



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

*Montana
Historical Society*

*For the Two Fiscal Years Ended
June 30, 2008*

OCTOBER 2008

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DIVISION

08-24

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LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Monica Huyg, Legal Counsel



Deputy Legislative Auditors
James Gillett
Angie Grove

October 2008

The Legislative Audit Committee
of the Montana State Legislature:

This report is the result of our financial-compliance audit of the Montana Historical Society (society) for the two fiscal years ended June 30, 2008. The report includes five recommendations relating to compliance with state and federal laws and regulations, state accounting policy, and society policy, which are intended to improve operations and compliance of society programs.

The written response to the audit recommendations is included at the end of the audit report. We thank the director and his staff for their assistance and cooperation provided during the audit.

Respectfully submitted,

/s/ Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

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APPOINTED AND ADMINISTRATIVE OFFICIALS

Montana Historical Society Board of Trustees			<u>Term Expires</u>
	James W. Murry, President	Clancy	7/01/10
	Jim Utterback, Vice President	Helena	7/01/09
	Janene Caywood	Missoula	7/01/13
	Shirley Groff	Butte	7/01/10
	George Horse Capture	Great Falls	7/01/11
	Kent Kleinfopf	Missoula	7/01/12
	Katherine Lee	Glendive	7/01/12
	John G. Lepley	Fort Benton	7/01/10
	Sharon Lincoln	Billings	7/01/13
	Steve Lozar	Polson	7/01/12
	Thomas Nygard	Bozeman	7/01/11
	Lee Rostad	Martinsdale	7/01/09
	Crystal Wong Shors	Helena	7/01/11

Montana State Historical Preservation Review Board			<u>Term Expires</u>
	Robert Valach, President	Lewistown	10/01/11
	H. Rafael Chacon	Lolo	10/01/08
	Donna Coate	Forsyth	10/01/11
	Paul Filicetti	Missoula	10/01/08
	Rebecca Hanna	Choteau	01/01/11
	Rosalyn LaPier	Missoula	01/01/11
	Timothy Light	Kalispell	10/01/08
	Don Matlock	Hamilton	10/01/09
	Miki Wilde	East Helena	10/01/11

Montana Historical Society Administrative Officials

Richard Sims, Director, Historical Society
Denise King, Centralized Services Administrator

For additional information concerning the Montana
Historical Society, contact Denise King, Centralized Services
Administrator at:

225 North Roberts
P. O. Box 201201
Helena MT 59620-1201
(406) 444-4699
e-mail: dking@mt.gov

REPORT SUMMARY

Montana Historical Society

This report documents the results of our financial-compliance audit of the Montana Historical Society (society) for the two fiscal years ended June 30, 2008. The previous audit report contained eight recommendations. Of these, six were implemented, one was partially implemented, and one was not implemented.

This report contains five recommendations. The recommendations address areas where the society can improve compliance with federal regulations, state laws and regulations, and society policies.

We issued an unqualified opinion on the financial schedules contained in this report. This means the reader can rely on the presented financial information and the supporting data on the state's accounting records.

The listing below serves as a means of summarizing the recommendations contained in the report, the society's response thereto, and a reference to the supporting comments.

Recommendation #1

We recommend the society apply enterprise fund operations expenditures to enterprise fund authority prior to using General Fund authority in accordance with state law.....5

Society Response: Concur..... B-3

Recommendation #2

We recommend the society provide training to accounting personnel concerning federal and state laws and regulations for federal indirect cost activity.6

Society Response: Concur..... B-3

Recommendation #3

We recommend the society develop and implement control procedures to ensure Publications Program magazine subscription revenue activity and Montana Interactive sales are accurate.8

Society Response: Concur..... B-3

Recommendation #4

We recommend the society develop and implement procedures for monitoring and testing its internal controls.8

Society Response: Partially Concur..... B-4

Recommendation #5

We recommend the society complete the inventory process to ensure museum collections are secured and properly managed. 10

Society Response: Partially Concur..... B-4

Chapter I – Introduction

General

We performed a financial-compliance audit of the Montana Historical Society (society) for the two fiscal years ended June 30, 2008. The objectives of the audit were to:

1. Determine if the society complied with selected laws and regulations.
2. Obtain an understanding of the society's control systems to the extent necessary to support our audit of the society's financial schedules and, if appropriate, make recommendations for improvements in management and internal controls of the society.
3. Determine the status of the prior audit recommendations.
4. Determine if the financial schedules present fairly the results of operations for the two fiscal years ended June 30, 2008.

Auditing standards require us to communicate, in writing, control deficiencies we identified as a result of audit objective #2 above and considered to be significant or material. A control deficiency exists when the design or operation of a control does not allow management or employees to prevent or detect misstatements on a timely basis. A significant deficiency is one or more control deficiencies that affects management's ability to accurately process transactions. A material weakness is one or more significant deficiencies that adversely affect management's ability to fairly present its financial schedules.

Table 1 below outlines the status of significant deficiencies and material weaknesses we identified during this audit.

Subject	Significant Deficiency	Material Weakness	Page
Internal Control Monitoring and Testing	Yes	No	8
Controls Over Historic Treasures	Yes	No	9

This report contains five recommendations to the society. Other areas of concern deemed not to have a significant effect on the successful operations of the society are not specifically included in the report, but have been discussed with management. In accordance with section 5-13-307, MCA, we analyzed and disclosed the costs, if significant, of implementing the recommendations contained in this report.

Montana Historical Society Background

The society was originally organized under the provisions of an act of the Legislative Assembly of the Territory of Montana in 1865. The society received its first appropriation from the state of Montana in 1891. “An act to Perpetuate the Historical Society of the State of Montana,” approved in 1949, established the society as an agency of state government. The purpose of the society is to protect, preserve, and interpret Montana and western American history for the benefit of the public. The society conducts its operations in the following programs:

The Administration Program (19.99 FTE) provides supervision and coordination for all programs of the society. Activities include public information, accounting and business management, financial reporting, fund-raising, security and building management. The administration program is also responsible for managing the society’s museum store. The museum store operates in response to public demand (primarily through direct mail) from a broad base of people interested in western history.

The Research Program (14.75 FTE) is the society’s research center and incorporates three functional sections: the library, the archives, and the photograph archives. The staff is responsible for collecting, organizing and preserving historical photos, books, and other research materials relevant to Montana. The staff also assist the public and other society program staff in the use of research material.

The Museum Program (7.80 FTE) collects fine art and historical archeological and ethnological artifacts that pertain to Montana and its adjoining geographic region. In addition to caring for the society’s museum collections, program staff conduct research, produce exhibits, sponsor public programs, answer reference requests from the public and provide technical assistance to other museums. The museum also provides education and tours for the public.

The Publications Program (5 FTE) consists of two areas: *Montana, The Magazine of Western History* and the Montana Historical Society Press. *Montana, The Magazine of Western History* assists the society in fulfilling its statutory mission of preserving Montana history and providing educational outreach. The Montana Historical Society Press publishes books on the history of Montana and the northern plains.

The Historic Sites Preservation Program (8.75 FTE) provides assistance to people in the state to preserve significant historic and prehistoric buildings and sites. Society staff are available to advise, assist, and support people in their care of these sites.

The Education Program (4.85 FTE) promotes opportunities for learning about Montana history, Montana culture, and the many resources held by the society's collecting programs. The program is comprised of three sections: the Education Office, the Historic Signs Program, and the Volunteer Program.

Prior Audit Recommendations

We determined the status of the eight prior audit recommendations directed to the society. The society has implemented six, partially implemented one, and has not implemented one of these recommendations. The society partially implemented the recommendation related to compliance with federal and state laws and regulations when charging and accounting for federal indirect cost activity, discussed further on page 6. The society has not implemented the recommendation regarding compliance with policies governing the management of its collections, discussed further on page 9.

Chapter II – Findings and Recommendations

Nongeneral Fund Money First

The society did not use \$88,820 of enterprise fund spending authority prior to using General Fund authority.

The society offers various goods and services to the public for a fee. Examples include: entrance fees to the museum, the old governor's mansion, copies of materials from the Library, and copies of photographs from the archives, as well as offering various society publications and merchandise within the museum store. All of these activities are accounted for within the enterprise fund type.

The enterprise fund operations receive General Fund support in addition to the fees charged for the goods and services offered by the society. The society did not use all of the Enterprise Fund cash and appropriation authority prior to using General Fund authority. Section 17-2-108, MCA, requires expenditures to be applied against nongeneral fund money whenever possible before using General Fund appropriation. The society had \$88,820 of available cash within the enterprise funds at the end of fiscal year 2007-08 that could have been used prior to using General Fund appropriation authority. Enterprise fund activities may need a working capital. However, this is not necessary due to the support received from the General Fund.

Society personnel indicated the General Fund authority was for personal services support of the enterprise fund activities. Therefore, the society believed the authority could be used for this purpose prior to depleting all available enterprise fund cash.

RECOMMENDATION #1

We recommend the society apply enterprise fund operations expenditures to enterprise fund authority prior to using General Fund authority in accordance with state law.

Federal Indirect Cost Activity

The society is not charging and accounting for federal indirect costs and the related indirect cost recoveries in accordance with federal and state laws and regulations.

The society uses federal grants to finance a portion of its program activities. As part of this assistance, the society receives federal indirect cost recoveries for the costs incurred in administering the programs.

The computation and use of an indirect cost rate allows the society to efficiently charge indirect costs to a federal grant. The society received an approved federal indirect cost rate for fiscal years 2006-07 and 2007-08. However, the society did not apply the approved rate to the actual federal grant expenditures. Instead, the society recognized indirect cost recoveries based on the amount budgeted within the grant award. As a result, the society over-recovered indirect costs by approximately \$6,245 for fiscal years 2006-07 and 2007-08.

In addition, the society initially recorded the personal services expenditures in the General Fund, with the indirect cost recovery revenues recorded in the federal special revenue fund. The society then transferred the personal services expenditures from the General Fund to the Federal Special Revenue Fund to match the federal indirect costs with the related indirect cost recoveries. The appropriation authority to pay these expenditures is also in the Federal Special Revenue Fund.

Section 17-1-106, MCA, states in part that indirect costs must be deposited in the fund from which the indirect costs were originally paid. Therefore, the federal indirect cost recoveries should have been deposited in the General Fund. As a result, the federal indirect cost recoveries are understated in the General Fund and overstated in the Federal Special Revenue Fund by \$125,386 in fiscal year 2006-07, and \$156,880 in fiscal year 2007-08.

Society personnel should enhance their understanding of the federal and state laws and regulations regarding federal indirect cost activity.

RECOMMENDATION #2

We recommend the society provide training to accounting personnel concerning federal and state laws and regulations for federal indirect cost activity.

Controls Over Publications Revenues

The society does not have control procedures in place to ensure the accuracy of Publications Program magazine subscription revenue activity or Montana Interactive sales.

The Publications Program within the society offers the *Montana, The Magazine of Western History* and various books and printed materials for purchase. These items can be purchased through the Montana Historical Society Museum Store itself, the store's website, or through the society's membership coordinator. State accounting policy requires agencies to implement internal control procedures to ensure all transactions necessary for compliance with generally accepted accounting principles are recorded on the accounting records before fiscal year-end. The following discusses control issues related to recognition and monitoring of magazine subscription revenues.

The society issues the *Montana, The Magazine of Western History* on a quarterly basis. When a magazine subscription is purchased, the society records the payment as deferred revenue until the magazines are sent out. Once the quarterly magazine is issued, society personnel perform a calculation of the number of magazines still due to subscribers and determines what the current deferred revenue balance should be. Based on this calculation, the society recognizes the revenue earned and adjusts the deferred revenue balance.

In late fiscal year 2007-08, society personnel realized some errors existed in the counts of magazine subscriptions still due. As a result, the calculation of the deferred revenue and subscription fulfillment revenue accounts are not accurate. The deferred revenue balance was \$96,721 and \$131,405 at fiscal year-end 2006-07 and 2007-08, respectively. The society recognized \$175,004 and \$105,433 in subscription fulfillment revenues for fiscal years 2006-07 and 2007-08, respectively. Society personnel are in the process of determining what these balances should have been, where the errors occurred, and modifying the process to ensure this does not happen in the future. We analyzed the potential misstatement to the Schedule of Total Revenues & Transfers-In for fiscal years 2006-07 and 2007-08 and determined they are not significant.

In addition, the Publications Program did not have any documentation of the control procedures performed to monitor the accuracy of revenues received through the society's membership website. The purchases made through this website are tracked and reported to the society by Montana Interactive. Montana Interactive is the vendor that manages the on-line sales for the state of Montana. The Publications Program received approximately \$10,600 and \$7,286 of these revenues in fiscal years 2006-07

and 2007-08, respectively. Society personnel indicated they would be sure to maintain adequate documentation of the control procedures performed in the future.

RECOMMENDATION #3

We recommend the society develop and implement control procedures to ensure Publications Program magazine subscription revenue activity and Montana Interactive sales are accurate.

Internal Control

The society has not fully implemented its internal control procedures in accordance with state accounting policy.

State accounting policy outlines management's responsibility for establishing and maintaining agency internal controls to safeguard and account for the resources entrusted to them to carry out government programs. State policy requires agencies to implement internal control procedures to ensure all transactions necessary to comply with generally accepted accounting principles are recorded on the accounting records before fiscal year-end. To assist agencies with the implementation process, the Department of Administration issued an Internal Control Guidebook. The guide includes an internal control evaluation and monitoring plan, which recommends agencies monitor and test its internal controls and evaluate and report the results of its testing.

The society has developed internal control procedures, but has not completely developed the process to monitor and test the controls. Society personnel have performed some monitoring of these controls. However, there is no documentation of these activities or the results.

RECOMMENDATION #4

We recommend the society develop and implement procedures for monitoring and testing its internal controls.

Controls Over Historic Treasures

The society does not document the state's historic artifacts in accordance with society policy.

The society collects historical artifacts pertaining to the history of Montana. The museum has over 50,000 historical artifacts in its collection, currently valued at \$58.4 million, and it receives between 250 and 1,500 new artifacts each year. The society has established policies and procedures to ensure all collections are secured and properly managed. Once an artifact has been accessioned, or added to the museum collection, society policy directs employees to add the artifact to their inventory database system. Each item is to include both a catalog and location number. The society's policy also states the documentary value of a museum, library, and archival collection is the principle criteria of excellence and requires museum inventory records to be of the highest order, accuracy, and completeness.

This issue was included in the society's prior audit report. Since that time, the society received funding for an additional 1.3 full-time equivalent employees for assistant registrar positions to assist in the cataloging of artifacts and implementation and compliance with its policies and procedures. These positions were filled and the society has made progress; however, personnel estimate it would take approximately twenty years just to add the backlog of artifacts the society has obtained, plus the new items obtained each year, to the inventory records with the staff they currently have.

We compared six artifacts from their physical location to society records and six artifacts from society records to their physical location. We found one item was not in its proper location, and one item was in the proper location, but was not in the proper drawer. In addition, society personnel completed two spot inventory checks, which resulted in the society reviewing 66 artifacts. Three items did not have locations listed in the database, one did not have correct location in the database, and two were reaccessioned because there was no catalog or location numbers listed in the database.

Historical artifacts have high monetary value, sentimental value, and importance to the people of Montana. If accurate records do not exist, there is the potential the items will not be available for research, loan to other museums, or other use, in addition to the potential for theft or loss of items.

RECOMMENDATION #5

We recommend the society complete the inventory process to ensure museum collections are secured and properly managed.

Independent Auditor's Report and Society Financial Schedules

Tori Hunthausen, Legislative Auditor
Monica Huyg, Legal Counsel



Deputy Legislative Auditors
James Gillett
Angie Grove

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Montana Historical Society for each of the fiscal years ended June 30, 2008, and 2007. The information contained in these financial schedules is the responsibility of the society's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, these financial schedules are prepared on the basis of Montana state accounting policy, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the society's assets and liabilities and cash flows.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Montana Historical Society for each of the fiscal years ended June 30, 2008, and 2007, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

/s/ James Gillett
James Gillett, CPA
Deputy Legislative Auditor

August 25, 2008

HISTORICAL SOCIETY
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Permanent Fund
FUND BALANCE: July 1, 2007	\$ (126,640)	\$ 810,685	\$ (3,623)	\$ 408,771	\$ 1,431,339
ADDITIONS					
Budgeted Revenues & Transfers-In	539	181,577	849,728	772,506	
Nonbudgeted Revenues & Transfers-In	339	403,667	960	43,972	(71,611)
Prior Year Revenues & Transfers-In Adjustments		(8,192)	279	(5,312)	
Direct Entries to Fund Balance	2,724,505	572,853			
Total Additions	<u>2,725,383</u>	<u>1,149,905</u>	<u>850,967</u>	<u>811,166</u>	<u>(71,611)</u>
REDUCTIONS					
Budgeted Expenditures & Transfers-Out	2,683,960	780,739	848,094	830,379	
Nonbudgeted Expenditures & Transfers-Out		418,156		52,624	33,736
Prior Year Expenditures & Transfers-Out Adjustments	214	(5,986)	(750)	(1,491)	
Total Reductions	<u>2,684,174</u>	<u>1,192,909</u>	<u>847,344</u>	<u>881,512</u>	<u>33,736</u>
FUND BALANCE: June 30, 2008	<u>\$ (85,431)</u>	<u>\$ 767,681</u>	<u>\$ 0</u>	<u>\$ 338,425</u>	<u>\$ 1,325,992</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

HISTORICAL SOCIETY
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Permanent Fund
FUND BALANCE: July 1, 2006	\$ (169,999)	\$ 814,821	\$ (2,955)	\$ 388,494	\$ 1,280,651
ADDITIONS					
Budgeted Revenues & Transfers-In	12	426,823	836,018	907,728	
Nonbudgeted Revenues & Transfers-In	769	743,971			171,938
Prior Year Revenues & Transfers-In Adjustments		(7,996)		5,669	833
Direct Entries to Fund Balance	2,246,454	135,348			
Total Additions	<u>2,247,235</u>	<u>1,298,146</u>	<u>836,018</u>	<u>913,397</u>	<u>172,771</u>
REDUCTIONS					
Budgeted Expenditures & Transfers-Out	2,203,892	1,071,378	836,551	861,296	
Nonbudgeted Expenditures & Transfers-Out		236,279		31,627	22,083
Prior Year Expenditures & Transfers-Out Adjustments	(16)	(5,375)	135	197	
Total Reductions	<u>2,203,876</u>	<u>1,302,282</u>	<u>836,686</u>	<u>893,120</u>	<u>22,083</u>
FUND BALANCE: June 30, 2007	\$ (126,640)	\$ 810,685	\$ (3,623)	\$ 408,771	\$ 1,431,339

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

HISTORICAL SOCIETY
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Permanent Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS						
Licenses and Permits						
Taxes	\$ 339	24,383	639		\$	24,383
Charges for Services	539	19,668		64,271		1,271
Investment Earnings		(12,491)			(73,672)	84,478
Sale of Documents, Merchandise and Property		1,480		594,477		(86,163)
Rentals, Leases and Royalties		59				59
Grants, Contracts, Donations and Abandonments		452,175	600	57,943	1,472	511,590
Other Financing Sources		91,485	718,315	94,475	589	187,149
Federal			131,413			718,315
Federal Indirect Cost Recoveries			850,967	811,166	(71,611)	1,31,413
Total Revenues & Transfers-In	878	577,052	960	43,972	(71,611)	2,168,452
Less: Nonbudgeted Revenues & Transfers-In	339	403,667	279	(5,312)		377,327
Prior Year Revenues & Transfers-In Adjustments		(8,192)				(13,225)
Actual Budgeted Revenues & Transfers-In	539	181,577	849,728	772,506	0	1,804,350
Estimated Revenues & Transfers-In	540	193,990	872,184	919,862		1,986,576
Budgeted Revenues & Transfers-In Over (Under) Estimated	(1)	(12,413)	(22,456)	(147,356)	0	(182,226)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS						
Licenses and Permits	\$	4,373			\$	4,373
Charges for Services	(1)	(2,827)		(10,505)		(13,333)
Sale of Documents, Merchandise and Property		(4,620)		(167,544)		(172,164)
Grants, Contracts, Donations and Abandonments		(9,339)		30,693		21,354
Federal			(12,456)			(12,456)
Federal Indirect Cost Recoveries			(10,000)			(10,000)
Budgeted Revenues & Transfers-In Over (Under) Estimated	(1)	(12,413)	(22,456)	(147,356)	0	(182,226)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

HISTORICAL SOCIETY
 SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
 FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Permanent Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS						
Licenses and Permits	\$ 769	63,737				\$ 63,737
Taxes		401				1,170
Charges for Services		38,708		69,282		107,990
Investment Earnings		58,079			170,938	229,017
Sale of Documents, Merchandise and Property		6,986		794,096		801,082
Miscellaneous	12	2,175	12			2,199
Grants, Contracts, Donations and Abandonments		471,151	314			471,465
Other Financing Sources		521,561		50,019	1,833	573,413
Federal			608,306			608,306
Federal Indirect Cost Recoveries			227,386			227,386
Total Revenues & Transfers-In	781	1,162,798	836,018	913,397	172,771	3,085,765
Less: Nonbudgeted Revenues & Transfers-In	769	743,971		5,669	171,938	916,678
Prior Year Revenues & Transfers-In Adjustments		(7,996)			833	(1,494)
Actual Budgeted Revenues & Transfers-In	12	426,823	836,018	907,728	0	2,170,581
Estimated Revenues & Transfers-In	924	1,407,250	1,372,013	1,060,672	0	3,840,859
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (912)	\$ (980,427)	\$ (535,995)	\$ (152,944)	\$ 0	\$ (1,670,278)

BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS

Licenses and Permits	\$ (912)	(57,767)				\$ (57,767)
Taxes						(912)
Charges for Services		(1,975)		(108,955)		(110,930)
Sale of Documents, Merchandise and Property		(4,015)		(41,337)		(45,352)
Grants, Contracts, Donations and Abandonments		(773,020)	313	(2,000)		(774,707)
Other Financing Sources		(143,650)		(652)		(144,302)
Federal			(618,694)			(618,694)
Federal Indirect Cost Recoveries			82,386			82,386
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (912)	\$ (980,427)	\$ (535,995)	\$ (152,944)	\$ 0	\$ (1,670,278)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

HISTORICAL SOCIETY
 SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
 FOR THE FISCAL YEAR ENDED JUNE 30, 2008

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Administration Program	Education	Historic Preservation Program	Lewis & Clark Commission	Museum Program	Publications Program	Research Center	Total
Personal Services								
Salaries	\$ 724,945	\$ 220,805	\$ 353,824		\$ 262,172	\$ 141,611	\$ 572,930	\$ 2,276,287
Employee Benefits	242,858	70,161	116,660		101,023	46,761	203,422	780,885
Personal Services-Other	(23,022)					3,047	(222)	(20,197)
Total	<u>944,781</u>	<u>290,966</u>	<u>470,484</u>		<u>363,195</u>	<u>191,419</u>	<u>776,130</u>	<u>3,036,975</u>
Operating Expenses								
Other Services	290,513	96,511	89,623		38,364	80,148	68,591	663,750
Supplies & Materials	133,430	40,715	5,572		67,873	3,841	30,850	282,281
Communications	37,862	6,508	7,957		10,603	10,540	11,334	84,804
Travel	37,311	8,618	23,347		5,449	2,978	11,238	88,941
Rent	320,217	80	22,669		133,716	89	14,400	491,171
Repair & Maintenance	28,628	266	3,553				11,423	43,870
Other Expenses	65,654	9,818	12,572		14,567	34,447	30,507	167,565
Goods Purchased For Resale	131,548	38,028				121,877		291,453
Total	<u>1,045,163</u>	<u>200,544</u>	<u>165,293</u>		<u>270,572</u>	<u>253,920</u>	<u>178,343</u>	<u>2,113,835</u>
Equipment & Intangible Assets								
Equipment	22,036				21,773		24,670	68,479
Total	<u>22,036</u>				<u>21,773</u>		<u>24,670</u>	<u>68,479</u>
Grants								
From State Sources	50,345			\$ 2,000				52,345
From Federal Sources			148,457					148,457
Total	<u>50,345</u>		<u>148,457</u>	<u>2,000</u>				<u>200,802</u>
Benefits & Claims								
OPEB Expenses	12,980				5,098	9,092	166	27,336
Total	<u>12,980</u>				<u>5,098</u>	<u>9,092</u>	<u>166</u>	<u>27,336</u>
Transfers								
Accounting Entity Transfers	135,457			5,688		51,103		192,248
Total	<u>135,457</u>			<u>5,688</u>		<u>51,103</u>		<u>192,248</u>
Total Expenditures & Transfers-Out	<u>\$ 2,210,762</u>	<u>\$ 491,510</u>	<u>\$ 784,234</u>	<u>\$ 7,688</u>	<u>\$ 660,638</u>	<u>\$ 505,534</u>	<u>\$ 979,309</u>	<u>\$ 5,639,675</u>
EXPENDITURES & TRANSFERS-OUT BY FUND								
General Fund	\$ 1,134,343	\$ 174,586	\$ 144,453		\$ 280,639	\$ 92,400	\$ 857,753	\$ 2,684,174
State Special Revenue Fund	540,686	294,274	21,019	\$ 5,591	292,885	5,043	33,411	1,192,909
Federal Special Revenue Fund	156,880	21,353	609,980	2,097	8,202	34,198	14,634	847,344
Enterprise Fund	377,361	1,233	3,782		67,886	373,893	57,357	881,512
Permanent Fund	1,492	64	5,000		11,026		16,154	33,736
Total Expenditures & Transfers-Out	<u>2,210,762</u>	<u>491,510</u>	<u>784,234</u>	<u>7,688</u>	<u>660,638</u>	<u>505,534</u>	<u>979,309</u>	<u>5,639,675</u>
Less: Nonbudgeted Expenditures & Transfers-Out	198,426	116,895	23,861	5,688	78,818	30,923	49,906	504,517
Prior Year Expenditures & Transfers-Out Adjustments	(1,216)			(97)	(5,889)	120	(932)	(8,014)
Actual Budgeted Expenditures & Transfers-Out	<u>2,013,552</u>	<u>374,615</u>	<u>760,373</u>	<u>2,097</u>	<u>587,709</u>	<u>474,491</u>	<u>930,335</u>	<u>5,143,172</u>
Budget Authority	2,200,641	415,255	902,186	15,509	660,559	554,521	1,010,088	5,758,759
Unspent Budget Authority	<u>\$ 187,089</u>	<u>\$ 40,640</u>	<u>\$ 141,813</u>	<u>\$ 13,412</u>	<u>\$ 72,850</u>	<u>\$ 80,030</u>	<u>\$ 79,753</u>	<u>\$ 615,587</u>
UNSPENT BUDGET AUTHORITY BY FUND								
General Fund	\$ 4,232	\$ 167	\$ 1		\$ 21	\$ 80	\$ 64,648	\$ 69,149
State Special Revenue Fund	149,736	31,392	4,842		33,398	25,000		244,368
Federal Special Revenue Fund	5,000	7,814	135,752	\$ 13,412	5,066	6,000	8,990	182,034
Enterprise Fund	28,121	1,267	1,218		34,365	48,950	6,115	120,036
Unspent Budget Authority	<u>\$ 187,089</u>	<u>\$ 40,640</u>	<u>\$ 141,813</u>	<u>\$ 13,412</u>	<u>\$ 72,850</u>	<u>\$ 80,030</u>	<u>\$ 79,753</u>	<u>\$ 615,587</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

HISTORICAL SOCIETY
 SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
 FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Administration Program	Historic Preservation Program	Lewis & Clark Commission	Museum Program	Publications Program	Research Center	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT							
Personal Services							
Salaries	\$ 765,505	\$ 340,902	\$ 76,576	\$ 382,528	\$ 144,888	\$ 537,560	\$ 2,247,959
Employee Benefits	249,999	110,624	21,101	132,969	47,627	187,105	749,425
Personal Services-Other	(9,991)			(219)	4,850	(246)	(5,606)
Total	<u>1,005,513</u>	<u>451,526</u>	<u>97,677</u>	<u>515,278</u>	<u>197,365</u>	<u>724,419</u>	<u>2,991,778</u>
Operating Expenses							
Other Services	445,015	72,655	9,817	125,646	59,202	59,627	771,962
Supplies & Materials	45,489	2,924	537	58,595	3,959	28,483	139,987
Communications	41,881	7,328	1,675	19,890	7,891	10,142	88,807
Travel	68,029	16,789	4,903	12,162	1,502	11,959	115,344
Rent	270,084	18,692	1,868	108,409		4,000	403,053
Repair & Maintenance	11,636	1,080		284		10,834	23,834
Other Expenses	100,364	16,289	2,739	6,546	23,380	21,263	170,581
Goods Purchased For Resale	126,364				92,258	393	219,015
Total	<u>1,108,862</u>	<u>135,757</u>	<u>21,539</u>	<u>331,532</u>	<u>188,192</u>	<u>146,701</u>	<u>1,932,583</u>
Equipment & Intangible Assets							
Equipment	67,724			3,500		12,236	83,460
Total	<u>67,724</u>			<u>3,500</u>		<u>12,236</u>	<u>83,460</u>
Grants							
From State Sources	90,500		7,375				97,875
From Federal Sources		92,975	8,705				101,680
Total	<u>90,500</u>	<u>92,975</u>	<u>16,080</u>				<u>199,555</u>
Transfers							
Accounting Entity Transfers					50,671		50,671
Total					<u>50,671</u>		<u>50,671</u>
Total Expenditures & Transfers-Out	<u>\$ 2,272,599</u>	<u>\$ 680,258</u>	<u>\$ 135,296</u>	<u>\$ 850,310</u>	<u>\$ 436,228</u>	<u>\$ 883,356</u>	<u>\$ 5,258,047</u>
EXPENDITURES & TRANSFERS-OUT BY FUND							
General Fund	\$ 1,040,544	\$ 123,880		\$ 215,357	\$ 50,671	\$ 773,424	\$ 2,203,876
State Special Revenue Fund	604,582	12,568	\$ 121,965	502,422	5,107	55,638	1,302,282
Federal Special Revenue Fund	138,486	538,810	13,331	122,963	13,756	9,340	836,686
Enterprise Fund	476,016	5,000		6,768	366,694	38,642	893,120
Permanent Fund	12,971			2,800		6,312	22,083
Total Expenditures & Transfers-Out	<u>2,272,599</u>	<u>680,258</u>	<u>135,296</u>	<u>850,310</u>	<u>436,228</u>	<u>883,356</u>	<u>5,258,047</u>
Less: Nonbudgeted Expenditures & Transfers-Out	146,176	4,448	465	99,317	20,369	19,214	289,989
Prior Year Expenditures & Transfers-Out Adjustments	(2,501)	135	(2,032)	(254)	225	(632)	(5,059)
Actual Budgeted Expenditures & Transfers-Out	<u>2,128,924</u>	<u>675,675</u>	<u>136,863</u>	<u>751,247</u>	<u>415,634</u>	<u>864,774</u>	<u>4,973,117</u>
Budget Authority	2,397,161	922,286	277,062	833,934	525,530	925,302	5,881,275
Unspent Budget Authority	<u>\$ 268,237</u>	<u>\$ 246,611</u>	<u>\$ 140,199</u>	<u>\$ 82,687</u>	<u>\$ 109,896</u>	<u>\$ 60,528</u>	<u>\$ 908,158</u>
UNSPENT BUDGET AUTHORITY BY FUND							
General Fund	\$ 3,598	\$ 825		\$ 2,102		\$ 8,905	\$ 15,430
State Special Revenue Fund	8,877	2	\$ 122,690	25,765		6,207	163,542
Federal Special Revenue Fund	94,045	245,784	17,509	48,222	\$ 17,037	13,636	436,233
Enterprise Fund	161,716			6,598	92,859	31,780	292,953
Unspent Budget Authority	<u>\$ 268,237</u>	<u>\$ 246,611</u>	<u>\$ 140,199</u>	<u>\$ 82,687</u>	<u>\$ 109,896</u>	<u>\$ 60,528</u>	<u>\$ 908,158</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

Montana Historical Society

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 2008

1. Summary of Significant Accounting Policies

Basis of Accounting

The society uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, Federal Special Revenue, and Permanent) and certain liabilities of defined benefit pension plans and certain post employment healthcare plans. In applying the modified accrual basis, the society records:

- ◆ Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.
- ◆ Expenditures for valid obligations when the society incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the society to record the cost of employees' annual and sick leave when used or paid.

The society uses accrual basis accounting for its Proprietary (Enterprise) fund category. Under the accrual basis, as defined by state accounting policy, the society records revenues in the accounting period when realizable, measurable, and earned, and records expenses in the period incurred when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the society receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The society uses the following funds:

Governmental Fund Category

- ◆ **General Fund** – to account for all financial resources except those required to be accounted for in another fund.

- ♦ **State Special Revenue Fund** – to account for proceeds of specific revenue sources (other than private-purpose trusts or major capital projects) that are legally restricted to expenditures for specific state program purposes. Society State Special Revenue Funds include donations, the Historic Sights and Signs Program, lodging facility use tax funding, and the Lewis & Clark Bicentennial Commission (for fiscal year 2006-07 only).
- ♦ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Society Federal Special Revenue Funds include the State Historic Preservation Office.
- ♦ **Permanent Fund** – to account for financial resources that are permanently restricted to the extent that only earnings, and not principal, may be used for purposes that support the society’s programs. The society uses this fund for private donations for which the donor permitted the use of investment earnings on the donation.

Proprietary Fund Category

- ♦ **Enterprise Fund** – to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges; (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate; (c) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; or (d) when laws or regulations require that the activities’ cost of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. Society Enterprise Funds include the Publications Program, store/merchandise operations, Museum Program activities, and Research Center activities.

2. General Fund Balance

The negative fund balance in the General Fund does not indicate overspent appropriation authority. The society has authority to pay obligations from the statewide General Fund within its appropriation limits. The society expends cash or other assets from the statewide fund when it pays General Fund obligations. The society’s outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund balances for each of the fiscal years ended June 30, 2007, and June 30, 2008.

3. Direct Entries to Fund Balance

Direct entries to fund balances in the General and State Special Revenue funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.

4. Nonbudgeted Activity

The society had significant nonbudgeted revenues in the State Special Revenue Fund and the Permanent Fund on the Schedule of Total Revenues & Transfers-In in both fiscal years 2006-07 and 2007-08. Additionally, the society had significant nonbudgeted expenditures on the Schedule of Total Expenditures & Transfers-Out in the Administration Program. The majority of this nonbudgeted activity relates to donations revenue received by the society, as well as the related expenditures of those donations.

5. Estimated Revenues & Transfers-In

Budgeted Revenues & Transfers-In was overestimated by \$860,599 for the State Special Revenue Fund and \$510,000 for the Federal Special Revenue Fund in fiscal year 2006-07. The overestimate for the State Special Revenue Fund was due to the inclusion of \$521,562 in lodging facility use taxes from the Department of Commerce when in fact this activity is nonbudgeted and the inclusion of \$339,037 of authority to spend from a shared fund, therefore no revenue is recognized by the society. The overestimate for the Federal Special Revenue Fund was due to the entry of two duplicate entries totaling \$210,000 and two entries totaling \$300,000 for items the society does not actually collect revenue.

6. Schedule of Total Expenditures & Transfers-Out Program Changes

The Lewis & Clark Bicentennial Commission was administratively attached to the society. In accordance with statute, the commission sunset on December 31, 2006. As a result, the Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2007, includes the Lewis & Clark Commission program, while the schedule for the fiscal year ended June 30, 2008, does not include this program.

The society created the Education program beginning in fiscal year 2007-08. The activity within this program was previously accounted for as part of the Museum program.

7. Museum and Art Collection

The society's museum and art collection consists of over 50,000 historical artifacts and is valued at \$58.4 million as of June 30, 2008.

MONTANA
HISTORICAL SOCIETY

SOCIETY RESPONSE

September 29, 2008

Tori Hunthausen, Legislative Auditor
Legislative Audit Division
PO Box 201705
Helena, MT 59620-1705

RECEIVED
SEP 30 2008
LEGISLATIVE AUDIT DIV.

RE: Montana Historical Society Audit

Dear Ms. Hunthausen:

We appreciate the opportunity to respond to the audit recommendations for the Montana Historical Society for the two fiscal years ended June 30, 2008. Our responses to the five recommendations included in the report are as follows:

Recommendation #1

A. We recommend the society apply enterprise fund operations expenditures to enterprise fund authority prior to using general Fund authority in accordance with state law.

Concur. The Society will comply with state law.

Recommendation #2

We recommend the Society provide training to accounting personnel concerning federal and state laws and regulations for federal indirect cost activity.

Concur. The Society has been consulting with the State of Montana Department of Public Health and Human Services, State of Montana Department of Administration and Federal grant authorities to seek guidance in relation to indirect cost training. The Society is willing to enhance our knowledge on indirect cost recovery and will participate in any training on indirect cost when the opportunity is present.

Recommendation #3

We recommend the Society develop and implement control procedures to ensure Publication Program magazine subscription revenue activity and Montana interactive sales are accurate.

Concur. The Society has resolved the magazine subscription deferred income issue and has implemented a process for monthly reconciliation. The Society has also implemented a process for monthly reconciliation of revenue via the Montana Interactive activity.

Recommendation #4

We recommend the Society develop and implement procedures for monitoring and testing its internal controls.

Partially concur. The Society has been monitoring the controls monthly; however we did not document the monitoring. The Society will implement a testing and monitoring program in partnership with an independent agency. The State library has agreed to partner with the Society to benefit both agencies' internal controls process.

Recommendation #5

We recommend the Society complete the inventory process to ensure museum collections are secure and properly managed.

Partially Concur. State rules and policies require the Museum to provide accountability to the public regarding our public-owned collections on legal, ethical and management fronts. Museum staff regularly physically inspects items or edit collections records. We have completed project inventories for the textile collection, paintings collection, Native American collections, Scriver collection, gun collection, Original Governor's Mansion, temporary exhibitions, conservation spot-check inventory of 10% of the collections, and have done an annual spot inventory.

There is a huge backlog of Museum collections to be catalogued as well as new items added each year. Based on current staffing levels we estimate that it would require 19 - 20 years to completely catalog the backlog of insufficiently documented artifacts, currently estimated at 29,478, as well as process the incoming artifacts, an estimated average of 500 – 1,000 artifacts added to the collection each year. Items are fully cataloged, measured, described, photographed, permanent numbers attached, condition reported, placed in storage or on exhibit, and location recorded, a task that cannot be done without the necessary resources for this purpose.

With an additional two FTE working only on inventory full-time, it would take an estimated three years to perform an inventory of the collection. Staff must be familiar with museum artifact handling procedures, and have computer and artifact cataloging skills. In order to effectively complete the inventory access to the collections must be closed to the public and researchers for the entire three year period. Additional resources such as upgrades to our collections database system of bar-code software capabilities, scanning equipment, archival barcode labels, printers, and two laptop computers, with additional software licensing will be required to finish an inventory project of this magnitude in a comprehensive and efficient manner.

We appreciate the professionalism demonstrated by your staff that participated in the audit. Thank you again for the opportunity to review the audit report and respond to the recommendations.

Sincerely,

A handwritten signature in black ink that reads "Richard Sims". The signature is written in a cursive style with a large initial "R" and a long, sweeping underline.

Richard Sims
Director