

**MINNESOTA HISTORICAL SOCIETY
COMPLIANCE AUDIT
FOR THE THREE YEARS ENDED JUNE 30, 1985**

JULY 1986

**Financial Audit Division
Office of the Legislative Auditor
State of Minnesota**

MINNESOTA HISTORICAL SOCIETY

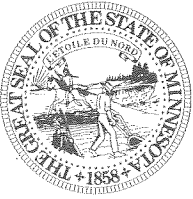
REPORT SUMMARY

July 1986

The Office of the Legislative Auditor has released an audit report on the Minnesota Historical Society (MHS) for the three years ended June 30, 1985. This was a compliance audit to verify compliance with any general or specific statutory provisions concerning the operations of MHS and to verify that financial transactions were made in accordance with applicable state laws, regulations, and policies.

The audit report contains five recommendations. The first recommendation addresses the area of uninvested cash balances and directs MHS to revise its procedures for obtaining state funds so that receipts more accurately reflect the actual cash needed to meet expenses. The remaining four recommendations address the need for MHS to strengthen its accounting and administrative controls over the Historic-Grant-In Aid program. Specifically, to formally approve all grant projects funded, to develop a written policy over the use of emergency grants, to avoid making grant payments to itself and to develop a master log to monitor the status of outstanding grant completion reports.

The Minnesota Historical Society's response to our audit recommendations is included within our report. All of our recommendations are currently in the process of being implemented.



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

VETERANS SERVICE BUILDING, ST. PAUL, MN 55155 • 612/296-4708

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Randolph W. Peterson, Chairman
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Joseph S. Micallef, Executive Council President
Minnesota Historical Society

Members of the Executive Council

Mr. Russell W. Fridley, Director
Minnesota Historical Society

Audit Scope

We have completed a compliance audit of the Minnesota Historical Society for the three years ended June 30, 1985. Section I provides a brief description of the Minnesota Historical Society's activities and finances. Our audit was made in accordance with generally accepted auditing standards and the standards for compliance audits contained in the U.S. General Accounting Office Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, and accordingly, included such audit procedures as we considered necessary in the circumstances. Field work was completed on April 16, 1986.

The objectives of the audit were to verify compliance with any general or specific statutory requirements for the operation of the agency, and to verify that financial transactions were made in accordance with applicable laws, regulations, and policies, including Minn. Stat. Chapter 138, Minnesota Historical Society Grants-In-Aid Manual, and other finance-related laws and regulations.

The management of the Minnesota Historical Society is responsible for the agency's compliance with laws and regulations. In connection with our audit, we selected and tested transactions and records from the programs administered by the Minnesota Historical Society. The purpose of our testing of transactions was to obtain reasonable assurance that the Minnesota Historical Society had, in all material respects, administered its programs in compliance with applicable laws and regulations. A financial audit of the Minnesota Historical Society is performed biennially by a public accounting firm.

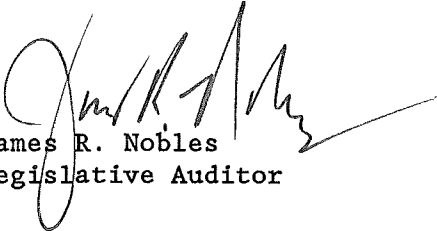
Senator Randolph W. Peterson, Chairman
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Mr. Joseph S. Micallef, Executive Council President
Members of the Executive Council
Mr. Russell W. Fridley, Director
Page 2


Conclusion

In our opinion, for the three years ended June 30, 1985, except for the issues raised in Section II, Recommendations 1 through 5, the Minnesota Historical Society administered its programs in compliance, in all material respects, with applicable finance-related laws, statutes, and regulations.

The recommendations included in this audit report are presented to assist the agency in improving accounting procedures and controls. We will be monitoring and reviewing the Minnesota Historical Society's progress on implementing these recommendations.

We would like to thank the Minnesota Historical Society staff for their cooperation during this audit.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

June 24, 1986

MINNESOTA HISTORICAL SOCIETY

TABLE OF CONTENTS

	<u>Page</u>
I. INTRODUCTION	1
II. CURRENT FINDINGS AND RECOMMENDATIONS	2
AGENCY RESPONSE	6

AUDIT PARTICIPATION

The following members of the Office of the Legislative Auditor participated in this audit:

John Asmussen, CPA	Deputy Legislative Auditor
Tom Donahue	Audit Manager
Brad White	Auditor-in-Charge
Jean Mellett	Staff Auditor

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff of the Minnesota Historical Society on May 21, 1986:

Russell Fridley	Director
John Wood	Deputy Director
Mary Dooley	Fiscal Operations

MINNESOTA HISTORICAL SOCIETY

I. INTRODUCTION

The Minnesota Historical Society is a private, nonprofit corporation created by the Legislative Assembly of the Territory of Minnesota, Laws 1849, Chapter 44.

The Society is governed by the Executive Council, which is composed of members elected for three-year terms. The Executive Council appoints the Director who has the responsibility of directing the Society's professional staff in accordance with its policies. The current director of the Minnesota Historical Society is Russell W. Fridley.

The objectives of the Society include the collection and preservation of publications, manuscripts, antiquities, curiosities, and other things pertaining to the social, political, and natural history of Minnesota; and the cultivation among the citizens of Minnesota of a knowledge of the useful and liberal arts, science, and literature.

Activities of the Society are financed mainly through:

1. State appropriations from the General Fund and Building Fund.
2. State appropriations from the Natural Resources Fund.
3. Federal grants.
4. Private funds consisting of membership dues, subscriptions, profit on publications purchased from resale, income from invested funds, contributions, gifts, bequests, and miscellaneous services.

During fiscal years 1983, 1984, and 1985, the Minnesota Historical Society expended \$9,393,362, \$11,195,526, and \$12,620,444, respectively. The state funded portion of these expenditures accounted for 74 percent in 1983, 74 percent in 1984, and 75 percent in 1985.

Currently, a public accounting firm audits the financial statements of the Minnesota Historical Society on a biennial basis.

MINNESOTA HISTORICAL SOCIETY

II. CURRENT FINDINGS AND RECOMMENDATIONS

The Minnesota Historical Society has maintained large, uninvested cash balances in the state "Fiscal X" accounts.

The Minnesota Historical Society (MHS) receives both operating and building fund appropriations from the state through the Department of Finance. Funds obtained from the state's Building and General Projects Funds are deposited into MHS "Fiscal X" accounts. During fiscal years 1983, 1984, and 1985, MHS returned to the state's General Fund, \$244,356 in interest earned on invested state funds.

Minn. Stat. Chapter 138.01, Subd. 2 requires that "money necessary to meet expenses shall be paid to the society upon certification by the director of the Minnesota Historical Society of the amount to the commissioner of finance." Currently, MHS requests funds monthly based on the estimated cash needed for the month. Cash needs are determined by estimating disbursements to be paid on open encumbrances less the previous month's remaining cash balance.

Audit testing of individual projects in the MHS state "Fiscal X" accounts revealed that 8 out of 12 projects had generated a cash balance on June 30, 1985, with receipts exceeding disbursements by \$324,700. The total cash balance on June 30, 1985 for all "Fiscal X" accounts was \$459,474 with obligations for encumbrances amounting to \$318,893. However, only \$100,000 of the \$459,474 cash balance was invested and earning interest. The remaining amounts are in non-interest bearing checking accounts.

In addition, the Split Rock Lighthouse state appropriation account disbursed \$100,000 to an MHS private funds account to establish the Split Rock Lighthouse Exhibit Fund. The private funds accounts are used to account for donations, memberships, and financing sources other than state appropriations. As of June 30, 1985, this private funds account had disbursed \$7,000, leaving an uninvested cash balance of \$93,000.

State building funds appropriated to MHS are provided through bond sales on which the state pays both principal and interest. If these funds are transferred to MHS and remain uninvested until needed, the state incurs a greater interest expense to the extent of lost interest revenue.

RECOMMENDATION:

1. *MHS should revise procedures for obtaining state appropriation funds so that receipts more accurately reflect the actual cash needed to meet expenses.*

MINNESOTA HISTORICAL SOCIETY

MHS needs to strengthen its accounting and administrative controls over the Historic Grants-In-Aid program.

Laws of Minnesota for 1983, Chapter 293, Section 17 (b) provides appropriation funding for Historic Grant-In-Aid projects. For fiscal years 1983, 1984 and 1985 the yearly appropriations for grants were approximately \$250,000. The appropriation law states that the funds are, "for historic site grants to encourage local historic preservation projects. To be eligible for a grant, a county or local group must provide a 50 percent match in accordance with the historical society's guidelines."

During our review of historic grant-in-aid grants for 1983, 1984, and 1985 we noted the following problems:

- the MHS Executive Committee does not approve grant projects;
- no criteria, written policy or procedures exist for emergency grants;
- MHS inappropriately used historic grant-in-aid funds for non-historic grant projects; and,
- grantees are either not submitting the required grant completion reports or are submitting them late.

MHS has a Grants Review Committee which is responsible for reviewing grant proposals and making specific recommendations to MHS's Executive Committee concerning the approval of the grant projects. According to the MHS Grants-In-Aid Manual, the final project approval or authorization to expend funds rests with the Executive Committee, which consists of the elected officers of the Executive Council. However, the Executive Committee has not given a final approval on any grant project since its September 17, 1982 meeting.

The Grants-In-Aid Manual provides that emergency grants can be authorized if a situation arises that will result in danger to, or damage or loss to either historic buildings or significant historical objects of public benefit. However, MHS has not adequately defined what qualifies as an emergency situation or developed specific emergency grant criteria. Currently, an unwritten policy provides that the MHS director can approve an emergency grant up to \$500 and the MHS president, director, and grants committee chairperson can collectively approve an emergency grant up to \$5,000. We looked at three emergency grants, and the circumstances under which each was made, and believe that emergency type situations did not exist or were not properly documented. They included:

- a \$500 grant approved after the project costs were incurred;
- a \$200 grant approved for a preservation workshop; and

MINNESOTA HISTORICAL SOCIETY

- a \$5,000 grant approved and disbursed without the proper grant application form being prepared and the required match identified.

Since the emergency grant process expedites the disposition of grant funds certain application procedures and grant requirements are foregone. This makes it very important for MHS to identify criteria for assessing and identifying emergency situations, when and if funds should be made available, and how much. MHS should have a written policy, including procedures, to be consistently followed and adhered to. In all emergency situations where grant funds are applied for, MHS should document the process, including application, approval, and the disposition of funds. Without a written policy statement and specific procedures, the emergency grant program is subject to potential abuse or misuses.

MHS has inappropriately applied for and received grant-in-aid funds and used them to pay for administrative type expenditures. The MHS Grants-In-Aid Manual sets forth the guidelines for project eligibility, application and approval, and financial requirements. Several types of allowable grant projects are identified ranging from site restoration to records preservation. Grant funds are not authorized for administrative, operating, or maintenance purposes. We reviewed three grants that did not meet the criteria set forth in the Manual for project eligibility. Two of these grants totaling \$8,406 were used to fund annual Local/County History Conferences. The third grant was approved to fund an inspection tour by the Grants Review Committee to inspect past and potential projects. MHS should not apply for the grant-in-aid funds it oversees. Its role should be that of grantor and not as a grantee in direct competition with county and local groups for grant-in-aid funds. MHS is provided other state appropriations to support its administrative costs.

Audit testing of 124 grant projects funded during fiscal years 1983, 1984, and 1985 revealed that 34 grantees (28 percent) had not filed the required grant completion report. An additional 20 grantees (16 percent) did not file the completion report within the required 90 days after the project was completed. Project files are maintained in the Grants Office with only a periodic manual review for overdue completion reports. The MHS Grants Office should establish a master log to identify the status of project completion reports. Without these completion reports MHS has no assurance or means to determine if the grantee has complied with the 50 percent match requirement for the program. It is MHS's responsibility as grantor to ensure that the grantees are fulfilling their match requirements.

RECOMMENDATIONS:

2. *The MHS Executive Committee and not the Grants Review Committee should formally approve all grant projects to be funded.*

MINNESOTA HISTORICAL SOCIETY

3. *MHS should develop a written policy over the use of emergency grants identifying criteria, procedures to follow, and the required documentation.*
4. *MHS should not grant Historic Grant-In-Aid funds to itself. Grants should be awarded only to eligible local or county groups for allowable grant-in-aid projects.*
5. *The MHS Grants Office should develop a master log to monitor the status of outstanding grant completion reports. This log should serve as a means to determine if enforcement measures are necessary to ensure that grant completion reports are filed timely and that local matching funds have been provided.*



FOUNDED IN 1849

MINNESOTA HISTORICAL SOCIETY

690 Cedar Street, St. Paul, Minnesota 55101 • (612) 296-6126

June 24, 1986

Mr. James R. Nobles, Legislative Auditor
State of Minnesota
Veterans Service Building
Saint Paul, Minnesota 55155

Dear Mr. Nobles:

Re: Compliance audit for three years ended June 30, 1985 - Minnesota Historical Society

On behalf of the Minnesota Historical Society, I wish to thank you and your staff for the compliance audit your office just completed of the operations of the Minnesota Historical Society. The audit will strengthen our operations. We are proceeding to implement its recommendations immediately. A summary of our actions in responding to and implementing the recommendations of your audit is as follows:

RECOMMENDATION #1: MHS should revise procedures for obtaining state appropriation funds so that receipts more accurately reflect the actual cash needed to meet expenses.

Minnesota Historical Society Response:

- A. Person responsible for implementing this recommendation -- Deborah Mayne, Accounting Operations Manager.
- B. Action Taken -- The Society will modify its procedures for obtaining state funds so that receipts more accurately reflect disbursements by drawing down on Fiscal X accounts after the award of contract, exhibit, or project construction has actually occurred. This will reduce the draw-down amount to almost the request for payment amount of the contractor involved in each transaction.
- C. Accomplishment time frame -- September 1, 1986.

RECOMMENDATION #2: The MHS Executive Committee and not the Grants Review Committee should formally approve all grant projects to be funded.

Minnesota Historical Society Response:

A. Person responsible for implementing this recommendation --
Russell W. Fridley, Director.

B. Accomplishment time frame -- September 1, 1986.

RECOMMENDATION #3: MHS should develop a written policy over the use of emergency grants identifying criteria, production to follow, and the required documentation.

Minnesota Historical Society Response:

A. Person responsible for implementing this recommendation --
Henry Harren, Grants Manager.

B. Accomplishment time frame -- December 31, 1986.

RECOMMENDATION #4: MHS should not grant Historic Grant-In-Aid funds to itself. Grants should be awarded only to eligible local or county groups for allowable grant-in-aid projects.

Minnesota Historical Society Response:

A. Person responsible for implementing this recommendation --
John J. Wood, Deputy Director.

B. Action taken -- The Society will discontinue using grant-in-aid funds to conduct workshops for local or county groups on preservation, and for inspection costs of the Grants Committee.

C. Accomplishment time frame -- July 1, 1986.

RECOMMENDATION #5: The MHS Grants Office should develop a master log to monitor the status of outstanding grant completion reports. This log should serve as a means to determine if enforcement measures are necessary to ensure that grant completion reports are filed timely and that local matching funds have been provided.

Minnesota Historical Society Response:

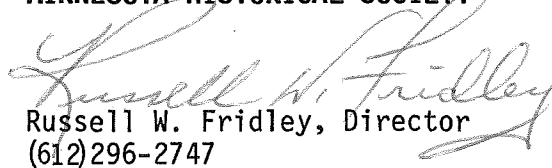
A. Person responsible for implementing this recommendation --
Henry Harren, Grants Manager.

B. Action taken -- Establish a master log to monitor completion report status.

C. Accomplishment time frame -- July 1, 1986.

Sincerely,

MINNESOTA HISTORICAL SOCIETY


Russell W. Fridley, Director
(612) 296-2747

cc: J. Micallef - MHS President
J. Wood - MHS Deputy Director
R. Rehkamp - Grant Thornton, Inc.
M.H.S. Audit Committee
T. Donahue - MN Legislative Auditor's Office
RWF/TKW