



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial-Related Audit

Minnesota Historical Society
July 1, 1997, through June 30, 2001



Financial Audit Division

The Office of the Legislative Auditor (OLA) is a professional, nonpartisan office in the legislative branch of Minnesota State government. Its principal responsibility is to audit and evaluate the agencies and programs of state government (the State Auditor audits local governments).

OLA's Financial Audit Division annually audits the state's financial statements and, on a rotating schedule, audits agencies in the executive and judicial branches of state government, three metropolitan agencies, and several "semi-state" organizations. The division also investigates allegations that state resources have been used inappropriately.

The division has a staff of approximately fifty auditors, most of whom are CPAs. The division conducts audits in accordance with standards established by the American Institute of Certified Public Accountants and the Comptroller General of the United States.

Consistent with OLA's mission, the Financial Audit Division works to:

- Promote Accountability,
- Strengthen Legislative Oversight, and
- Support Good Financial Management.

Through its Program Evaluation Division, OLA conducts several evaluations each year and one best practices review.

OLA is under the direction of the Legislative Auditor, who is appointed for a six-year term by the Legislative Audit Commission (LAC). The LAC is a bipartisan commission of Representatives and Senators. It annually selects topics for the Program Evaluation Division, but is generally not involved in scheduling financial audits.

All findings, conclusions, and recommendations in reports issued by the Office of the Legislative Auditor are solely the responsibility of the office and may not reflect the views of the LAC, its individual members, or other members of the Minnesota Legislature.

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OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

Senator Ann H. Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Ms. Nina Archabal, Director
Minnesota Historical Society

We have audited selected financial activities of the Minnesota Historical Society for the period July 1, 1997, through June 30, 2001. Our audit scope included: state grants, fiscal agent grants, state capital projects, and state-owned historic site admission receipts. We highlight the audit objectives and conclusions in the individual chapters of this report. We emphasize that this has not been a comprehensive audit of all of the Minnesota Historical Society's financial activities.

We conducted our audit in accordance with *Government Auditing Standards*, as issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards also require that we design the audit to provide reasonable assurance that the Minnesota Historical Society complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. The management of the Minnesota Historical Society is responsible for establishing and maintaining the internal control structure and for compliance with applicable laws, regulations, and contracts.

This report is intended for the information of the Legislative Audit Commission and the management of the Minnesota Historical Society. This restriction is not intended to limit the distribution of this report, which was issued as a public document on May 2, 2002.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen
Deputy Legislative Auditor

End of Fieldwork: February 6, 2002

Report Signed On: April 29, 2002

Minnesota Historical Society

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Audit Participation

The following members of the Office of the Legislative Auditor prepared the report:

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Cecile Ferkul, CPA, CISA	Audit Manager
David Poliseo, CPA, CISA	Auditor-In-Charge
Karyn Dee	Auditor
Jess Frenzel	Auditor

Exit Conference

We discussed the finding and recommendations with the following representatives of the Minnesota Historical Society at an exit conference on April 16, 2002:

Bill Melton	President, Board of Directors
Peter Reis	Board Member, Audit Committee Chair
Mary Ann McCoy	Board Member, Audit Committee Member
Bruce Bean	Board Member
Charlton Dietz	Board Member
Donald McIlrath	Board Member
Nina Archabal	Director
Chuck Lawrence	Assistant Director
Patrick McCormack	Director of Planning and Evaluation
Deborah Mayne	Finance Manager
David Kelliher	Legislative Liaison
Jeri Niedenfuer	Management Assistant
Kate McCreight	Administrative Assistant

Report Summary

Overall Conclusion

For the selected programs we audited, the Minnesota Historical Society properly safeguarded its assets and reasonably and prudently administered its financial activities. The Minnesota Historical Society's internal controls provided reasonable assurance that it administered its grant and capital project expenditures in compliance with applicable legal provisions, grant agreements, and management's authorization. For the items tested, the Society complied with the significant legal provisions concerning grant and capital project expenditures. Generally, the Society properly recorded its state-owned historic sites' admission receipts on the state's accounting system and complied with applicable finance-related legal provisions and policies.

Current Finding and Recommendations

The Society did not ensure that state-owned historic sites' admission receipts were deposited or recorded in a timely manner. The state-owned historic sites deposited 16 of 34 revenue transactions tested between two and five days after receipt. In addition, the Society did not enter some receipt transactions in the state's accounting system until up to three weeks after receipt. The Society's deposit process involved various steps that added to the delay in entering the transactions into the state's accounting system. The Society may want to consider ways to streamline this process so that they can more timely enter the receipts on the accounting system. We recommended that the state-owned historic sites deposit their admission receipts daily and that the Society record receipt transactions on the state's accounting system at the time of deposit. (Finding 1, page 8)

Background

The Legislative Assembly of the Territory of Minnesota created the Minnesota Historical Society in 1849. The Society is an independent, nonprofit corporation. An executive council, composed of 30 members elected for three-year terms, governs the Society. The Executive Council establishes major policies and monitors the quality of the Society's programs and services. The executive council appoints a director who serves as the chief administrative officer and directs the Society's professional staff in accordance with its policies. Ms. Nina Archabal has served as the director of the Minnesota Historical Society since 1987. An independent CPA firm audits the Society's annual financial statements.

Financial-Related Audit Reports address internal control weaknesses and noncompliance issues noted during our audits of state departments and agencies. The scope of our audit work at the Minnesota Historical Society included grants, capital projects, and state-owned historic sites' admission receipts. The Society's response is included in the report.

Chapter 1. Introduction

The Legislative Assembly of the Territory of Minnesota created the Minnesota Historical Society in 1849. The Society is an independent, nonprofit corporation. An executive council, composed of 30 members elected for three-year terms, governs the Society. The executive council establishes major policies and monitors the quality of the Society's programs and services. The executive council appoints a director who serves as the chief administrative officer and directs the Society's professional staff in accordance with its policies. Ms. Nina Archabal has served as the director of the Minnesota Historical Society since 1987. An independent CPA firm audits the Society's annual financial statements.

The Minnesota Historical Society's mission is to "foster among people an awareness of Minnesota history so that they may draw strength and perspective from the past and find purpose for the future." The Society works toward this goal, in part, by collecting, preserving, and interpreting materials and records of human culture and making them accessible to people in Minnesota and beyond. The Society carries out its mission through the Minnesota History Center in Saint Paul and 25 historic sites located throughout the state.

The Minnesota Historical Society operates autonomously from state government, but receives significant state appropriations (about \$25 million annually) for its operations. Additionally, the Society annually retained about \$800,000 in admission fees at society operated state-owned historic sites. The Society also received bonding money from the state for various capital projects as discussed more fully in Chapter 2. Table 1-1 shows the amount of state funds spent by program activity.

In July 2001, the Society implemented a new procurement policy. Although the Society is exempt from the general state statutes, it patterned its policy after the state's policy. The Society asked us to review the policy to determine whether it's design provided sufficient control. We found that the Society's new procurement policy provided a control structure similar to controls established by the state.

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Table 1-1
Summary of State Appropriated Expenditures
Four Fiscal Years Ended June 30, 2001

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Program Activity				
Education and Outreach	\$11,642,789	\$12,424,460	\$12,527,690	\$13,141,748
Preservation and Access	8,586,227	9,089,303	9,209,260	9,458,744
Information Program Delivery	1,749,227	2,295,813	2,052,840	2,481,990
Fiscal Agents	889,816	479,065	604,669	349,331
Leg. Commission on Minn. Resources	428,164	320,477	564,742	140,739
Total Expenditures	<u>\$23,296,223</u>	<u>\$24,609,118</u>	<u>\$24,959,201</u>	<u>\$25,572,552</u>

Source: Minnesota Historical Society Financial Statements.

Chapter 2. Grant and Capital Project Expenditures

Chapter Conclusions

The Minnesota Historical Society's internal controls provided reasonable assurance that it administered its grant, capital project, and fiscal agent expenditures in compliance with applicable legal provisions, grant agreements, and management's authorization. For the items tested, the Society complied with the significant legal provisions concerning grant and capital project expenditures.

The Minnesota Historical Society granted funds to individuals, organizations, and agencies for historical research, historic preservation, and projects to preserve and interpret Minnesota's history.

Grants

The Society granted funds for projects conducted by organizations and institutions to interpret and preserve Minnesota's history. Recipients were regional, county, and local non-profit organizations whose primary purpose were historical preservation and/or interpretation. The Society awarded approximately \$180,000 annually. The Society limited the maximum award to \$7,500 for any one project per fiscal year. The Society entered into grant agreements with each of the grant recipients, who had to provide a 100 percent match, either as cash or donated services or materials. The grantees maintained program and expenditure records and submitted a final report to the Society at the conclusion of the grant.

The Society also provided research grants to support original research and writing that led to interpretive works on the history of Minnesota.

Capital Project Grants and Expenditures

The Society's capital project grants supported historic preservation projects of a capital nature and were available to public entities as defined by law, including county and local jurisdictions. Non-profit organizations whose primary purpose was historical preservation and/or interpretation may also be eligible to apply. The Society funded three types of historic preservation projects: acquisitions, restorations and/or preservation, and building systems and accessibility.

The Society also had various capital projects to preserve or restore its own historic sites and passed funds through to some specific projects identified by the legislature.

Minnesota Historical Society

The Society funded capital project grants and its other capital project expenditures with proceeds from the sale of state bonds. Table 2-1 summarizes the Society's use of state bond proceeds for capital project grants and expenditures.

Table 2-1
Summary of Capital Project Grants and Expenditures
Four Fiscal Years Ended June 30, 2001

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
County and Local Preservation Grants	\$ 97,411	\$ 374,611	\$ 425,072	\$ 431,734
Specific Capital Project Grants	761,234	2,045,573	2,322,291	3,566,231
Historic Site and Preservation Expenditures	<u>1,380,415</u>	<u>489,910</u>	<u>1,078,162</u>	<u>1,180,803</u>
Totals	<u>\$2,239,060</u>	<u>\$2,910,094</u>	<u>\$3,825,525</u>	<u>\$5,178,768</u>

Source: Minnesota Historical Society Financial Statements.

Fiscal Agent Appropriations

As directed by the legislature, the Society acted as fiscal agents to provide funds to certain entities. The Society had a grant agreement with each entity describing the use and condition of the funding. The entities submitted reimbursement requests and spending plans to the Society to receive funds. The entities maintained program and expenditure records and submitted final reports to the Society at the conclusion of the grants. The Society reviewed these final reports to determine if the entities properly expended the funds and whether they complied with the applicable grant terms. Table 2-2 summarizes the amount disbursed to each entity.

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Table 2-2
Summary of Fiscal Agent Appropriations
Fiscal Years 1998 through 2001

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Farmamerica	\$150,000	\$150,000	\$100,000	\$100,000
Project 120	110,000	110,000	110,000	110,000
Perpich Memorial	100,000	0	0	0
Sibley House Association	81,816	94,065	86,669	89,331
Citizenship Program	75,000	75,000	0	0
Grimm Farmhouse	75,000	0	0	0
Winona County Historical Society	75,000	0	10,000	0
Bemidji Historical Museum	50,000	0	0	0
Humphrey Museum	50,000	0	0	0
Minnesota International Center	50,000	50,000	50,000	50,000
Minnesota Military Museum	29,000	0	29,000	0
Little Falls Fishing Museum	25,000	0	50,000	0
Minn. Air National Guard Museum	19,000	0	19,000	0
City of Maplewood – Bruentrup Farm	0	0	100,000	0
Fridley Historical Museum	0	0	50,000	0
Totals	<u>\$889,816</u>	<u>\$479,065</u>	<u>\$604,669</u>	<u>\$349,331</u>

Source: Minnesota Historical Society Financial Statements.

Audit Objectives and Methodology

The primary objectives of our review of grant expenditures were as follows:

- Did the Society’s internal controls provide reasonable assurance that it administered its grant, capital project, and fiscal agent expenditures in compliance with applicable legal provisions, grant agreements, and management’s authorization?
- For the items tested, did the Society comply with significant finance-related legal provisions concerning grant and capital project expenditures?

To meet these audit objectives, we interviewed the Society’s employees to gain an understanding of the grant and capital project expenditure process. We reviewed a sample of expenditures to determine if the Society properly authorized, processed, and recorded the expenditures. We also reviewed the sample of expenditures to determine if the Society complied with applicable legal provisions.

Conclusions

The Minnesota Historical Society’s internal controls provided reasonable assurance that it administered its grant, capital project, and fiscal agent expenditures in compliance with applicable legal provisions, grant agreements, and management’s authorization. For the items tested, the Society complied with the significant legal provisions concerning grant and capital project expenditures.

Chapter 3. State-Owned Historic Sites

Chapter Conclusions

Generally, the Minnesota Historical Society's internal controls provided reasonable assurance that it adequately safeguarded state-owned historic site admission receipts, accurately recorded receipt transactions in the accounting records, and complied with applicable legal provisions and management's authorization. However, the Society did not timely deposit or record its admission receipts. For the items tested, the Society complied with the significant finance-related legal provisions concerning state-owned historic site admission receipts.

One of the main ways that the Minnesota Historical Society preserves and shares Minnesota history is by the operation of 25 historic sites throughout the state. At these sites, the Society tells the story of Minnesota's past with interactive and engaging exhibits and educational programs. The Society owns most of the historic sites it operates, but the state owns four of them: Split Rock Lighthouse, Historic Fort Snelling, the Charles A. Lindbergh House, and Historic Forrestville. Since these state-owned sites are located in state parks, the Society coordinates operations with the Department of Natural Resources (DNR). The Society either shared some services with DNR or contracted with DNR to provide services such as lawn mowing, snow removal, and trash disposal.

As it does at its other sites, the Society set the admission fees to the state-owned historic sites. As required by statute, the Society deposited receipts collected at the state-owned sites into a state depository and recorded them on the state's accounting system. The state appropriated the receipts back to the Society, which used the admission revenue to support the operations of the sites. Table 3-1 summarizes admission fee receipts at the state-owned historic sites.

Table 3-1
State-Owned Historic Site Receipts
Fiscal Years 1998 – 2001

Site	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Split Rock Lighthouse	\$363,583	\$436,930	\$461,814	\$532,611
Historic Fort Snelling	203,216	241,159	222,306	257,648
Charles A. Lindbergh House	28,884	35,490	34,241	33,345
Historic Forrestville	5,184	9,290	7,404	7,779
Totals	<u>\$600,867</u>	<u>\$722,869</u>	<u>\$725,765</u>	<u>\$831,383</u>

Source: Minnesota Accounting and Procurement System.

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Audit Objectives and Methodology

The primary objectives of our review of state-owned historic site admission receipts were as follows:

- Did the Society's internal controls provide reasonable assurance that it adequately safeguarded its state-owned admission receipts, accurately recorded the receipts in the accounting records, and complied with applicable legal provisions and management's authorization?
- For the items tested, did the Society comply with the significant finance-related legal provisions concerning state-owned historic site admission receipts?

To meet these audit objectives, we interviewed the Society's employees to gain an understanding of the state-owned historic site admission receipts process. We reviewed a sample of deposits to determine if the Society properly authorized, processed, and recorded the transactions and if it complied with applicable legal provisions.

Conclusions

Generally, the Minnesota Historical Society's internal controls provided reasonable assurance that it adequately safeguarded state-owned historic site admission receipts, accurately recorded the receipts in the accounting records, and complied with applicable legal provisions and management's authorization. However, the Society did not timely deposit or record its admission receipts. For the items tested, the Society complied with the significant finance-related legal provisions concerning state-owned historic site admission receipts.

1. The Society did not ensure that state-owned historic sites' admission receipts were deposited or recorded in a timely manner.

The state-owned historic sites deposited 16 of 34 revenue transactions tested between two and five days after receipt. The Society's policy requires that all historic sites make daily deposits. The delay in depositing the receipts increased the risk of loss or theft of funds. In addition, the Society did not enter some receipt transactions in the state's accounting system until up to three weeks after receipt. Although the state swept depository funds into the state's main bank account for investment, the Society could not access the funds until they recorded the deposit on the state's accounting system and processed a payment from the state to the Society.

The Society's processing of deposits involved various steps that added to the delay in entering the transactions into the state's accounting system. Staff at the historic site prepared a cash summary report and forwarded it to the Society's accounting department. The Society's staff reviewed the report and prepared the appropriate accounting transactions. Because the Society did not have direct access to the state's accounting system, they sent the deposit reports to the Department of Finance for entry into the state's accounting system. The Society may want to consider ways to streamline this process so that they can more timely enter the receipts on the accounting system.

Minnesota Historical Society

Recommendations

- *The state-owned historic sites should deposit their admission receipts daily.*
- *The Society should record receipt transactions on the state's accounting system at the time of deposit.*

Status of Prior Audit Issues As of February 2002

Most Recent Office of the Legislative Auditor Audits

Legislative Audit Report 98-48, issued in September 1998, covered the fiscal year ended June 30, 1998. This was not a complete audit of the Society's financial activity, but focussed on the Society's information technology investment. The report contained two findings. The first one pertained to inadequate separation of payroll and personnel functions. The second finding identified two employees that the Society paid from the information technology appropriation who did not perform information technology duties. The Society resolved both findings.

Legislative Audit Report 95-03, issued in January 1995, covered the three fiscal years ending June 30, 1994. This was not a complete audit of the Society's financial activity, but focussed on certain aspects of the Society's operations. The audit included a review of the state appropriations, fiscal agent grants, contracts with state agencies, and the State History Center. The report cited no audit issues.

Other Audit Coverage

The Minnesota Historical Society employed KPMG Peat Marwick LLP, an independent CPA firm, to audit its annual financial statements. The Society received unqualified opinions for its fiscal years 1998, 1999, 2000, and 2001 financial statements. During those four fiscal years, KPMG Peat Marwick LLP also audited the Society's schedule of federal awards. KPMG Peat Marwick LLP did not identify any reportable issues.

State of Minnesota Audit Follow-Up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issued by the Legislative Auditor. The process consists of an exchange of written correspondence that documents the status of audit findings. The follow-up process continues until Finance is satisfied that the issues have been resolved. It covers entities headed by gubernatorial appointees, including most state agencies, boards, commissions, and Minnesota state colleges and universities. It is not applied to audits of the University of Minnesota and quasi-state organizations, such as the Minnesota Historical Society, or the metropolitan agencies, or the State Agricultural Society, the state constitutional officers, or the judicial branch.



MINNESOTA HISTORICAL SOCIETY

April 23, 2002

James R. Nobles
Legislative Auditor
Office of the Legislative Auditor
Room 140 Centennial Building
658 Cedar Street
St. Paul, MN 55155

Dear Mr. Nobles:

Regarding your recent audit report, the Society concurs with the finding of the Office of the Legislative Auditor.

To assure that deposits are made on a timely basis, the Society's Finance Department will work with Historic Sites Administration staff to enforce a policy which requires that deposits of Historic Sites admissions be made on a daily basis if receipts are at least \$400.00 or that deposits be made on no less than a weekly basis even if receipts do not total that amount. The Finance Department will initiate a tracking system to confirm that this policy is being followed.

Under normal business conditions, Historic sites staff will also be required to complete the Daily Admission Report and send it to the Society's Finance Department on the same day that the deposit receipt is received. The Society's Finance Department will complete the State Treasurers Deposit Form no later than two days after receiving the report. Society staff will also work with the Minnesota Department of Finance to explore other options to sending a hard copy deposit form for input into the MAPS system so that receipts can be entered on a more timely basis.

The staff person responsible for implementation of the above will be Deborah Mayne, Finance Manager.

Thank you and your staff for your work at the Society.

Sincerely,

Nina Archabal
Chief Executive Officer
Minnesota Historical Society

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