

# State Historical Society

BISMARCK, NORTH DAKOTA

## **Audit Report**

For the Two-year Period Ended  
June 30, 2014

ROBERT R. PETERSON  
STATE AUDITOR



Office of the State Auditor  
Division of State Audit

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## *Transmittal Letter*

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May 20, 2015

The Honorable Jack Dalrymple, Governor  
Members of the North Dakota Legislative Assembly  
Ms. Claudia Berg, Director

We are pleased to submit this audit of the State Historical Society for the two-year period ended June 30, 2014. 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 Andrea Wike. Allison Bader and Alec Grande, CPA, were the staff auditors. Cindi Pedersen, CPA, was the audit manager. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 328-2241. We wish to express our appreciation to Director Berg and her 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*

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## *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 identifies, preserves, interprets, and promotes the heritage of North Dakota and its people. The Archaeology and Historic Preservation Division protects and manages cultural resources. The Museum Division collects and manages artifact collections representative of North Dakota history and culture. The Communications and Education Division produces public and educational programs and events. The State Archives Division collects, manages, and references documentary resources relating to state history and culture. Historic sites are preserved and managed by the agency.

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 responses 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 State 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 unmodified 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 14) and "Inventory Loss Prevention Control Weakness" (page 15), 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?*

Except "Inventory Segregation of Duties Weakness" as shown on page 20, the State 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 page 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 State 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 State Historical Society.

# ***Audit Objectives, Scope, and Methodology***

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## ***Audit Objectives***

The objectives of this audit of the State Historical Society for the two-year period ended June 30, 2014 were to provide reliable, audited financial statements and to answer the following questions:

1. What are the highest risk areas of the State 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 State Historical Society and are they in compliance with these laws?
3. Are there areas of the State Historical Society's operations where we can help to improve efficiency or effectiveness?

## ***Audit Scope***

This audit of the State Historical Society is for the two-year period ended June 30, 2014. 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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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

- The headquarters office in the Heritage Center
- Camp Hancock
- Chateau de Mores
- Former Governors' Mansion
- Fort Abercrombie
- Fort Bufford/Missouri-Yellowstone Confluence Interpretive Center
- Fort Clark
- Fort Totten
- Gingras Trading Post
- Pembina State Museum
- Ronald Reagan Minuteman Missile
- Whitestone Hill

## ***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 a 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 State 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***

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The accompanying financial statements have been prepared to present the State 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, 2014, operations of the State Historical Society were primarily supported by appropriations from the state's general fund. This is supplemented by federal funding and fees credited to the agency's operating fund.

### ***Financial Summary***

The State Historical Society had approximately \$23 million in capital assets as of June 30, 2014. These capital assets consisted buildings that includes the Heritage Center expansion, equipment, and land throughout the state of North Dakota.

Revenues consisted primarily of donations, as well as intergovernmental revenue and admission and concession sales. Other revenues during the audited period included permits, monies for copies and facility rent, and other miscellaneous revenue. The significant increase in donations was due to the agency receiving \$4.2 million from the State Historical Society Foundation for the pledges received for the Heritage Center Expansion. The decrease in intergovernmental revenue is due to the timing of receiving federal drawdowns for the federal programs. The other revenues remained fairly constant for the State Historical Society, decreasing only slightly. Total revenues and other sources were \$5,840,361 for the year ended June 30, 2014 as compared to \$2,224,825 for the year ended June 30, 2013.

Total expenditures and other uses for the State Historical Society were \$16,053,594 for the year ended June 30, 2014 as compared to \$25,170,151 for the prior year. The decrease in total expenditures for the audited period reflects primarily the Heritage Center expansion project being significantly completed in fiscal year 2013. There was an increase in salaries and benefits with the addition of 6 full time equivalents (FTEs) in the 2013-2015 biennium. There was also an increase in professional services as payments were made on the exhibit contract for the Heritage Center expansion in fiscal year 2014. All other expenditures remained fairly constant.

### ***Analysis of Significant Changes in Operations***

The Historical Society began work during fiscal year 2011 on the Heritage Center 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. This project was considered significantly complete during fiscal year 2013.

### ***Analysis of Significant Variances - Budgeted and Actual Expenditures***

The Historical Society had appropriations over actual expenditures for the biennium ended June 30, 2013 of \$17,492,213 in the Heritage Center Carryover line. North Dakota Century Code section 54-44.1-11 allows the State Historical Society to carryover unexpended appropriations from one biennium to the next. Groundbreaking on the Heritage Center Expansion project took place in November 2010. The unexpended appropriation amount was carried over to continue construction of the Heritage Center Expansion project.

# Financial Statements

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## Statement of Revenues and Expenditures

	June 30, 2014	June 30, 2013
<b><u>Revenues and Other Sources:</u></b>		
Donations	\$ 4,284,786	\$ 170,215
Intergovernmental Revenue	909,940	1,311,080
Admissions and Concessions	534,772	612,334
Permits	48,509	55,485
Charges for Services	32,572	31,947
Leases and Royalties	22,465	20,546
Miscellaneous Revenue	7,317	19,218
Transfers In		4,000
<b>Total Revenues and Other Sources</b>	<b>\$ 5,840,361</b>	<b>\$ 2,224,825</b>
<b><u>Expenditures and Other Uses:</u></b>		
Salaries and Benefits	\$ 5,789,657	\$ 5,256,529
Professional Services	5,388,345	478,283
Land and Buildings	1,664,591	16,087,251
Operating Fees and Services	520,978	388,349
Supplies	404,241	374,104
Grants	372,823	344,523
Equipment	280,143	557,840
Repairs	262,234	385,177
Capital Bond Payments	215,969	183,192
IT Services	201,240	164,115
Travel	130,963	149,064
Miscellaneous Expenditures	126,761	106,915
Transfers Out	695,649	694,809
<b>Total Expenditures and Other Uses</b>	<b>\$16,053,594</b>	<b>\$25,170,151</b>

## Statement of Appropriations

For The Two-Year Period Ended June 30, 2014

<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 Benefits	\$ 11,517,710	\$ 33,760	\$ 11,551,470	\$ 5,252,367	\$ 6,299,103
Accrued Leave Payments	211,332		211,332	8,786	202,546
Operating Expenses	2,766,016	59,129	2,825,145	1,341,253	1,483,892
Capital Assets	1,749,725		1,749,725	781,862	967,863
Construction Carryover		146,466	146,466	141,344	5,122
Heritage Center Carryover		5,492,213	5,492,213	5,492,213	
Project Pool	950,000		950,000	235,767	714,233
Grants	1,000,000		1,000,000	118,842	881,158
Cultural Heritage Grants	504,500		504,500	238,481	266,019
Yellowstone-Missouri-Ft Union	4,492		4,492		4,492
<b>Totals</b>	<u>\$ 18,703,775</u>	<u>\$ 5,731,568</u>	<u>\$ 24,435,343</u>	<u>\$ 13,610,915</u>	<u>\$ 10,824,428</u>
<b>Expenditures by Source:</b>					
General Fund	\$ 15,481,811	\$ 5,731,568	\$ 21,213,379	\$ 12,703,763	\$ 8,509,616
Other Funds	3,221,964		3,221,964	907,152	2,314,812
<b>Totals</b>	<u>\$ 18,703,775</u>	<u>\$ 5,731,568</u>	<u>\$ 24,435,343</u>	<u>\$ 13,610,915</u>	<u>\$ 10,824,428</u>

### Appropriation Adjustments:

The \$33,760 increase in the Salaries and Benefits line item consists of the following adjustments:

- \$28,000 – Approved by the Emergency Commission for state agency energy development impact funding pool appropriation as authorized by House Bill 1015, section 6 of the 2013 Session Laws transferred from the Office of Management and Budget to the State Historical Society for temporary salary increases for employees affected by energy development, specifically for the site supervisors at Fort Bufford/Missouri-Yellowstone Confluence Interpretive Center and the Chateau de Mores.
- \$5,760 – House Bill 1015, section 11 of the 2013 Session Laws for general fund appropriation transferred from the Office of Management and Budget to provide internships in the State Archives division of the State Historical Society.

The \$59,129 increase in the Operating Expenses line item consists of the following adjustments:

- \$9,129 – Approved by the Emergency Commission for state agency energy development impact funding pool appropriation as authorized by House Bill 1015, section 6 of the 2013 Session Laws transferred from the Office of Management and Budget to the State Historical Society for employee housing rental assistance for employees affected by energy development, specifically for the site supervisors at Fort Bufford/Missouri-Yellowstone Confluence Interpretive Center and the Chateau de Mores.
- \$50,000 – Authorized by section 54-44.1-11 of the North Dakota Century Code that allows the State Historical Society to carry forward unexpended appropriations from one biennium to the next. The purpose of this carryover was for the state's 125<sup>th</sup> centennial celebration.

The \$146,466 increase in the Construction Carryover line item was authorized by section 54-44.1-11 of the North Dakota Century Code that allows the State Historical Society to carry forward unexpended appropriations from one biennium to the next. The purpose of this carryover was for equipment, building repairs, and exhibits.

The \$5,492,213 increase in the Heritage Center Carryover line item was authorized by section 54-44.1-11 of the North Dakota Century Code that allows the State Historical Society to carry forward unexpended appropriations from one biennium to the next. The purpose of this carryover was for the Heritage Center expansion program.

**Expenditures Without Appropriations Of Specific Amounts:**

State Historical Revolving Fund has a continuing appropriation authorized by NDCC section 55-03-04 (\$48,087 of expenditures for this fiscal year).

Insurance Recoveries Property Fund has a continuing appropriation authorized by NDCC section 54-44.1-09.1 (\$15,000 of expenditures for this fiscal year).

Historical Society Gift and Bequest Fund has a continuing appropriation authorized by NDCC section 55-01-04 (\$1,550,251 of expenditures for this fiscal year).

Concession fund has a continuing appropriation authorized by NDCC section 55-02-04 (\$839,288 of expenditures for this fiscal year).

**For The Biennium Ended June 30, 2013**

<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 Benefits	\$ 9,537,660	\$ 18,758	\$ 9,556,418	\$ 9,218,835	\$ 337,583
Operating Expenses	2,677,916		2,677,916	2,657,420	20,496
Capital Assets	2,835,736	60,000	2,895,736	2,099,270	796,466
Construction Carryover		736,481	736,481	736,481	
Heritage Center Carryover		46,373,466	46,373,466	28,881,253	17,492,213
Grants	1,025,000		1,025,000	316,873	708,127
Cultural Heritage Grants	504,500		504,500	491,751	12,749
Yellowstone- Missouri-Ft Union	4,492		4,492		4,492
<b>Totals</b>	<u>\$ 16,585,304</u>	<u>\$ 47,188,705</u>	<u>\$ 63,774,009</u>	<u>\$ 44,401,883</u>	<u>\$ 19,372,126</u>
<b>Expenditures by Source:</b>					
General Fund	\$ 13,034,891	\$ 35,128,705	\$ 48,163,596	\$ 42,464,971	\$ 5,698,625
Other Funds	3,550,413	12,060,000	15,610,413	1,936,912	13,673,501
<b>Totals</b>	<u>\$ 16,585,304</u>	<u>\$ 47,188,705</u>	<u>\$ 63,774,009</u>	<u>\$ 44,401,883</u>	<u>\$ 19,372,126</u>

**Appropriation Adjustments:**

The \$18,758 increase in the Salaries and Benefits line item was authorized by Senate Bill 2015, section 1 of the 2011 Session for general fund appropriation transferred from the Office of Management and Budget to provide internships in the Support Services and Museum Divisions of the State Historical Society.

The \$60,000 increase in the Capital Assets line item was approved by the Emergency Commission under the provisions of North Dakota Century Code section 55-02-09 to expend \$60,000 from the Historical Impact Emergency Fund for emergency mitigation of adverse conditions impacting the historical integrity and security of the Stutsman County Court House.

The \$736,481 increase in the Construction Carryover line item was authorized by section 54-44.1-11 of the North Dakota Century Code that allows the State Historical Society to carry forward unexpended appropriations from one biennium to the next. The purpose of this carryover was for equipment, building and extraordinary repairs, security equipment, and exhibits.

The \$46,373,466 increase in the Heritage Center Carryover line item was authorized by section 54-44.1-11 of the North Dakota Century Code that allows the State Historical Society to carry forward unexpended appropriations from one biennium to the next. The purpose of this carryover was for the Heritage Center expansion program.

**Expenditures Without Appropriations Of Specific Amounts:**

State Historical Revolving Fund has a continuing appropriation authorized by NDCC section 55-03-04 (\$83,490 of expenditures for this biennium).

Insurance Recoveries Property Fund has a continuing appropriation authorized by NDCC section 54-44.1-09.1 (\$12,000 of expenditures for this biennium).

Historical Society Gift and Bequest Fund has a continuing appropriation authorized by NDCC section 55-01-04 (\$277,891 of expenditures for this biennium).

Concession Fund has a continuing appropriation authorized by NDCC section 55-02-04 (\$1,297,987 of expenditures for this biennium).



## ***Internal Control***

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In our audit for the two-year period ended June 30, 2014, we identified the following areas of the State 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 surrounding the Heritage Center expansion.
- Controls surrounding the Museum Store inventory.
- Controls effecting the safeguarding of assets.
- Controls relating to compliance with legislative intent
- Controls surrounding the ConnectND (PeopleSoft) system.

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 State Historical Society in a management letter dated May 20, 2015.

### ***Inventory Segregation of Duties Weakness (Finding 14-1)***

#### **Condition:**

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.

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 historic sites, while manual records are maintained for the four remaining sites.

**Criteria:**

Committee of Sponsoring Organizations (COSO) of the Treadway Commission publication Internal Control - Integrated Framework states, "Segregation of duties generally entails dividing the responsibility for recording, authorizing, and approving transactions, and handling the related asset." 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:**

The State Historical Society failed to implement this recommendation for the past four audit periods.

**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.

**State 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. One additional store position was added with the expansion of the ND Heritage Center. The addition of this position should provide us with the opportunity to further segregate duties. We will work with the State Auditor's Office to see where changes can be made to address this recommendation.*

**Inventory Loss Prevention Control Weaknesses (Finding 14-2)****Condition:**

Controls surrounding inventory loss prevention monitoring including security of storage locations of the Heritage Center store are not adequate. Net adjustments to the annual physical count of inventory for the Heritage Center store (including storage inventory) recorded a decrease in fiscal year 2014 and fiscal year 2013 of \$3,097 and \$6,620, respectively. While we are aware these decreases include giveaway items such as postcards and pencils, we are unable to identify the value of these items. The following weaknesses were noted.

- Excessive access to storage locations is allowed to 24 individuals including 9 employees of the Heritage Center store and there are no security cameras monitoring the storage room locations.
- Packing slips used to count inventory items purchased and received at the Heritage Center storage location are not retained and reconciled to items recorded into the retail system to ensure completeness and accuracy of item case counts that vary by size.

- Inventory in storage is not identified in the inventory records and movement of inventory to the Heritage Center store is not tracked to identify location of physical inventory counts for proper loss investigation.

**Criteria:**

Committee of Sponsoring Organizations (COSO) of the Treadway Commission publication Internal Control - Integrated Framework, Principle 10, identifies control activities that contribute to the mitigation of risks to the achievement of management's objectives. Principle 10 states, "Inventories and other assets be secured physically with physical access restricted to authorized personnel." In addition, Principle 10 identifies that reconciliations address completeness and/or accuracy of processing transactions and, if differences are identified, action be taken to bring the data into agreement.

COSO Integrated Framework, Principle 13, indicates that quality information be obtained or generated and used to support the functioning of internal control. Principle 13 states, "Quality information depends on the data being accurate and complete and at the right level of detail relevant to information requirements. Inaccurate or incomplete data could results in potentially erroneous judgments, estimates, or other management decisions."

**Cause:**

The Historical Society has not properly reviewed and designed loss prevention control procedures.

**Effect or Potential Effect:**

Inability to properly investigate theft or misappropriation of inventory.

**Recommendation:**

We recommend the Historical Society review loss prevention monitoring procedures and strengthen controls surrounding inventory of the Heritage Center store including storage locations.

**State Historical Society Response:**

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

## *Compliance With Legislative Intent*

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In our audit for the two-year period ended June 30, 2014, we identified and tested State Historical Society's compliance with legislative intent for the following areas we determined to be significant and of higher risk of noncompliance:

- Compliance with House Bill 1481, section 1 of the 2009 Session Laws. \$39,70,000 appropriated from general fund and \$12,000,000 appropriated from federal or special funds to be raised by the State Historical Society for the purpose of a heritage center addition. North Dakota Century Code section 54-44.1-11 allows the State Historical Society to carryover unexpended appropriations.
- Proper use and authorization of the following legally restricted funds:
  - Historical Society Gift and Bequest Fund (NDCC 55-01-04)
  - Concession Fund (NDCC 55-02-04)
  - Historical Impact Emergency Fund (NDCC 55-02-09)
  - State Historical Revolving Fund (NDCC 55-03-04)
- Proper authorization of expenditures without appropriations of specific amounts:
  - Insurance Recoveries Property Fund (NDCC 54-44.1-09.1)
  - Historical Society Gift and Bequest Fund (NDCC 55-01-04)
  - Concession Fund (NDCC 55-02-04)
  - State Historical Revolving Fund (NDCC 55-03-04)
- Proper collection of fees from permits to investigate; evaluate; mitigate adverse effects on cultural resources, historic buildings, structures, or objects; or record cultural resources (NDCC 55-03-01 and NDCC 55-03-01.1).
- Compliance with Emergency Commission or Budget Section changes to appropriations (NDCC 54-16-03).
- Compliance with OMB's Purchasing Procedures Manual.
- Proper use of outside bank accounts.
- Proper credit card processing.
- Adequate blanket bond coverage of employees (NDCC section 26.1-21-08).

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 State Historical Society in a management letter dated May 20, 2015.

## *Operations*

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

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

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

### **Inadequate Procedures Surrounding Revenue Collections (Finding 07-1)**

**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)***

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May 20, 2015

Ms. Claudia Berg, Director  
State Historical Society  
612 E. Boulevard Avenue  
Bismarck, ND 58505-0830

Dear Ms. Berg:

We have performed an audit of the State Historical Society for the two-year period ended June 30, 2014, and have issued a report thereon. As part of our audit, we gained an understanding of the State 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.

### **INVENTORY**

Informal Recommendation 14-1: We recommend the Historical Society ensure proper review of return receipts and discounts by an independent individual and obtain documented support for these transactions from the historic site stores.

Informal Recommendation 14-2: We recommend the Historical Society strengthen control surrounding access to the inventory retail system to include:



- Documented review of access to Retail Pro be performed on at least an annual basis.
- Administrative level access to employees be properly restricted to individuals necessary for their duties.
- Unique User IDs be available for each employee with proper access restrictions for their duties.

Informal Recommendation 14-3: We recommend the Historical Society strengthen controls surrounding inventory adjustments.

### **REVENUES**

Informal Recommendation 14-4: We recommend the North Dakota State Historical Society ensure proper support is maintained to explain any adjustments made to the deposits from historic sites.

### **LEGISLATIVE INTENT**

Informal Recommendation 14-5: We recommend the North Dakota State Historical Society follow the State's procurement policies and procedures.

### **FIXED ASSET EXPENDITURES**

Informal Recommendation 14-6: We recommend the Historical Society properly code expenditures.

Management of State 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,



Andrea Wike  
Auditor in-charge

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[www.nd.gov/auditor/](http://www.nd.gov/auditor/)

or by contacting the  
Division of State Audit

Office of the State Auditor  
600 East Boulevard Avenue – Department 117  
Bismarck, ND 58505-0060

(701) 328-2241