

Minnesota Historical Society

Selected Scope Financial Audit

For the Three Years Ended June 30, 1994

January 1995

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

95-03

SUMMARY

State of Minnesota

Office of the Legislative Auditor

Centennial Office Building • St. Paul, MN 55155

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Minnesota Historical Society

Selected Scope Financial Audit
For The Three Years Ended June 30, 1994

Public Release Date: January 20, 1995

No. 95-03

Agency Background

The Legislative Assembly of the Territory of Minnesota, Laws 1849, Chapter 44, created the Minnesota Historical Society. The Society is an independent, nonprofit corporation. The Society is governed by its officers and Executive Council, composed of 30 members elected for three-year terms. The Executive Council is responsible for establishing major policies and monitoring the quality of the Society's programs and services. The Executive Council appoints a director who serves as the chief administrative officer and has the responsibility of directing the Society's professional staff in accordance with its policies. Ms. Nina Archabal is the current director of the Minnesota Historical Society.

Selected Audit Areas

The Society receives significant support for operations from the State of Minnesota in the form of State appropriations and grants. Other support is derived from the federal government, memberships, grants, admissions, publications sales, bequests, gifts, and endowments. Our area of review included operating appropriations, fiscal agent appropriations, state grants and contracts, and the State History Center construction.

The Society spent its state appropriations within its appropriation authority. The Society returned to the state \$183,711 in unencumbered state appropriations for fiscal years 1992 and 1993. In addition, it has returned \$116,188 in interest earned on state appropriations deposited to its accounts during the audit period. The Society properly distributed fiscal agent appropriations and reviewed fiscal agent reports. The Society properly billed for its contractual services to state agencies.

Contact the Financial Audit Division for additional information.

296-1235



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Phil Riveness, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Ms. Nina Archabal, Director
Minnesota Historical Society

Audit Scope

We have conducted a financial related audit of selected programs of the Minnesota Historical Society for the period July 1, 1991 through June 30, 1994. We emphasize that this has not been a complete audit of all Minnesota Historical Society programs. Our audit was limited to only that portion of the Minnesota Historical Society's financial operations as outlined below and as further discussed in the Introduction.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we consider the internal control structure in order to plan our audit of the selected programs, and that we perform tests of the department's compliance with certain material provisions of laws, regulations, contracts and grants. However, our objective was not to provide an opinion on the internal control structure or on overall compliance with the finance-related legal provision.

For purposes of this report, we have classified the significant internal control structure policies and procedures into the following categories:

- Operating Appropriations
- Fiscal agent appropriations
- State grants and contracts
- State History Center construction

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, regulations, contracts, and grants. 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:

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Members of the Legislative Audit Commission
Ms. Nina Archabal, Director
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- 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.


Because of 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.

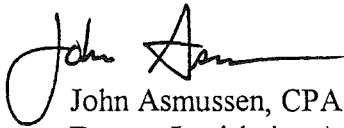
Conclusions

MHS spends its state appropriations within its appropriation authority. MHS returned to the state, \$183,711 in unencumbered state appropriations for fiscal years 1992 and 1993. In addition, MHS has returned \$116,188 in interest earned on state appropriations deposited to its accounts during the audit period. MHS properly distributed fiscal agent appropriations and reviewed fiscal agent reports. MHS properly billed for its contractual services to state agencies.

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 released as a public document on January 20, 1995.

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


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: August 11, 1994

Report Signed On: January 13, 1995

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Audit Participation

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

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Audit Manager
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Minnesota Historical Society

Chapter 1: Introduction

The Legislative Assembly of the Territory of Minnesota, Laws 1849, Chapter 44, created the Minnesota Historical Society. The Society is an independent, nonprofit corporation. The Society is governed by its officers and Executive Council, composed of 30 members elected for three year terms. The Executive Council is responsible for establishing major policies and monitoring the quality of the Society's programs and services. The Executive Council appoints a director who serves as the chief administrative officer and has the responsibility of directing the Society's professional staff in accordance with its policies. Ms. Nina Archabal is the current director of the Minnesota Historical Society.

The Society believes its purpose is to nurture among people a knowledge of and appreciation for the history of Minnesota. The Society achieves this goal by collecting, preserving, and interpreting materials and records of human culture and making them accessible to all Minnesotans. The Society carries out this mission through the Minnesota History Center and 32 historic sites located throughout the state.

The Minnesota Historical Society operates with a great deal of autonomy from state government. Nevertheless, the Society receives significant support for its operations from the State of Minnesota in the form of state appropriations (see Table 1-1). Non-state support and revenue is derived from the federal government, memberships, grants, admissions, publications sales, bequests, gifts, and endowments.

Table 1-1
State Financial Support

	Fiscal Year		
	1992	1993	1994
Operating Appropriations:			
Public Programs and Operations	\$11,343,000	\$11,688,000	\$11,188,000
Statewide Outreach	442,000	442,000	597,000
Repair and Replacement	462,000	462,000	430,000
Physical Plant			5,559,000
Capital Improvement Appropriations:			
State History Center Exhibits		\$ 1,400,000	
Fort Snelling		375,000	
St. Anthony Falls		500,000	
PrairieLand Expo Center		100,000	
Fiscal Agent Appropriations	\$ 288,000	\$ 252,000	\$ 426,000
Minnesota Resources Projects:			
Summer Youth History Program			\$ 100,000
National Register Grants			165,000
Hist. Research (Traverse Des Sioux)			68,000
Emergency Capital Improvements			\$ 150,000
Contracts with State Agencies	\$ 994,904	\$1,088,571	\$ 1,169,806

Source: State appropriation laws and Minnesota Historical Society financial statements.

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The Society utilizes its own accounting and payroll systems rather than the state's systems. The Society maintains its financial accounts at Valley National Bank in LeSueur, Minnesota.

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

Chapter 2: State Financial Support

Chapter Conclusion

MHS spends its state appropriations within its appropriation authority. MHS returned to the state, \$183,711 in unencumbered state appropriations for fiscal years 1992 and 1993. In addition, MHS has returned \$116,188 in interest earned on state appropriations deposited to its accounts during the audit period. MHS properly distributed fiscal agent appropriations and reviewed fiscal agent reports. MHS properly billed for its contractual services to state agencies.

As shown in Table 1-1, the Minnesota Historical Society receives significant support from the state of Minnesota. In the following paragraphs we discuss appropriation control, fiscal agent appropriations, contracts with state agencies, and the State History Center.

State Appropriations

The Minnesota Historical Society (MHS) follows state guidelines in preparing its biennial budget requests. For fiscal years 1992 through 1994, the MHS received approximately \$45.8 million in state appropriations. As shown in Table 1-1, the legislature provided appropriations for specific categories. MHS cannot transfer appropriations between categories. Both state appropriations and private funds are allocated to MHS divisions. Separate accounts are maintained for state appropriations and private funds.

Based on its budget analysis, MHS submits monthly invoices to the state Department of Finance to draw its state operating appropriations. MHS deposits the state warrant received into its private bank accounts. Interest earned on state appropriations is paid back to the state twice a year in January and July. The amounts returned for fiscal years 1992, 1993 and 1994 were \$49,688, \$31,120, and \$35,380, respectively.

MHS has developed purchasing guidelines. Its divisions must encumber funds before requests for purchases can be processed. Purchases are first reviewed and approved by the division managers and routed to the accounting division. The accounting division reviews purchase requests for proper coding and funding source. The purchase is then routed to the contract/ purchasing division for contract or purchase order preparation and bidding if necessary. The divisions are allowed to make smaller purchases on their own within certain established guidelines.

As noted above, MHS maintains both state and private fund budgets. MHS returns to the state unencumbered state appropriations that can not carry forward to the next fiscal year. Amounts returned for fiscal year 1992 and 1993 were \$104,615 and \$79,096, respectively. State law allowed MHS to carry forward unexpended fiscal year 1994 appropriations to fiscal year 1995.

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Fiscal Agent Appropriations

The state legislature appropriates money to MHS on behalf of certain fiscal agents. Fiscal agent appropriations are shown in Table 1-2. MHS acts as a conduit for these appropriations. As a condition to receive the appropriation, the fiscal agent submits a letter requesting funds along with a narrative describing the use of the grant. MHS will set up contracts with the fiscal agents before the appropriations are distributed. The fiscal agents are required to keep records of expenditures and to prepare annual financial statements. MHS staff review these reports and statements to ensure that funds were used for the intended purposes. MHS disburses the grants to the fiscal agents at the beginning of the fiscal year, except for the Sibley House. MHS requires the Sibley House to follow MHS purchasing guidelines in order to receive the funds.

Table 1-2
Fiscal Agent Appropriations

Fiscal Agents	Fiscal Year		
	1992	1993	1994
Sibley House Association	\$ 93,000	\$ 93,000	\$ 88,000
Minnesota International Center	51,000	50,000	50,000
Minnesota Military Museum	30,000	0	29,000
Minnesota Air National Guard	20,000	0	19,000
Institute for Learning and Teaching	0	0	90,000
Moose Lake Fire and Heritage Museum	0	0	25,000
Government Learning Center	69,000	69,000	0
Greater Cloquet-Moose Lake Forest	0	40,000	50,000
Museum of the National Guard	25,000	0	0
Nurse Statue	0	0	50,000
Farm America	0	0	25,000
Total	<u>\$288,000</u>	<u>\$252,000</u>	<u>\$426,000</u>

Contracts with State Agencies

MHS has contractual agreements with the Department of Transportation (DOT), and the Department of Natural Resources (DNR). As shown in Table 1-1, MHS received \$3,253,281 during fiscal years 1992 through 1994 under contracts with these state agencies.

MHS conducts archaeological and historical site reconnaissance and surveys on proposed DOT projects for highway construction. MHS has two main contracts with DOT: the County and Municipal Highway Archeological Reconnaissance Study and the Trunk Highway Archaeological Reconnaissance Study.

MHS conducts archaeological and other cultural resource surveys on proposed DNR projects. It may include conducting a cultural resource assessment on DNR development sites associated with the park development program. The main contracts with DNR are State Park Programs and Water Access Projects. MHS records expenses associated with the above contracts in its general

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ledger. Invoices are prepared based on information recorded in the general ledger. MHS bills for salaries, materials, equipment and supplies needed to conduct the projects.

State History Center

The Minnesota History Center was completed during fiscal year 1993. Funding for the History Center came from state appropriations and private funding sources. Since its inception in 1983, the History Center cost, including expenditures for land, planning, and design, has amounted to \$70,759,842. State appropriations funded \$61,059,842, or 86 percent of the cost. Private funds of \$9,700,000 were used in the construction of the History Center. The History Center, which has been capitalized at \$66,599,798 on the Minnesota Historical Society financial statements as of June 30, 1994.