

North Dakota Council on the Arts

BISMARCK, NORTH DAKOTA

Audit Report

For the Biennium Ended
June 30, 2015

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>Operations</i>	<i>11</i>
<i>Management Letter (Informal Recommendations)</i>	<i>12</i>



STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
STATE CAPITOL
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BISMARCK, NORTH DAKOTA 58505

Transmittal Letter

April 7, 2016

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

We are pleased to submit this audit of the North Dakota Council on the Arts for the biennium ended June 30, 2015. 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 Dina Cashman, CPA. Cindi Pedersen, 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 Klingenstein and her staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

A handwritten signature in black ink that reads "Bob Peterson".

Robert R. Peterson
State Auditor

Executive Summary

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 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?

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.

Yes, a management letter was issued and is included on page 12 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 the 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, 2015 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, 2015. 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, 2015, operations of the North Dakota Council on the Arts were primarily supported by appropriations from the state's general fund and grants from the National Endowment for the Arts (NEA).

Financial Summary

The North Dakota Council on the Arts had investments held at the State Investment Board during the 2013-2015 biennium. These investments totaled \$371,188 at June 30, 2015 and \$353,996 at June 30, 2014. The investments were from the North Dakota Cultural Endowment fund as set up in North Dakota Century Code sections 54-54-08.1 and 54-54-08.2.

Revenues consisted primarily of federal funds. Other revenues during the audit period included sales of publications, conference fees, donations, and miscellaneous revenue. These all remained fairly constant for the North Dakota Council on the Arts, increasing only slightly. Total revenues were \$697,521 for the year ended June 30, 2015 as compared to \$693,500 for the year ended June 30, 2014.

Total expenditures for the North Dakota Council on the Arts were \$1,553,079 for the year ended June 30, 2015 as compared to \$1,333,795 for the prior year. The increase in total expenditures for the audited period is mostly reflected in Grants and Salary expenditures. North Dakota Council on the Arts was awarded additional grants during the second year of the biennium. All other expenditures remained fairly constant.

Financial Statements

Statement of Revenues and Expenditures

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
<u>Revenues:</u>		
Federal Revenue	\$ 683,850	\$ 674,434
Sale of Publications	6,133	11,885
Conference Fees	5,175	3,900
Miscellaneous Revenue	2,363	3,270
Donations		11
Total Revenues	<u>\$ 697,521</u>	<u>\$ 693,500</u>
 <u>Expenditures:</u>		
Grants	\$947,637	\$ 817,212
Salaries and Benefits	422,144	394,343
Travel	33,697	31,612
Professional Development	27,872	25,611
Information Technology	22,114	10,744
Rental/Leases	19,499	20,049
Supplies	19,150	8,678
Professional Services	17,585	5,247
Equipment	14,617	6,504
Printing	12,620	6,154
Operating Fees and Services	10,449	2,525
Postage	5,695	5,116
Total Expenditures	<u>\$1,553,079</u>	<u>\$1,333,795</u>

Statement of Appropriations

For The Biennium Ended June 30, 2015

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	\$ 790,756	\$ 21,472	\$ 812,228	\$ 812,228	
Accrued Leave Payments	7,933	(3,650)	4,283	4,259	\$ 24
Operating Expenses	348,023		348,023	302,794	45,229
Grants	2,102,307		2,102,307	1,757,350	344,957
Totals	<u>\$ 3,249,019</u>	<u>\$ 17,822</u>	<u>\$ 3,266,841</u>	<u>\$ 2,876,631</u>	<u>\$ 390,210</u>
Expenditures by Source:					
General Fund	\$ 1,504,102	\$ 17,822	\$ 1,521,924	\$ 1,521,924	
Other Funds	1,744,917		1,744,917	1,354,707	\$ 390,210
Totals	<u>\$ 3,249,019</u>	<u>\$ 17,822</u>	<u>\$ 3,266,841</u>	<u>\$ 2,876,631</u>	<u>\$ 390,210</u>

Appropriation Adjustments:

The \$21,472 increase in the Salaries and Benefits consists of these amounts:

- A \$12,782 increase to fund the family health insurance premium for an employee who was previously covered by a spouse that is no longer employed by another state entity. This was approved by the Emergency Commission meeting held on June 14, 2014.
- A \$5,040 increase was from a transfer by the Office of Management and Budget for the State Student Internship Program as authorized by House Bill 1015, section 11 of the 2013 Legislative Session. The increase was used to pay for an internship at the Council on the Arts.
- A \$3,650 transfer from the Accrued Leave Payments line to the Salaries and Wages line was in accordance with House Bill 1015, Section 14 of the 2013 Legislative Session for the payment of vacation and sick leave balances for employees that resigned or retired during the biennium.

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 (\$10,245 of expenditures for this biennium).

Internal Control

In our audit for the biennium ended June 30, 2015, 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 April 7, 2016.

Compliance With Legislative Intent

In our audit for the biennium ended June 30, 2015, 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).
- 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.

While we did not find any items that were required to be reported in accordance with *Government Auditing Standards*, we noted certain inconsequential or insignificant instances of non-compliance that we have reported to management of the North Dakota Council of the Arts in a management letter dated April 7, 2016.

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.

Management Letter (Informal Recommendations)

April 7, 2016

Ms. Beth Klingenstein
Executive Director
North Dakota Council on the Arts
1600 East Century Avenue, Suite 6
Bismarck, ND 58503

Dear Ms. Klingenstein:

We have performed an audit of the North Dakota Council on the Arts for the biennium ended June 30, 2015, and have issued a report thereon. As part of our audit, we gained an understanding of the North Dakota Council on the Arts 's 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:

LEGISLATIVE INTENT

Informal Recommendation 15-1: We recommend the North Dakota Council on the Arts comply with North Dakota Century Code (NDCC) section 44-08-04 and North Dakota Administrative Code section 4-07-18-06 when paying for meals and retirement parties.

Informal Recommendation 15-2: We recommend the North Dakota Council on the Arts maintain adequate bond coverage as required by NDCC section 26.1-21-10.

Informal Recommendation 15-3: We recommend the North Dakota Council on the Arts prepare an agency-wide fraud risk assessment on at least a biennial basis in accordance with Office of Management and Budget policy 216.

REVENUE

Informal Recommendation 15-4: We recommend the North Dakota Council on the Arts properly segregate duties so there is an independent reconciliation of receipts to deposits.

Informal Recommendation 15-5: We recommend the North Dakota Council on the Arts perform an independent reconciliation of federal funds drawn down to the funds deposited on PeopleSoft.

Management of the 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,

A handwritten signature in black ink, appearing to read "Dina Cashman", with a long, sweeping flourish extending to the right.

Dina Cashman
Auditor in-charge

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www.nd.gov/auditor/

or by contacting the
Division of State Audit

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