



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

*Montana
Historical Society*

*For the Two Fiscal Years Ended
June 30, 2010*

SEPTEMBER 2010

LEGISLATIVE AUDIT
DIVISION

10-24

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LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Monica Huyg, Legal Counsel



Deputy Legislative Auditors
James Gillett
Angie Grove

September 2010

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, 2010. The report includes three recommendations related to establishing review procedures, compliance with state accounting policy, and compliance with the Montana Constitution. The society's response begins on page B-1.

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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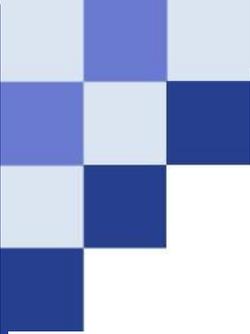
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APPOINTED AND ADMINISTRATIVE OFFICIALS

			<u>Term Expires</u>
Montana Historical Society Board of Trustees	James W. Murry, President	Clancy	7/01/2015
	Jim Utterback, Vice President	Helena	7/01/2014
	Steve Carney	Scobey	7/01/2012
	Janene Caywood	Missoula	7/01/2013
	Jim Court	Billings	7/01/2013
	Shirley Groff	Butte	7/01/2015
	George Horse Capture	Great Falls	7/01/2011
	Kent Kleinfopf	Missoula	7/01/2012
	Jack Lepley	Fort Benton	7/01/2015
	Sharon Lincoln	Billings	7/01/2013
	Steve Lozar	Polson	7/01/2012
	Thomas Nygard	Bozeman	7/01/2011
	Lee Rostad	Martinsdale	7/01/2014
	Crystal Wong Shors	Helena	7/01/2011
Ed Smith	Helena	7/01/2013	
			<u>Term Expires</u>
Montana State Historical Preservation Review Board	Donald Matlock, President	Hamilton	10/01/2013
	Jon Axline	Helena	10/01/2012
	Donna Coate	Forsyth	10/01/2011
	Lesley Gilmore	Gallatin Gateway	10/01/2012
	Rebecca Hanna	Choteau	12/31/2010
	Rosalyn LaPier	Missoula	12/31/2010
	Tim Light	Kalispell	10/01/2012
	Robert Valach	Lewistown	10/01/2011
	Miki Wilde	East Helena	10/01/2011
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:

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MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL-COMPLIANCE AUDIT

Montana Historical Society

For the Two Fiscal Years Ended June 30, 2010

SEPTEMBER 2010

10-24

REPORT SUMMARY

The Montana Historical Society (society) had approximately 60,000 people visit its museum and archives facility in fiscal year 2009 and fiscal year 2010. The Museum collection contains over 50,000 artifacts including art and three-dimensional artifacts relating to Montana history and culture. The best known works in the art collection (8,000 pieces) are by Montana's "Cowboy Artist" Charles M. Russell. Another major art collection represents the life work of sculptor Bob Scriver (3,000 pieces). The society also houses approximately 30,000 linear feet of state, local government, and private records.

Context

The Montana Historical Society (society) was established in 1865 to acquire, preserve, and protect for future generations historical records, art, archival and museum objects, historical places, sites and monuments important to the understanding of Montana history. The society was supported by approximately 14,300 volunteer hours in fiscal year 2009 and fiscal year 2010. Volunteers provided school tours, helped with social functions, assisted in the museum, and clerical work.

Recommendation Concurrence	
Concur	2
Partially Concur	1
Do Not Concur	0
Source: Agency audit response included in final report.	

Results

We identified several instances where the society does not have controls in place to ensure financial activity is recorded in accordance with state policy and complies with applicable regulations. These instances included the improper recording of assets, recording of adjustments, and the recovery of indirect costs.

We identified unconstitutional investment activity totalling \$761,154.

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Chapter I – Introduction

General

We performed a financial-compliance audit of the Montana Historical Society (society) for the two fiscal years ended June 30, 2010. The objectives of the audit were to:

1. Obtain an understanding of the society's internal control systems to the extent necessary to support our audit of the society's financial schedules and, if appropriate, make recommendations for improvement in the management and internal controls.
2. Determine the status of prior audit recommendations.
3. Determine the society's compliance with selected state and federal laws and regulations.
4. Determine whether the society's financial schedules present fairly the results of its operations for the two fiscal years ended June 30, 2010.

Auditing standards require us to communicate, in writing, deficiencies in internal control we identified as a result of the first audit objective above and considered to be significant or material. A deficiency in internal control exists when the design or operation of a control does not allow management or employees to prevent or detect and correct misstatements or noncompliance issues on a timely basis. A material weakness is one or more deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial schedules will not be prevented, or detected and corrected on a timely basis. A significant deficiency is one or more deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Table 1 below discloses a material weakness we identified during this audit.

Subject	Significant Deficiency	Material Weakness	Page
Internal Controls and Accounting Oversight	Yes	Yes	5

This report contains three 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 §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:

Administration Program (17.79 FTE) provides supervision, administration, and coordination of the six programs in the Montana Historical Society. Program staff are responsible for the management, planning, direction, and leadership of the society. Activities include public information, payroll/personnel, fund raising, financial reporting, business management, security, building management, community outreach, historic research, historic interpretation, and the society store.

Research Center Program (15.75 FTE) consists of the library, archives, and photograph archives functions. This program acquires, organizes, preserves, makes accessible to the public, and assists researchers with published materials, historic records and manuscripts, photographs and related media, and oral histories illustrative of the history of Montana and the surrounding region. By statute, this program houses the official archives of the state.

Museum Program (9.00 FTE) collects, preserves, and interprets the history of Montana through its material culture, collecting fine arts and historical, archaeological, and ethnological artifacts from Montana and the general geographic region. The program displays and interprets its collections through exhibits, tours, and traveling exhibits. The program also coordinates with the society’s Education Program to orchestrate events, programs, and materials on Montana history for learners of all ages.

Publications Program (4.00 FTE) promotes the study of Montana history and education through lectures, publications, and curriculum materials. The program publishes quarterly editions of the award-winning *Montana The Magazine of Western History* and the *Montana Star*, official newsletter of the society. It also publishes books under the Montana Historical Society Press imprint.

Education Program (5.85 FTE) conducts tours, produces public programs, manages the volunteer program, produces curriculum resources for teachers, and produces outreach resources. Outreach resources include staff assembled “hands-on history” footlockers, Montana history textbooks, on-line teacher resources and CD programs for use in schools. They also plan and organize the annual Montana history conference.

Historic Sites Preservation Program (State Historic Preservation Office) (8.75 FTE) staff provide technical assistance to all Montana property owners, including agencies, organizations, and the public. Staff maintains a statewide inventory of recorded historic and archaeological sites. Staff review and comment on all proposed federally funded or permitted projects within the state to determine their effect on properties listed or eligible for listing in the National Register of Historic Places. Staff administers the National Register of Historic Places program in Montana through the state preservation review board. The office recommends certification of historic structures and rehabilitation projects for federal tax credits to citizens and businesses, as authorized by the Tax Reform Act of 1976. The program awards and administers pass-through federal grants to local governments participating in the federal Certified Local Government Program. The program may also award funds for historic survey and planning for historic areas and for bricks and mortar rehabilitation when funds are available.

Prior Audit Recommendations

We determined the status of the five prior audit recommendations directed to the society. The society has implemented three and partially implemented two of these recommendations. The society partially implemented the recommendation regarding compliance with policies governing the management of its collections, discussed further on page 9. The society has 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 7.

Chapter II – Findings and Recommendations

Internal Controls and Accounting Oversight

The society does not have a review process to ensure the financial transactions are recorded on the accounting records in accordance with state accounting policy.

A control structure is a process designed to provide management with reasonable assurance it will achieve its objectives related to financial accountability and compliance with laws and regulations. State law requires each agency to record the transactions necessary to ensure its accounting records present the receipt, use, and disposition of all money and property for which it is accountable in accordance with generally accepted accounting principles by the close of each fiscal year. State policy provides further guidance for agencies to develop appropriate internal control procedures based upon their business processes. We identified several instances related to asset capitalization, asset valuation, prior year adjustments, and indirect cost recovery where the society does not have controls in place to ensure transactions are recorded in accordance with state accounting policy and comply with applicable regulations.

Asset Capitalization

In fiscal year 2008-09, society personnel improperly capitalized some of its donated and purchased assets on the society's financial schedules. State accounting policy requires all assets acquired by governmental funds, whether by purchase or donation, be recorded on a separate ledger used to present the state's Basic Financial Statements on the full accrual basis of accounting. Table 2 outlines the misstatements to the fiscal year 2008-09 financial schedules that result from this error. In addition, assets recorded in the Enterprise Fund belonged to the State Special Revenue Fund.

Table 2
**Capital Asset Errors, by Account and Fund
 Impacting the Society's Financial Schedules**
 Fiscal Year 2008-09

Fund	Account	Account Type	Amount Over (Under) Stated
General	Library Collections	Asset	\$ 60,499
	Equipment	Expenditures	(60,499)
	Fund Balance	Fund Balance	60,499
State Special Revenue	Museum & Art	Asset	352,000
	Equipment	Asset	17,470
	Capital Contributions	Revenue	352,000
	Equipment	Expenditures	(17,470)
	Fund Balance	Fund Balance	369,470
Enterprise	Library Collections	Asset	422,700
	Equipment	Expenditures	(422,700)
	Fund Balance	Fund Balance	422,700

Source: Compiled by the Legislative Audit Division from Historical Society records.

These errors contributed to the opinion qualification on page A-1 of this report. Because the society recorded these assets improperly, the assets were understated by similar amounts on the accounting records supporting the state's Basic Financial Statements.

According to society personnel, the accounting system defaults to the society's financial schedules when asset transactions are initiated and must manually be changed to process on the accounting records supporting the state's Basic Financial Statements. In this instance, society personnel forgot to change the default used for the transaction.

Asset Valuation

During fiscal year 2008-09, Society personnel processed transactions to revalue capital assets at estimated fair market value. State accounting policy requires assets be reported at historical cost. Table 3 outlines the misstatements existing in the accounting records supporting the state's Basic Financial Statements at June 30, 2009.

Table 3
Capital Asset Valuation Errors, by Account and Fund
 Fiscal Year 2008-09

Fund	Account	Account Type	Amount Over (Under) Stated
General	Buildings	Asset	\$ 1,430,822
	Nonbudgeted Building Offset	Expenditures	(1,430,822)
	Museum & Art	Asset	47,685
	Nonbudgeted Equipment Offset	Expenditures	(47,685)
	Fund Balance	Fund Balance	1,478,507
State Special Revenue	Museum & Art	Asset	187,051,220
	Nonbudgeted Equipment Offset	Expenditures	(49,051,220)
	Capital Contributions	Expenditures	138,000,000
	Fund Balance	Fund Balance	187,051,220

Source: Compiled by the Legislative Audit Division from Historical Society records.

These misstatements occurred because society personnel did not understand state accounting policy requirements for reporting asset values. These misstatements do not affect the financial schedules presented in this audit report, and as such, do not contribute to the opinion qualification on page A-1.

Prior Year Adjustments

When the society entered transactions to correct the donated and purchased assets described above, the corrections did not include the program year. As a result, the transactions did not appear as prior year adjustments on the financial schedules. Consequentially, Prior Year Revenues & Transfers-In Adjustments are overstated and Actual Budgeted Revenues & Transfer-In is understated by \$352,000 on the Schedule of Total Revenues & Transfer-In for the fiscal year ended June 30, 2010. On the Schedule of Total Expenditures & Transfers-Out for the fiscal year ended June 30, 2010, Prior Year Expenditures & Transfers-Out Adjustments is understated and Actual Budgeted Expenditures & Transfer-Out is overstated for the Research Center Program by \$500,668. State accounting policy requires an agency enter the prior year in the program field when correcting an expenditure or revenue error made in the previous year.

Improperly Recovering Indirect Costs

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 2008-09 and 2009-10.

However, the society applied the approved rate to an expenditure base that was not properly calculated in fiscal year 2008-09. We estimated the society's federal indirect cost recoveries to be \$13,751 more than allowed by the indirect cost plan. The final fiscal year 2008-09 indirect cost recovery calculation did not exclude subawards or expenditures for grants not allowing indirect cost recoveries, a requirement of the indirect cost plan. A review of the expenditure base calculation could have prevented this noncompliance from occurring. We question \$13,751 in unsupported indirect cost recoveries.

Summary

Society personnel explained that the above issues resulted from errors and lack of proper guidance. Because management expects turnover in a key accounting position and the society has not cross-trained employees to complete the duties of that position, the risk of errors in the future could increase. By establishing review procedures to ensure asset transactions and prior year adjustments are properly recorded and indirect cost recoveries comply with the approved plan, the society can reduce risk of similar errors in future periods.

RECOMMENDATION #1

We recommend that the society establish review procedures to ensure asset transactions and prior year adjustments are properly recorded and indirect costs recoveries comply with the approved plan.

Equity Investments

Society investments in pooled equity securities are unconstitutional.

The society has public funds totaling \$761,154 invested in equity securities in the state special revenue fund and four permanent trust funds as of June 30, 2010. Article VIII, Section 13 of the Montana Constitution states that no public funds shall be invested in private corporate capital stock, with the exception of public retirement assets and state compensation insurance fund assets. Society management stated they were not aware that the investment decisions, which were made by previous administrators, were unconstitutional. The managers said they had contacted the Board of Investments in January 2010 and were told the investments were not in need of change. The Investment Policy Statement on file with the Board of Investments was approved in April 2004.

The society should become knowledgeable of the investment restrictions in the Montana Constitution when establishing its investment policies with the Board of Investments.

RECOMMENDATION #2

We recommend the society instruct the Board of Investments to modify its Investment Policy Statement for the society to comply with the investment restrictions stated in the Montana Constitution.

Collection Inventory

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

The museum has over 50,000 historic artifacts in its collection and it receives approximately between 500 and 1,000 new artifacts each year. As of June 30, 2010, approximately 23,500 items were still on the backlog in need of being cataloged and inventoried. During fiscal year 2010 there were 2,062 records added to the society's database of which 250 were new additions to the collection, 92 were items on loan, and 1,720 were from the backlog. Society personnel stated that based on current staffing levels they estimate that it would require 8 to 10 years to completely catalog the backlog of insufficiently documented artifacts as well as process the incoming artifacts added to the collection each year. State accounting policy states that an agency must take a complete physical inventory of all capital assets. At a minimum, this inventory must be taken every two years. Society personnel stated that with an additional two employees working only on inventory full-time, it would take an estimated two to three years to perform an inventory of the entire collection, costing approximately \$44,000 each per year.

This issue was included in the society's prior audit report. Without a complete inventory there is risk of the items getting lost or stolen. The society should continue to make progress on cataloging, inventorying, and documenting the historical artifacts in the museum's collection.

RECOMMENDATION #3

We recommend the society complete the inventory process in accordance with state accounting policy.

Independent Auditor's Report and Society Financial Schedules

LEGISLATIVE AUDIT DIVISION

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, 2010, and 2009. The information contained in these financial schedules is the responsibility of the society's management. Our responsibility is to express opinions 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 opinions.

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, liabilities and cash flows.

The society improperly capitalized donated and purchased fixed assets on the fiscal year 2008-09 financial schedules, resulting in the following over(under)statements.

Account	Schedule of Changes in Fund Balances	Schedule of Total Revenues & Transfers-In	Schedule of Total Expenditures & Transfers-Out
Capital Contributions, State Special Revenue Fund		\$ 352,000	
Nonbudgeted Revenues & Transfers-In, State Special Revenue Fund	\$ 352,000	352,000	
Equipment, Research Program			\$ (500,669)
Expenditures & Transfers-Out by Fund, Research Program			
General Fund			(60,499)
State Special Revenue Fund			(17,470)
Enterprise Fund			(422,700)
Nonbudgeted Expenditures & Transfers-Out			(500,669)
General	(60,499)		
State Special Revenue Fund	(17,470)		
Enterprise Fund	(422,700)		
Ending Fund Balance			
General Fund	60,499		
State Special Revenue Fund	369,470		
Enterprise Fund	422,700		

In our opinion, except for the effect of the error discussed in the previous paragraph, 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, 2010, and 2009, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

/s/ James Gillett

James Gillett, CPA
Deputy Legislative Auditor

August 6, 2010

HISTORICAL SOCIETY
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	<u>General Fund</u>	<u>State Special Revenue Fund</u>	<u>Federal Special Revenue Fund</u>	<u>Enterprise Fund</u>	<u>Permanent Fund</u>
FUND BALANCE: July 1, 2009	\$ (50,811)	\$ 1,391,091	\$ 160	\$ 730,185	\$ 1,123,723
ADDITIONS					
Budgeted Revenues & Transfers-In	25	146,826	1,134,311	823,350	
Nonbudgeted Revenues & Transfers-In	14,205	920,017	310		141,757
Prior Year Revenues & Transfers-In Adjustments		(497)		1,906	
Direct Entries to Fund Balance	2,695,733	193,984			
Total Additions	<u>2,709,963</u>	<u>1,260,330</u>	<u>1,134,621</u>	<u>825,256</u>	<u>141,757</u>
REDUCTIONS					
Budgeted Expenditures & Transfers-Out	2,682,543	797,744	1,123,247	813,714	
Nonbudgeted Expenditures & Transfers-Out	60,257	636,347	13,772	423,773	20,751
Prior Year Expenditures & Transfers-Out Adjustments		229	299	959	
Total Reductions	<u>2,742,800</u>	<u>1,434,320</u>	<u>1,137,318</u>	<u>1,238,446</u>	<u>20,751</u>
FUND BALANCE: June 30, 2010	<u>\$ (83,648)</u>	<u>\$ 1,217,101</u>	<u>\$ (2,537)</u>	<u>\$ 316,995</u>	<u>\$ 1,244,729</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-9.

HISTORICAL SOCIETY
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Permanent Fund
FUND BALANCE: July 1, 2008	\$ <u>(85,431)</u>	\$ <u>767,681</u>	\$ <u>0</u>	\$ <u>338,425</u>	\$ <u>1,325,992</u>
ADDITIONS					
Budgeted Revenues & Transfers-In	1,343	305,015	808,194	797,034	
Nonbudgeted Revenues & Transfers-In	14,790	691,010	(20)		(173,009)
Prior Year Revenues & Transfers-In Adjustments		1,472		29	(1,472)
Direct Entries to Fund Balance	<u>2,749,633</u>	<u>635,564</u>		<u>887</u>	
Total Additions	<u>2,765,766</u>	<u>1,633,061</u>	<u>808,174</u>	<u>797,950</u>	<u>(174,481)</u>
REDUCTIONS					
Budgeted Expenditures & Transfers-Out	2,791,614	929,871	793,892	803,002	
Nonbudgeted Expenditures & Transfers-Out	(60,499)	78,811	14,122	(398,397)	27,788
Prior Year Expenditures & Transfers-Out Adjustments	31	969		1,585	
Total Reductions	<u>2,731,146</u>	<u>1,009,651</u>	<u>808,014</u>	<u>406,190</u>	<u>27,788</u>
FUND BALANCE: June 30, 2009	\$ <u><u>(50,811)</u></u>	\$ <u><u>1,391,091</u></u>	\$ <u><u>160</u></u>	\$ <u><u>730,185</u></u>	\$ <u><u>1,123,723</u></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-9.

HISTORICAL SOCIETY
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Permanent Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS						
Licenses and Permits		\$ 1,040				\$ 1,040
Taxes	\$ 331	50	\$ 310		\$ 6	697
Charges for Services		51,070		\$ 68,010		119,080
Investment Earnings		46,004			141,271	187,275
Capital Contributions		(352,000)				(352,000)
Sale of Documents, Merchandise and Property		300,443		695,893		996,336
Rentals, Leases and Royalties		71		825		896
Grants, Contracts, and Donations		503,543		10,000		513,543
Transfers-in	13,874	516,125		50,503		580,502
Capital Asset Sale Proceeds					480	480
Federal Indirect Cost Recoveries			125,147			125,147
Miscellaneous	25			25		50
Federal			1,009,164			1,009,164
Total Revenues & Transfers-In	14,230	1,066,346	1,134,621	825,256	141,757	3,182,210
Less: Nonbudgeted Revenues & Transfers-In	14,205	920,017	310		141,757	1,076,289
Prior Year Revenues & Transfers-In Adjustments		(497)		1,906		1,409
Actual Budgeted Revenues & Transfers-In	25	146,826	1,134,311	823,350	0	2,104,512
Estimated Revenues & Transfers-In	525	212,068	1,210,785	789,351		2,212,729
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (500)	\$ (65,242)	\$ (76,474)	\$ 33,999	\$ 0	\$ (108,217)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS						
Licenses and Permits		\$ (19,360)				\$ (19,360)
Taxes		(1)				(1)
Charges for Services	\$ (500)	(143)		\$ (2,232)		(2,875)
Sale of Documents, Merchandise and Property		(699)		37,481		36,782
Rentals, Leases and Royalties				(1,175)		(1,175)
Grants, Contracts, and Donations		(45,039)				(45,039)
Federal Indirect Cost Recoveries			\$ 20,897			20,897
Miscellaneous				(75)		(75)
Federal			(97,371)			(97,371)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (500)	\$ (65,242)	\$ (76,474)	\$ 33,999	\$ 0	\$ (108,217)

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-9.

HISTORICAL SOCIETY
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	<u>General Fund</u>	<u>State Special Revenue Fund</u>	<u>Federal Special Revenue Fund</u>	<u>Enterprise Fund</u>	<u>Permanent Fund</u>	<u>Total</u>
TOTAL REVENUES & TRANSFERS-IN BY CLASS						
Licenses and Permits		\$ 22,226				\$ 22,226
Taxes	\$ 669	67	\$ (20)		\$ 9	725
Charges for Services	1,342	8,273		\$ 66,054		75,669
Investment Earnings		(43,318)			(173,830)	(217,148)
Capital Contributions		352,000				352,000
Sale of Documents, Merchandise and Property		68,543		678,356		746,899
Rentals, Leases and Royalties				2,100		2,100
Grants, Contracts, and Donations		637,219			(1,472)	635,747
Transfers-in	14,122	(47,513)		50,503		17,112
Capital Asset Sale Proceeds					812	812
Federal Indirect Cost Recoveries			91,880			91,880
Miscellaneous				50		50
Federal			716,314			716,314
Total Revenues & Transfers-In	<u>16,133</u>	<u>997,497</u>	<u>808,174</u>	<u>797,063</u>	<u>(174,481)</u>	<u>2,444,386</u>
Less: Nonbudgeted Revenues & Transfers-In	14,790	691,010	(20)		(173,009)	532,771
Prior Year Revenues & Transfers-In Adjustments		1,472		29	(1,472)	29
Actual Budgeted Revenues & Transfers-In	<u>1,343</u>	<u>305,015</u>	<u>808,194</u>	<u>797,034</u>	<u>0</u>	<u>1,911,586</u>
Estimated Revenues & Transfers-In	1,600	388,179	803,661	907,489		2,100,929
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (257)</u>	<u>\$ (83,164)</u>	<u>\$ 4,533</u>	<u>\$ (110,455)</u>	<u>\$ 0</u>	<u>\$ (189,343)</u>
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS						
Licenses and Permits		\$ 5,226				\$ 5,226
Charges for Services	\$ (257)	(2,718)		\$ (11,248)		(14,223)
Investment Earnings		(1,000)				(1,000)
Sale of Documents, Merchandise and Property		(386)		(100,174)		(100,560)
Rentals, Leases and Royalties				1,800		1,800
Grants, Contracts, and Donations		(84,286)		(833)		(85,119)
Federal Indirect Cost Recoveries			\$ (12,567)			(12,567)
Federal			17,100			17,100
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (257)</u>	<u>\$ (83,164)</u>	<u>\$ 4,533</u>	<u>\$ (110,455)</u>	<u>\$ 0</u>	<u>\$ (189,343)</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-9.

HISTORICAL SOCIETY
 SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
 FOR THE FISCAL YEAR ENDED JUNE 30, 2010

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	ADMINISTRATION PROGRAM	EDUCATION	HISTORIC PRESERVATION PROGRAM	MUSEUM PROGRAM	PUBLICATIONS PROGRAM	RESEARCH CENTER	Total
Personal Services							
Salaries	\$ 714,686	\$ 221,946	\$ 379,667	\$ 333,126	\$ 185,051	\$ 649,787	\$ 2,484,263
Employee Benefits	250,787	76,318	135,185	134,691	66,365	241,277	904,623
Personal Services-Other	(6,050)				478	(10,945)	(16,517)
Total	<u>959,423</u>	<u>298,264</u>	<u>514,852</u>	<u>467,817</u>	<u>251,894</u>	<u>880,119</u>	<u>3,372,369</u>
Operating Expenses							
Other Services	125,183	125,521	127,474	350,571	30,862	156,766	916,377
Supplies & Materials	100,755	23,798	15,200	80,541	3,642	54,126	278,062
Communications	40,052	12,596	12,296	57,454	13,313	24,852	160,563
Travel	8,978	8,626	16,108	4,072	82	12,184	50,050
Rent	113,512	16,796	24,564	195,444	16,396	132,204	498,916
Utilities	258						258
Repair & Maintenance	2,741	708	1,500	7,874	708	11,946	25,477
Other Expenses	55,325	40,568	18,622	35,648	(10,506)	(399)	139,258
Goods Purchased For Resale	129,388		10,000	1,301	124,045	119	264,853
Total	<u>576,192</u>	<u>228,613</u>	<u>225,764</u>	<u>732,905</u>	<u>178,542</u>	<u>391,798</u>	<u>2,333,814</u>
Equipment & Intangible Assets							
Equipment	1,396			41,620		493,009	536,025
Total	<u>1,396</u>			<u>41,620</u>		<u>493,009</u>	<u>536,025</u>
Grants							
From Federal Sources			185,223				185,223
Grant To Governmental Entities			4,992				4,992
Grant To Non-Governmental Ent			11,750				11,750
Total			<u>201,965</u>				<u>201,965</u>
Transfers-out							
Fund transfers	61,344	43			50,503		111,890
Total	<u>61,344</u>	<u>43</u>			<u>50,503</u>		<u>111,890</u>
Other Post Employment Benefits							
Other Post Employment Benefits	8,495	101			7,635	1,341	17,572
Total	<u>8,495</u>	<u>101</u>			<u>7,635</u>	<u>1,341</u>	<u>17,572</u>
Total Expenditures & Transfers-Out	<u>\$ 1,606,850</u>	<u>\$ 527,021</u>	<u>\$ 942,581</u>	<u>\$ 1,242,342</u>	<u>\$ 488,574</u>	<u>\$ 1,766,267</u>	<u>\$ 6,573,635</u>
EXPENDITURES & TRANSFERS-OUT BY FUND							
General Fund	\$ 952,938	\$ 132,674	\$ 42,962	\$ 400,694	\$ 141,641	\$ 1,071,891	\$ 2,742,800
State Special Revenue Fund	170,711	335,060	3,263	828,868	5,450	90,968	1,434,320
Federal Special Revenue Fund	118,220	17,567	892,412		385	108,734	1,137,318
Enterprise Fund	363,585	34,220	3,944	12,330	341,098	483,269	1,238,446
Permanent Fund	1,396	7,500		450		11,405	20,751
Total Expenditures & Transfers-Out	<u>1,606,850</u>	<u>527,021</u>	<u>942,581</u>	<u>1,242,342</u>	<u>488,574</u>	<u>1,766,267</u>	<u>6,573,635</u>
Less: Nonbudgeted Expenditures & Transfers-Out	74,716	92,268	3,212	482,865	13,539	488,301	1,154,901
Prior Year Expenditures & Transfers-Out Adjustments	1,185		(86)	(332)	196	525	1,488
Actual Budgeted Expenditures & Transfers-Out	1,530,949	434,753	939,455	759,809	474,839	1,277,441	5,417,246
Budget Authority	1,707,254	478,809	1,113,893	908,977	551,342	1,524,424	6,284,699
Unspent Budget Authority	<u>\$ 176,305</u>	<u>\$ 44,056</u>	<u>\$ 174,438</u>	<u>\$ 149,168</u>	<u>\$ 76,503</u>	<u>\$ 246,983</u>	<u>\$ 867,453</u>
UNSPENT BUDGET AUTHORITY BY FUND							
General Fund	\$ 68,728	\$ 412	\$ 3,294	\$ 9,161		\$ 948	\$ 82,543
State Special Revenue Fund	76,137	17,219		79,122	\$ 31,700	8,515	212,693
Federal Special Revenue Fund	7,045	2,433	171,139	5,563	6,000	207,114	399,294
Enterprise Fund	24,395	23,992	5	55,322	38,803	30,406	172,923
Unspent Budget Authority	<u>\$ 176,305</u>	<u>\$ 44,056</u>	<u>\$ 174,438</u>	<u>\$ 149,168</u>	<u>\$ 76,503</u>	<u>\$ 246,983</u>	<u>\$ 867,453</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-9.

HISTORICAL SOCIETY
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	ADMINISTRATION PROGRAM	EDUCATION	HISTORIC PRESERVATION PROGRAM	LEWIS & CLARK COMMISSION	MUSEUM PROGRAM	PUBLICATIONS PROGRAM	RESEARCH CENTER	Total
Personal Services								
Salaries	\$ 720,189	\$ 232,858	\$ 351,140		\$ 317,298	\$ 175,948	\$ 611,149	\$ 2,408,582
Employee Benefits	241,996	76,441	120,842		124,514	59,331	221,609	844,733
Personal Services-Other	(4)					(14,213)	10,938	(3,279)
Total	<u>962,181</u>	<u>309,299</u>	<u>471,982</u>		<u>441,812</u>	<u>221,066</u>	<u>843,696</u>	<u>3,250,036</u>
Operating Expenses								
Other Services	209,264	143,982	103,770		78,846	43,254	72,365	651,481
Supplies & Materials	45,131	23,450	6,136		57,930	4,256	27,138	164,041
Communications	35,058	7,615	7,610		29,988	9,071	10,878	100,220
Travel	29,345	20,717	24,749		6,428	1,553	11,076	93,868
Rent	340,630	765	24,096		115,332			480,823
Repair & Maintenance	20,833		1,404		291		4,859	27,387
Other Expenses	(7,726)	21,332	14,761		13,311	11,193	89,366	142,237
Goods Purchased For Resale	170,724				1,520	113,698		285,942
Total	<u>843,259</u>	<u>217,861</u>	<u>182,526</u>		<u>303,646</u>	<u>183,025</u>	<u>215,682</u>	<u>1,945,999</u>
Equipment & Intangible Assets								
Equipment	3,191				6,000		(475,058)	(465,867)
Total	<u>3,191</u>				<u>6,000</u>		<u>(475,058)</u>	<u>(465,867)</u>
Grants								
From State Sources	90,950							90,950
From Federal Sources			116,977					116,977
Total	<u>90,950</u>		<u>116,977</u>					<u>207,927</u>
Benefits & Claims								
Total								
Transfers-out								
Fund transfers	(33,391)					50,503		17,112
Total	<u>(33,391)</u>					<u>50,503</u>		<u>17,112</u>
Other Post Employment Benefits								
Other Post Employment Benefits	11,513					11,610	4,459	27,582
Total	<u>11,513</u>					<u>11,610</u>	<u>4,459</u>	<u>27,582</u>
Total Expenditures & Transfers-Out	<u>\$ 1,877,703</u>	<u>\$ 527,160</u>	<u>\$ 771,485</u>	<u>\$ 0</u>	<u>\$ 751,458</u>	<u>\$ 466,204</u>	<u>\$ 588,779</u>	<u>\$ 4,982,789</u>
EXPENDITURES & TRANSFERS-OUT BY FUND								
General Fund	\$ 1,289,939	\$ 171,646	\$ 80,970		\$ 288,394	\$ 108,905	\$ 791,292	\$ 2,731,146
State Special Revenue Fund	188,995	301,570	8,789		449,790	3,743	56,764	1,009,651
Federal Special Revenue Fund	66,433	39,952	678,971		5,066	5,615	11,977	808,014
Enterprise Fund	329,145	11,492	2,755		8,208	347,941	(293,351)	406,190
Permanent Fund	3,191	2,500					22,097	27,788
Total Expenditures & Transfers-Out	<u>1,877,703</u>	<u>527,160</u>	<u>771,485</u>	<u>0</u>	<u>751,458</u>	<u>466,204</u>	<u>588,779</u>	<u>4,982,789</u>
Less: Nonbudgeted Expenditures & Transfers-Out	5,684	27,664	8,701		66,098	(2,560)	(443,763)	(338,176)
Prior Year Expenditures & Transfers-Out Adjustments		1,000				1,595	(10)	2,585
Actual Budgeted Expenditures & Transfers-Out	<u>1,872,019</u>	<u>498,496</u>	<u>762,784</u>	<u>0</u>	<u>685,360</u>	<u>467,169</u>	<u>1,032,552</u>	<u>5,318,380</u>
Budget Authority	2,000,500	540,598	1,037,122	\$ 13,412	690,307	537,199	1,062,102	5,881,240
Unspent Budget Authority	<u>\$ 128,481</u>	<u>\$ 42,102</u>	<u>\$ 274,338</u>	<u>\$ 13,412</u>	<u>\$ 4,947</u>	<u>\$ 70,030</u>	<u>\$ 29,550</u>	<u>\$ 562,860</u>
UNSPENT BUDGET AUTHORITY BY FUND								
General Fund	\$ 748	\$ 1,174	\$ 50		\$ 1,096	\$ 27	\$ 4,517	\$ 7,612
State Special Revenue Fund	37,555	10,920	2,068		3,759	21,300	178	75,780
Federal Special Revenue Fund	3,569	20,000	269,975	\$ 13,412		385	18,695	326,036
Enterprise Fund	86,609	10,008	2,245		92	48,318	6,160	153,432
Unspent Budget Authority	<u>\$ 128,481</u>	<u>\$ 42,102</u>	<u>\$ 274,338</u>	<u>\$ 13,412</u>	<u>\$ 4,947</u>	<u>\$ 70,030</u>	<u>\$ 29,550</u>	<u>\$ 562,860</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-9.

Montana Historical Society

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 2010

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 the Historic Sights and Signs Program, the lodging facility use tax funding, and donations such as Lewis & Clark license plates and the Original Governor’s Mansion.
- ◆ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Society Federal Special Revenue Funds include the State Historic Preservation Office and other miscellaneous federal awards.
- ◆ **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 society 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 activities in the Administration Program, the Education Program, the Historic Preservation Program, the Lewis & Clark Commission Program, the Museum Program, the Publications Program, and the Research Center Program.

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 the two fiscal years ended June 30, 2010.

3. Direct Entries to Fund Balance

Direct entries to fund balances in the General, Special Revenue, and Enterprise 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 on the Schedule of Total Revenues & Transfers-In in fiscal year 2008-09 and fiscal year 2009-10. Additionally, the society had significant nonbudgeted expenditures on the Schedule of Total Expenditures & Transfers-Out in the Research Center Program. The majority of this nonbudgeted activity relates to administrative appropriations from the Department of Commerce for the society's share in the Lodging Facility Use Tax proceeds.

5. Prior Year Corrections

The (\$352,000) in the Capital Contributions balance in the State Special Revenue Fund on the Schedule of Revenues & Transfers-In for the fiscal-year ended June 30, 2010, reflects a correction of an error made in fiscal year 2009.

MONTANA HISTORICAL
SOCIETY

SOCIETY RESPONSE

September 8, 2010

Tori Hunthausen
Legislative Auditor
Room 160, State Capitol
PO Box 201705
Helena, MT 59620-1705

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SEP 08 2010

LEGISLATIVE AUDIT DIV.

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, 2010.

The professionalism displayed by your audit staff while conducting the audit was greatly appreciated. The following are the responses to the audit.

Recommendation #1

We recommend that the society establish review procedures to ensure asset transactions and prior year adjustments are properly recorded and indirect costs recoveries comply with the approved plan.

Concur. The Society has made changes to the indirect process, FY 2009 was the transitional year where the error took place, and no indirect issue appeared in FY 2010. The Society has consulted with Department of Administration regarding establishing review process for asset transactions.

Recommendation #2

We recommend the society instruct the Board of Investments to modify its Investment Policy Statement for the Society to comply with the investment restrictions stated in the Montana Constitution.

Concur. The Society has met with the Board of Investments to investigate the timeline to transfer the investments to the Trust Funds Bond Pool. The Society will seek approval from the Society's Board of Trustees to implement the transfer on October 1, 2010.

Recommendation #3

We recommend the society complete the inventory process in accordance with state accounting policy

Conditionally concur.

State rules and policies require the Society 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 collection records. We have completed project inventories for textile collection, painting collection, Native American collections, Scriver collection, gun collection, Original Governor's Mansion, temporary exhibition, conservation spot –check inventory of 10% of the collections and have done an annual spot inventory

Based on current staffing levels we estimate that it would require 8-10 years to completely catalog the backlog of insufficiently documented artifacts, currently estimated at 25345 as well as process the incoming artifacts, an estimated average of 500 – 1000 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 two - three years to perform an inventory of the entire 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 inventory 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 the magnitude in a comprehensive and efficient manner.

Thank you again for the opportunity to review the audit report and respond to the recommendations.

Sincerely,



Richard Sims
Director