



NORTH DAKOTA OFFICE OF THE STATE AUDITOR

State Auditor Joshua C. Gallion

North Dakota Council on the Arts

For the Four-Year Period Ended June 30, 2025

Client Code 709





WHAT WE LOOKED AT AND WHY

North Dakota state law requires that our team perform an audit once every two to four years. This included 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 not Supported



The Council spent \$205,605 of federal awards on payroll without documentation of time worked.

Read more on page 4

Expenditures Outside the Legislatively Restricted Fund Purpose



The Council spent \$12,825 from the Cultural Endowment Fund on unallowable purchases.

Read more on page 5

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HAVE QUESTIONS? ASK US.

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Introduction

North Dakota Council on the Arts

February 18, 2026

We are pleased to submit this audit of the North Dakota Council on the Arts for the four-year period that ended June 30, 2025. This audit resulted from the statutory responsibility of the State Auditor to audit or review each state agency once every two to four 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 the responsiveness and effectiveness of state government.

Michael Schmitcke, CPA, was the audit manager on this engagement. 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 North Dakota 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: An amount authorized by the North Dakota Legislative Assembly to be spent for a specific 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 conclusions 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.

Code of Federal Regulations (CFR): Codification of the general and permanent rules published in the federal register by the executive departments and agencies of the federal government.

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?

FINDING
2025-01

Payroll Charged to Federal Awards not Supported

WHAT HAPPENED

The Council on the Arts spent \$205,605 of federal awards on payroll without documentation to show the time employees worked on the federal program. This is a finding that was first identified in the 2020–2021 audit and has continued to occur.

BACKGROUND

The Council on the Arts does not require employees to keep time sheets to support whether work is being completed for state or federal programs. Federal requirements state that all salaries charged to federal awards must be based on records that reflect the work performed. (2 CFR 200.430 (G)(1)).



\$205,605 is considered **unallowable** and could be subject to **recoupment from the Federal Government.**

The staff was unfamiliar with allowable expenditures under the federal award. The \$205,605 is considered unallowable and could be subject to recoupment from the Federal Government.

RECOMMENDATION

We recommend the Council on the Arts ensure that salaries charged to federal programs are supported by time records that accurately reflect the work performed.

NORTH DAKOTA COUNCIL ON THE ARTS RESPONSE

The Council on the Arts agrees with this finding. This practice had been approved by prior director. Procedures have been put in place requiring time sheets to be completed by employees to document time worked on federal programs to comply with federal requirements.

Expenditures Outside the Legislatively Restricted Fund Purpose

WHAT HAPPENED

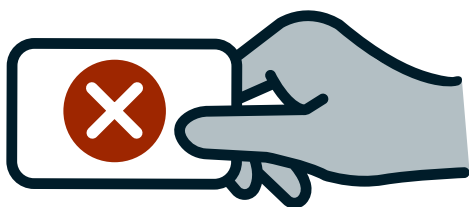
The Council on the Arts spent \$12,825 from the Cultural Endowment Fund on unallowable purchases.

BACKGROUND

State law requires all purchases from the Cultural Endowment Fund support programs that increase cultural awareness, make areas such as arts and theater more available to citizens, encourage the development of artistic talent, and preserve and increase understanding of North Dakota's heritage. (N.D.C.C. 54-54-08.1).

During the audit period, the Council on the Arts spent \$63,234 from this Fund. 20% of those expenditures were for unallowable activities including:

- \$10,000 for staff training
- \$2,687 for Executive Director candidate travel and lodging
- \$138 for a staff retreat



20% of those expenditures were for
unallowable activities

These payments were approved by previous Council employees even though they were not allowable for the fund. Proper internal controls say control activities, such as approvals, should occur to prevent unauthorized or improper transactions. (GAO Greenbook 10.04).

These unallowable purchases reduced the amount of money available to carry out the purpose of the Fund.

RECOMMENDATION

We recommend the Council on the Arts ensure all purchases from the Cultural Endowment Fund are for a purpose allowable under State Law.

NORTH DAKOTA COUNCIL ON THE ARTS RESPONSE

The Council on the Arts agrees with this finding. Procedures will be put in place to ensure that only expenses allowable under state law are paid for using Cultural Endowment funds.



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 operating 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 in the State of North Dakota Annual Comprehensive Financial Report.
- Monthly purchase card reconciliation is approved by an appropriate individual.
- Purchase card expenditures and the related receipts are reviewed and approved by an appropriate individual.
- Procurement procedures were performed by the appropriate individual with an adequate level of training.
- Grant agreements are signed by the appropriate individual.
- Grant managers sign off on final grant payment.
- There were no deficiencies identified.

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:

- Interviewed appropriate agency personnel.
- Observed the Department's processes and procedures.
- Inspected documentary evidence.
- Analyzed financial data in ConnectND to determine areas of risk.
- Used non-statistical random sampling and the results were projected to the population.
- Randomly selected and tested a sample of accounts payable module expenditures to determine proper coding was used, expenditures were reasonable, and expenditures were in compliance with law. (N.D.C.C. 54-44.1-10, N.D.C.C. 44-08-03, N.D.C.C. 44-08-04 subsections 1-7, N.D.C.C. 54-06-09 subsections 1-6).
- Randomly/judgmentally selected and tested a sample of purchase card expenditures to determine proper coding was used, proper receipts were on file, and expenditures were reasonable.
- Tested procurements to determine proper coding was used, appropriate vendors were paid in correct amounts, and that law and policy was followed. (N.D.C.C. 55-44.4, N.D.A.C. Title 4-12, and OMB Policies and Guidelines).
- Randomly/Judgmentally selected a sample of grant expenditures to determine proper coding was used, appropriate entity's expenditures complied with the terms and conditions of the grant. (N.D.C.C. 53-06.1-11.2, N.D.C.C. 53-06.1-12, N.D.C.C. 54-12-26).
- Performed revenue analytics to ensure refunds, deposits, correcting entries, and inter department billing appeared appropriate.
- Performed payroll analytics to ensure hourly pay,

overtime pay, and bonuses paid were appropriate. (N.D.C.C. 54-06-30, N.D.C.C. 54-06-31, N.D.C.C. 54-44.3-15, N.D.C.C. 54-44.3-16).

- Performed capital asset analytics to determine that capital asset additions were appropriate.
- Analyzed accounts charged to each appropriation line to determine that expenditures were not charged to an inappropriate line to circumvent appropriation spending authority. (N.D.C.C. 54-16-03, N.D.C.C. 54-44.1-09, N.D.C.C. 54-44.1-11).
- Judgmentally selected journal vouchers to determine that correcting entries were not charged to an inappropriate line to circumvent appropriation spending authority. (N.D.C.C. 54-16-03, N.D.C.C. 54-44.1-09, N.D.C.C. 54-44.1-11).
- End of biennium overspending of source authority and/or appropriation lines is tested in the State of North Dakota Annual Comprehensive Financial Report.
- Reviewed expenditures related to appropriation adjustment including those approved by the Emergency Commission to ensure North Dakota Council on the Arts complied with the documented intent of the adjustment. (N.D.C.C. 54-10-01.1, N.D.C.C. 54-16-03).
- Reviewed federal expenditures appropriated in 2021 session laws for the purpose of defraying COVID-19 expenses were not overspent. (2021 Session Law House Bill 1395, Section 2).
- Judgmentally selected a sample of Cultural Endowment expenditures to determine that expenditures were spent according to legislative intent. (2021 Session Law House Bill 1015 Section 17).
- Analyzed salaries and wages charged to federal programs to determine if salaries and wages charged to federal programs are properly supported. (2 CFR 200.430(G) (1)).

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).

Financials

Revenues and Expenditures

REVENUES AND OTHER SOURCES	JUNE 30, 2023	JUNE 30, 2022
Federal Revenue	\$ 1,596,500	\$ 790,700
Grants/Contributions/Donations	12,465	289,000
Sales and General Revenue	328	2,263
Transfers In	1,000,000	-
Total Revenue and Other Sources	\$ 2,609,293	\$ 1,081,963

EXPENDITURES AND OTHER USES	JUNE 30, 2023	JUNE 30, 2022
Grants	\$ 1,238,917	\$ 1,694,590
Salaries and Benefits	545,081	554,033
Travel	44,316	19,025
Professional Fees and Services	35,592	38,301
IT Data Processing/Communications	28,026	26,824
Operating Fees and Services	26,862	10,277
Office Equipment and Furniture	20,718	22,854
Dues and Memberships	18,792	27,994
Rent/Leases	15,685	12,093
Insurance	3,786	4,768
Postage and Printing	3,000	908
Total Expenditures and Other Uses	\$ 1,980,775	\$ 2,411,667

Source: ConnectND Financials

Continued on the following page

Financials

Revenues and Expenditures

REVENUES AND OTHER SOURCES	JUNE 30, 2025	JUNE 30, 2024
Federal Revenue	\$ 933,513	\$ 932,228
Interest on Investments	856,829	-
Miscellaneous General Revenue	340	2,067
Grants and contributions	-	284,500
Total Revenue and Other Sources	\$ 1,790,682	\$ 1,218,795

EXPENDITURES AND OTHER USES	JUNE 30, 2025	JUNE 30, 2024
Grants	\$ 1,270,564	\$ 1,002,064
Salaries and Benefits	817,665	726,215
Professional Fees and Services	136,758	53,093
Travel	71,182	52,296
Operating Fees and Services	50,785	34,438
IT Data Processing/Communications	38,681	43,315
Rentals/Leases	22,452	21,774
Supplies	13,416	8,685
Office Equipment and Furniture	10,169	50,407
Dues and Memberships	5,544	14,267
Insurance	4,704	4,079
Postage and Printing	2,504	4,399
Total Expenditures and Other Uses	\$ 2,444,424	\$ 2,015,032

Source: ConnectND Financials

Appropriations

For the Biennium Ended June 30, 2025

	FINAL APPROPRIATION	EXPENDITURES	UNEXPENDED APPROPRIATIONS
Expenditures by Line Item			
Salaries and Wages	\$ 1,569,197	\$ 1,543,817	\$ 25,380
Operating Expenses	688,143	639,233	48,910
Grants	2,689,842	2,252,628	437,214
Totals	\$ 4,947,182	\$ 4,435,678	\$ 511,504
Expenditures by Source			
General	\$ 2,712,682	\$ 2,433,139	\$ 279,543
Federal	1,870,000	1,865,772	4,228
Special	364,500	136,767	227,733
Totals	\$ 4,947,182	\$ 4,435,678	\$ 511,504

Source: ConnectND Financials

Continued on the following page

Appropriations

For the Biennium Ended June 30, 2023

	FINAL APPROPRIATION	EXPENDITURES	UNEXPENDED APPROPRIATIONS
Expenditures by Line Item			
Salaries and Wages	\$ 1,071,167	\$ 1,071,167	\$ -
Operating Expenses	337,045	315,313	21,732
Grants	2,359,024	2,223,908	135,116
CARES Act Fund - 2020	759,060	749,600	9,460
Totals	\$ 4,526,296	\$ 4,359,988	\$ 166,308
Expenditures by Source			
General	\$ 1,681,314	\$ 1,676,183	\$ 5,131
Federal	2,485,982	2,391,400	94,582
Special	359,000	292,405	66,595
Totals	\$ 4,526,296	\$ 4,359,988	\$ 166,308

Source: ConnectND Financials



Status of Prior Recommendations

Payroll Charged to Federal Awards Not Supported (Finding 2025-01)

Not Implemented

Recommendation: We recommend the ND Council on the Arts ensure salaries and wages charged to federal programs are supported by time records that accurately reflect the work performed.

Status: Not implemented. North Dakota Council on the Arts did not provide sufficient and appropriate evidence to support all elements of the recommendation.



Office of the
State Auditor


NORTH DAKOTA STATE AUDITOR
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