

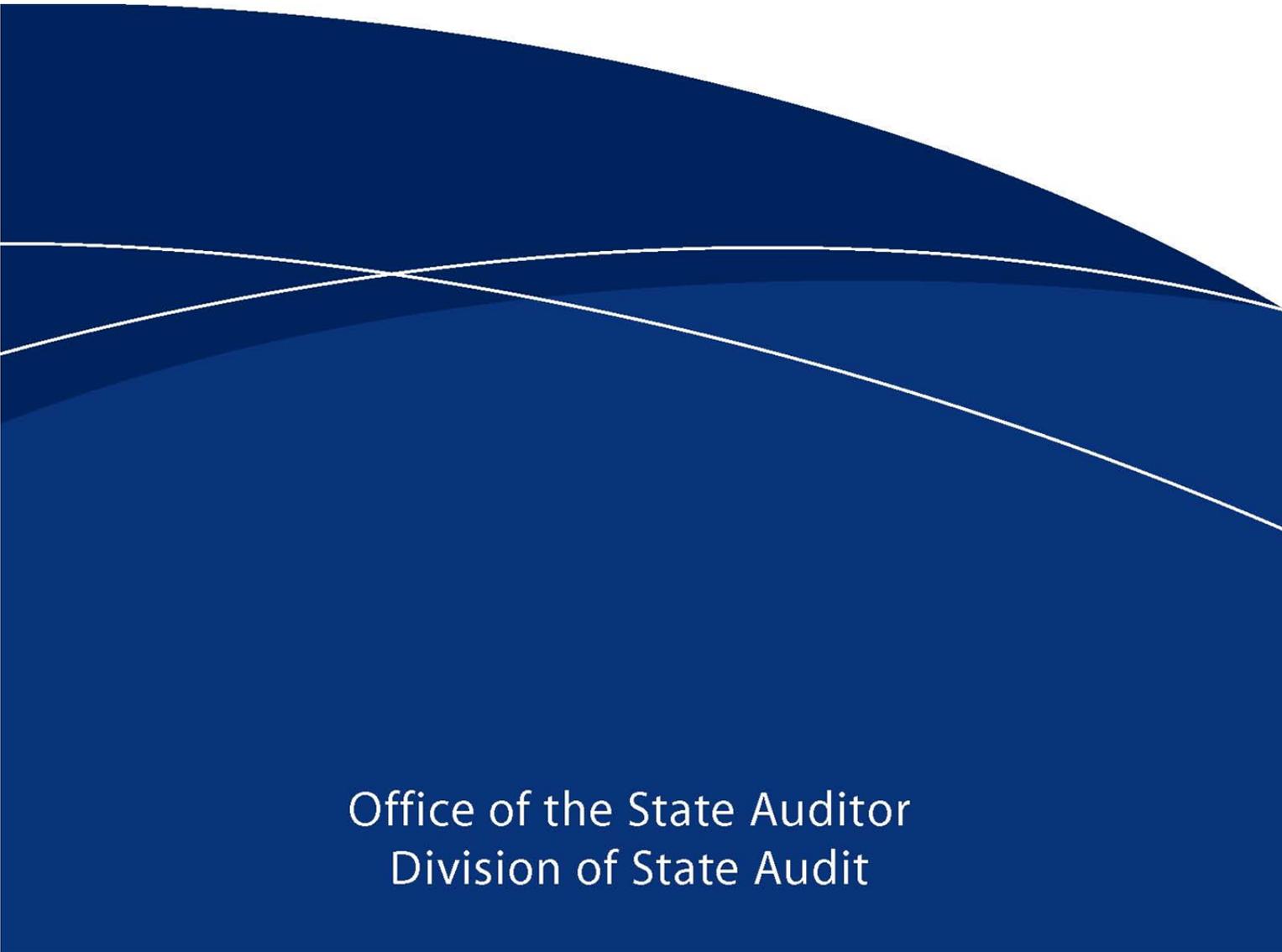
HISTORICAL SOCIETY

BISMARCK, NORTH DAKOTA

Audit Report

For Two-year Period Ended
June 30, 2010

ROBERT R. PETERSON
STATE AUDITOR



Office of the State Auditor
Division of State Audit

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Transmittal Letter

June 24, 2011

The Honorable Jack Dalrymple, 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, 2010. 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. Sarah Kuntz and Kristi Morlock were the staff auditors. Fred Ehrhardt, CPA, was the audit supervisor and Paul Welk, CPA, was the audit manager. Inquiries or comments relating to this audit may be directed to the audit supervisor or audit manager 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 appointed by the Governor and five statutory members. 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 statutory 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 edification 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.

The Legislative Audit and Fiscal Review Committee (LAFRC) requests that certain items be addressed by auditors performing audits of state agencies. Those items and the Office of the State Auditor's response are noted below.

Responses to LAFRC Audit Questions

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 findings addressing the "inventory segregation of duties weakness" (page 14) and "museum collections safeguards weakness" (page 16), 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 14), 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 20-21 of this report, along with management's response.

LAFRC Audit Communications

7. *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.

8. *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.

9. *Identify any significant audit adjustments.*

Significant audit adjustments were not necessary.

10. *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.

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

None.

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

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

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

None.

14. 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, 2010 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, 2010. 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 was 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
- Ronald Reagan Minuteman Missile Site

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 developed 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. Non-statistical sampling was used and the results were projected to the population. 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) system. Significant evidence was obtained from ConnectND.
- 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.

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).

For the two-year period June 30, 2010, operations of the Historical Society were primarily supported by appropriations from the state's general fund. Special funds were appropriated for the Heritage Center Museum Expansion. Federal funds from the Department of the Interior supplement operations of the Historic Preservation Division. Additional federal funds are dedicated to the completion of specific projects of fixed duration.

Financial Summary

The Historical Society had approximately \$18 million in capital assets as of June 30, 2010. These capital assets consist of buildings, equipment, and land, throughout the state of North Dakota.

Revenues and other sources consist primarily of federal funds, admission and concession sales, and transfers in. A significant portion of federal revenue was for the Historic Preservation program. Admission and concession sales increased due to the opening of the Ronald Reagan Minuteman Missile Site. The majority of transfers in during fiscal year 2009 are related to a transfer from the Land and Minerals Trust Fund pursuant to section 7 of Senate Bill 2018 of the 2009 Legislative Session to acquire the Oscar-Zero Missile Alert Facility located north of Cooperstown. Other revenues during the audited period include donations, permits and fees, and monies for copies and facility rent. All other revenues remained fairly constant. Total revenues and other sources were \$1,789,976 for the year ended June 30, 2010 as compared to \$1,682,275 for the year ended June 30, 2009.

Total expenditures for the Historical Society were \$9,681,012 for the year ended June 30, 2010 as compared to \$6,958,239 for the prior year. Expenditures consist primarily of salaries and benefits and land and buildings. Salaries and benefits increased by \$615,815 due to additional appropriation from the statewide salary equity pool and additional temporary salaries funds received for the operation of the recently opened Ronald Reagan Minuteman Missile Site and Fort Abercrombie Interpretive Center. Land and buildings increased by \$1,785,412 due to the commencement of the Heritage Center Museum Expansion project. Land and building improvements decreased by \$257,492 due to preparation of the Ronald Reagan Minuteman Missile Site and land improvements to Double Ditch Trail during fiscal year 2009. Other capital payments increased by \$322,776 due to installing compact shelving during the Archives Expansion, preparing the Ronald Reagan Minuteman Missile site, and restoring the Camp Hancock train. All other expenditures remained fairly constant.

Analysis of Significant Changes in Operations

The Historical Society has begun work on the Heritage Center Museum Expansion project. Pursuant to House Bill 1481 of the 61st Legislative Assembly, \$51.7 million was appropriated to the Historical Society for the completion of this project. The Historical Society also opened the Ronald Reagan Minuteman Missile Site which collects admission and concession sales.

Analysis of Significant Variances - Budgeted and Actual Expenditures

The Historical Society had appropriations over actual expenditures for the biennium ended June 30, 2009 of \$2,644,108 in the Capital Assets line. Approximately \$647,000 of this amount was carried over to the 2009-2011 biennium in accordance with NDCC 54-44.1-11. Appropriations of \$1.5 million from the Historical Society Foundation for the planning of the Heritage Center Expansion were not used. Federal grant funds of \$250,000 were not received from the Department of Transportation for building repairs at the Fort Totten Historic Site. Additional unexpended appropriation of \$200,000 related to anticipated donations were not received for repairs to buildings at the Ronald Reagan Minuteman Missile Site. The repairs were subsequently completed through additional increased appropriation.

The Historical Society had appropriations over actual expenditures for the biennium ended June 30, 2009 of \$621,692 in the Grants line due to a decrease in archeology and historic preservation grants requests received.

Financial Statements

Statement of Revenues and Expenditures

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
<u>Revenues and Other Sources:</u>		
Federal Revenue	\$ 941,324	\$ 694,846
Admission and Concession Sales	530,648	496,453
Intergovernmental Reimbursements	91,380	2,364
Copier Revenue	45,367	33,685
Insurance Recoveries	44,990	
Donations	41,898	43,158
Leases, Rents, and Royalties	41,305	96,702
Permits and Fees	40,507	27,661
Other Revenue	12,557	5,801
Transfers In		281,605
Total Revenues and Other Sources	<u>\$1,789,976</u>	<u>\$1,682,275</u>
<u>Expenditures and Other Uses:</u>		
Salaries and Benefits	\$4,387,115	\$3,771,300
Land and Buildings	1,949,616	164,204
Grants	489,949	459,857
Land and Building Improvements	405,081	662,573
Supplies	479,438	452,505
Other Capital Payments	325,446	2,671
Equipment over \$5,000	236,118	75,410
Fees – Professional Services	165,618	260,670
IT – Data Processing and Communications	147,495	147,926
Travel	137,162	121,729
Operating Fees and Services	132,320	147,882
Utilities	100,722	109,160
Equipment under \$5,000	85,023	145,885
Professional Development	71,297	54,414
Repairs	56,085	95,761
Insurance	43,486	33,529
Printing	28,702	32,086
IT Contractual Services and Repairs	21,679	25,614
Rentals/Leases – Buildings, Equipment, Other	10,402	9,194
Motor Vehicles		53,428
Transfers Out	408,258	132,441
Total Expenditures and Other Uses	<u>\$9,681,012</u>	<u>\$6,958,239</u>

Statement of Appropriations

For The Fiscal Year Ended June 30, 2010

Expenditures by Line Item:	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Salaries and Wages	\$ 8,368,675	\$ 328,000	\$ 8,696,675	\$ 4,067,168	\$ 4,629,507
Operating Expenses	2,359,210	9,150	2,368,360	945,850	1,422,510
Capital Assets Construction	3,896,212		3,896,212	902,400	2,993,812
Carryover		646,571	646,571	508,437	138,133
Heritage Center Grants	51,700,000		51,700,000	1,903,504	49,796,496
Grants	1,000,000	28,500	1,028,500	237,564	790,936
Cultural Heritage Grants	504,500		504,500	244,407	260,093
Yellowstone – Missouri – Ft. Union	4,492		4,492	4,492	
Federal Stimulus Funds - 2009	685,000		685,000	167,518	517,482
Totals	<u>\$ 68,518,089</u>	<u>\$ 1,012,221</u>	<u>\$ 69,530,310</u>	<u>\$ 8,981,340</u>	<u>\$ 60,548,969</u>
Expenditures by Source:					
General Fund	\$ 52,174,252	\$ 809,543	\$ 52,983,795	\$ 7,997,729	\$ 44,986,065
Other Funds	16,343,837	202,678	16,546,515	983,611	15,562,904
Totals	<u>\$ 68,518,089</u>	<u>\$ 1,012,221</u>	<u>\$ 69,530,310</u>	<u>\$ 8,981,340</u>	<u>\$ 60,548,969</u>

Appropriation Adjustments:

The increase of \$328,000 in the Salaries and Wages line item is due to an appropriation allocated by the Office of Management and Budget from the statewide salary equity pool appropriated pursuant to House Bill 1015 of the 61st Legislative Assembly for salary and market equity compensation adjustments.

The increase in the Operating Expenses line of \$9,150 was for money received from the Human Resources Management Services (HRMS) division of the Office of Management and Budget to provide internships for various historical programs through the state student internship program. HRMS received this funding through House Bill 1015 section 10 of the 61st Legislative Assembly.

The increase in the Construction Carryover line of \$646,571 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 increase in the Grants line of \$28,500 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 has a continuing appropriation authorized by NDCC sections 55-03-04 and 55-01-02 (\$15,975 of expenditures for this fiscal year).

Historical Society Gifts and Bequests Fund has a continuing appropriation authorized by NDCC section 55-01-04 (\$42,133 of expenditures for this fiscal year).

Historical Society Concessions Fund has a continuing appropriation authorized by NDCC section 55-02-04 (\$641,564 of expenditures for this fiscal year).

Historical Impact Emergency Fund received a transfer of unexpended general fund appropriation (\$32,265) authorized by NDCC section 55-02-09.

Statement of Appropriations

For The Biennium Ended June 30, 2009

Expenditures by Line Item:	<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	\$ 6,877,593	\$ 493,127
Operating Expenses	2,123,911	5,000	2,128,911	1,974,276	154,635
Capital Assets Construction	4,871,581		4,871,581	2,227,473	2,644,108
Carryover		3,005,060	3,005,060	3,002,595	2,465
Grants	1,000,000	30,000	1,030,000	408,308	621,692
Cultural Heritage Grants	375,000		375,000	345,443	29,557
Yellowstone – Missouri – Ft. Union	4,492		4,492	4,492	
Snow Angel Project	10,000		10,000	7,814	2,186
Totals	<u>\$ 15,551,369</u>	<u>\$ 3,244,395</u>	<u>\$ 18,795,764</u>	<u>\$ 14,847,994</u>	<u>\$ 3,947,770</u>
Expenditures by Source:					
General Fund	\$ 10,232,603	\$ 470,906	\$ 10,703,509	\$ 10,170,851	\$ 532,658
Other Funds	5,318,766	2,773,489	8,092,255	4,677,143	3,415,112
Totals	<u>\$ 15,551,369</u>	<u>\$ 3,244,395</u>	<u>\$ 18,795,764</u>	<u>\$ 14,847,994</u>	<u>\$ 3,947,770</u>

Appropriation Adjustments:

The increase in the Salaries and Wages (\$45,000) and Operating (\$5,000) lines include 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 60th Legislative Assembly for market equity compensation adjustment for classified state employees.

The increase in the 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 has a continuing appropriation authorized by NDCC section 55-03-04 (\$39,800 of expenditures for this biennium).

Historical Society Gifts and Bequests Fund has a continuing appropriation authorized by NDCC section 55-01-04 (\$54,733 of expenditures for this biennium).

Historical Society Concession Fund has a continuing appropriation authorized by NDCC section 55-02-04 (\$1,160,358 of expenditures for this biennium).

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

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

Internal Control

In our audit for the two-year period ended June 30, 2010, 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 a significant deficiency.

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 June 24, 2011

Inventory Segregation of Duties Weakness (Finding 10-1)

Condition:

The Historical Society operates museum stores at the Heritage Center and eight historic sites. Inventory records are maintained through the Retail Pro application for inventory at the Heritage Center and four 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.

Criteria:

Committee of Sponsoring Organizations (COSO) of the Treadway Commission publication Internal Control – Integrated Framework: 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.

Cause:

Client did not implement prior recommendation.

Effect or Potential Effect:

Possible theft or misappropriation of inventory.

Recommendation:

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.

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. We have implemented additional control procedures but limited staffing makes it difficult to have proper segregation of duties. We will continue to work with the State Auditor's Office and hope we can fully address this finding once the North Dakota Heritage Center expansion is completed as additional staff resources should be available.

Museum Collections Safeguards Weakness (Finding 10-2)

Condition:

The Historical Society collects, records, and preserves items of scientific, artistic, and historical importance. A documented plan has not been developed to ensure proper safeguards over historical collections, identify uniform cataloging methods and criteria, and eliminate duplicate cataloging procedures and systems. Specifically, we noted the following conditions:

- Individuals with access to physical storage areas have the ability to delete collection records without authorization.
- Annual physical existence monitoring procedures and investigations of missing items are not performed.
- Cataloging procedures include duplicate systems for tracking collections in databases, the Past Perfect System, and manual card files.
- Policies and procedures identifying criteria for consistently cataloging groups of collections have not been documented.

Criteria:

Committee of Sponsoring Organizations (COSO) of the Treadway Commission publication Internal Control – Integrated Framework: Risk Assessment, Control Activities, and Monitoring sections. This guidance identifies internal control procedures necessary to safeguard assets by performing risk analysis and developing an approach for risk management; internal control procedures over information processing and segregation of duties; and ongoing monitoring procedures to perform physical existence tests and examine discrepancies.

Cause:

The Historical Society has not fully examined safeguards of museum collections and cataloging procedures of all historical collection types.

Effect or Potential Effect:

Possible theft of historical collections.

Recommendation:

We recommend the Historical Society develop a documented plan for museum collections of scientific, artistic or historical importance to improve safeguarding procedures, identify uniform cataloging methods and criteria, and eliminate duplicate cataloging procedures and systems.

Historical Society Response:

The State Historical Society of North Dakota agrees with the finding. We will review current collection policies and procedures to see where changes or enhancements can be made to strengthen controls.

Compliance With Legislative Intent

In our audit for the two-year period ended June 30, 2010, we identified and tested Historical Society's compliance with legislative intent for the following areas we determined to be significant and of higher risk of noncompliance:

- Proper use of the following legally restricted funds:
 - Historical Impact Emergency fund (NDCC section 55-02-09).
 - State Historical Revolving fund (NDCC section 55-03-04).
 - Historical Society Gift and Bequest fund (NDCC section 55-01-04).
 - Concession fund (NDCC section 55-02-04).
- Proper use of the State Treasurer (State Constitution, article X, section 12).
- Compliance with appropriations and related transfers (2007 North Dakota Session Laws chapter 44, 2009 North Dakota Session Laws chapter 28, and 2009 North Dakota Session Laws chapter 18).
- Compliance with OMB's Purchasing Procedures Manual.
- Proper use of outside bank accounts, petty cash funds, 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 statutory salaries for applicable elected and appointed positions, and 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 require 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 has occurred or is 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 certain inconsequential or insignificant instances of non-compliance that we have reported to management of the Historical Society in a management letter dated June 24, 2011.

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:

Inventory Segregation of Duties Weakness (Finding 08-1)

Recommendation:

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.

Status:

Not implemented. This finding is readdressed on page 14.

Management Letter (Informal Recommendations)

June 24, 2011

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

Dear Mr. Paaverud:

We have performed an audit of the Historical Society for the two-year period ended June 30, 2010, 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.

FIXED ASSETS

Informal Recommendation 10-1: We recommend the Historical Society properly update ConnectND access to the asset management module to ensure that access is restricted to current employees that require access to perform their job duties.

INVENTORY

Informal Recommendation 10-2: We recommend the Historical Society ensure that resale inventory prices are accurate between the web-based sale systems and the perpetual inventory system. We also recommend the Historical Society ensure that shipping and handling charges are recovered for re-sale items shipped to customers.

Informal Recommendation 10-3: We recommend the Historical Society retain proper support for inventory returns.

EXPENDITURES

Informal Recommendation 10-4: We recommend the Historical Society develop procedures to ensure that all purchase card transactions are supported with invoices.

Informal Recommendation 10-5: We recommend the Historical Society properly reconcile individual purchase card statements to the receipts and the Transaction Detail report from ConnectND.

Informal Recommendation 10-6: We recommend the Historical Society develop procedures to approve all ConnectND entries performed by other agencies for the Historical Society.

Informal Recommendation 10-7: We recommend the Historical Society obtain approval for clearing accounts in accordance with NDCC 54-06-08.1.

Informal Recommendation 10-8: We recommend the Historical Society use the purchase card as a form of payment to all vendors accepting purchase cards.

Informal Recommendation 10-9: We recommend the Historical Society document basis of selection for procurement of public improvement projects including informal vendor price comparisons.

PAYROLL

Informal Recommendation 10-10: We recommend the Historical Society generate and approve the PAF query on a regular basis.

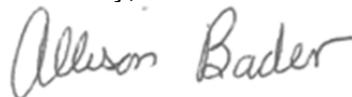
REVENUE

Informal Recommendation 10-11: We recommend the Historical Society strengthen controls surrounding sales of admission at the historic sites.

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

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