



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

FINANCIAL AUDIT DIVISION REPORT

Minnesota Humanities Center

Internal Controls and Compliance Audit

July 1, 2009, through February 29, 2012

*The audit scope included the use of money appropriated from the
Arts and Cultural Heritage Fund.*

August 16, 2012

Report 12-16

FINANCIAL AUDIT DIVISION

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OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

August 16, 2012

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This report presents the results of our internal controls and compliance audit of the Arts and Cultural Heritage Fund's financial resources received by the Minnesota Humanities Center for the period July 1, 2009, through February 29, 2012.

We discussed the results of the audit with the Minnesota Humanities Center's staff on August 3, 2012. This audit was conducted by Brad White, CPA, CISA, CFE (Audit Manager) and Melanie Greufe, CPA, CFE (Auditor-in-Charge), assisted by Cynthia Gaertner, CPA, and Sandy Thole.

We received the full cooperation of the Minnesota Humanities Center's staff while performing this audit.

Handwritten signature of James R. Nobles in black ink.

James R. Nobles
Legislative Auditor

Handwritten signature of Cecile M. Ferkul in black ink.

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

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Report Summary

Conclusion

The Minnesota Humanities Center's internal controls were generally adequate to ensure that it safeguarded Arts and Cultural Heritage Fund financial resources; accurately paid employees, grantees, and vendors in accordance with management's authorization; complied with finance-related legal provisions; and created reliable financial data. However, the center did not obtain a final report from one grantee and had an internal control weakness with payment of certain travel reimbursements.

For items tested, the Minnesota Humanities Center complied with significant finance-related Arts and Cultural Heritage Fund legal requirements contained in statutes, laws, grant agreements, and entity policies.

Findings

- The Minnesota Humanities Center did not ensure that one grantee submitted its final report; the grantee was unable to provide evidence to support its use of a \$206,700 Arts and Cultural Heritage Fund grant. ([Finding 1, page 7](#))
- The Minnesota Humanities Center's controls did not ensure the reasonableness of a mileage reimbursement request. ([Finding 2, page 7](#))

Audit Objectives and Scope

Objectives

- Internal Controls
- Legal Compliance

Period Audited

July 1, 2009, through February 29, 2012

Areas Audited

- Arts and Cultural Heritage Fund - Programs and Grants
 - Arts and Cultural Heritage Fund - Administrative Expenses
-

Minnesota Humanities Center

Agency Overview

The Minnesota Humanities Center is an independent, not-for-profit organization that conducts and supports cultural and educational programs throughout Minnesota. The center partners with educators and other organizations to provide public humanities programming in schools and communities across the state. Support comes from the National Endowment for the Humanities, the Minnesota state legislature, foundation grants, corporate gifts, and individuals.¹

The center's revenues for fiscal year 2011 totaled \$5.2 million, including a substantial amount of new funding from the State of Minnesota. In 2009,² the Legislature appropriated to the center \$2.1 million for the 2010-2011 biennium from the Arts and Cultural Heritage Fund, one of four funds created by the 2008 Legacy Amendment to the Minnesota Constitution.³ The appropriation was for the center's own initiatives and for programs developed in cooperation with the Councils of Color⁴ and other civics education organizations. In 2011,⁵ the Legislature appropriated \$3.15 million for the 2012-2013 biennium from the Arts and Cultural Heritage Fund for Minnesota Humanities Center programs and competitive grants and programs with the Councils of Color, civics education organizations, and children museums.

Table 1 summarizes the Minnesota Humanities Center's Arts and Cultural Heritage Fund expenditures by type for fiscal years 2010, 2011, and part of fiscal year 2012 (through February 2012).

¹ The Minnesota Humanities Center's 2011 financial reports are available on its website at <http://www.minnesotahumanities.org/financial>.

² *Laws of Minnesota* 2009, chapter 172, art. 4, sec. 2, subd. 6.

³ In 2008, Minnesota voters approved the Outdoor Heritage, Clean Water, Parks and Trails, and Arts and Cultural Heritage Amendment to the Minnesota Constitution, commonly referred to as the "Legacy Amendment." The amendment, codified as Article XI, Section 15, in the Minnesota Constitution, increased the state sales tax by three-eighths of 1 percent for a 25-year period beginning July 2009 and distributed the taxes among the Outdoor Heritage, Clean Water, Parks and Trails, and Arts and Cultural Heritage funds, which are collectively referred to as the Legacy Funds. The Arts and Cultural Heritage Fund receives 19¾ percent of the dedicated sales tax revenue; the funds must be used for arts, arts education, and arts access, and to preserve Minnesota's history and cultural heritage.

⁴ The Council of Colors includes the Council on Asian Pacific Minnesotans, Council on Black Minnesotans, the Indian Affairs Council, and the Chicano Latino Affairs Council.

⁵ *Laws of Minnesota* 2011, 1st Special Session, chapter 6, art. 4, sec. 2, subd. 8.

Table 1
Arts and Cultural Heritage Fund Expenditures
by Fiscal Year¹
July 1, 2009, through February 29, 2012

<u>Expenditures by Type</u>	<u>2010</u>	<u>2011</u>	<u>2012²</u>
Grants	\$181,750	\$ 519,000	\$318,500
Payroll	206,519	357,194	137,220
Contracts	144,983	406,664	56,383
Indirect Costs	29,500	23,000	0
Presenter and Participant Stipends	15,820	11,050	1,325
Other Expenditures ³	<u>51,102</u>	<u>153,268</u>	<u>13,547</u>
Total Expenditures	<u>\$629,674</u>	<u>\$1,470,176</u>	<u>\$526,975</u>

¹ The state's fiscal year is from July 1 through June 30.

² Fiscal year 2012 expenditures are shown through February 29, 2012.

³ Other expenditures included printing and supplies, staff development, meals and travel, resource books and media, postage, offsite rental, internal use of conference center, and marketing costs.

Source: Minnesota Humanities Center's accounting system.

The Minnesota Humanities Center collaborated with the Councils of Color to provide competitive grants for community events and programs that celebrate and preserve artistic, historical, and cultural heritage. The center received the Arts and Cultural Heritage Fund moneys from the State of Minnesota and either reimbursed these organizations for costs they incurred or directly paid vendors for program costs on behalf of the organization based on invoices they submitted. Table 2 shows the Minnesota Humanities Center's Arts and Cultural Heritage Fund expenditures, by organization, for fiscal years 2010 and 2011.

Table 2
Arts and Cultural Heritage Expenditures by Organization
Fiscal Years 2010 through 2011

<u>Organization</u>	<u>2010¹</u>	<u>2011</u>
Humanities Center	\$458,146	\$ 641,854
Council on Asian Pacific Minnesotans	49,876	200,124
Council on Black Minnesotans	27,717	222,283
Indian Affairs Council	37,257	212,743
Chicano Latino Affairs Council	<u>56,827</u>	<u>193,173</u>
Total Expenditures	<u>\$629,824</u>	<u>\$1,470,176</u>

¹ Money appropriated for fiscal year 2010 was available for both fiscal years. Expenditures were less in fiscal year 2010 due to planning and development of processes to identify, approve, and administer the programs.

Source: Minnesota Humanities Center's accounting system.

The Minnesota Humanities Center used money from the Arts and Cultural Heritage Fund to provide legislatively-mandated grants to organizations named in the appropriation laws and competitive grants to other organizations. Table 3 provides a list of the center's grants paid from the Arts and Cultural Heritage Fund for fiscal years 2010 and 2011.

Table 3
Minnesota Humanities Center
Arts and Cultural Heritage Fund
Grant Recipients
July 2009 through June 2011

<u>Grant Recipients</u>	<u>Legislatively- Mandated Grants</u>	<u>Competitive Grants</u>
Learning Law and Democracy Foundation	\$220,740	\$ 0
Kids Voting Minnesota	206,700	0
YMCA Youth in Government	60,060	0
Minnesota African American Museum	0	50,000
Sierra Leon Community in Minnesota	0	49,850
Aurora St. Paul Neighborhood Development Corporation	0	42,500
Other	<u>0</u>	<u>70,900</u>
Total Grants	<u>\$487,500</u>	<u>\$213,250</u>

Source: Minnesota Humanities Center's accounting system.

Objective, Scope, and Methodology

We limited the scope of our audit of the Minnesota Humanities Center to its expenditures of money from the Arts and Cultural Heritage Fund during the period of July 1, 2009, through February 29, 2012. The objective of our audit was to answer the following questions:

- Were the Minnesota Humanities Center's internal controls adequate to ensure that it safeguarded Arts and Cultural Heritage Fund financial resources; accurately paid employees, grantees, and vendors in accordance with management's authorizations; complied with finance-related legal provisions; and created reliable financial data?
- Did the Minnesota Humanities Center comply with significant finance-related legal requirements related to appropriations from the Arts and Cultural Heritage Fund?

To meet the audit objective, we gained an understanding of the center's financial policies and procedures. We considered the risk of errors in the accounting

records and potential noncompliance with relevant legal requirements. We analyzed accounting data to identify unusual trends or significant changes in financial operations. We examined samples of financial transactions and reviewed supporting documentation to test whether the center's controls were effective and if the transactions complied with laws, regulations, policies, and grant and contract provisions. We also examined the internal controls and financial records of a sample of grantees to assess the adequacy of the center's oversight.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.

We used various criteria to evaluate internal controls and compliance. We used as our criteria to evaluate agency controls the guidance contained in the *Internal Control-Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission.⁶ We used state and federal laws, regulations, and contracts, as well as applicable policies and procedures established by the Department of Management and Budget and the Humanities Center's internal policies and procedures as evaluation criteria over compliance.

Conclusion

The Minnesota Humanities Center's internal controls were generally adequate to ensure that it safeguarded Arts and Cultural Heritage Fund's financial resources; accurately paid employees, grantees, and vendors in accordance with management's authorization; complied with finance-related legal provisions; and created reliable financial data. However, the center did not obtain a final report from one grantee and had an internal control weakness with payment of certain travel reimbursements.

For items tested, the Minnesota Humanities Center complied with significant finance-related Arts and Cultural Heritage Fund legal requirements contained in statutes, laws, grant agreements, and entity policies.

The following *Findings and Recommendations* provide further explanation about the exceptions noted above.

⁶ The Treadway Commission and its Committee of Sponsoring Organizations were established in 1985 by the major national associations of accountants. One of their primary tasks was to identify the components of internal control that organizations should have in place to prevent inappropriate financial activity. The resulting *Internal Control-Integrated Framework* is the accepted accounting and auditing standard for internal control design and assessment.

Findings and Recommendations

The Minnesota Humanities Center did not ensure that one grantee submitted its final report timely; the grantee was unable to provide evidence to support its use of a \$206,700 Arts and Cultural Heritage Fund grant.

Finding 1

As of June 2012, the Minnesota Humanities Center had not received a final report from a nonprofit organization to which it granted \$206,700 from the Arts and Cultural Heritage Fund; the grant period ended on May 31, 2011. The final report would show how the organization used the grant money in accordance with purposes set forth in the appropriation laws and grant agreement. The grant agreement required the grantee to provide a final spending and activity report but did not specify a date when the report was due. Center staff had contacted the organization about the status of the report and learned that its executive director (the only paid employee) was retiring. The center felt that because this was a legislatively mandated grant (the organization was named in the law) and the center had fully paid the grant to the organization, it had little leverage to obtain the report. Without a final spending report, the Minnesota Humanities Center's management stated that it relied on interim spending reports and project status reports as evidence that the organization had used its grant for allowable costs and activities.

Because the organization had not been fully accountable for its use of grant money, we requested the final report and evidence to support the appropriate use of grant funds directly from the grantee. In July 2012, we received the final report but no other supporting documentation.

Recommendation

- *The Minnesota Humanities Center should obtain and review invoices and other evidence from the grantee to ensure costs complied with the purposes of the appropriation laws and recover money for any unsupported costs.*

The Minnesota Humanities Center's controls did not ensure the reasonableness of a mileage reimbursement request.

Finding 2

The Minnesota Humanities Center did not have adequate internal controls to ensure the reasonableness of mileage costs reimbursed to a vendor for a grantee's program. The center reimbursed the vendor \$.51 per mile for 748 miles the

vendor claimed were incurred to transport three program participants to an event;⁷ however, we calculated the round trip mileage between the pickup location and the event site was approximately 245 miles. The documentation approved and submitted by the grantee did not identify or explain the discrepancy, and the center did not verify whether the mileage reimbursement request was reasonable before paying it. Without a legitimate explanation for the additional mileage, such as multiple trips between the locations, the center overpaid the volunteer by approximately \$256.

Recommendations

- *The Minnesota Humanities Center should review the reasonableness of mileage claims before reimbursement.*
- *The Minnesota Humanities Center should recover the mileage overpayment.*

⁷ The three participants were unable to use the chartered bus transportation provided for the other program participants because of a conflict with a family event, and the grantee arranged for the vendor to provide a ride.

August 13, 2012

James R. Nobles, Legislative Auditor
Office of the Legislative Auditor
Room 140 Centennial Building
658 Cedar Street
St. Paul, MN 55155-1603

Via E-mail

Dear Mr. Nobles:

The Minnesota Humanities Center wishes to thank you and your staff for their constructive involvement in the first-time audit of the Legacy Funding appropriated to the Minnesota Humanities Center. As with any new legislation and program, there were many systems and procedures to establish and relationships to be built. We believe we worked diligently, and successfully, to appropriately manage the funds and build relationships with multiple organizations for effective use and stewardship of the funds. We are pleased that the overall audit findings confirm that.

We accept the two findings noted in the report. Specific actions taken to address those are:

Finding One: Missing final report from one grantee for grant period ending June 30, 2011

Action Plan: The Humanities Center's Director of Finance and Administration will again contact the organization's treasurer and request an in-person meeting with appropriate representatives of their board/accounting provider and their new executive director; supporting documentation for the expenses charged to the Legacy funds will be reviewed.

Completion date: no later than October 31, 2012.

Finding Two: Ensuring reasonableness of mileage reimbursement request

Action Plan: The agreement with the Councils of Color that requested us to handle payments to third parties for their Legacy-funded programs was that they were to ensure the appropriateness of the expense and once approved, forward to us for payment. While procedures were in place for checking reasonableness of mileage for the Humanities Center's own mileage expenses, we had relied on the Council's executive director's approval. We will verify reasonableness of mileage for all payments, even if approved for payment by the Council's authorized staff.

We have requested reimbursement from the particular Council of Color who engaged the services of the driver for the overpayment of \$256.53 and asked that they, in turn, seek reimbursement from the individual who submitted the payment (or obtain a signed statement of verification that there were multiple trips and justification to support the additional mileage expense.)

Completion date: Request has been made. Response from Council is due August 31, 2012

James R. Nobles
August 13, 2012
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As legislative language changed from the 2009 appropriation to the 2011 appropriation, we have been in regular contact with Minnesota Management and Budget and the Office of Grants Management to ensure we provide appropriate stewardship of these funds. Working with your office has provided additional guidance and will enable us to further strengthen the already strong systems, procedures, collaborative work agreements, and re-grant agreements which are in place.

Though the legislatively-directed relationships and collaborations identified in the Legacy fund appropriations, programs were developed that reached more Minnesotans throughout the State, with greater impact, than would have been done separately. We are proud to have been a part of that.

We appreciate the opportunities your staff provided to discuss the audit process and the findings with us. Those discussions and insights will help us shape our fiscal management of the Legacy funds as we move forward.

Sincerely,

A handwritten signature in cursive script, appearing to read "David O'Fallon".

Dr. David O'Fallon
CEO, Minnesota Humanities Center

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