

**MINNESOTA HISTORICAL SOCIETY
COMPLIANCE AUDIT
FOR THE THREE YEARS ENDED JUNE 30, 1988**

JANUARY 1990

MINNESOTA HISTORICAL SOCIETY

COMPLIANCE AUDIT FOR THE THREE YEARS ENDED JUNE 30, 1988

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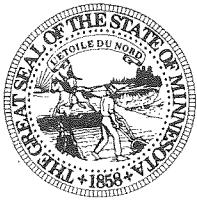
OBJECTIVE:

- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

CONCLUSIONS:

- We cited one instance of noncompliance with finance-related legal provisions.
The society had not returned all unencumbered funds to the state.

Contact the Financial Audit Division for additional information.
(612) 296-1730



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator John E. Brandl, Chairman
Legislative Audit Commission

Members of the Legislative Audit Commission

and

Nina M. Archabal, Director
Minnesota Historical Society

Audit Scope

We have completed a compliance audit of the Minnesota Historical Society for the three years ended June 30, 1988. As part of our audit we reviewed the Society's internal control structure to the extent it affected those compliance areas tested. Section I provides a brief description of the Society's activities and finances. Our audit was made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the U.S. General Accounting Office Government Auditing Standards, and accordingly, included such audit procedures as we considered necessary in the circumstances.

Finance-Related Legal Provisions

The objective of this audit was to verify that financial transactions were made in accordance with significant finance-related laws. Minn. Stat. Chapter 138 establishes the Society's operating guidelines. Minn. Laws 1985, First Special Session, Chapter 10 Section 18, Chapter 13 Section 31, and Chapter 15 Sections 11 and 27 established the operating appropriation for fiscal years 1986 and 1987. Minn. Laws 1987, Chapter 358 Section 21, and Chapter 400 Section 15 established the operating appropriation for fiscal year 1988.

The management of the Society is responsible for the agency's compliance with laws and regulations. Management is also responsible for establishing and maintaining a system of internal accounting controls to ensure compliance with the laws and regulations. In connection with our audit, we selected and tested transactions and records from the programs administered by the Society. The purpose of our testing of transactions was to obtain reasonable assurance that the Society had, in all material respects, administered its programs in compliance with applicable laws and regulations.

Status of Prior Audit Findings

We have reviewed the status of audit findings included in the audit report for fiscal years ended June 30, 1983, 1984, and 1985. The final report was issued June 24, 1986, and the follow-up report was issued May 28, 1987. The findings have all been resolved.

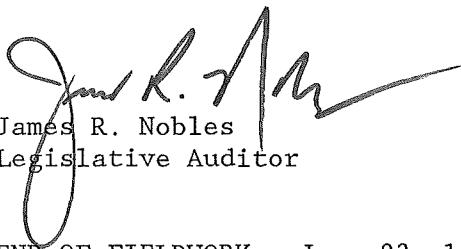
Senator John E. Brandl, Chairman
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Minnesota Historical Society
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Conclusion

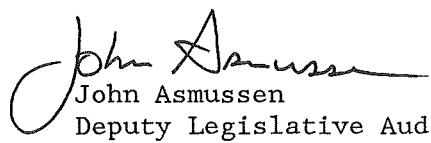
In our opinion, the results of our testing of transactions and records indicate that the Society complied with the aforementioned finance-related legal provisions, except for the issues disclosed in Section II, finding 1. Nothing came to our attention in connection with our audit that caused us to believe that the Society was not in compliance with other applicable legal requirements.

Our review of the Society's internal control structure for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the Society's internal control structure taken as a whole.

We would like to thank the Society's staff for their cooperation during this audit.



James R. Nobles
Legislative Auditor



John Asmussen
Deputy Legislative Auditor

END OF FIELDWORK: June 23, 1989

REPORT SIGNED ON: January 23, 1990

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AUDIT PARTICIPATION

The following staff from the Office of the Legislative Auditor prepared this report:

| | |
|---------------------|----------------------------|
| John Asmussen, CPA | Deputy Legislative Auditor |
| Tom Donahue | Audit Manager |
| Ken Vandermeer, CPA | Auditor-in-Charge |
| Lois Davis | Staff Auditor |
| Mary Senczek | Intern |

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff of the Society on July 25, 1989:

| | |
|------------------|---------------------|
| Nina M. Archabal | Director |
| John J. Wood | Deputy Director |
| Deborah Mayne | Accounting Director |

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 Nina M. Archabal.

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:

- state appropriations from the General Fund and Building Fund;
- state appropriations from the Natural Resources Fund;
- federal grants; and
- 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 1986, 1987, and 1988, the Minnesota Historical Society expended \$13,621,282, \$12,587,770, and \$13,649,363, respectively. The state funded portion of these expenditures accounted for 80 percent in 1986, 78 percent in 1987, and 81 percent in 1988.

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

MINNESOTA HISTORICAL SOCIETY

II. CURRENT FINDINGS AND RECOMMENDATIONS

1. The Society does not properly return unencumbered funds to the state.

The Society has retained part of its general operations appropriation which should have been canceled to the state's General Fund. The appropriation laws and state policy require that monies not spent or specifically obligated in the current year are to be returned to the General Fund. We believe that the Society's practice of retaining funds to finance operating costs in subsequent years is too liberal an interpretation of the encumbrance concept.

The general operations appropriation to the Society in Laws of 1987, Chapter 358, Section 21, Subd. 2 provided that "Any unencumbered balance remaining at the end of the first year must be returned to the state treasury and credited to the General Fund." Minn. Stat. Section 16A.011, Subd. 11 defines an encumbrance as "the commitment of a portion or all of an allotment in order to meet an obligation that is expected to be incurred to pay for goods or services received by the state...." In addition, the Department of Finance operating policy and procedure 06:04:17 states that "unliquidated encumbrance amounts that are not needed to pay real obligations must be canceled before the final closing of the books for the fiscal year." Minn. Stat. Section 16A. 28, Subd. 4 requires state agencies to certify to the Department of Finance that year end encumbrances are for services rendered or goods ordered in the last fiscal year.

The Society does not utilize the state's centralized accounting system. Consequently, it receives its general operations appropriation through monthly requests submitted directly to the Department of Finance. These requests are based on estimated expenditures for the coming month. The Society has an established encumbrance accounting system in place. However, the Department of Finance does not have access to the Society's accounting system as it does with other state agencies. As a result, it is unable to monitor the encumbrance activity of the Society and in the past has relied on the encumbrance information provided by the Society.

In our review of Society encumbrances we noted several instances of noncompliance with the appropriation law and Department of Finance operating policy and procedures for space and equipment rental charges. The Society has encumbered and charged space and equipment rental to its yearly operating appropriation based on the period in which the encumbrance was established. These rentals should be encumbered and charged to the specific yearly appropriation to which the rental period pertains. For example, a \$10,000 building rental contract was charged entirely to fiscal year 1988, even though the contract period was during fiscal year 1989. Two other 12-month contracts for \$6,500 and \$6,700 should have been prorated. Five months of each contract applied to the current fiscal year and seven months applied to the next fiscal year. In these instances, we believe the Society inappropriately encumbered and

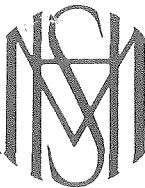
MINNESOTA HISTORICAL SOCIETY

spent \$17,700 that should have been returned to the General Fund. Our testing indicated that the Society had incorrectly encumbered and spent a total of \$19,439 that should have been returned to the General Fund.

The Society's accounting staff evaluate open encumbrances quarterly, but do not obtain the documentation necessary to analyze the program staffs decision to keep an encumbrance open. This lack of documentation has resulted in untimely closeouts. For instance, we found encumbrances for supplies being canceled and returned to the state from one to seven years after the original encumbrance date. Extenuating circumstances did exist in some cases to justify holding an encumbrance open. However, some encumbrances were not closed out in a timely manner when the documentation was finally presented. Examples of untimely closings ranged from two to nine months after a decision was made to cancel the encumbrance. Several other encumbrances could have been canceled earlier if the proper documentation had been presented initially.

RECOMMENDATIONS

- The Society should return a total of \$19,439 to the General Fund for fiscal years 1988 (\$13,894), 1987 (\$2,792), and 1986 (\$2,753).
- The Society should closely monitor year-end encumbrances. The accounting staff should obtain the necessary documentation from the program staff to analyze and support open encumbrances. Only those encumbrances representing current year obligations should be certified as valid encumbrances at fiscal year end.



FOUNDED IN 1849

MINNESOTA HISTORICAL SOCIETY

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

January 23, 1990

Mr. James R. Nobles, Legislative Auditor
Office of the Legislative Auditor
First Floor Veterans Service Building
20 West 12th Street
St. Paul, Minnesota 55155

Dear Mr. Nobles:

RE: Compliance audit for three years ended June 30, 1988 - Minnesota Historical Society.

On behalf of the Minnesota Historical Society, I wish to thank you and your staff for the compliance audit completed of the Society's operations by your office. Because of the Court's construction in our building, your staff was faced with very cramped quarters in conducting the audit. The cooperation in working under such conditions is appreciated.

This letter is our response to the one issue set forth under findings and recommendations in your audit report.

1. Finding: The Minnesota Historical Society does not properly return unencumbered funds to the State.

- A. Person responsible: John J. Wood, Minnesota Historical Society
- B. Minnesota Historical Society's response: The Society agrees with the Legislative Auditor's comments in that there were several instances in which funds should have been encumbered in a different manner. The Society will proceed to reimburse the State for the costs involved. The three items questioned all involved leases for space. The Society felt that, even though such leases would go into the next fiscal year, the full amount of the lease should be encumbered at the time the lease was signed and implemented.

The Society would like to note that it does return significant

Mr. James R. Nobles
January 23, 1990
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amounts of funds each year to the State from cancelled encumbrances. Those figures for Fiscal Years 1989 through 1986 are:

| | |
|-----------|-------------|
| F.Y. 1989 | \$89,225.79 |
| F.Y. 1988 | 47,631.18 |
| F.Y. 1987 | 48,987.13 |
| F.Y. 1986 | 45,418.34 |

The Legislative Auditor referred to one encumbrance which was seven years old. That particular encumbrance related to a Great River Road federal project which was held open because federal funds may have been available through other Great River Road projects that could not be initiated by other agencies. The State match funds involved have now been cancelled and returned to the State. The Minnesota Historical Society has reviewed the encumbrance problem in detail with staff and has initiated rigorous monitoring processes on year end encumbrances.

Sincerely,

MINNESOTA HISTORICAL SOCIETY

Nina M. Archabal

Nina M. Archabal, Director
(612)296-2747

NMA/JJW/tkw/59

cc: Thomas Donahue, Minnesota Legislative Auditor's Office
Minnesota Historical Society Audit Committee
John J. Wood, Minnesota Historical Society
Deborah Mayne, Minnesota Historical Society