



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

*Montana Historical
Society*

*For the Two Fiscal Years Ended
June 30, 2018*

JUNE 2019

LEGISLATIVE AUDIT
DIVISION

18-24

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act Amendments of 1996 and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards require the auditor to issue certain financial, internal control, and compliance reports in addition to those reports required by *Government Auditing Standards*. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2017, was issued March 23, 2018. The Single Audit Report for the two fiscal years ended June 30, 2019, will be issued by March 31, 2020.

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LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

June 2019

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit of the Montana Historical Society for the two fiscal years ended June 30, 2018. During the audit, we reviewed the underlying support for operating expenses, completed analytic procedures over personal services, reviewed support for federal grants, examined support for deposits, and reviewed budget authority, revenue estimates, and direct entries to fund equity. Additionally, we determined implementation of prior audit recommendations, tested applicable controls, and evaluated compliance with selected laws and regulations.

This report contains two recommendations related to accounting for inventory and controls over cash received. The report also includes a disclosure issue related to federal indirect costs for the legislature's consideration.

The Montana Historical Society's written response to the audit is on page C-1. We thank the Director and his staff for their assistance and cooperation during the audit.

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

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APPOINTED AND ADMINISTRATIVE OFFICIALS

Montana Historical Society Administrative Officials

Bruce Whittenberg, Director
Denise King, Centralized Services Administrator

Montana Historical Society Board of Trustees

			<u>Term Expires</u>
Thomas Nygard, President	Bozeman		July 2021
Kent Kleinkopf, Vice President	Missoula		July 2022
Hal Stearns, Secretary	Missoula		July 2022
Bob Brown	Whitefish		July 2021
Jim Court	Billings		July 2019
Cliff Edwards	Billings		July 2019
Ed Jasmin	Helena		July 2023
Chuck Johnson	Helena		July 2020
Steve Lozar	Polson		July 2022
Douglas MacDonald	Missoula		July 2023
Thomas Minckler	Billings		July 2023
Sam Phares	Clyde Park		July 2020
Jude Sheppard	Chinook		July 2020
Mike Shields	Helena		July 2019
Crystal Wong Shors	Helena		July 2021

Term Expires

Montana State Historical Preservation Review Board

Timothy Urbaniak, Chairman	Billings		October 2019
C. Riley Auge	Missoula		October 2022
Carol Bronson	Great Falls		October 2021
Patti Casne	Helena		October 2019
Debra Hronek	Red Lodge		October 2019

Marvin Keller	Billings	October 2022
Charles McLeod	Missoula	October 2020
Jeffrey Shelden	Lewistown	October 2020
Marcella Walter	Helena	October 2020

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, 2018

JUNE 2019

18-24

REPORT SUMMARY

The Montana Historical Society (society) maintains exhibits for the public to promote an understanding and appreciation of Montana's cultural heritage—past, present, and future. The current report contains two recommendations related to accounting for inventory in accordance with generally accepted accounting principles and a significant deficiency in internal controls over the completeness of the society's approximate \$2.2 million share of lodging use tax collected by another state agency. The report also includes a disclosure issue related to federal indirect costs for the legislature's consideration.

Context

The society operates with six programs: The Museum, Research Center, Montana State Historical Preservation Office, Education and Outreach Program, Publications, and Administration Program. The society's purpose is to aid in the preservation of historic resources, aid organizations preserving Montana's history, and to provide programs to interpret Montana's past.

The museum collection is made up of more than 50,000 artifacts, including but not limited to: native artifacts, art, costumes, textiles, firearms, saddles, film and industry objects for agriculture, cattle, and mining industries. The society's collection also includes 200 pieces of work created by Charles Marion Russell, also known as C.M. Russell.

Volunteers at the Montana Historical Society also provide significant services for the society. These services include giving school tours, perform research, and provide administrative support.

Revenues totaled approximately \$2.5 million and \$4.2 million for fiscal years 2017 and 2018,

respectively. The increase in fiscal year 2018 revenue is due to receiving more donations. The society's main sources of revenue are federal grants, contracts and donations, and sales of documents, merchandise and property. Expenditures totaled approximately \$6.8 million and \$6.0 million for fiscal years 2017 and 2018, respectively, and comprised mainly of personal services and operating expenses.

Our audit efforts were focused on these primary activities of the society. Our audit work included reviewing the underlying support for operating expenses, completing analytic procedures over personal services, reviewing support for federal grants, examining support for deposits, review of budget authority and revenue estimates, and direct entries to fund equity. Additionally, we determined implementation of prior audit recommendations, tested applicable controls, and evaluated compliance with selected laws and regulations.

(continued on back)

Results

The current audit report contains two recommendations related to accounting for inventory and controls over cash received from a third party. The report also includes a disclosure issue related to federal indirect costs for the legislature's consideration.

The society incorrectly applied current year production costs to all items in inventory, not just those added during the current year, and did not review utility of magazine inventory items for impairment. As a result, the inventory balance recorded on the state's accounting records is incorrect.

Additionally, the society has a significant deficiency in internal controls over ensuring the completeness and accuracy of the society's share of lodging use taxes, collected by another state agency, on a timely basis.

There was one prior audit recommendation related to the society recording indirect cost recoveries in accordance with state accounting policy that we consider partially implemented. During the audit we questioned the appropriateness of how the society was recording a portion of their federal indirect costs in context of a revised state accounting policy. While the society's practice is not specifically prohibited by state accounting policy, a portion of the policy does not align with the Department of Administration's intent for recording federal indirect costs. Thus, no recommendation was made, and this report contains a disclosure issue on the matter.

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

For a complete copy of the report (18-24) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to lad@mt.gov; or check the web site at <https://leg.mt.gov/lad/audit-reports>
Report Fraud, Waste, and Abuse to the Legislative Auditor's FRAUD HOTLINE
Call toll-free 1-800-222-4446, or e-mail LADHotline@mt.gov.

Chapter I – Introduction

Audit Objectives

We performed a financial-compliance audit of the Montana Historical Society (society) for the two fiscal years ended June 30, 2018. The objectives of the audit were to:

1. Obtain an understanding of the society’s control systems to the extent necessary to support an audit of the society’s financial schedules and, if appropriate, make recommendations for improvement in management and the internal controls of the society.
2. Determine whether the society’s financial schedules present fairly the results of operations and changes in fund equity for each of the two fiscal years ended June 30, 2018, and June 30, 2017.
3. Determine whether the society complied with selected state laws and regulations.
4. Determine the implementation status of the prior audit recommendations.

We addressed these objectives by analyzing the financial schedules and note disclosures, examining the underlying financial activity, and reviewing and testing selected control activities. Our audit effort focused on reviewing the underlying support for operating expenses, completing analytic procedures over personal services, reviewing support for federal grants, examining support for deposits, review of budget authority and revenue estimates, and direct entries to fund equity. Additionally, we determined implementation of prior audit recommendations, and evaluated compliance with selected laws and regulations.

Background

The purpose of the society is to protect, preserve, and interpret Montana and western American history for the benefit of the public. The following describes society operations and notes the full-time equivalent employees (FTE) authorized by the legislature for fiscal year 2018.

Administration Program (16.19 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 sharing, payroll processing and personnel management, fund raising, financial reporting, business management, security, building management, community outreach, and the society store.

Research Center Program (15.50 FTE) consists of the library, archives, and photograph archives functions. This program acquires, organizes, preserves, and makes

resources accessible to the public. Researchers are assisted with published materials, historical records and manuscripts, photographs and related media, and oral histories illustrative of the history of Montana and the surrounding region. This program houses the official archives of the state.

Museum Program (8.00 FTE) collects, preserves, and interprets the history of Montana. The program collects fine art and historical, archaeological, and ethnological artifacts from Montana and the general geographic region. The program displays and interprets its collections through exhibits and tours. 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 (5.00 FTE) promotes the study of Montana history and education through lectures, publications, and curriculum materials. The program publishes quarterly editions of *Montana The Magazine of Western History* and the *Society Star*, the official membership newsletter. Books are also published under the Montana Historical Society Press imprint.

Education Program (4.95 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 textbook, and on-line teacher resources. Other activities include the National Register Sign Program, which produces interpretive signage for eligible structures and sites in all parts of the state.

Historic Sites Preservation Program (State Historic Preservation Office) (9.00 FTE) staff provide technical assistance to all Montana property owners, maintain a statewide inventory of recorded historic and archaeological sites, review and comment on all proposed or permitted federally funded preservation projects, and administer the National Register of Historic Places through the State Preservation Review Board. The program awards and administers pass-through federal grants to local governments participating in the federal Certified Local Government Program. When funds are available, the program may also award funds for historic survey and planning.

Prior Audit Recommendations

The audit report for the two fiscal years ended June 30, 2016, contained two recommendations. During the current audit period we evaluated the corrective actions the society took to implement the prior recommendations. Based on the results, the society partially implemented both prior audit recommendations.

One of the prior audit recommendations relates to developing internal controls to: a) ensure depreciation is recorded in accordance with state accounting policy; and b) the utility of goods held as inventory is evaluated and the value of these goods is reduced when impaired as required by generally accepted accounting principles. The society implemented the portion of this recommendation related to recording depreciation in accordance with state accounting policy, but did not implement the portion related to evaluating the value of inventory goods when they are impaired. As such, we consider the recommendation to be partially implemented and made a recommendation to the society in the current audit report. See Recommendation #1 on page 5.

The other prior audit recommendation relates to recording federal indirect costs in accordance with state accounting policy. During the audit we questioned the appropriateness of how the society was recording a portion of their federal indirect costs in context of a revised state accounting policy. The society's practice is not specifically prohibited by state accounting policy; thus, no recommendation was made, and we have disclosed this instance. For more information, see Disclosure Issue on page 9.

Chapter II – Findings and Recommendations

Accounting for Inventory

The Montana Historical Society incorrectly applied current year production costs to all items in inventory, not just those added during the current year, and did not review utility of magazine inventory items for impairment.

The Montana Historical Society (society), through the publications program, publishes quarterly editions of *Montana The Magazine of Western History*. The society keeps all unsold magazines and retains them as part of their merchandise inventory. Ending magazine inventory counts were 37,660 and 38,070 for fiscal years 2017 and 2018, respectively. These magazines contribute to the dollar amount of merchandise inventory the society records on the state's accounting records, which equaled \$91,746 and \$94,145 at fiscal year-end 2017 and 2018, respectively.

The prior audit report contained a recommendation to the society to develop internal controls to ensure that the utility of goods held as inventory is evaluated and the value of these goods is reduced when impaired, as required by generally accepted accounting principles (GAAP). State law requires the society to record its activity in accordance with GAAP. We followed up on this recommendation in the current audit and determined the society did not implement procedures to evaluate the utility of the magazine inventory. We also determined the society did not value inventory in accordance with GAAP and state accounting policy. More information on these issues is presented in the following paragraphs.

Inventory Valuation

Under GAAP, the value of inventory may be determined using several acceptable methods, but the method used should most clearly reflect periodic costs associated with each fiscal year's activity. Additionally, state policy requires state agencies to value inventory at the lower of cost or market. During the audit period, we noted the society determines the accounting value of its magazine merchandise inventory by multiplying the number of magazines held at year-end by the cost to print a magazine in the current year. By applying current-year costs to inventory produced in prior years, the accounting records do not accurately reflect the cost of the magazines held in inventory. The process artificially inflates the reported cost of the magazines held in inventory, because it applies current-year costs to magazines that have been in inventory for several years, and were presumably produced at costs lower than current-year costs.

Inventory Utility

In addition, the society's current methodology of reducing and keeping inventory levels of each quarterly issue below 300 issues does not allow the society to review older magazine inventory for present service capacity and utility. The society's magazine inventory includes magazine issues that have been sitting in inventory for up to 65 years. Older magazine inventory does not sell at a consistent pace or volume, and in some cases, are given away. As such, the society does not have a reasonable basis to expect it will sell all the magazines currently reported as inventory. Based on our review of inventory sales patterns, we believe the older magazine inventory does not have a present service capacity as an income-producing asset. This means that inventory does not have a likelihood to be sold for cash for the society to procure services for the citizenry. Accordingly, because the magazine inventory lacks present service capacity, it does not meet the definition of an asset and has no market value or net realizable value. We believe the utility of the inventory is impaired.

GAAP states that a loss should be recognized when the net realizable value of inventory is lower than its cost. This loss is required to be recognized when inventory has suffered damage, physical deterioration, obsolescence, changes in price levels, or other causes. Given the society does not evaluate the utility of its magazine inventory and the magazine inventory does not have present service capacity, we believe the amount of magazine inventory recorded on the state's accounting records is overstated.

Summary

When asked about the current methodology for accounting for inventory, management personnel indicated it has been in place for several years, but did not provide information as to why it was initially adopted. In response to inventory utility, society staff said they do not believe their inventory is impaired as historical record value never decreases and they occasionally sell older magazine issues. However, value as a historical record is not considered for accounting purposes. Due to the lack of historical production cost records, we are not able to quantify the effect of the errors described above on the state's accounting records.

RECOMMENDATION #1

We recommend the Montana Historical Society value and record inventory in accordance with general accepted accounting principles and state accounting policy.

Third-Party Revenue Collections

The society does not ensure, on a timely basis, that cash collected on its behalf by the Department of Revenue is complete and accurate.

Per state law, the society receives two different distributions from the Lodging Facility Use Tax (lodging use tax). Pursuant to state law, the Department of Revenue (DoR) collects the lodging use tax and deposits the society's allocations into state special revenue fund accounts shared with the society. The society records expenditures in these shared accounts throughout the fiscal year. During the fiscal year-end closing process completed by the Department of Administration, the cash collected and deposited into the shared accounts by DoR is moved to the society via a direct entry to fund equity. The direct entries equaled approximately \$1.04 million and \$1.12 million for fiscal years 2017 and 2018, respectively.

State accounting policy requires state agencies to implement and maintain internal controls and perform reconciliations of third-party revenue collections. During the audit, we determined the society did not have internal controls in place to ensure, on a timely basis, that the amount of lodging use taxes collected and recorded by DoR were complete or accurate. The society only formally documented their review of the support for the collected amounts on a biennial basis. Receiving support on a biennial basis is not timely enough to identify and correct errors in the accounting records for each individual fiscal year. As a result, errors in the accounting records could have been present, and would not have been detected by the society in a timely manner.

Society personnel only provided documentation of the review that occurred at the end of the biennium. Per society personnel, review of the collections is happening throughout the year, however, documentation of the review was not available. The society should implement procedures to review support prior to fiscal year-end to allow for timely identification and correction of errors. During review of the support for direct entries, we determined the amount recorded as a direct entry for both fiscal years was reasonable, and that the state's accounting records are not misstated in relation to this finding.

We consider the control deficiency to be a significant deficiency, and have reported it as such in our Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Schedules Performed in Accordance with *Government Auditing Standards* on page B-1.

RECOMMENDATION #2

We recommend that the Montana Historical Society develop procedures to ensure the completeness and accuracy of lodging use tax amounts collected by the Department of Revenue prior to fiscal year-end.

Disclosure Issue

The Montana Legislature is tasked with authorizing the expenditure of public money, designating the sources from which money may be collected, shaping the administration to perform the work of state government, and is held accountable for fiscal policy. As such, it is vital we disclose relevant information discovered during our audits of state agencies, even if recommendations do not result from the work, in order to enable the legislature to fulfill its responsibilities. The following section outlines a matter we observed during the audit we believe warrants the attention of the legislature.

Indirect Cost Recoveries

Section 17-1-106(1), MCA, states an agency receiving nongeneral funds shall, in accordance with all applicable regulations, guidelines, or grant rules governing those funds, negotiate indirect cost reimbursement amounts and methodologies so that the agency may recover indirect costs. Indirect costs (or overhead) are those incurred for a common or joint purpose benefiting more than one cost objective. Given these costs are not readily assignable to specific programs, under federal regulations, they cannot be directly charged to federal grant awards. The society's expenditures that give rise to indirect costs include primarily personal services expenditures for Centralized Services Division (CSD) personnel. State accounting policy requires these indirect costs to be recorded a specific way on the state's accounting records.

In the prior audit, we recommended the society follow state accounting policy for recording federal indirect cost recoveries. After that audit, State Financial Services Division (SFSD) personnel at the Department of Administration, modified state accounting policy related to accounting for indirect cost recoveries. During the current audit, we questioned the appropriateness of how the society was recording a portion of their federal indirect costs on the state's accounting records in context of the revised policy. When considering state accounting policy, federal indirect costs should be distinguishable line items on the state's accounting records.

In fiscal years 2017 and 2018, the society recorded a portion of salary and benefit expenditures associated with CSD personnel as personal services expenditures in the Federal Special Revenue Fund (FSRF). This accounting treatment makes the expenditures appear to be direct costs of the society's federal grants. Given these expenditures are not direct costs, they should not be reflected as such in the state's accounting records. We would normally expect the original expenditures to be recorded as an expenditure of state funds, and the FSRF to record an indirect cost expenditure for the portion of those salaries and benefits recovered from the federal grants through the indirect cost recovery process.

However, state accounting policy currently includes language regarding recording indirect cost activity when the original underlying costs are initially paid by the FSRF. Under policy, in this scenario, the accounting records would reflect indirect cost expenses only, and the underlying expenditures would lose their original classification. Based on discussion with the SFSD personnel, we do not believe this is the intent of the policy.

Society management indicated they record a portion of the CSD personal services expenditures in the FSRF because the House Bill (HB) 2 appropriation authority for the expenditures is split between the General Fund and FSRF. Accordingly, they initially charge the expenditures to the FSRF. In order for indirect costs to originate in the General Fund, the society will need to seek associated appropriation authority either through budget amendment or the appropriation process during the next legislative session. We believe the appropriation for the CSD personal services allocated to the FSRF should be moved to the General Fund, knowing the additional spending authority required of the General Fund would be recovered by the indirect cost recovery process. This would allow the society to record indirect cost recoveries in a manner consistent with other state agencies, and more in line with the intent of state accounting policy. The society is required to comply with both HB 2 and state accounting policy, and should seek a solution that will allow for compliance with both.

However, because the society's practice is not specifically prohibited by state accounting policy, we make no recommendation at this time. In addition to this disclosure, we are referring this issue to the next Department of Administration audit. The department is responsible for establishing state accounting policy related to indirect cost recoveries. The next audit of the department will cover fiscal years 2019 and 2020 and is expected to be issued in the fall of 2020.

Independent Auditor's Report and Society Financial Schedules

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the accompanying Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Montana Historical Society (society) for each of the fiscal years ended June 30, 2018, and 2017, and the related notes to the financial schedules.

Management's Responsibility for the Financial Schedules

Management is responsible for the preparation and fair presentation of these financial schedules in accordance with the regulatory format prescribed by the Legislative Audit Committee, based on the transactions posted to the state's accounting system without adjustment; this responsibility includes recording transactions in accordance with state accounting policy; and designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of the financial schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the society's preparation and fair presentation of the financial schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the society's internal control, and accordingly, we express no such opinion. An audit

also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles

As described in Note 1, the financial schedules are prepared from the transactions posted to the state's primary accounting system without adjustment, in the regulatory format prescribed by the Legislative Audit Committee. This is a basis of accounting other than accounting principles generally accepted in the United States of America. The financial schedules are not intended to, and do not, report assets, deferred outflows of resources, liabilities, deferred inflows of resources, and cash flows.

The effects on the financial schedules of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinions on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles" paragraph, the financial schedules referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the society as of June 30, 2018, and June 30, 2017, or changes in financial position or cash flows for the years then ended.

Unmodified Opinions on Regulatory Basis of Accounting

In our opinion, the Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out, present fairly, in all material respects, the results of operations and changes in fund equity of the Montana Historical Society for each of the fiscal years ended June 30, 2018, and 2017, in conformity with the basis of accounting described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2019, on our consideration of the Montana Historical Society's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to

provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the society's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

March 22, 2019

HISTORICAL SOCIETY
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Capital Projects Fund	Enterprise Fund	Permanent Fund
FUND EQUITY: July 1, 2017	\$ (157,783)	\$ 4,393,088	\$ (21,620)	\$ (23,856)	\$ 435,982	\$ 1,375,306
ADDITIONS						
Budgeted Revenues & Transfers-In	24,928	215,369	932,213		893,589	
Nonbudgeted Revenues & Transfers-In		2,081,932			2,569	5,261
Prior Year Revenues & Transfers-In Adjustments		(119)	24,514		133	
Direct Entries to Fund Equity	2,686,477	1,134,179	(19)	23,856	46,223	
Total Additions	<u>2,711,405</u>	<u>3,431,361</u>	<u>956,708</u>	<u>23,856</u>	<u>942,515</u>	<u>5,261</u>
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	2,623,376	1,230,597	915,276		755,676	
Nonbudgeted Expenditures & Transfers-Out	(3,084)	270,130	19,812		106,063	45,228
Prior Year Expenditures & Transfers-Out Adjustments					(2,575)	
Total Reductions	<u>2,620,292</u>	<u>1,500,727</u>	<u>935,088</u>	<u>0</u>	<u>859,165</u>	<u>45,228</u>
FUND EQUITY: June 30, 2018	\$ (66,670)	\$ 6,323,721	\$ 0	\$ 0	\$ 519,332	\$ 1,335,339

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 CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Capital Projects Fund	Enterprise Fund	Permanent Fund
FUND EQUITY: July 1, 2016	\$ <u>(181,809)</u>	\$ <u>3,997,117</u>	\$ <u>(5,500)</u>	\$ <u>0</u>	\$ <u>484,476</u>	\$ <u>1,391,844</u>
ADDITIONS						
Budgeted Revenues & Transfers-In	48,835	202,456	1,196,776		727,957	
Nonbudgeted Revenues & Transfers-In		290,756	(171)		2,206	24,639
Prior Year Revenues & Transfers-In Adjustments	788	386	(23,558)		70	
Direct Entries to Fund Equity	3,495,884	1,079,295		49,022		
Total Additions	<u>3,545,507</u>	<u>1,572,893</u>	<u>1,173,046</u>	<u>49,022</u>	<u>730,233</u>	<u>24,639</u>
REDUCTIONS						
Budgeted Expenditures & Transfers-Out	3,524,394	1,084,861	1,145,885	72,878	715,574	
Nonbudgeted Expenditures & Transfers-Out	(2,933)	92,061	43,574		62,361	41,177
Prior Year Expenditures & Transfers-Out Adjustments	19		(294)		792	
Total Reductions	<u>3,521,480</u>	<u>1,176,922</u>	<u>1,189,166</u>	<u>72,878</u>	<u>778,727</u>	<u>41,177</u>
FUND EQUITY: June 30, 2017	\$ <u><u>(157,783)</u></u>	\$ <u><u>4,393,088</u></u>	\$ <u><u>(21,620)</u></u>	\$ <u><u>(23,856)</u></u>	\$ <u><u>435,982</u></u>	\$ <u><u>1,375,306</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-11.

HISTORICAL SOCIETY
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	<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						
Taxes			\$ 139			\$ 139
Charges for Services	\$ 5,089	\$ 5,315		\$ 159,200		169,605
Investment Earnings		36,930		259	\$ 3,792	40,982
Sale of Documents, Merchandise and Property		17,052		730,142		747,194
Rentals, Leases and Royalties		633		2,725		3,358
Grants, Contracts, and Donations		2,175,195		3,965		2,179,160
Transfers-in		62,043				62,043
Capital Asset Sale Proceeds					1,469	1,469
Federal Indirect Cost Recoveries	19,812		93,717			113,529
Miscellaneous	27	12	13			52
Federal			862,858			862,858
Total Revenues & Transfers-In	<u>24,928</u>	<u>2,297,182</u>	<u>956,727</u>	<u>896,291</u>	<u>5,261</u>	<u>4,180,389</u>
Less: Nonbudgeted Revenues & Transfers-In		2,081,932		2,569	5,261	2,089,762
Prior Year Revenues & Transfers-In Adjustments		(119)	24,514	133		24,528
Actual Budgeted Revenues & Transfers-In	<u>24,928</u>	<u>215,369</u>	<u>932,213</u>	<u>893,589</u>	<u>0</u>	<u>2,066,099</u>
Estimated Revenues & Transfers-In	<u>24,928</u>	<u>215,369</u>	<u>932,213</u>	<u>893,589</u>	<u>0</u>	<u>2,066,099</u>
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS						
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</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 REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Permanent Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS						
Taxes			\$ 264			\$ 264
Charges for Services	\$ 7,055	\$ 6,413		\$ 130,403		143,871
Investment Earnings		26,940		401	\$ 11,791	39,133
Sale of Documents, Merchandise and Property		4,830		593,047		597,877
Rentals, Leases and Royalties		81		1,900	71	2,052
Grants, Contracts, and Donations		383,422		4,482		387,904
Transfers-in		71,076				71,076
Capital Asset Sale Proceeds					12,776	12,776
Federal Indirect Cost Recoveries	42,457		51,013			93,471
Miscellaneous	112					112
Federal		835	1,121,769			1,122,604
Total Revenues & Transfers-In	49,623	493,597	1,173,046	730,233	24,639	2,471,139
Less: Nonbudgeted Revenues & Transfers-In		290,756	(171)	2,206	24,639	317,429
Prior Year Revenues & Transfers-In Adjustments	788	386	(23,558)	70		(22,314)
Actual Budgeted Revenues & Transfers-In	48,835	202,456	1,196,776	727,957	0	2,176,024
Estimated Revenues & Transfers-In	49,000	202,744	1,197,403	729,730		2,178,877
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (165)	\$ (289)	\$ (627)	\$ (1,773)	\$ 0	\$ (2,853)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS						
Charges for Services	\$ 150	\$ (137)		\$ (718)		\$ (706)
Investment Earnings		9		152		161
Sale of Documents, Merchandise and Property		20		(582)		(562)
Rentals, Leases and Royalties				(100)		(100)
Grants, Contracts, and Donations		(47)		(425)		(472)
Transfers-in		(33)				(33)
Federal Indirect Cost Recoveries	(26)		\$ (579)			(605)
Miscellaneous	(288)	(100)		(100)		(488)
Federal			(49)			(49)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (165)	\$ (289)	\$ (627)	\$ (1,773)	\$ 0	\$ (2,853)

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, 2018

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Administration Program	Education	Historic Preservation Program	Museum Program	Publications Program	Research Center	Total
Personal Services							
Salaries	\$ 675,009	\$ 237,054	\$ 415,080	\$ 349,739	\$ 210,716	\$ 661,583	\$ 2,549,181
Hourly Wages		76					76
Employee Benefits	253,456	101,908	169,058	156,171	77,815	275,404	1,033,812
Personal Services-Other	1,530		564		38,883	16,667	57,644
Total	<u>929,996</u>	<u>339,037</u>	<u>584,702</u>	<u>505,910</u>	<u>327,415</u>	<u>953,654</u>	<u>3,640,713</u>
Operating Expenses							
Other Services	198,075	81,791	48,927	109,460	40,207	133,344	611,804
Supplies & Materials	44,824	17,474	8,731	78,764	1,495	41,637	192,924
Communications	40,779	9,026	13,600	13,285	6,617	27,529	110,836
Travel	4,463	7,831	9,810	2,706	2,748	17,762	45,319
Rent	29,539	21,727	56,057	355,624	11,783	144,408	619,136
Repair & Maintenance	5,563			956		15,671	22,190
Other Expenses	24,129	33,701	17,277	7,592	47,153	66,813	196,665
Goods Purchased For Resale	147,070				81,521		228,591
Total	<u>494,442</u>	<u>171,549</u>	<u>154,402</u>	<u>568,386</u>	<u>191,523</u>	<u>447,162</u>	<u>2,027,465</u>
Equipment & Intangible Assets							
Equipment	23,524			18,777		142,567	184,868
Total	<u>23,524</u>			<u>18,777</u>		<u>142,567</u>	<u>184,868</u>
Grants							
From Federal Sources			73,200				73,200
Total			<u>73,200</u>				<u>73,200</u>
Post Employment Benefits							
Other Post Employment Benefits	287		287		835	46	1,454
Employer Pension Expense	6,053		5,546		21,200		32,799
Total	<u>6,340</u>		<u>5,833</u>		<u>22,035</u>	<u>46</u>	<u>34,253</u>
Total Expenditures & Transfers-Out	<u>\$ 1,454,301</u>	<u>\$ 510,587</u>	<u>\$ 818,137</u>	<u>\$ 1,093,073</u>	<u>\$ 540,973</u>	<u>\$ 1,543,429</u>	<u>\$ 5,960,500</u>
EXPENDITURES & TRANSFERS-OUT BY FUND							
General Fund	\$ 881,474	\$ 180,726	\$ 21,852	\$ 460,917	\$ 116,321	\$ 959,003	\$ 2,620,292
State Special Revenue Fund	191,169	304,922	2,998	628,294	22,515	350,830	1,500,727
Federal Special Revenue Fund	87,527		726,028			121,533	935,088
Enterprise Fund	283,379	24,939	67,259	3,863	402,137	77,588	859,165
Permanent Fund	10,753					34,475	45,228
Total Expenditures & Transfers-Out	1,454,301	510,587	818,137	1,093,073	540,973	1,543,429	5,960,500
Less: Nonbudgeted Expenditures & Transfers-Out	58,290	4,574	15,457	11,695	97,860	250,273	438,150
Prior Year Expenditures & Transfers-Out Adjustments					(2,399)	(176)	(2,575)
Actual Budgeted Expenditures & Transfers-Out	1,396,011	506,013	802,680	1,081,378	445,512	1,293,332	5,524,926
Budget Authority	1,463,953	514,577	954,839	1,180,669	447,335	1,537,867	6,099,240
Unspent Budget Authority	<u>\$ 67,942</u>	<u>\$ 8,564</u>	<u>\$ 152,160</u>	<u>\$ 99,291</u>	<u>\$ 1,823</u>	<u>\$ 244,535</u>	<u>\$ 574,315</u>
UNSPENT BUDGET AUTHORITY BY FUND							
General Fund	\$ 39,373			\$ 1		\$ 0	\$ 39,374
State Special Revenue Fund	7,930	5,843		99,144		9,726	122,643
Federal Special Revenue Fund	2,072		134,321			221,134	357,527
Enterprise Fund	18,567	2,721	17,838	146	1,823	13,675	54,771
Unspent Budget Authority	<u>\$ 67,942</u>	<u>\$ 8,564</u>	<u>\$ 152,160</u>	<u>\$ 99,291</u>	<u>\$ 1,823</u>	<u>\$ 244,535</u>	<u>\$ 574,315</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, 2017

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Administration Program	Education	Historic Preservation Program	Museum Program	Publications Program	Research Center	Total
Personal Services							
Salaries	\$ 802,779	\$ 266,737	\$ 433,323	\$ 351,440	\$ 211,067	\$ 795,245	\$ 2,860,592
Employee Benefits	336,147	115,717	190,843	170,718	83,935	357,264	1,254,625
Personal Services-Other	2,807		2,391		8,679		13,877
Total	<u>1,141,733</u>	<u>382,454</u>	<u>626,558</u>	<u>522,158</u>	<u>303,681</u>	<u>1,152,509</u>	<u>4,129,094</u>
Operating Expenses							
Other Services	209,829	99,064	184,961	132,072	54,987	245,079	925,992
Supplies & Materials	27,241	10,514	12,557	60,778	2,341	40,620	154,051
Communications	43,735	11,138	12,241	37,619	7,032	37,787	149,551
Travel	11,767	18,245	14,615	12,738	4,359	16,282	78,005
Rent	27,642	18,673	54,403	338,491	10,397	133,927	583,533
Repair & Maintenance	70,527	11,603	3,303	10,025	468	20,523	116,448
Other Expenses	(5,712)	42,515	54,670	20,576	41,519	91,774	245,342
Goods Purchased For Resale	120,537				79,217		199,754
Total	<u>505,566</u>	<u>211,751</u>	<u>336,749</u>	<u>612,298</u>	<u>200,320</u>	<u>585,991</u>	<u>2,452,675</u>
Equipment & Intangible Assets							
Equipment	19,583			24,558		47,856	91,997
Total	<u>19,583</u>			<u>24,558</u>		<u>47,856</u>	<u>91,997</u>
Grants							
From Federal Sources			80,000				80,000
Total			<u>80,000</u>				<u>80,000</u>
Transfers-out							
Total							
Post Employment Benefits							
Other Post Employment Benefits	2,785		2,657		6,749		12,190
Employer Pension Expense	3,050		2,688		8,655		14,393
Total	<u>5,835</u>		<u>5,345</u>		<u>15,404</u>		<u>26,583</u>
Total Expenditures & Transfers-Out	<u>\$ 1,672,717</u>	<u>\$ 594,205</u>	<u>\$ 1,048,651</u>	<u>\$ 1,159,015</u>	<u>\$ 519,405</u>	<u>\$ 1,786,356</u>	<u>\$ 6,780,350</u>
EXPENDITURES & TRANSFERS-OUT BY FUND							
General Fund	\$ 1,149,900	\$ 290,082	\$ 54,139	\$ 633,856	\$ 163,652	\$ 1,229,851	\$ 3,521,480
State Special Revenue Fund	117,103	272,800	22,360	523,274	6,668	234,715	1,176,922
Federal Special Revenue Fund	43,952	6,474	906,326			232,414	1,189,166
Capital Projects Fund	72,878						72,878
Enterprise Fund	265,793	24,849	65,825	1,884	349,085	71,290	778,727
Permanent Fund	23,090					18,087	41,177
Total Expenditures & Transfers-Out	<u>1,672,717</u>	<u>594,205</u>	<u>1,048,651</u>	<u>1,159,015</u>	<u>519,405</u>	<u>1,786,356</u>	<u>6,780,350</u>
Less: Nonbudgeted Expenditures & Transfers-Out	64,466	2,800	48,232	13,672	41,490	65,579	236,240
Prior Year Expenditures & Transfers-Out Adjustments	<u>(36,773)</u>	<u>6,474</u>	<u>21,183</u>			<u>9,633</u>	<u>517</u>
Actual Budgeted Expenditures & Transfers-Out	1,645,023	584,931	979,235	1,145,343	477,915	1,711,145	6,543,593
Budget Authority	1,737,883	642,583	1,070,728	1,191,403	503,811	1,844,387	6,990,795
Unspent Budget Authority	<u>\$ 92,860</u>	<u>\$ 57,652</u>	<u>\$ 91,492</u>	<u>\$ 46,061</u>	<u>\$ 25,896</u>	<u>\$ 133,242</u>	<u>\$ 447,202</u>
UNSPENT BUDGET AUTHORITY BY FUND							
General Fund	\$ 7,276	\$ 995	\$ 732	\$ 8,981	\$ 110	\$ 19,624	\$ 37,718
State Special Revenue Fund	81,235	56,346		35,955	3,334	4,067	180,936
Federal Special Revenue Fund	1,261		51,530			107,167	159,957
Enterprise Fund	3,088	311	39,231	1,125	22,452	2,384	68,591
Unspent Budget Authority	<u>\$ 92,860</u>	<u>\$ 57,652</u>	<u>\$ 91,492</u>	<u>\$ 46,061</u>	<u>\$ 25,896</u>	<u>\$ 133,242</u>	<u>\$ 447,202</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, 2018

1. Summary of Significant Accounting Policies

Basis of Accounting

The Montana Historical 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, Capital Projects, and Permanent). In applying the modified accrual basis, the Montana Historical 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 department 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 Montana Historical Society to record the cost of employees' annual and sick leave when used or paid.

The Montana Historical Society uses accrual basis accounting for its Proprietary (Enterprise) fund categories. Under the accrual basis, as defined by state accounting policy, the Montana Historical 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 Montana Historical 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 was adopted by the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The Montana Historical 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. The Montana Historical Society uses

general fund in each of the Programs: Administration, Research Center, Museum, Education, Publications, State Historic Preservation Office.

- ◆ **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. Montana Historical Society State Special Revenue Funds include the Historic Sites and Signs program, the Lodging Facility Use Tax, the Membership program, Lewis & Clark License Plates, the Original Governor’s Mansion, Senate Art, grants and/or agreements with other state agencies.
- ◆ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Montana Historical Society Federal Special Revenue Funds include the State Historic Preservation Office and other miscellaneous federal awards.
- ◆ **Capital Projects Fund** – to account for financial resources used for the improvement of capital facilities, other than those financed by propriety funds or trust funds. The department uses this fund for costs of historic preservation and supporting improvements at the Daly Mansion. The 2015 legislation approved biennial amount of \$100,000 in HB 403. The Daly Mansion is administratively attached to the University of Montana. The Society was the fiscal agent for this project. Project has completed in FY 2017.
- ◆ **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 Montana Historical Society programs. The Montana Historical Society uses these private donations for which the donor permitted the use of investment earnings on the donations. Each fund has unique donor requirements as to what the investment earnings can support.

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. Montana Historical Society Enterprise Funds include activities in all six programs within the society. Administration, Research Center, Museum, Publication, Education, State Historic Preservation Office within the Society.

2. General Fund Equity Balance

The negative fund equity balance in the General Fund does not indicate overspent appropriation authority. The Montana Historical Society has authority to pay

obligations from the statewide General Fund within its appropriation limits. The Montana Historical Society expends cash or other assets from the statewide fund when it pays General Fund obligations. The Montana Historical Society outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund equity balances for each of the fiscal years ended June 30, 2017 and June 30, 2018.

3. Direct Entries to Fund Equity

Direct entries to fund equity in the General, State Special Revenue, and Capital Projects Funds in both fiscal years consist of entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies. The Montana Historical Society State Special Revenue Fund amounts relate to accommodations tax revenue that are provided for use in operation of the Society in accordance with Montana Code Annotated. The Capital Projects Fund amounts relate to fiscal administration of the Daly Mansion roof repairs.

Direct entries to fund equity in the Enterprise Fund during fiscal year 2018 relate to adjustments of Net Pension Liabilities reflected in this and other entity fund types and from the implementation of GASB Statement #75 – *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. All accounting entries related to these items were processed in SABHRS by the Department of Administration on behalf of the Society.

4. Non-Budgeted Activity

The society had significant non-budgeted revenues in the State Special Revenue Fund on the Schedule of Total Revenues & Transfers-In in fiscal years 2017 and 2018. Additionally, the society had significant non-budgeted expenditures on the Schedule of Total Expenditures & Transfers-Out in the Administration Program, the Museum Program, and the Research Center. The majority of this activity is related to the receipt and expenditure of private donations.

5. Unspent Budget Authority

The Schedule of Total Expenditures & Transfers-Out for fiscal year 2017 presents unspent budget authority in Federal Special Revenue Fund in the amount of \$159,957. The amounts of unspent budget authority for the Research Center \$107,167, Historical Preservation Program \$51,530 Administration \$21,261. The Federal Special Revenue Fund budgeted authority exceeds estimated expenditures.

The Schedule of Total Expenditures & Transfers-Out for fiscal year 2018 presents unspent budget authority in Federal Special Revenue Fund in the amount of \$357,527. The amounts of unspent budget authority for the Research Center \$221,134, Historical Preservation Program \$134,321, Administration \$2,072. The Federal Special Revenue Fund budgeted authority exceeds estimated expenditures.

Unspent budget authority for federal programs in the beginning of the grant is not unusual as federal grants typically span over multiple fiscal years. Generally, federal authority is a continuing appropriation in, accordance with §17-7-502 and §17-3-106 (2), MCA, therefore any unspent authority rolls forward to the next fiscal year.

6. Subsequent Events

Subsequent to the June 30, 2018 fiscal year-end, the Montana Historical Society received checks from 1 estate totaling \$55,832. The checks were deposited into the Montana Historical Society trust fund per (Montana Code Annotated 22-3-107).

Senate Bill 261 (SB 261), that was passed during the 2017 Legislative Session, contained requirements for the Department of Administration to determine, by August 15, 2017, the unaudited revenue and transfers into the General Fund received at the end of fiscal year 2017 may require reductions in appropriations. SB 261 reduced spending authority for Fiscal year 2018 and/or 2019, as the unaudited revenue balance fell below \$2.216 billion at five different intervals.

The Montana Historical Society was affected by the budget reductions of \$634,159 in fiscal year 2018 and \$628,623 in fiscal year 2019.

The Montana Historical Society implemented the following to meet the mandate of the 2017 Legislative Session. Montana Historical Society suspended programming, public access was reduced in the Research Center, public programming was suspended, Capitol Tours were suspended and proceeded with reduction in force for staffing and furloughed staff.

Report on Internal Control and Compliance

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL SCHEDULES PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

The Legislative Audit Committee
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Montana Historical Society (society) for each of the fiscal years ended June 30, 2018, and 2017, and the related notes to the financial schedules, and have issued our report thereon dated March 22, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial schedules, we considered the society's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial schedules, but not for the purpose of expressing an opinion on the effectiveness of the society's internal control. Accordingly, we do not express an opinion on the effectiveness of the society's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of 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 a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal controls was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies

may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described below, that we consider to be a significant deficiency.

- ◆ As described in Recommendation 2 on page 7, the Department of Revenue collects the Lodging facility use tax for the state, portions of which are distributed to the society under §15-65-121, MCA. While the society has procedures in place to review the amounts distributed to them under this law, this review was not done on a timely basis during the audit period. As a result, the society's internal controls are not implemented in a manner to allow for timely detection or correction of errors associated with this revenue.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Montana Historical Society's financial schedules are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Montana Historical Society's Response to Findings

The Montana Historical Society's response to the findings identified in our audit are described on page C-1 of this report. The Montana Historical Society's response was not subjected to the auditing procedures applied in the audit of the financial schedules and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the society's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the society's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

March 22, 2019

MONTANA HISTORICAL
SOCIETY

SOCIETY RESPONSE

Big Sky. Big Land. Big History.
Montana
 Historical Society

Historic Preservation
 Museum
 Education
 Publications
 Research Center

May 23, 2019

Angus Maciver
 Legislative Auditor
 Room 160, State Capitol
 PO Box 201705
 Helena, MT 59620-1705

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 MAY 23 2019
 LEGISLATIVE AUDIT DIV.

Dear Mr. Maciver:

We appreciate the opportunity to respond to the audit recommendations for the Montana Historical Society for the two fiscal years ended June 30, 2018.

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 Montana Historical Society value and record inventory in accordance with general accepted accounting principles and state accounting policy.

Concur. The Society will value the *Montana Magazine of Western History* inventory with a different methodology to be in compliance.

Recommendation #2

We recommend the Montana Historical Society develop procedures to ensure the completeness and accuracy of lodging use tax amounts collected by the Department of Revenue prior to fiscal year-end.

Concur: The Society has implemented a procedure to monitor and ensure accurate collections of lodging use tax.

Montana Historical Society is committed to complying with state and federal laws, implementing and monitoring effective internal controls, and ensuring complete and accurate financial information is recorded on the state's accounting system. The Society views audits process as an opportunity for improvement.

I am available to answer questions or provide further information that you or the Legislative Audit Committee may require.

Sincerely,


 Bruce Whittenberg
 Director

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montanahistoricalsociety.org