Minnesota Historical Society
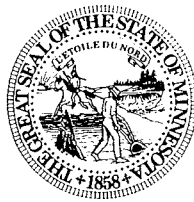
Information Technology Investment
Financial Audit

September 1998

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Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

98-48

Centennial Office Building, Saint Paul, MN 55155 ● 612/296-1727

Senator Deanna Wiener, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Ms. Nina Archabal, Director
Minnesota Historical Society

We have audited selected areas related to the Minnesota Historical Society's information technology investment, as further explained in Chapter 1. We emphasize that this was not a complete audit of the Minnesota Historical Society or of its information technology investment. The following Summary highlights the specific audit objectives and our conclusions. We discuss these issues more fully within this report.

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

We intend this report for the information of the Legislative Audit Commission and the management of the Minnesota Historical Society. We do not limit the distribution of this report, which was released as a public document on September 4, 1998.

James R. Nobles
Legislative Auditor

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: July 23, 1998

Report Signed On: August 31, 1998

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SUMMARY

Minnesota Historical Society

Information Technology Investment
Fiscal Year 1998

Public Release Date: September 4, 1998   No. 98-48

Agency Background

The Legislative Assembly of the Territory of Minnesota, Laws 1849, Chapter 44, created the Minnesota Historical Society (Society). The Society is an independent, nonprofit corporation. The Society's Executive Council and its officers manage the Society's operations. The Executive Council, composed of 30 members elected for three-year terms, 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 has served as the director of the Minnesota Historical Society since 1987. The Society's financial statements are audited annually by an independent CPA firm.

The Society receives significant support for its operations from the State of Minnesota in the form of state appropriations and grants. For the 1998-99 biennium, the State of Minnesota appropriated $46,791,000 for the general operations of the Society. The Legislature designated $4,092,000 of that appropriation for information technology improvements.

Audit Scope and Conclusions

Our audit focused on how the Minnesota Historical Society designed and implemented controls to provide reasonable assurance that it planned and organized its information resources to enhance the mission of the Society, accurately recorded its use of the information technology appropriation in the accounting records in compliance with applicable legal provisions and management's authorizations, and safeguarded the fixed assets purchased from the information technology appropriation.

We found that the Society had controls to provide reasonable assurance that it planned and organized its information resources to enhance the mission of the Society. Except as explained below, we found that the Society accurately recorded the uses of the information technology appropriation in the accounting records in compliance with applicable legal provisions and management's authorizations, and adequately safeguarded the information technology fixed assets. However, we found that the Society did not adequately separate the payroll and personnel functions, and that it paid two employees from the information technology appropriation who did not perform information technology duties.

The Minnesota Historical Society agreed with the findings in the audit report and is taking corrective action.

Minnesota Historical Society

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Audit Participation

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

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Cecile Ferkul, CPA, CISA	Audit Manager
Laura Peterson, CPA	Auditor-in-Charge
Mike Byzewski	Staff Auditor

Exit Conference

We discussed the findings and recommendations with the following Minnesota Historical Society board members and staff at the exit conference on August 24, 1998.

Peter Reis	Board Member, Audit Committee Chair
Donald McIlrath	Board Member, Audit Committee Member
Mary Ann McCoy	Board Member, Audit Committee Member
Lowell Anderson	Board Member, Audit Committee Member
Nina Archabal	Director
Charles Lawrence	Assistant Director of Finance and Administration
Deborah Mayne	Finance Manager
Jeri Niedenfuer	Management Assistant
David Kelliher	Legislative Liaison

Chapter 1. Introduction

The Legislative Assembly of the Territory of Minnesota, Laws 1849, Chapter 44, created the Minnesota Historical Society (Society). The Society's Executive Council, consisting of 30 members elected by the membership to three-year terms, establishes major policies and monitors the quality of the Society's programs and services. The Executive Council appoints a director to manage 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. The Society's financial statements are audited annually by an independent CPA firm.

The Society receives significant support for its operations from the State of Minnesota in the form of state appropriations and grants. For the 1998-99 biennium, the State of Minnesota appropriated $46,791,000 for the general operations of the Society. The Legislature designated $4,092,000 of that appropriation for information technology improvements.

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." One of the ways that the Society plans to foster that awareness is by improving its information technology. The Society believes information technology will help them reach larger audiences, expand services to schools, and provide for a more efficient administration. The Society hired its first information resources manager in June 1995 to develop an information resources department and a local area network for the History Center and to provide remote access for the Society's other locations.

The Society's Information Resource Budget Request identified information technology needs totaling $7.8 million. The Society outlined three goals in its 1998 - 1999 Information Resource Budget Request:

- **Build Core Capacity** - The Society wanted to expand its information technology infrastructure by hiring additional information technology staff and installing up-to-date hardware and software. It also wanted to develop a better system to manage its historic collections information and study the issues surrounding the emergence of electronic public records.

- **Improve Service** - The Society wanted to improve services by coordinating common constituent information databases, making that information accessible across departments. The Society also wanted to automate the federally mandated historic preservation review process and create a unified visitor reservation system for the historic sites and History Center.

- **Improve Program Delivery** - The Society wanted to make the collections and educational program information, library catalogues, and digital images of selected items available on the Internet. It wanted to develop a heritage preservation home page, news groups on preservation topics, and animated tutorials. It also wanted to provide Internet access to digital tours of historic sites, interactive curricula, indexes, bibliographies, and research guides of the Society's publications.

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Initially, the Society sought funding for information technology improvements from within its organization. In fiscal year 1996, the Society's Executive Council allocated $900,000 of its own funds for information technology improvements. The Society designated $94,000 of its fiscal year 1996-97 general operating appropriation for its information technology operations.

Although the Society had hoped to obtain the $7.8 million needed to implement their information technology plan, the Governor's funding recommendation for the 1998-99 biennium was for $4 million. The Legislature ultimately appropriated $4,092,000 for that period to improve the Society's information resources. The Society adjusted its implementation timetable to accommodate this level of funding.

In Chapter 2, we review the Society's use of the appropriation through June 30, 1998, and examine the procedures the Society established to control and monitor its information technology initiative.

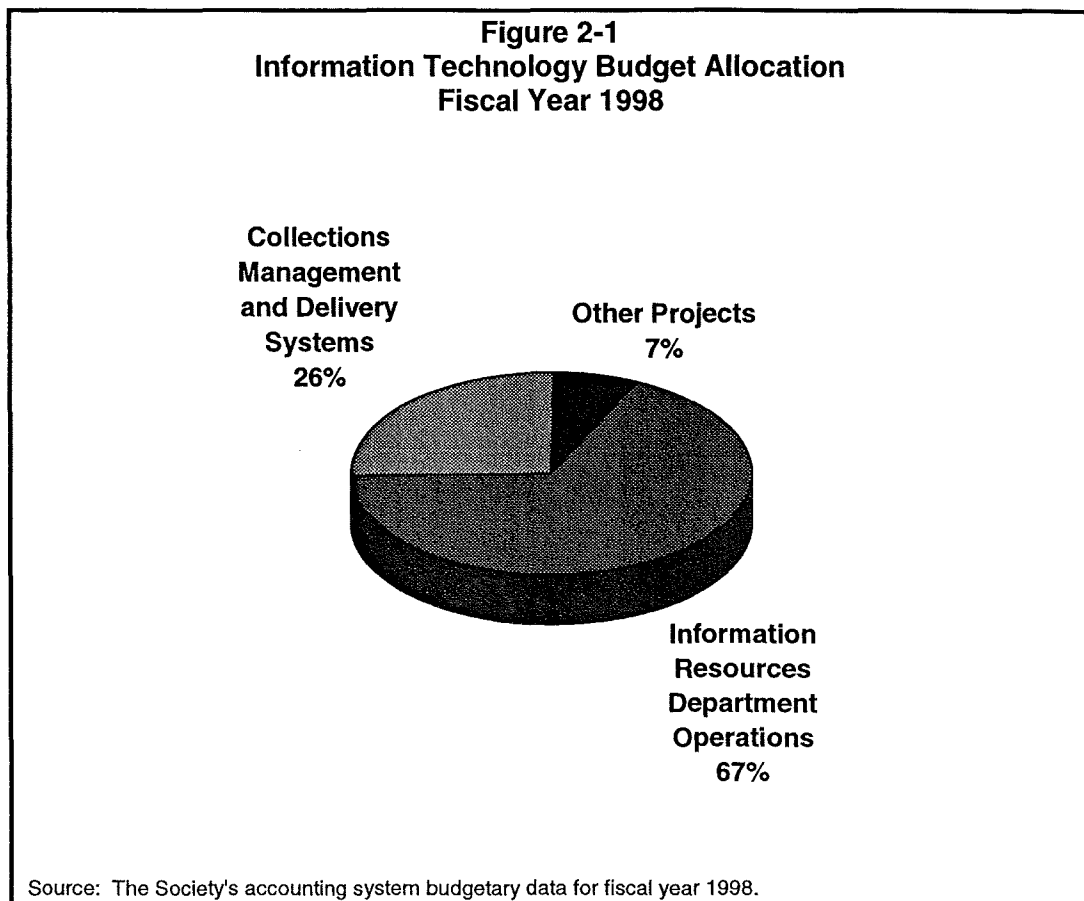# Chapter 2. Information Technology Appropriation

Chapter Conclusions

The Minnesota Historical Society designed and implemented controls to ensure it planned and organized its information resources to enhance the mission of the Society. Except as explained below, the Society accurately recorded its use of the information technology appropriation in the accounting records in compliance with applicable legal provisions and management's authorizations. Also, the Society adequately safeguarded the fixed assets purchased from the information technology appropriation. We found, however, that the Society did not adequately separate the payroll and personnel functions and paid two employees from the information technology appropriation who did not perform information technology duties.

As explained in Chapter 1, the 1997 Minnesota Legislature designated $4,092,000 of the Minnesota Historical Society's state appropriation for information technology improvements during the 1998-99 biennium. The Legislature allocated $1,995,000 to fiscal year 1998 and the remaining $2,097,000 to fiscal year 1999.

In March 1997, the Society established an information technology steering committee to oversee the implementation of the Society's information technology plan. The Information Technology Coordinating Committee, whose members represented top management from various departments and divisions, met twice a month to discuss the needs of the Society and determine how information resources could enhance those needs. The committee discussed proposed projects, budget needs, and updates on all information resource activities. Along with the Information Resources Department, the committee worked to develop a set of information technology policies and procedures. As of June 30, 1998, they were still in the process of completing those policies and procedures.

The Information Technology Coordinating Committee determined that the priorities for fiscal year 1998 were the development and operation of the Society's Information Technology Department and the Collections Management and Delivery systems. Figure 2-1 shows how the committee allocated the fiscal year 1998 information technology appropriation to these areas.

Figure 2-1
Information Technology Budget Allocation
Fiscal Year 1998

Collections
Management
and Delivery
Systems
26%

Other Projects
7%

Information
Resources
Department
Operations
67%

Source: The Society's accounting system budgetary data for fiscal year 1998.

According to the Society's Information Technology policies, the objectives of the Information Technology Department are to:

- employ information technology to provide the greatest possible access to the Society's programs, sites, and collections,
- measure and improve processes for the daily work of the Society's staff and volunteers,
- use information technology to reach out to under served communities,
- provide standards for non-proprietary systems,
- further partnerships with other organizations, and
- find funding to continue the implementation of information technology appropriate to the Society's work.

To accomplish these objectives, the Society hired additional staff for the Information Technology Department and continued to expand its operations.

The goal of the Collections Management System project is to develop a groupware software system to better manage information about the Society's historic collections. The goal of the Collections Delivery System project is to make that information more accessible to the public.

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The Society records its financial activities on its own general ledger accounting system. This system allows the Society to account for the information technology appropriation separately from its other General Fund state appropriations. As of June 30, 1998, the Society had expended or obligated $1,869,554 of its fiscal year 1998 information technology appropriation. Table 2-1 shows how the Society used those funds.

Table 2-1
Information Technology Expenditures
Fiscal Year 1998

Uses:	Expenditures through June 30, 1998	Encumbrances at June 30, 1998	Totals
Payroll	$ 443,094	$ 0	$ 443,094
Supplies & Equipment	627,812	98,133	725,945
Professional & Technical Services	415,303	175,742	591,045
Other Expenditures	88,559	20,911	109,470
Total Expenditures and Encumbrances	$1,574,768	$294,786	$1,869,554
Balance Forward to Fiscal Year 1999			125,446
Total Fiscal Year 1998 Budget			$1,995,000

Source: The Society's accounting system data for budgetary fiscal year 1998 through June 30, 1998.

Audit Objectives and Methodology

We used the Control Objectives for Information and Related Technology (COBIT) to design our audit scope. COBIT is a set of generally accepted control objectives for information technology. As a day-to-day reference, COBIT allows managers and information technology professionals to access control objectives used by organizations around the world. COBIT classifies the control objectives into four domains: planning and organization, acquisition and implementation, delivery and support, and monitoring. We focused our audit on the planning and organization domain. Our review of the Minnesota Historical Society addressed the following questions:

- Did the Society design and implement controls to ensure it planned and organized its information resources to enhance the mission of the Society? (It was not our objective to determine whether the Society's information technology plan would result in a system that meets the needs of the organization, but rather that the overall development and implementation process would support that result.)

- Did the Society accurately record its use of the information technology appropriation in the accounting records in compliance with applicable legal provisions and management's authorizations?

- Did the Society adequately safeguard the fixed assets purchased from the information technology appropriation?

To answer these questions, we interviewed key staff to gain a general understanding of the control structure over the Society's information resources, reviewed minutes of committee

meetings, analyzed accounting system data to determine unusual trends, reviewed source documents, and verified the existence of certain fixed assets.

Conclusions

The Minnesota Historical Society designed and implemented controls to ensure it planned and organized its information resources to enhance the mission of the Society. The Society's 1998-1999 Information Resource Budget Request addressed how the Society's information technology plan supports the mission of the Society. The Information Technology Coordinating Committee members are top managers from various departments and divisions. The committee discussed issues relevant to the Society's mission, information resource needs, and an information resource plan. Except as noted in Finding 1, the Society had a process for controlling the use of its information technology appropriation. We found that the Society did not adequately separate the payroll and personnel functions

Except as explained in Findings 1 and 2, the Society accurately recorded its use of the information technology appropriation in the accounting records in compliance with applicable legal provisions and management's authorizations. The Society also adequately safeguarded the fixed assets purchased from the information technology appropriation. We found that it paid two employees from the information technology appropriation who did not perform information technology duties.

1. The Society did not adequately separate the personnel and payroll functions.

The payroll clerks at the Society performed incompatible personnel and payroll duties. The payroll clerks electronically transmitted new employee appointment information, salary increases, and other personnel information to the Society's outsourced payroll processor. Also they reviewed employee time reports, transmitted the payroll information to the payroll processor, and disbursed employee paychecks. To prevent and detect errors or fraud, the Society should separate incompatible duties.

Recommendation

- *The Society should separate the personnel, payroll, and disbursing functions.*

2. The Society paid two employees from the information technology appropriation who did not perform information technology duties.

The Society paid salary and benefits totaling $10,702 from the information technology appropriation for two library and archives employees. These employees did not perform information technology duties. The Society hired these staff to take over some of the daily responsibilities previously performed by professional staff who were reassigned to work on information technology projects. Since the Society did not pay the professional staff's compensation with information technology funds, they believed the cost of the replacement staff offset the cost of the professional staff's participation in the information technology projects. However, there was no direct relationship between the work the replacement workers performed and the time the professional staff spent on the information technology projects.

Minnesota Historical Society

Laws of 1997, Chapter 200, Article 1, Section 18, Subd. 4 appropriated funds for technology improvements. By not tracking the actual payroll costs associated with the information technology projects, the Society risks using the information technology appropriation for unauthorized purposes.

Recommendation

- *The Society should develop a system of allocating actual payroll costs to the information technology appropriation.*

Status of Prior Audit Issues
As of June 30, 1998

Most Recent Audit

January 20, 1995, Legislative Audit Report 95-03 covered the three fiscal years ended June 30, 1994. That audit scope included a review of operating and fiscal agent appropriations, selected contracts with state agencies, and the State History Center construction expenditures. The Society had no reportable issues.

Other Audit Coverage

The Minnesota Historical Society employed an independent CPA firm to audit its annual financial statements. For fiscal year 1995 through 1997, the Society employed KPMG Peat Marwick LLP. The Society received an unqualified audit opinion on its fiscal years 1995, 1996, and 1997 financial statements. During those three fiscal years, KPMG also audited the Society's schedule of federal awards. The Society had one reportable issue during fiscal year 1995. According to KPMG's fiscal year 1996 report, the Society resolved the issue.

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. Finance continues the follow-up process until it is satisfied that the department has resolved the issues. It covers entities headed by gubernatorial appointees, including most state agencies, boards, commissions, and Minnesota state colleges and universities. Finance does not apply the follow-up process to audits of the University of Minnesota, any quasi-state organizations, such as the Metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.

August 27, 1998

Mr. James R. Noble
Legislative Auditor
1st Floor So.
Centennial Building
658 Cedar Street
St. Paul, MN   55155

Dear Mr. Nobles:

Following is the Minnesota Historical Society's response to the audit findings from the recent legislative audit of the Society conducted by your staff.

1. The Society does not adequately separate the payroll functions.

All personnel transactions are authorized by the Human Resources department and transmitted to payroll clerks in the Finance department for processing in the payroll system. One of the two payroll clerks is also responsible for reconciliation of the payroll and disbursement of employee checks. In order to strengthen internal controls in this function, Society staff will work with the payroll processing company to develop a transaction report identifying all new employee and rate changes initiated during the payroll period. This report will be reconciled with source documentation each pay period by a department employee other than the payroll clerks to ensure that all new entries and adjusting transactions have been properly authorized by Human Resources. Additionally, the payroll clerks will not be authorized to receive and distribute employee paychecks.

Person responsible for implementation: Charles W. Lawrence
                                         Assistant Director for Finance and Administration

Completion Date: October 31, 1998

*2. The Society paid two employees from the information technology appropriation who
   did not perform information technology duties.*

The Society concurs that only expenditures directly related to the information technology project should be charged to the information technology appropriation. Replacement staff hired to perform non-technology operating duties should be budgeted and expended out of

general operating appropriations while time spent by regular staff working on the technology project should be budgeted and expended from the information technology appropriation. Program managers will be informed of and abide by the above guidelines. Finance Department staff will review detailed line item budgets to ensure that only expenditures directly related to information technology are budgeted and expended from the information technology appropriation. Any budget items not directly related will be reviewed and resolved by the Management Committee before expenditures are incurred. The Society believes that this process will ensure that only appropriate expenses are charged to the information technology appropriation.

Person responsible for implementation: Charles W. Lawrence
                                           Assistant Director for Finance and Administration

Completion Date: To be implemented immediately retroactive to 7/1/98.

I would like to thank you and your staff for all the work completed during the recent audit.

Sincerely,

Charles W. Lawrence
Assistant Director for Finance and Administration

cc: Nina M. Archabal, MHS
      Deborah Mayne, MHS