

# Office of the State Auditor

*Division of State Audit*

## Historical Society Bismarck, North Dakota

Audit Report for the  
Two-Year Period Ended June 30, 2008  
Client Code 701

*Robert R. Peterson*  
*State Auditor*



**LEGISLATIVE AUDIT AND FISCAL REVIEW  
COMMITTEE MEMBERS**

***Representative Bob Skarphol – Chairman  
Senator Randel Christmann – Vice Chairman***

Representatives

*Ole Aarsvold  
Larry Bellew  
Merle Boucher  
Kari L. Conrad  
Jeff Delzer  
Bette Grande  
Patrick R. Hatlestad  
RaeAnn G. Kelsch  
Kenton Onstad  
Louis Pinkerton  
Blair Thoreson  
Francis J. Wald*

Senators

*Dwight Cook  
Jerry Klein  
Judy Lee  
Harvey D. Tallackson*

You may obtain reports by contacting the  
Division of State Audit  
at the following address:

Office of the State Auditor  
600 East Boulevard Avenue – Department 117  
Bismarck, ND 58505-0060  
(701) 328-2241

Reports are also available on the internet at:  
[www.nd.gov/auditor/](http://www.nd.gov/auditor/)

# Contents

---

<i>Transmittal Letter</i>	<i>1</i>
<i>Executive Summary</i>	<i>2</i>
<i>Introduction</i>	<i>2</i>
<i>Responses to LAFRC Audit Questions</i>	<i>2</i>
<i>LAFRC Audit Communications</i>	<i>3</i>
<i>Audit Objectives, Scope, and Methodology</i>	<i>5</i>
<i>Management’s Discussion and Analysis</i>	<i>7</i>
<i>Financial Summary</i>	<i>7</i>
<i>Analysis of Significant Changes in Operations</i>	<i>8</i>
<i>Analysis of Significant Variances Between Final Budgeted and Actual Expenditures</i>	<i>8</i>
<i>Major Activities</i>	<i>8</i>
<i>Financial Statements</i>	<i>11</i>
<i>Statement of Revenues and Expenditures</i>	<i>11</i>
<i>Statement of Appropriations</i>	<i>12</i>
<i>Internal Control</i>	<i>16</i>
<i>Inventory Segregation of Duties Weakness</i>	<i>17</i>
<i>Fraud Risk Assessment/Control Activities</i>	<i>18</i>
<i>Compliance With Legislative Intent</i>	<i>19</i>
<i>Operations</i>	<i>21</i>
<i>Prior Recommendations Not Implemented</i>	<i>22</i>
<i>Management Letter (Informal Recommendations)</i>	<i>23</i>

STATE AUDITOR  
ROBERT R. PETERSON



PHONE  
(701) 328 - 2241  
FAX  
(701) 328 - 1406

STATE OF NORTH DAKOTA  
**OFFICE OF THE STATE AUDITOR**  
STATE CAPITOL  
600 E. BOULEVARD AVENUE - DEPT. 117  
BISMARCK, NORTH DAKOTA 58505

## *Transmittal Letter*

---

March 3, 2009

The Honorable John Hoeven, Governor  
Members of the North Dakota Legislative Assembly  
Mr. Merlan Paaverud, Jr., Director, Historical Society

We are pleased to submit this audit of the Historical Society for the two-year period ended June 30, 2008. This audit resulted from the statutory responsibility of the State Auditor to audit or review each state agency once every two years. The same statute gives the State Auditor the responsibility to determine the contents of these audits.

In determining the contents of the audits of state agencies, the primary consideration was to determine how we could best serve the citizens of the state of North Dakota. Naturally we determined financial accountability should play an important part of these audits. Additionally, operational accountability is addressed whenever possible to increase efficiency and effectiveness of state government.

The in-charge auditor for this audit was Allison Bader. Al Stroklund was the staff auditor. Fred Ehrhardt, CPA, was the audit supervisor. Inquiries or comments relating to this audit may be directed to the audit supervisor by calling (701) 328-2241. We wish to express our appreciation to Mr. Paaverud and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

A handwritten signature in cursive script that reads "Bob Peterson".

Robert R. Peterson  
State Auditor

# *Executive Summary*

---

## **INTRODUCTION**

The North Dakota Historical Society is governed by the State Historical Board. The Board consists of seven members who are appointed by the Governor. The Secretary of State, Parks and Recreation Department Director, Department of Transportation Director, Tourism Division Director of the Department of Commerce, and the State Treasurer are ex-officio members of the Board and shall take care that the interests of the state are protected. The Historical Society portrays the history of North Dakota through the collection, preservation, exhibition, and interpretation of significant and representative artifacts, documents, specimens, sites, buildings, and works of art. They operate museums and historic sites for public education and enjoyment. The agency works to create a greater understanding of the history and prehistory of the state, and to enrich appreciation for the human and natural resources of North Dakota as they relate to the state's heritage.

## **RESPONSES TO LAFRC AUDIT QUESTIONS**

---

The Legislative Audit and Fiscal Review Committee (LAFRC) requests that certain items be addressed by auditors performing audits of state agencies.

---

1. *What type of opinion was issued on the financial statements?*

Financial statements were not prepared by the Historical Society in accordance with generally accepted accounting principles so an opinion is not applicable. The agency's transactions were tested and included in the state's basic financial statements on which an unqualified opinion was issued.

2. *Was there compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning?*

Yes.

3. *Was internal control adequate and functioning effectively?*

Other than our finding addressing the "inventory segregation of duties weakness" (page 17) and "fraud risk assessment/control activities" (page 18), we determined internal control was adequate.

4. *Were there any indications of lack of efficiency in financial operations and management of the agency?*

No.

5. *Has action been taken on findings and recommendations included in prior audit reports?*

Other than our prior finding addressing the inventory segregation of duties weakness (page 22), the Historical Society has implemented all recommendations included in the prior audit report.

6. *Was a management letter issued? If so, provide a summary below, including any recommendations and the management responses.*

Yes, a management letter was issued and is included on pages 23-24 of this report, along with management's response.

### **LAFRC AUDIT COMMUNICATIONS**

1. *Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.*

There were no significant changes in accounting policies, no management conflicts of interest were noted, no contingent liabilities were identified or significant unusual transactions.

2. *Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of those estimates.*

The Historical Society's financial statements do not include any significant accounting estimates.

3. *Identify any significant audit adjustments.*

Significant audit adjustments were not necessary.

4. *Identify any disagreements with management, whether or not resolved to the auditor's satisfaction relating to a financial accounting, reporting, or auditing matter that could be significant to the financial statements.*

None.

5. *Identify any serious difficulties encountered in performing the audit.*

None.

6. *Identify any major issues discussed with management prior to retention.*

This is not applicable for audits conducted by the Office of the State Auditor.

7. *Identify any management consultations with other accountants about auditing and accounting matters.*

None.

8. *Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission, or whether any exceptions identified in the six audit report questions to be addressed by the auditors are directly related to the operations of an information technology system.*

ConnectND Finance, Human Resource Management System (HRMS), and Retail Pro (inventory application) are high-risk information technology systems critical to the Historical Society.

# *Audit Objectives, Scope, and Methodology*

---

---

## *Audit Objectives*

---

The objectives of this audit of the Historical Society for the two-year period ended June 30, 2008 were to provide reliable, audited financial statements and to answer the following questions:

1. What are the highest risk areas of the Historical Society's operations and is internal control adequate in these areas?
2. What are the significant and high-risk areas of legislative intent applicable to the Historical Society and are they in compliance with these laws?
3. Are there areas of the Historical Society's operations where we can help to improve efficiency or effectiveness?

---

## *Audit Scope*

---

This audit of the Historical Society is for the two-year period ended June 30, 2008. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Historical Society has operations in the following locations. Each location will be included in the audit scope:

- The headquarters office in the Heritage Center
- Chateau De Mores
- Fort Abercrombie
- Fort Buford
- Fort Clark
- Former Governor's Mansion
- Gingras Trading Post
- Camp Hancock
- Pembina State Museum
- Fort Totten
- Missouri-Yellowstone Confluence

---

## *Audit Methodology*

---

To meet the objectives outlined above, we:

- Prepared financial statements from the legal balances on the state's accounting system tested as part of this audit and the audit of the state's Comprehensive Annual Financial Report and reviewed management's discussion and analysis of the financial statements.

- Performed detailed analytical procedures including computer assisted auditing techniques. These procedures were used to identify high risk transactions and potential problem areas for additional testing.
- Tested internal control and compliance with laws and regulations which included selecting representative samples to determine if controls were operating effectively and to determine if laws were being followed consistently. Nonstatistical sampling was used and the results were projected to the population. Further where applicable, populations were stratified to ensure that particular groups within a population were adequately represented in the sample, and to improve efficiency by gaining greater control on the composition of the sample.
- Interviewed appropriate agency personnel.
- Queried the ConnectND (PeopleSoft) ERP system.
- Observed Historical Society's processes and procedures.

In aggregate there were no significant limitations or uncertainties related to our overall assessment of the sufficiency and appropriateness of audit evidence.

## ***Management's Discussion and Analysis***

---

The accompanying financial statements have been prepared to present the Historical Society's revenues and expenditures on the legal (budget) basis. The accompanying financial statements are not intended to be presented in accordance with generally accepted accounting principles (GAAP).

The following management discussion and analysis was prepared by Historical Society's management. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of this supplementary information to ensure it does not conflict with the knowledge we gained as part of our audit.

For the two-year period ending June 30, 2008, operations of the State Historical Society were primarily supported by appropriations from the state's general fund. Special funds include carryover appropriation for the Heritage Center Archives and Chateau De Mores Interpretative Center expansion projects. Federal funds from the Department of the Interior supplement operations of the Historic Preservation Division and fund grants dedicated to the completion of specific projects of fixed duration. Other revenues during the audited period include concession sales from the museum store operations and donations to the agency gifts and bequest fund.

### ***FINANCIAL SUMMARY***

Revenues consisted primarily of federal funds and other sources. Federal revenue was received for the Abercrombie Interpretive Center project and Historic Preservation grant during fiscal year 2008. Bond proceeds decreased during fiscal year 2008 following completion of the renovation and addition at the Chateau De Mores Interpretive Center and the Heritage Center archives expansion. Other revenues during the audited period include concession sales, admissions, donations, and public service revenue including monies for copies and facility rent. All other revenues remained fairly constant. Total revenues and other sources were \$4,709,856 for the year ended June 30, 2008 as compared to \$5,028,767 for the year ended June 30, 2007.

Total expenditures for the Historical Society were \$9,180,587 for the year ended June 30, 2008 as compared to \$9,902,701 for the prior year. Expenditures consist primarily of land and buildings and salaries and benefits. Land and buildings expenditures decreased \$917,377 during fiscal year 2008 following completion of the Heritage Center archives expansion and Chateau De Mores

Interpretive Center expansion projects. All other expenditures remained fairly constant.

### ***ANALYSIS OF SIGNIFICANT CHANGES IN OPERATIONS***

The Historical Society completed the expanded Heritage Center archives building addition and new interpretive centers located at the Chateau De Mores State Historic Site and the Fort Abercrombie State Historic Site. Pursuant to Senate Bill 2023 of the 59<sup>th</sup> Legislative Assembly, \$7,300,000 in bond proceeds and other available funds were appropriated to the Historical Society for the completion of these projects. The Historical Society commenced the nine biennial debt service payments totaling \$300,000 to the ND Building Authority in fiscal year 2008.

### ***ANALYSIS OF SIGNIFICANT VARIANCES BETWEEN FINAL BUDGETED AND ACTUAL EXPENDITURES***

Construction carryover funds of \$3,005,060 were carried over to the 2007-09 biennium in order to complete the State Archives addition to the North Dakota Heritage Center and new interpretive centers located at the Chateau De Mores State Historic Site and the Fort Abercrombie State Historic Site.

### ***MAJOR ACTIVITIES***

- The Society is using technology to make information about the agency and the state's collections more accessible to the public. Some of the agencies technology related projects include: Developing an ArcIMS Internet Map Service to allow users to view, retrieve, and interact with the spatial and attribute data contained in a cultural dataset; enhance the agencies website by changing the look and providing additional information and access to more of the state's collections on-line, participate in the Digital Horizons project which provides access to the states collections on-line.
- A book detailing North Dakota's history was published in May 2008. North Dakota History: Readings about the Northern Plains State is a collection of articles and images from more than 100 years of publications by the State Historical Society of North Dakota. Printed in full color, the anthology includes more than 340 photographs, maps, and other images to help bring the past into perspective. Developed in partnership with the North Dakota Center for Distance Education, topics range from dinosaurs to automobiles, ranching and farming to politics and cultural challenges, and American Indians, immigrants, and industry to missile silos and future outlooks for the 39<sup>th</sup> state. Its primary goal was to meet a longtime need for a North Dakota history textbook for high school students.

- As requested by Governors office, the Historical Society acted as the lead agency in the state's participation in the Lincoln Bicentennial.
- Completed the construction of the State Archives Expansion to the North Dakota Heritage Center and new interpretive centers located at the Chateau De Mores State Historic Site and the Fort Abercrombie State Historic Site.
- Grand opening of the Chateau State Historic Site Interpretive Center was held April 18, 2008 and Fort Abercrombie State Historic Site Interpretive Center was held May 18, 2008.
- Installation of expandable compact storage shelving on a portion of the third floor of the new archives expansion was completed. This project allows the agency to better utilize the collections storage area.
- Thousands of feet of archival collections which had been stored offsite for ten years were moved into the archives expansion. Archivists are conducting reappraisal of archives and manuscripts and deaccessioning items outside the collection scope.
- The cost estimate and schematic designs for the expansion of the North Dakota Heritage Center Museum for consideration by the 2009-2011 legislative assembly were completed. The expansion of the North Dakota Heritage Center is included as an approved project in the Capitol Grounds Master Plan.
- As part of the 2007-2009 general fund appropriation, the State Historical Society received \$375,000 in support of a Cultural Heritage Grants Program. Thanks to the North Dakota Legislature, the funding for this program was increased by \$50,000 from the 2005-2007 biennium. These grants are awarded to 44 local, county, and tribal historical organizations on a competitive basis to assist with the enhancement of structures and programs at the local level throughout the state. The grant program continues to be a great success.
- The Society continues to make structural improvements at the historic sites and works to improve public access and programming. Historic Site projects include: painting, roofing, porch and floor repairs to buildings located at the Fort Totten State Historic Site; deck repairs and painting of the former Governors Mansion and Carriage House; and completion of the walking trail at the Double Ditch State Historic Site.

- The following exhibits were completed: "Immigrants from the Empires" exhibit at the Pembina State Museum; "North Dakota Remembers World War II" exhibit at the Fort Buford State Historic Site; "Rails, Ranching, and Riches" and "Art of Einar Olstad" exhibits at the Chateau De Mores State Historic Site; "Beyond Boundaries" exhibit at the Fort Abercrombie State Historic Site; and "Mummified Dinosaur", "Corridor of Time", and "The Atomic Age Arrives" exhibits at the North Dakota Heritage Center (completed in partnership with the North Dakota Geological Survey).
- Museum collections loaned 33 objects for a traveling exhibit entitled "Sitting Bull and His World" which will travel to Germany, Finland, and Austria. An additional 1,232 artifacts were loaned to 28 venues in North Dakota.
- Provided SEND (Suitcase Exhibits in North Dakota) to schools, libraries, and public venues which served over 7,000 people.
- Completed the most recent North Dakota History journal which featured the fourth in a series of annual articles featuring interviews with the most recent governors of the state and recognizing their contributions to the state. The series has included former Governors John E. Davis, William L. Guy, Arthur A. Link, and Allen I. Olson. The series grew out of the Six Governors' Forum held at the North Dakota Heritage Center in November 2001 as part of the facility's 20<sup>th</sup> anniversary celebration.
- Major archeological excavations were undertaken at Beacon Island near New Town.

# Financial Statements

## STATEMENT OF REVENUES AND EXPENDITURES

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
<b><u>Revenues and Other Sources:</u></b>		
Federal Revenue	\$ 950,507	\$ 612,002
Sales and Services	349,438	336,226
Admissions	95,426	89,054
Insurance Recoveries	63,900	
Contributions and Private Grants	31,222	38,383
Leases/Rental of Rooms	29,063	16,816
Licenses, Permits, and Fees	27,565	20,994
Other Revenue	35,665	37,085
Bond Proceeds	2,093,522	3,730,492
Transfers In	1,033,548	147,715
<b>Total Revenues and Other Sources</b>	<b>\$ 4,709,856</b>	<b>\$ 5,028,767</b>
<b><u>Expenditures and Other Uses:</u></b>		
Land and Buildings	\$ 3,569,081	\$ 4,486,458
Salaries and Benefits	3,560,976	3,231,603
Fees-Professional Services	415,419	423,744
Supplies	385,885	340,501
Grants, Benefits, and Claims	322,959	453,864
Travel	127,903	98,635
Operating Fees and Services	124,958	134,659
IT-Data Processing and Communications	120,968	105,429
Extraordinary Repairs	105,041	200,396
Utilities	91,506	72,451
Professional Development	63,246	43,978
Equipment Under \$5,000	58,480	83,681
Printing	46,640	34,957
Contractual Services and Repairs	46,294	40,414
Insurance	21,583	24,239
Equipment Over \$5,000	15,108	65,058
Rent/Lease-Buildings, Equipment, Other	13,030	16,752
Other Expenses	20,903	22,359
Building Authority Debt Service	33,333	
Transfers Out	37,274	23,523
<b>Total Expenditures and Other Uses</b>	<b>\$ 9,180,587</b>	<b>\$ 9,902,701</b>

## STATEMENT OF APPROPRIATIONS

For The Fiscal Year Ended June 30, 2008

<b>Expenditures by Line Item:</b>	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Salaries and Wages	\$ 7,166,385	\$ 204,335	\$ 7,370,720	\$3,321,213	\$ 4,049,507
Operating Expenses	2,123,911	5,000	2,128,911	805,003	1,323,908
Capital Assets Capital Construction Carryover	4,871,581		4,871,581	1,040,277	3,831,304
Grants	1,000,000	3,005,060	3,005,060	2,973,501	31,559
Cultural Heritage Grants	375,000	30,000	1,030,000	122,492	907,508
Yellowstone- Missouri-Fort Union Commission					
Snow Angel Project	4,492		4,492	4,492	
	10,000		10,000	7,814	2,186
<b>Totals</b>	<u>\$15,551,369</u>	<u>\$3,244,395</u>	<u>\$18,795,764</u>	<u>\$8,445,306</u>	<u>\$10,350,458</u>
<b>Expenditures by Source:</b>					
General Fund	\$ 10,232,603	\$ 470,906	\$ 10,703,509	\$ 5,054,538	\$ 5,648,971
Other Funds	5,318,766	2,773,489	8,092,255	3,390,768	4,701,487
<b>Totals</b>	<u>\$ 15,551,369</u>	<u>\$3,244,395</u>	<u>\$18,795,764</u>	<u>\$ 8,445,306</u>	<u>\$10,350,458</u>

### Appropriation Adjustments:

The increase in the Salaries and Wages (\$45,000) and Operating (\$5,000) lines includes increased spending authority to accept federal funds from the Bureau of Reclamation for processing archeological collections. The adjustment was properly approved by the Emergency Commission.

The increase in the Salaries and Wages (\$159,335) line includes increased appropriation allocated by the Office of Management and Budget from the statewide salary equity pool appropriated pursuant to Senate Bill 2189 of the 60<sup>th</sup> Legislative Assembly for market equity compensation adjustments for classified state employees.

The increase in the Capital Construction Carryover line (\$3,005,060) was authorized by section 54-44.1-11 of the NDCC that allows for unexpended capital construction budgets to be

carried forward to the next biennium. The adjustment was properly approved by the Carryover Committee.

The increase in the Grants line (\$30,000) is additional spending authority to accept funds from the Historical Impact Emergency Fund for emergency mitigation of historic properties damaged by natural disaster in Northwood, ND in August 2007. The adjustment was properly approved by the Emergency Commission.

**Expenditures Without Appropriations Of Specific Amounts:**

Historical Society Revolving Fund (\$26,117) has a continuing appropriation authorized by NDCC section 55-03-04.

Historical Society Gift and Bequest Fund (\$19,720) has a continuing appropriation authorized by NDCC section 55-01-04.

Historical Society Concession Fund (\$653,501) has a continuing appropriation authorized by NDCC section 55-02-04.

Insurance Recoveries Fund (\$1,409) has a continuing appropriation authorized by NDCC section 54-44.1-09.1.

Historical Impact Emergency Fund received a transfer of unexpended general fund appropriation (\$34,533) authorized by NDCC section 55-02-09.

**For The Biennium Ended June 30, 2007**

<b>Expenditures by Line Item:</b>	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Salaries and Wages	\$ 5,633,286	\$ 120,000	\$ 5,753,286	\$5,573,658	\$ 179,628
Operating Expenses	1,508,706	103,425	1,612,131	1,315,914	296,217
Capital Assets	8,282,319	460,000	8,742,319	5,716,917	3,025,402
Capital Construction Carryover		170,000	170,000	170,000	
Grants	1,300,000	250,000	1,550,000	586,552	963,448
Cultural Heritage Grants	325,000		325,000	314,807	10,193
Yellowstone- Missouri-Fort Union Commission	4,492		4,492	4,492	
Lewis & Clark Bicentennial	932,420		932,420	932,322	98
Medal of Honor Monument	35,000		35,000	35,000	
<b>Totals</b>	<u>\$18,021,223</u>	<u>\$1,103,425</u>	<u>\$19,124,648</u>	<u>\$14,649,662</u>	<u>\$4,474,986</u>
<b>Expenditures by Source:</b>					
General Fund	\$ 8,094,058	\$ 170,000	\$ 8,264,058	\$ 7,900,434	\$ 363,624
Other Funds	9,927,165	933,425	10,860,590	6,749,228	4,111,362
<b>Totals</b>	<u>\$18,021,223</u>	<u>\$1,103,425</u>	<u>\$19,124,648</u>	<u>\$14,649,662</u>	<u>\$4,474,986</u>

**Appropriation Adjustments:**

The increase in the Salaries and Wages (\$30,000) and Operating (\$13,425) lines includes increased spending authority for carryover federal funds granted by the Library of Congress to complete the Veterans' Oral History Project. The adjustment was properly approved by the Emergency Commission.

The increase in the Capital Construction Carryover line (\$170,000) was authorized by section 54-44.1-11 of the NDCC that allows for unexpended capital construction budgets to be carried forward to the next biennium. The adjustment was properly approved by the Carryover Committee.

The increase in the Capital Assets line includes increased spending authority to accept federal funds from the Department of the Interior related to the Save America's Treasurers Grant program with matching funds approved for carryover pursuant to

NDCC 54-44.1-11 for construction of a protective shelter for the French Gratitude Train Box Car located on the capitol grounds (\$80,000). The increase also includes increased spending authority to accept federal funds from a Transportation Enhancement Grant passed through the Department of Transportation related to the expansion and renovation of the Chateau de Mores Historic Visitor Center in Medora (\$180,000). The adjustment was properly approved by the Emergency Commission.

The increase in the Grants line (\$250,000) includes additional federal spending authority to accept federal funds from the Save America's Treasures Grant program for the emergency archaeological excavation of Beacon Island Agate Basin site at Lake Sakakawea. The adjustment was properly approved by the Emergency Commission.

The increases in the Salaries and Wages line (\$90,000) and Operating line (\$90,000) is increased spending authority to accept federal funds from the Bureau of Land Management to prepare a Resource Management Plan for cultural resources, which at the same time will allow for the updating of the North Dakota Comprehensive Plan for Historic Preservation. The adjustment was properly approved by the Emergency Commission.

The increase in the Capital Assets line (\$200,000) is increased spending authority to accept Transportation Enhancement Grant federal funds passed through from the Department of Transportation for the design and fabrication of new exhibits at the Chateau De Mores Interpretive Center. The adjustment was properly approved by the Emergency Commission.

**Expenditures Without Appropriations Of Specific Amounts:**

Historical Society Revolving Fund (\$36,066) has a continuing appropriation authorized by NDCC section 55-03-04.

Historical Society Gift and Bequest Fund (\$97,532) has a continuing appropriation authorized by NDCC section 55-01-04.

Historical Society Concession Fund (\$859,731) has a continuing appropriation authorized by NDCC section 55-02-04.

Insurance Recoveries Fund (\$5,456) has a continuing appropriation authorized by NDCC section 54-44.1-09.1.

## *Internal Control*

---

In our audit for the two-year period ended June 30, 2008, we identified the following areas of the Historical Society's internal control as being the highest risk:

---

### Internal Controls Subjected To Testing

---

- Controls surrounding the processing of revenues.
- Controls surrounding the processing of expenditures.
- Controls effecting the safeguarding of assets.
- Controls relating to compliance with legislative intent.
- Controls surrounding the ConnectND (PeopleSoft) system.
- Controls surrounding the computer-based inventory (Retail Pro) application.

The criteria used to evaluate internal control is published in the publication *Internal Control – Integrated Framework* from the Committee of Sponsoring Organizations (COSO) of the Treadway Commission.

We gained an understanding of internal control surrounding these areas and concluded as to the adequacy of their design. We also tested the operating effectiveness of those controls we considered necessary based on our assessment of audit risk. We concluded that internal control was not adequate noting certain matters involving internal control and its operation that we consider to be significant deficiencies.

Auditors are required to report deficiencies in internal control that are significant within the context of the objectives of the audit. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect (1) misstatements in financial or performance information, (2) violations of laws and regulations, or (3) impairments of effectiveness or efficiency of operations, on a timely basis. Considering both qualitative and quantitative factors, we identified the following significant deficiencies in internal control. We also noted other matters involving internal control that we have reported to management of Historical Society in a management letter dated March 3, 2009.

---

## **INVENTORY SEGREGATION OF DUTIES WEAKNESS**

Finding 08-1

---

The Historical Society operates museum stores at the Heritage Center and seven historic sites. Inventory records are maintained through the Retail Pro application for inventory at the Heritage Center and three of the historical sites, while manual records are maintained for the four remaining sites.

Controls surrounding inventory are not adequate. One individual has control of inventory records, custody of inventory, and prepares miscellaneous adjustments to inventory for all museum stores. The same individual also establishes system user access privileges, collects revenue, and prepares miscellaneous cash register adjustments at the Heritage Center museum store location. Reconciliations of inventory adjustments, returns, and system transfers are performed by an individual with access to input these transactions. In addition, reconciliations of inventory transfers to manual records, online sales, and discounted sales are not performed.

Proper segregation of duties requires inventory records be maintained by an individual with duties independent of system access administration, reconciliation procedures, custody of inventory, revenue collections, and cash register adjustments. Adequate reconciliations to monitor inventory are to be performed by an individual independent of data entry.

---

Audit Recommendation  
and Agency Response

---

### **Recommendations:**

We recommend inventory records be maintained by an individual with duties independent of system access administration, custody of inventory, revenue collections, and cash register adjustments.

We recommend proper reconciliations to monitor inventory be performed by an independent individual.

### **Historical Society Response:**

*The State Historical Society of North Dakota agrees with the finding. The museum store manager has a wide variety of duties because store staffing is limited. Limited staffing makes it difficult to have proper segregation of duties. Based on prior audit recommendations, we did implement additional control procedures utilizing non-museum store staff. We will continue to work with the State Auditor's office to determine and implement the necessary procedures.*

## **FRAUD RISK ASSESSMENT/CONTROL ACTIVITIES**

---

Finding 08-2

---

Historical Society does not have a system in place to identify possible instances of fraud or fraudulent activities in the financial and operational areas of the Historical Society headquarters and historic site offices.

The most important guidance relating to internal control is contained in *Internal Control – Integrated Framework* published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). This guidance dictates that a Fraud Risk Assessment program be established and practiced to identify risks of fraudulent type activities, including when special circumstances arise, when changing operating environments, and for restructuring. In addition, the Historical Society does not have the necessary control activities designed/documented to ensure significant fraud exposures are identified and mitigated. Management must design the necessary internal controls to ensure that each of the significant fraud exposures identified during the risk assessment process are adequately mitigated.

---

Audit Recommendation and Agency Response

---

### **Recommendation:**

We recommend the Historical Society:

- Establish and perform a fraud risk assessment on a recurring basis.
- Design and document the necessary control activities to ensure that each significant fraud exposure identified during the risk assessment process has been adequately mitigated.

### **Historical Society Response:**

*The State Historical Society of North Dakota agrees with the finding and will establish fraud risk assessment procedures in cooperation with the Office of Management and Budget, which is developing and coordinating these procedures for state agencies to identify and mitigate fraud exposure and risk.*

## *Compliance With Legislative Intent*

---

In our audit for the two-year period ended June 30, 2008, we identified and tested Historical Society's compliance with legislative intent for the following areas that we determined to be significant and of higher risk of noncompliance:

- Proper use of the following legally restricted funds:
  - ✓ Gift and Bequest fund (NDCC section 55-01-04).
  - ✓ Concession fund (NDCC section 55-02-04).
  - ✓ Revolving fund which is restricted for purchase and care of collections. (NDCC section 55-03-01.1, 55-03-04, 55-01-02).
- Application of proper statutory rates relating to revenue from excavation permits and report filing fees (NDCC section 55-03-01).
- Proper use of the State Treasurer (State Constitution, article X, section 12).
- Compliance with appropriations and related transfers (2005 North Dakota Session Laws chapter 19 and 2007 North Dakota Session Laws chapter 44).
- Compliance with OMB's Purchasing Procedures Manual.
- Proper use of outside bank accounts and proper authority for investments outside the Bank of North Dakota.
- Adequate blanket bond coverage of employees (NDCC section 26.1-21-08).
- Compliance with fixed asset requirements including record keeping, surplus property, lease and financing arrangements in budget requests, and lease analysis requirements.
- Compliance with payroll related laws including certification of payroll.

The criteria used to evaluate legislative intent are the laws as published in the *North Dakota Century Code* and the *North Dakota Session Laws*.

*Government Auditing Standards* requires auditors to report all instances of fraud and illegal acts unless they are inconsequential within the context of the audit objectives. Further, auditors are required to report significant violations of provisions of contracts or grant agreements, and significant abuse that have occurred or are likely to have occurred.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. Thus, we concluded there was compliance with the legislative intent identified above.

While we did not find any items that were required to be reported in accordance with *Government Auditing Standards*, we noted an inconsequential or insignificant instance of non-compliance that we have reported to management of the Historical Society in a management letter dated March 3, 2009.

## *Operations*

---

This audit did not identify areas of Historical Society's operations where we determined it was practical at this time to help to improve efficiency or effectiveness.

## ***Prior Recommendations Not Implemented***

---

Prior recommendations have been implemented with the exception of the following:

---

Finding 06-1

---

### **Inventory Segregation of Duties Weakness**

Controls surrounding inventory are not adequate. The Historical Society operates museum stores at the Heritage Center and five historic sites. Perpetual inventory records are maintained through the Retail Pro application for inventory at the Heritage Center and three of the historical sites, while manual records are maintained at the three remaining sites. One individual has control of inventory records, custody of inventory, and prepares miscellaneous adjustments to inventory for all museum stores. The same individual also collects revenue and prepares miscellaneous cash register adjustments at the Heritage Center museum store location.

Proper segregation of duties requires perpetual and manual inventory records be maintained by an individual with duties independent of custody of inventory, revenue collections, and cash register adjustments.

### **Recommendation**

We recommend perpetual and manual records be maintained by an individual with duties independent of custody of inventory, revenue collections, and cash register adjustments.

### **Status**

Not implemented. The Historical Society has expanded review and approval of adjustments to inventory; however, lack of proper segregation of duties and inventory application controls limits the integrity of the review and approval process. This finding is readdressed on page 17.

## ***Management Letter (Informal Recommendations)***

---

March 3, 2009

Mr. Merlan E. Paaverud, Jr., Director  
State Historical Society  
612 E. Boulevard Avenue  
Bismarck, North Dakota 58505-0830

Dear Mr. Paaverud:

We have performed an audit of the Historical Society for the two-year period ended June 30, 2008, and have issued a report thereon. As part of our audit, we gained an understanding of the Historical Society's internal control structure to the extent we considered necessary to achieve our audit objectives. We also performed tests of compliance as described in the same report.

Our audit procedures are designed primarily to enable us to report on our objectives including those related to internal control and compliance with laws and regulations and may not bring to light all weaknesses in systems and procedures or noncompliance with laws and regulations which may exist. We aim, however, to use our knowledge of your organization gained during our work to make comments and suggestions which we hope will be useful to you.

In connection with the audit, gaining an understanding of the internal control structure, and tests of compliance with laws and regulations referred to above, we noted certain conditions we did not consider reportable within the context of your audit report. These conditions relate to areas of general business practice or control issues that have no significant bearing on the administration of federal funds. We do, however, want to present our recommendations to you for your consideration and whatever follow-up action you consider appropriate. During the next audit we will determine if these recommendations have been implemented, and if not, we will reconsider their status.

The following present our informal recommendations.

### **LEGISLATIVE INTENT**

#### **Informal Recommendation 08-1:**

We recommend the Historical Society update the Employee Blanket Bond application and submit it to the State Bonding Fund in accordance with NDCC 26.1-21-08.

## PAYROLL

### Informal Recommendation 08-2:

We recommend the Historical Society restrict access to the ConnectND payroll module to ensure payroll is approved by an independent individual.

## GENERAL

### Informal Recommendation 08-3:

We recommend the Historical Society enhance online information provided to the public to include potential donation methods and opportunities including projects and exhibits.

### Informal Recommendation 08-4:

We recommend the Historical Society enhance online information provided to the public to include links to the Department of Tourism and the Department of Parks and Recreation for related events and area attractions throughout the state.

### Informal Recommendation 08-5:

We recommend the Historical Society strengthen controls surrounding historical collections to ensure access to storage areas are properly restricted and monitored. We also recommend the Historical Society properly restrict access to delete records of cataloged collections and ensure proper approval of deleted records.

### Informal Recommendation 08-6:

We recommend the Historical Society properly develop a code of ethics and code of business conduct to include:

- Full, fair, accurate, timely, and understandable disclosure in reports and documents,
- Compliance with applicable governmental laws, rules, and regulations,
- Prompt internal reporting of violations of the code to an appropriate person or persons identified in the Code, and
- Description of what constitutes fraudulent behavior.

We also recommend the Historical Society ensure employees acknowledge receipt of the code of ethics and code of business of conduct on an annual basis.

Management of Historical Society agreed with these recommendations.

I encourage you to call myself or an audit manager at 328-2241 if you have any questions about the implementation of recommendations included in your audit report or this letter.

Sincerely,



Allison Bader  
Auditor in-charge