

**MINNESOTA HISTORICAL SOCIETY
FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 1991**

MAY 1992

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

MINNESOTA HISTORICAL SOCIETY

FINANCIAL AUDIT FOR THE YEAR ENDED JUNE 30, 1991

Public Release Date: May 13, 1992

No. 92-30

OBJECTIVES:

- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS, INCLUDING CONSIDERING WHETHER FINANCIAL ACTIVITIES WERE CONDUCTED IN A REASONABLE AND PRUDENT MANNER FOR A PUBLIC ENTITY.
- REVIEW INTERNAL CONTROL STRUCTURE POLICIES AND PROCEDURES IN THE FOLLOWING CATEGORIES: payroll/personnel, purchasing, contracting, and construction of the state history center.

CONCLUSIONS:

We found no departures from finance-related legal provisions.

We found one area where the internal control structure needed improvement:

- Duties were not adequately segregated in the payroll area.

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



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Ann Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Nina M. Archabal, Director
Minnesota Historical Society

Audit Scope

We have conducted a financial related audit of certain financial activities of the Minnesota Historical Society as of and for the year ended June 30, 1991. Specifically, we reviewed the Society's payroll, purchasing and contracting, appropriation cutoff, and the construction of the state history center.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial activities attributable to the transactions of the Minnesota Historical Society, are free of material misstatements.

We performed tests of the Minnesota Historical Society's transactions to obtain reasonable assurance that the Society had, in all material respects, administered its programs in compliance with certain provisions of laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions.

Management Responsibilities

The management of the Minnesota Historical Society is responsible for establishing and maintaining an internal control structure. This responsibility includes compliance with applicable laws and regulations. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- assets are safeguarded against loss from unauthorized use or disposition;
- transactions are executed in accordance with applicable legal and regulatory provisions, as well as management's authorization; and

- transactions are recorded properly on the Minnesota Historical Society's accounting system in accordance with applicable policies and procedures.

Due to inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Internal Control Structure

For purposes of our audit and this report, we have classified the significant internal control structure policies and procedures relating to our audit scope as follows:

- payroll/personnel,
- purchasing and contracting,
- appropriation cutoff at the end of the 90-91 biennium,
- construction of the state history center.

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation. To achieve this objective, we reviewed selected financial policies and practices in effect during the audit period. Our review was more limited than would be necessary to express an opinion on the Minnesota Historical Society's system of internal accounting control taken as a whole. We also considered whether the Minnesota Historical Society's financial activities related to these programs were conducted in a reasonable and prudent manner for a public entity.

Reliance on the Work of Other Auditors

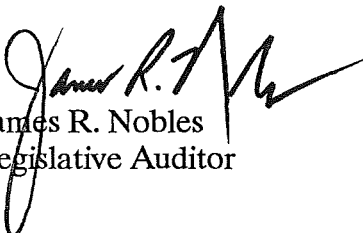
The Minnesota Historical Society contracted with a certified public accounting firm to conduct a financial statement audit of the Society's financial activity for the fiscal year ended June 30, 1991. The firm issued a qualified audit opinion. The qualification resulted from the Society's practice of expensing its purchases of property and equipment rather than capitalizing the purchases and depreciating the cost over the assets' estimated useful lives. Generally accepted accounting principles for a not-for-profit organization, such as the Society, require that the cost of property and equipment be capitalized and depreciated. We reviewed the firm's workpapers and relied on their work, where appropriate, in determining the extent of our testing.

Conclusions


The results of our tests indicate that, with respect to the items tested, the Minnesota Historical Society complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that the Minnesota Historical Society had not complied, in all material respects, with those provisions.

However, we noted other matters, including the item noted in finding 1, involving the internal control structure and its operation that we reported to the management of the Minnesota Historical Society at the exit conference held on March 4, 1992.

This report is intended for the information of the Legislative Audit Commission and management of the Minnesota Historical Society. This restriction is not intended to limit the distribution of this report, which was released as a public document on May 13, 1992.



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: February 28, 1992

Report Signed On: May 6, 1992

Minnesota Historical Society

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Audit Participation

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

John Asmussen, CPA	Deputy Legislative Auditor
Tom Donahue, CPA	Audit Manager
Cecile Ferkul, CPA	Audit Supervisor
Jean Mellet, CPA	Staff Auditor
Karen Klein	Staff Auditor

Exit Conference

The finding and recommendation in this report was discussed with the following staff of the Minnesota Historical Society on March 4, 1992:

Nina Archabal	Director
John Lilja	Assistant Director, Finance and Administration
Deborah Mayne	Finance Manager
Patricia Gaarder	Human Resources Manager

Minnesota Historical Society

Introduction

The Legislative Assembly of the Territory of Minnesota, Laws 1849, Chapter 44, created the Minnesota Historical Society. It is a private, nonprofit corporation. The Society has an Executive Council which oversees its operations. The Executive Council is composed of Society members elected for three-year terms. The Society receives the majority of its operating funds from the Minnesota Legislature. Other support is derived from grants, memberships, admissions and publications sales, bequests, gifts and endowments. According to the audited financial statements of the Minnesota Historical Society, total expenses for the fiscal year ended June 30, 1991 were \$45,250,180. This figure includes \$11,362,297 for salaries and benefits and \$27,086,192 expended for the construction of the state history center. Approximately 89 percent of the Society's expenses were state funded.

Current Finding and Recommendation

1. Duties are not adequately segregated in the payroll area.

There are two clerks in the payroll unit. There is no independent verification of the work performed by either of these clerks. One is responsible for many personnel and payroll duties, such as entering new employees and payrate changes on the payroll system, entering hours worked, verifying the accuracy of entries, and reviewing the payroll checks for accuracy. The other clerk performs duties to record and monitor leave accruals and usage. She posts the leave accruals and usages from the timesheets or time cards and calculates the new balances on a monthly basis. She enters the leave usage into the payroll system and reconciles the system balances to the manual records.

The concentration of incompatible functions in one position increases the possibility that errors or irregularities could occur without detection. Functions designed to detect errors, such as reconciliations or verifications, are incompatible with the recording and processing of transactions. For example, the payroll clerk could change a payrate without authorization. Since no one else is involved in the payroll process, the change could go undetected for a significant period. The risk of errors and irregularities not being detected is especially high when the historic sites are at their peak, since many part-time and seasonal staff are on the payroll.

Recommendation

- *Incompatible duties within the payroll area should be separated.*



FOUNDED IN 1849

MINNESOTA HISTORICAL SOCIETY

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

April 28, 1992

Mr. Thomas Donahue
Audit Manager
Office of the Legislative Auditor
Centennial Building
Saint Paul, MN 55155

Dear Mr. Donahue:

Thank you for sending us a draft of your proposed report on your audit of the Society for the year ended June 30, 1991.

Please include the following response to Finding 1 in your report:

"The Society agrees with the finding and is taking steps to reassign duties as necessary so as to separate incompatible duties within the payroll area."

As always, we appreciate your efforts in monitoring our financial activities.

Sincerely,

Nina Archabal
Director

NA/6/15/jrl