSHUA C. GALLION
NORTH DAKOTA STATE AUDITOR

TERMS USED IN REPORT

Appropriation: Sum of money or total of assets devoted to a special purpose.

ConnectND: The accounting system for North Dakota.

Emergency Commission: Group of elected officials that have the authority to transfer or expend money appropriated by the North Dakota Legislative Assembly. Additional information can be found in N.D.C.C. Chapter 54-16.

Internal Control: Policies and procedures that ensure reliable financial reporting, safeguard assets, promote accountability and efficiency, and prevent fraud.

North Dakota Century Code (N.D.C.C.): Collection of all the statutes passed by the North Dakota Legislative Assembly.

Performance Audit: Engagements that provide objective analysis, findings, and conclusion to assist management and those charged with governance and oversight to improve program performance and operations, reduce costs, facilitate decision making, and contribute to public accountability.

Session Laws: Published after each regular and special legislative session and contain the laws enacted during that session.

Audit Results

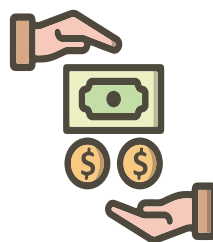
PRIMARY OBJECTIVE

Are there any errors, internal control weaknesses, or potential violations of law for significant or high-risk functions of the agency?

Specifically for COVID (CARES Act awards), the government may also track time spent by employees related to COVID-19 and apply Fund payments on that basis but would need to do so consistently within the relevant agency or department. Payroll and benefits of a substantially dedicated employee may be covered using payments from the Fund to the extent incurred between March 1 and December 31, 2021. Payroll includes certain hazard pay and overtime, but not workforce bonuses (Federal Register 4182 / Vol. 86, No. 10 / January 15, 2021, Section 601 of the Social Security Act).

FINDING
2021-01

Payroll Charged to Federal Awards Not Supported



We found that **\$117,905** in salaries were **not supported** by time records, which are necessary to be paid for with federal funding

CONCLUSION

Our team found that the North Dakota Council on the Arts (NDCA) staff is not tracking their time working on federal and non-federal programs.

BACKGROUND

The NDCA is an agency of the state that helps bring arts to the community. We found salaries were not accurately charged to federal programs. Because they were federal dollars, federal law requires salaries and wages must be based on records that accurately reflect the work performed (2 CFR 200.430 (i)(1)).

NDCA used estimates to charge payroll to federal funds. Actual time was not tracked to evaluate accuracy of estimates. As a result, \$117,905 was unsupported salaries and benefits charged to the National Endowment for the Arts awards. Therefore, we were unable to determine if these salaries and benefits should have been charged to the program.

Our team also found that \$7,500 of federal COVID dollars were spent on bonuses. Per federal guidance, this COVID money was reserved for only hazard pay, or overtime pay, not workforce bonuses. The NDCA stated they were unfamiliar with federal guidance for allowable costs.

RECOMMENDATION

We recommend the Council on the Arts ensure salaries and wages charged to federal programs are supported by time records that accurately reflect the work performed. We also recommend the Council on the Arts only charge allowable costs to federal funds.

NORTH DAKOTA COUNCIL ON THE ARTS RESPONSE

NDCA assigned temporary workload increases per State procedures to address additional work due to the influx of Federal funds related to COVID. It is understood that Federal policies and regulations must also be met. To note, this is a challenge for smaller Agencies with non-specialized staff especially in a time of a national pandemic.

NDCA is working with OMB to expand its use of Time and Labor reporting in Peoplesoft to track staff time charged to Federal programs, to correct the Auditor's finding.



Audit Procedures

Primary Objective

INTERNAL CONTROL

We obtained an understanding of internal control through inquiries, observations, and inspection of documentations and electronic data records. We planned our audit work to assess the design, implementation, and effectiveness of those internal controls that were significant to our audit objectives.

The specific internal control testing completed for this audit objective is identified below:

- Segregated preparation and approval of expenditures is tested statewide in the State of North Dakota Annual Comprehensive Financial Report.
- Authorization of original appropriations and adjustments is tested in the State of North Dakota Annual Comprehensive Financial Report.
- Accounting corrections in ConnectND are properly approved.
- Individuals performing procurement had proper level of training for purchases made.
- Purchases using the state purchase card had proper approval.
- Grants had signed grant agreements.
- Grant disbursements had final completion reports and proper approval.

We found that salaries charged to federal programs were not supported by time records for employees who work on state and federal or multiple federal programs.

SCOPE

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

METHODOLOGY

To meet this objective, we:

- Used non-statistical sampling and the results were projected to the population where appropriate.
- Interviewed appropriate agency personnel.
- Observed the NDCA's processes and procedures.
- Inspected documentary evidence.
- Queried and analyzed financial data in ConnectND (PeopleSoft) to determine areas of risk. Significant evidence was obtained from ConnectND.
- Reviewed applicable laws to the Council on the Arts under N.D.C.C. 54-54 and Session Laws.
- Analyzed non-appropriated expenditures to determine that there was legislative approval for non-appropriated expenditures.
- Reviewed N.D.C.C. 54-16-03 and analyzed accounts charged to each appropriation class to determine that expenditures were not charged to an inappropriate class to circumvent appropriation spending authority.
- Analyzed and performed a 100% test of general ledger correcting entries. Determined that the transactions were properly approved, accounted for in ConnectND and had adequate support.

- Selected a judgmental sample of high-risk operating expenditures to test accurate recording of payments in ConnectND related to appropriation class, funds, and accounts, and reasonableness of purchase (N.D.C.C. 44-08-05.11, N.D.C.C. 54-54-03).
- Reviewed the State's Procurement Laws which includes N.D.C.C. 54-44.4, N.D.C.C. 48-01.2, N.D.A.C. Title 4-12, OMB Policies and Guidelines. Queried and analyzed expenditures that were above the procurement threshold of \$10,000. Also, reviewed expenditures for split purchases. Selected a 100% of identified expenditures subject to procurement. Determined that the individuals doing procurement had proper training and that the expenditures were procured in accordance with state law other than previously identified by the State Procurement Office.
- Analyzed purchase card transactions and performed a test that the purchase cards had proper approval, the purchases were reasonable related to the function of the agency, and that the coding for the transaction in ConnectND was proper (Reviewed N.D.C.C. 44-08-05.11).
- Queried ConnectND and analyzed grant expenditures. Judgmentally and randomly selected grant expenditures for testing. Determined if the grant agreements were signed. Examined the support to determine if the grantee complied with the grant agreements, that the purchases made were reasonable, and that the coding for the transaction in ConnectND was proper.
- Reviewed Federal Uniform Guidance (2 CFR 200) and the Federal Guidance for CARES Act federal expenditures. Performed analytical procedures and determined if the Council on the Arts was accurately tracking time spent on federal programs for salaries and benefits charged to federal programs.
- Reviewed N.D.C.C. 54-10-01.1 and N.D.C.C. 54-16-03. Reviewed Emergency Commission approvals and Council on the Arts appropriation Adjustments.
- Identified authorizing legislation or approval of the \$2,064,848.28 of increased authorization and appropriation authority. Identified the purpose of the adjustments and determined if the agency complied with the documented intent of the adjustments.
- Inspected journal entries for salaries and determined that \$8,000 moved from the grants line to salaries line for the poetry out load program was used for salaries (Emergency Request #1937).
- Performed analysis and judgmental testing of payments and determined the \$800,000 of Cares Act relief was used to respond to the COVID-19 public health emergency for agency incurred necessary expenses, to facilitate telework, and for support of small businesses (Emergency Request #2031).
- Reviewed an appropriation adjustment from Senate Bill 2015 section 8, inspected internship workplans and salary payments and determined that \$21,588 was used for the student internships during the biennium beginning July 1, 2019 and ending June 30, 2021.
- Performed analysis and judgmental testing of payments and determined that \$62,500 was used to provide support and assistance to arts, cultural and creative industries (Emergency Request #1990).
- Performed analysis and judgmental testing of payments and determined that the \$45,000 from the grant line moved to the operating line was used for data collection and documentation, information technology, equipment, furniture, the state art collection, for arts across the prairie travel, and exhibition expenses (Emergency Request #2038).
- Performed analysis and judgmental testing of payments and determined that the \$421,700 was used to provide short-term financial relief to arts, cultural and creative industries impacted by COVID-19 (Emergency Request #1971).

- Reviewed the 2021 Session Law HB 1395 Section 2 where the NDCA received, as an emergency measure, increased Appropriation authority to accept \$759,060 for the purpose of defraying COVID-19 and other expenses for the period beginning with the effective date of the Session Law and ending June 30, 2023. Determined that the NDCA did not spend any of this authority during the audit period.

AUTHORITY AND STANDARDS

This biennial audit of the North Dakota Council on the Arts has been conducted by the Office of the State Auditor pursuant to authority within North Dakota Century Code Chapter 54-10.

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 standards used to evaluate internal control are 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).



Responses to LAFRC Audit Questions

1. WHAT TYPE OF OPINION WAS ISSUED ON THE FINANCIAL STATEMENTS?

Revenues, expenditures and appropriation information was 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?

Other than the findings of this report, the North Dakota Council on the Arts was in compliance with significant statutes, laws, rules, and regulations under which it was created and is functioning.

3. WAS INTERNAL CONTROL ADEQUATE AND FUNCTIONING EFFECTIVELY?

Other than the findings of this report, we did not identify any deficiencies in internal control that were significant within the context of our audit objectives.

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 Council on the Arts' revenues, expenditures and appropriation information does 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 Capital Management (HCM) are high-risk information technology systems critical to the Arts Council. None of the exceptions identified in the six audit report questions are directly related to these systems.

Financials

Revenues and Expenditures

REVENUES AND OTHER SOURCES	JUNE 30, 2021	JUNE 30, 2020
Federal Revenue	\$ 1,163,633	\$ 731,200
Donations	48,773	67,800
Sale of Publications and Services	166	2,199
Miscellaneous General Revenue	67	6,251
Transfers In	800,000	-
Total Revenue and Other Sources	\$ 2,012,639	\$ 807,450

EXPENDITURES AND OTHER USES	JUNE 30, 2021	JUNE 30, 2020
Grants	\$ 1,753,482	\$ 1,228,981
Salaries and Benefits	542,396	500,346
Professional Fees and Services	104,499	29,900
IT Data Processing/Communications	43,318	25,477
Rent of Building Space, Other Rentals	18,971	21,359
Supplies	19,896	15,985
Travel	5,555	20,390
Operating Fees and Services	16,631	7,094
Professional Development	1,563	15,562
Office Equipment and Furniture	11,822	4,272
Insurance	5,016	5,799
Printing	2,096	1,525
Repairs	958	277
Postage	490	578
Total Expenditures and Other Uses	\$ 2,526,693	\$ 1,877,545

Source: ConnectND Financials

Appropriations

For the Biennium Ended June 30, 2021

EXPENDITURES BY LINE ITEM	FINAL APPROPRIATION	EXPENDITURES	UNEXPENDED APPROPRIATION
Salaries and Wages	\$ 1,035,946	\$ 1,035,242	\$ 704
Operating Expenses	350,774	338,323	12,451
Grants	2,464,194	2,216,673	247,521
CARES Act Funding - 2020	1,559,060	800,000	759,060
Totals	\$ 5,409,974	\$ 4,390,238	\$ 1,019,736

EXPENDITURES BY SOURCE	FINAL APPROPRIATION	EXPENDITURES	UNEXPENDED APPROPRIATION
General	\$ 1,627,792	\$ 1,627,772	\$ 20
Other	3,782,182	2,762,466	1,019,716
Totals	\$ 5,409,974	\$ 4,390,238	\$ 1,019,736

Source: ConnectND Financials



NORTH DAKOTA STATE AUDITOR
JOSHUA C. GALLION

NORTH DAKOTA STATE AUDITOR'S OFFICE


600 E. Boulevard Ave. Dept. 117 | Bismarck, North Dakota 58505

 [ND.gov/Auditor](https://nd.gov/Auditor)

 NDSAO@nd.gov

 701-328-2241

 Facebook - nd sao. link/ ebs

 YouTube - nd sao. link/ f2d

 LinkedIn - nd sao. link/ wsw