

PERFORMANCE AUDIT  
OF THE  
MICHIGAN HISTORICAL CENTER  
DEPARTMENT OF STATE  
February 2000

## EXECUTIVE DIGEST

# MICHIGAN HISTORICAL CENTER

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### INTRODUCTION

This report, issued in February 2000, contains the results of our performance audit\* of the Michigan Historical Center (MHC), Department of State.

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### AUDIT PURPOSE

This performance audit was conducted as part of the constitutional responsibility of the Office of the Auditor General. Performance audits are conducted on a priority basis related to the potential for improving effectiveness\* and efficiency\*.

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### BACKGROUND

MHC's mission\* is to preserve and interpret Michigan's past and to help people discover, enjoy, and find inspiration in their heritage. MHC accomplishes its mission through the activities of its five organizational units: Museum Division, State Historic Preservation Section, Archives Section, Publications Section, and Archaeology Section.

MHC had 71 employees, 27 student assistants, and 7 temporary employees as of June 30, 1999 and was appropriated approximately \$6.8 million for the fiscal year ended September 30, 1999.

\* See glossary at end of report for definition.

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AUDIT OBJECTIVE,  
CONCLUSION, AND  
NOTEWORTHY  
ACCOMPLISHMENTS

**Audit Objective:** To assess the effectiveness and efficiency of MHC's activities related to the Museum Division, State Historic Preservation Section, Archives Section, and Publications Section.

**Conclusion:** We concluded that MHC's activities were generally effective and efficient. However, we noted reportable conditions\* related to museum accreditation, a continuous quality improvement process, archives and artifacts records, storage space plans, artifact loans, the publications inventory, *Michigan History Magazine* distributor collections, and *Michigan History Magazine* promotional efforts.

**Noteworthy Accomplishments:** MHC established a worldwide web site with the inauguration of the Department's web site in June 1995 and it significantly modified and expanded the web site during our audit period. MHC's web site provides citizens with on-line museum tours, schedules of events, Michigan history facts, and information necessary for maintaining archives records and preserving historical sites.

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AUDIT SCOPE AND  
METHODOLOGY

Our audit scope was to examine the program and other records of the Michigan Historical Center. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Our methodology included examination of MHC records and activities for the period July 1, 1997 through

\* See glossary at end of report for definition.

June 30, 1999. We conducted a preliminary survey of MHC's operations to gain an understanding of its activities. We analyzed how MHC determined if it accomplished its mission and if the Museum Division and the State Historic Preservation, Archives, and Publications Sections met their goals and objectives. We tested museum artifacts and assessed the artifact inventory system and the artifacts' safety and security. We also assessed selected State Historic Preservation Section programs. In addition, we assessed the effectiveness and efficiency of the Archives Section's archive services and the Publications Section's publishing, printing, and distribution of its publications.

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**AGENCY RESPONSES  
AND PRIOR AUDIT  
FOLLOW-UP**

Our audit report contains 8 findings and 10 recommendations. The Department indicated that it either will comply or has taken steps to comply with all of the recommendations.

The Department had partially or fully complied with 2 of the 4 prior audit recommendations. We repeated 2 prior audit recommendations in this report.

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The Honorable Candice S. Miller  
Secretary of State  
Treasury Building  
Lansing, Michigan

Dear Secretary Miller:

This is our report on the performance audit of the Michigan Historical Center, Department of State.

This report contains our executive digest; description of agency; audit objective, scope, and methodology and agency responses and prior audit follow-up; comment, findings, recommendations, and agency preliminary responses; and a glossary of acronyms and terms.

The agency preliminary responses were taken from the agency's responses subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us during this audit.

AUDITOR GENERAL

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## Description of Agency

The Department of State's executive officer, the Secretary of State, is an elected official who serves a four-year term. One of the Department's responsibilities is to preserve historical, governmental, and public records. The Secretary of State has assigned this responsibility to the Michigan Historical Center (MHC).

MHC's mission is to preserve and interpret Michigan's past and to help people discover, enjoy, and find inspiration in their heritage. MHC accomplishes its mission through the activities of its five organizational units: Museum Division, State Historic Preservation Section, Archives Section, Publications Section, and Archaeology Section.

MHC and the six-member Michigan Historical Commission are responsible for collecting and preserving historical property and publishing historical material. The Commission's responsibilities are identified in Sections 399.1 - 399.9 of the *Michigan Compiled Laws*. Commission members are appointed by the Governor and serve without pay for six-year terms.

MHC awards federal grants to nonprofit organizations and local units of government for archaeological and architectural surveys. Grants are also given to local units of government for preserving, acquiring, restoring, and reconstructing historical properties. In addition, MHC operates the State Historical Museum and 9 historical field sites at various locations in the State. MHC also provides an extensive historical publications program, including the bimonthly journal *Michigan History Magazine*.

MHC had 71 employees, 27 student assistants, and 7 temporary employees as of June 30, 1999 and was appropriated approximately \$6.8 million for the fiscal year ended September 30, 1999.

## Audit Objective, Scope, and Methodology and Agency Responses and Prior Audit Follow-Up

### Audit Objective

The objective of our performance audit of the Michigan Historical Center (MHC), Department of State, was to assess the effectiveness and efficiency of MHC's activities related to the Museum Division, State Historic Preservation Section, Archives Section, and Publications Section.

### Audit Scope

Our audit scope was to examine the program and other records of the Michigan Historical Center. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

### Audit Methodology

Our audit procedures were conducted during the period March through June 1999 and included examination of MHC records and activities for the period July 1, 1997 through June 30, 1999.

To establish our objective, we conducted a preliminary survey of MHC's operations. This included discussions with MHC's staff regarding their functions and responsibilities and a review of program records and MHC's policies and procedures. Also, we reviewed MHC's goals\* and objectives\* , its expenditures, and the Michigan Historical Commission's meeting minutes to gain an understanding of MHC's activities. We then determined which sections had the greatest impact on MHC or which activities had the potential to improve the operation of MHC.

To accomplish our objective, we reviewed MHC's mission and the goals and objectives of the Museum Division and the State Historic Preservation, Archives, and Publications Sections. We analyzed how MHC determined if it accomplished its mission and if the Museum Division and the Sections met their goals and objectives.

\* See glossary at end of report for definition.

We tested museum artifacts to determine that the artifacts were properly cataloged\* and that MHC followed its procedures for accepting and disposing of artifacts. We assessed the artifact inventory system and the artifacts' safety and security at MHC and at some of the other historical field sites. We tested artifacts that were loaned to other museums and to State and local agencies in order to determine whether MHC had properly accounted for the artifacts and ensured that the artifacts were insured.

We assessed the State Historic Preservation Section's survey program, environmental review, and certified local government program activities. We also assessed procedures to identify historical sites and the approval process of historical sites. We examined the State Register of Historic Sites, State Historical Marker, and Centennial Farms Programs.

We analyzed the Archives Section's inventory and inventory system. Also, we assessed the effectiveness and efficiency of the archive services, including selecting records for preservation, processing\* records for future access, and preserving and safeguarding the records.

We analyzed the Publications Section's inventory system. Also, we assessed the effectiveness and efficiency of the publishing, printing, and distribution of the *Michigan History Magazine* and other publications.

#### Agency Responses and Prior Audit Follow-Up

Our audit report contains 8 findings and 10 recommendations. The Department indicated that it either will comply or has taken steps to comply with all of the recommendations.

The agency preliminary response which follows each recommendation in our report was taken from the agency's written comments and oral discussion subsequent to our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and Department of Management and Budget Administrative Guide procedure 1280.02 require the Department of State to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

The Department had partially or fully complied with 2 of the 4 prior audit recommendations. We repeated 2 prior audit recommendations in this report.

\* See glossary at end of report for definition.

# COMMENT, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

## EFFECTIVENESS AND EFFICIENCY

### COMMENT

**Background:** The Michigan Historical Center's (MHC's) programs are intended to provide the information people need to discover and preserve their past so that they can understand the present and plan for the future. MHC consists of the Museum Division, State Historic Preservation Section, Archives Section, Publications Section, and Archaeology Section.

The Museum Division is responsible for about 200,000 artifacts, the State Historical Museum in Lansing, and nine historical field sites. The State Historical Museum, which opened in 1989, completed its permanent exhibits in 1995 using public and private funding. The Museum Division operates a self-financing museum store to reinforce its educational mission.

The State Historic Preservation Section is responsible for identifying and protecting Michigan's historical sites through survey and registration programs, planning, technical assistance, public education, and compliance with federal regulations. Much of the protection afforded sites comes from public recognition through the National Register of Historic Places, State Register of Historic Sites, the State Historical Marker Program, and the Centennial Farms Program. Local protection comes through certified local governments and historic district commissions that rely on the State Historic Preservation Section for advice, expertise, and some funding.

The State Historic Preservation Section and the Archaeology Section are responsible for reviewing all federally funded historical or licensed projects in Michigan for their impact on Michigan's cultural resources and for monitoring any mitigation of adverse impacts. Encouragement of historic preservation also comes in the form of federal tax credits for owners who restore eligible properties in a manner consistent with the U.S. Secretary of Interior's standards. In response to recent increases in work load, the State Historic Preservation Section is investigating other ways of carrying out its

obligations to governments and the public, such as contracting with other agencies or private entities to perform some of its functions.

The Archives Section is responsible for identifying, preserving, and making available for research State and local government records of enduring value. It provides State and local governmental agencies with technical guidance regarding the preservation of records that have permanent value. Once a record is selected for preservation, it is processed, sometimes treated to ensure that it will survive, and stored. Storage may be at the State Archives or at one of several regional depositories, such as the Western Michigan University Archives in Kalamazoo. The records are used by government, business, academia, and the public. As of September 30, 1998, the Archives Section had 30,752 cubic feet of processed records and 22,309 cubic feet of unprocessed records, more than 350,000 photographs, and more than 500,000 maps.

The Publications Section focuses on the interpretation of Michigan's history, public outreach, and education. The Section's main vehicle for accomplishing this is the *Michigan History Magazine*. The Section also produces brochures and booklets that explain MHC programs and books that evolve from MHC programs.

**Audit Objective:** To assess the effectiveness and efficiency of MHC's activities related to the Museum Division, State Historic Preservation Section, Archives Section, and Publications Section.

**Conclusion:** We concluded that MHC's activities were generally effective and efficient. However, we noted reportable conditions related to museum accreditation, a continuous quality improvement (CQI) process, archives and artifacts records, storage space plans, artifact loans, the publications inventory, *Michigan History Magazine* distributor collections, and *Michigan History Magazine* promotional efforts.

**Noteworthy Accomplishments:** MHC established a worldwide web site with the inauguration of the Department of State's web site in June 1995 and it significantly modified and expanded the web site during our audit period. MHC's web site provides citizens with on-line museum tours, schedules of events, Michigan history facts, and information necessary for maintaining archives records and preserving historical sites.

## **FINDING**

### **1. Museum Accreditation**

MHC had not developed a plan to complete the process to obtain accreditation for the State Historical Museum from the American Association of Museums (AAM).

Accreditation by AAM certifies that a museum has voluntarily undergone a rigorous process of self-study and peer review, by which it has demonstrated that it meets or exceeds both the eligibility criteria for accreditation and the characteristics of an accreditable museum.

MHC recognizes the importance of accreditation. On three occasions in the past 10 years, MHC requested AAM to perform preliminary surveys of the Museum to identify key areas that needed improvement before applying for accreditation. AAM identified several areas that needed improvement, such as developing an identity and increasing staff.

The advantages of accreditation are considerable. The accreditation process fosters the development of clearly articulated policies and procedures that help museums run more effectively and efficiently and better define all aspects of their operations. Also, accreditation is a valuable tool for regular self-examination, evaluation, and improvement, which allow the museums to refocus on fundamentals. Further, by capitalizing on their accredited status, other museums have been able to strengthen fundraising efforts in the form of governmental grants and donations from private organizations, have an increased ability to recruit professional staff, and, in general, have an increased public perception of quality and professionalism of the museums.

The accreditation process may resolve some deficiencies identified during our audit. Our review disclosed that the Museum Division needs to improve in the following areas before obtaining accreditation by AAM:

- a. The Museum Division had not developed a comprehensive CQI process to properly evaluate its public programs and exhibits within the Museum (see Finding 2). Effective evaluations of the Museum should consider whether its programs communicate their messages effectively. AAM criteria require museums to effectively evaluate their programs and exhibits.

- b. MHC did not have adequate storage space for the museum artifacts. MHC staff informed us that the Museum Division had considered alternative storage plans but had not completed a formal plan to meet those needs (see Finding 4). Also, the Museum Division had not completed a physical inventory or appraised all artifacts (see Finding 3.c.). AAM criteria require museums to maintain a formal and appropriate program for care of collections. In addition, a characteristic of an accreditable museum is that collections are effectively managed, housed, secured, and conserved.

Although MHC recognizes the importance of accreditation, it has not developed a plan to complete the process of accreditation. Such a plan would prioritize known deficiencies, set a time table for correcting deficiencies, and address the lack of resources and funding.

Our prior audit report recommended that the Department complete the process to seek accreditation for the Museum from AAM. The Department responded that it agreed with the recommendation and would continue to request the additional State funding.

### **RECOMMENDATION**

WE AGAIN RECOMMEND THAT MHC DEVELOP A PLAN TO COMPLETE THE PROCESS TO OBTAIN ACCREDITATION FOR THE STATE HISTORICAL MUSEUM FROM AAM.

### **AGENCY PRELIMINARY RESPONSE**

The Department agreed and informed us that MHC has been following the steps to seek accreditation from AAM for several years, to the extent that it can given its resources. It will complete the required accreditation paperwork in 2000 and submit it to AAM in 2001. The AAM's accreditation review process begins when the paperwork is received. That process is currently taking up to 30 months.

## **FINDING**

### **2. CQI Process**

The Museum Division had not developed a comprehensive CQI process to evaluate and improve the effectiveness and efficiency of public programs and exhibits.

Program effectiveness and efficiency can best be measured by establishing a CQI process. Such a process should include: performance indicators\* for measuring outputs\* and outcomes\*; performance standards\* that describe the desired level of outcomes; a management information system to gather accurate performance data; a comparison of performance data to desired outcomes; a reporting of the comparison results to management; and proposals of program changes to improve effectiveness.

Executive Directive 1996-1 states that, in order to ensure excellence and continuous improvement in the quality of services that State government provides, agencies should promote and create a workplace environment and workforce culture focused on continuously improving the quality of the services.

The Museum Division has established some components of a CQI process. The Museum Division gathers performance data by counting visitors and is working toward alternative measures, such as teacher evaluations and on-site questionnaires.

However, the Museum Division had not established performance indicators, performance standards, methods to ensure accurate reporting of measured results, or a process to propose program changes to improve the effectiveness and efficiency of programs and exhibits.

## **RECOMMENDATION**

We recommend that the Museum Division develop a comprehensive CQI process to evaluate and improve the effectiveness and efficiency of public programs and exhibits.

\* See glossary at end of report for definition.

## **AGENCY PRELIMINARY RESPONSE**

The Department agreed with the recommendation and informed us that the Museum Division will establish a more extensive evaluation process, appropriate to museum management, within the limits of its appropriated resources. The Museum Division will have a written summary of the process as it operates in educational programs, exhibits, and public programs by January 1, 2001.

## **FINDING**

### **3. Archives and Artifacts Records**

MHC did not ensure that archives records were processed and that museum artifacts were cataloged on a timely basis. Also, MHC had not completed a physical inventory and appraised all artifact collections.

The maintenance of archival and museum records is a two-step process. The first step involves the creation of records of accession\* that identify and record the location of each record series or artifact as MHC takes physical control. The second step, processing records and cataloging artifacts, makes the records and collections available to staff and other researchers. This second step also involves researching and describing the records and artifact collections and electronically entering them into their respective inventory systems.

Our review disclosed:

- a. As of September 30, 1998, the Archives Section housed 53,061 cubic feet of records, of which only 30,752 cubic feet (58%) had been processed and made available for research. The Archives Section is responsible for approximately 80 million State and local government records and private papers, over 350,000 photographs, and over 500,000 maps as well as microfiche.

At the time of our audit, there were 12 full-time equated employees (FTEs) in the Archives Section. In addition to processing records, staff also serve the public and accession records.

\* See glossary at end of report for definition.

During fiscal years 1994-95 through 1997-98, the Archives Section accessioned an average of 2,400 cubic feet of records per year but was able to process an average of only 875 cubic feet of records per year, thereby increasing the backlog by an average of approximately 1,500 cubic feet of records per year.

Archives Section staff informed us that approximately 40,000 hours are needed to eliminate the backlog and approximately 2,000 hours are needed annually to keep records current. The Section has accessioned some records that have little or no archival value and need to be deaccessioned and properly disposed of.

- b. As of June 30, 1999, there was a four- or five-year backlog of artifacts that had not been cataloged. The Museum Division is responsible for approximately 200,000 historical artifacts depicting the history of Michigan. Many of the artifacts in the State Historical Museum's collection are of considerable value, one of a kind, and/or irreplaceable.

Our review of 50 donated artifacts disclosed that only 30 (60%) of the artifacts were cataloged. Of the 30, an average of 14 months elapsed before the Collections Unit cataloged the artifacts after they were received and 1 artifact was not cataloged for 4 years. Because of the backlog, MHC estimates that there were approximately 4,500 artifacts not available on a timely basis for exhibit.

- c. MHC had not completed a physical inventory and appraised all collections. Our prior audit noted a similar condition, and the Department responded by performing inventories at some of the historical field sites and having a Museum Division employee randomly inventory 10 artifacts each month. Conducting a periodic physical inventory of artifacts segments and seeking appraisals would improve internal controls and help ensure the accuracy of the artifact collections and the collections' records.

## **RECOMMENDATIONS**

We recommend that MHC ensure that archives records are processed and that museum artifacts are cataloged on a timely basis.

We also recommend that MHC complete a physical inventory and appraise all artifact collections.

### **AGENCY PRELIMINARY RESPONSE**

The Department agreed with the recommendations and informed us that MHC has and will continue to request the additional resources needed to eliminate the backlogs. The Department estimates the need to eliminate the archival backlog and the Museum cataloging backlog at \$300,000 per year for five years and \$300,000 per year for three years, respectively. Also, the Department estimates that MHC will need 1.5 FTEs (\$100,000) and 1 FTE (\$70,000) annually, respectively, thereafter to prevent the occurrence of new backlogs.

Also, the Department will contract for inventories and appraisals of older portions of the collections as resources permit. In fiscal year 1999-2000, the furniture collection will be inventoried and appraised. The estimated cost to complete the remaining inventories and appraisals is \$120,000. The Department will also continue the monthly random inventory of 10 artifacts.

### **FINDING**

#### **4. Storage Space Plans**

MHC had not developed a formal plan to obtain alternative storage space to address the accumulation of museum artifacts and archives records.

An increasing shortage of storage space for both museum artifacts and archives records will eventually require MHC to obtain alternative storage. Appropriate storage space is vital for the successful preservation of both artifacts and records. Our review of storage space at MHC disclosed:

- a. The artifacts were not stored in an environmentally safe atmosphere. The area was dusty, and the artifacts were covered with dirt.

The majority of museum artifacts not on exhibit were stored in two Lansing warehouses. One warehouse is a State-owned building that is shared with other State agencies. The other warehouse, where the majority of artifacts were stored, is an 11,000 square foot warehouse that is leased annually from

a local business. MHC informed us that the owner will probably require this space for expansion in the near future and the Museum Division will be required to relocate the majority of its artifact collection. The Museum Division was considering alternative storage options with a local university but had not reached a formal plan to meet its needs. The formal plan should include a space needs estimate, environmental controls needs, location, coordination with other agencies, and considerations related to constructing versus contracting for the space.

- b. A study done by Archives Section staff predicted that the State Archives would run out of storage space by fiscal year 2002-03. For fiscal years 1994-95 through 1997-98, the Archives Section accessioned an average of 2,400 cubic feet of records each year and the backlog of records accessioned but not yet processed increased by an average of approximately 1,500 cubic feet each year.

The Archives Section has considered several solutions, such as installing mobile shelving and microfilming records. However, both of these solutions were determined to be extremely costly. Archives Section staff informed us that the most realistic solution would be to process more records, make more informed appraisal decisions, and reassess existing accessioned records to identify those public records that are nonarchival. Nonarchival records could be disposed of as necessary, thus creating more storage capacity. Under the best of circumstances, however, additional storage space will be needed.

### **RECOMMENDATION**

We recommend that MHC develop a formal plan to obtain alternative storage space to address the accumulation of museum artifacts and archives records.

### **AGENCY PRELIMINARY RESPONSE**

The Department agreed with the recommendation and informed us that the museum storage plan has been well underway for over a year. During the audit, the Museum Division had completed a preliminary needs assessment and held conversations with Michigan State University museum staff about a possible joint collections resource center. In fiscal year 1999-2000, MHC will contract for

preliminary plans for the museum collections facility. Action beyond that will depend on additional resources.

Also, the Archives Section is actively investigating options to deal with storage concerns that will not impact its operations until fiscal year 2002-03, at the earliest.

## **FINDING**

### **5. Artifact Loans**

MHC did not obtain loan agreements for some museum artifacts on loan to other State agencies.

MHC loans artifacts to other museums, organizations, and State agencies. MHC procedures provide that the State Historical Museum may loan artifacts for up to one year, renewable each January. The procedures require the borrower's signature on the loan agreement form, acknowledging compliance with loan conditions. The loan conditions provide that the borrower may not relinquish custody of the loaned artifacts to a third party and may not move or temporarily store the loaned artifacts without notification and permission from the Museum.

MHC did account for the majority of artifacts on loan to other museums and organizations; however, our review of 89 artifacts that the Museum loaned to State agencies disclosed that MHC did not obtain a current loan agreement for 83 (93%) of the 89 artifacts. The Museum Division should annually follow up to ensure that loan agreements for loaned artifacts are annually renewed.

## **RECOMMENDATION**

We recommend that MHC obtain loan agreements for all museum artifacts on loan to other State agencies.

## **AGENCY PRELIMINARY RESPONSE**

The Department agreed with the recommendation and informed us that the collections staff are in the process of obtaining signed loan agreements from permanent Legislative Services staff for all artifacts used by the Capitol Restoration Committee and asking that all other artifacts be returned to the

museum's collection facilities. Legislative Services staff are assisting in this effort. More than 50% of the 89 artifacts have gone through this process, which will be completed by June 1, 2000.

## **FINDING**

### **6. Publications Inventory**

MHC's control procedures did not ensure the accuracy and accountability of its publications inventory and expenditures.

MHC maintains an inventory of the *Michigan History Magazine*, books, booklets, and other printed material that it offers for sale to the general public. Our review of the publications inventory and the expenditures associated with the printing, promotion, distribution, and selling of the *Michigan History Magazine* disclosed the following weaknesses:

- a. MHC did not verify inventory counts on a test basis for accuracy. Also, a supervisor's approval signature was absent from the count records.
- b. MHC records the Michigan Heritage Fund expenditure invoices received during the month and, at month-end, MHC verifies that they have been paid, according to the State's accounting system. At fiscal year-end, MHC compares the year-end amount to the State's accounting system. However, MHC did not follow up the variance. Our review of fiscal year 1997-98 expenditures disclosed a variance of \$74,538 when we compared the State's accounting system to MHC records. As a result, the Department did not have assurance that expenditures were accurately recorded. Total expenditures were approximately \$565,000 for fiscal year 1997-98.

Implementation of control procedures over the publications inventory would help safeguard the inventory items and help ensure the accuracy of the inventory. Also, control procedures over expenditure reconciliation are essential for maintaining accurate accounting records.

Our prior audit noted similar conditions and we recommended that the Department develop control procedures to ensure the accuracy and accountability of its

publications inventory. The Department responded that it agreed with the recommendation and would develop control procedures.

### **RECOMMENDATION**

WE AGAIN RECOMMEND THAT MHC DEVELOP CONTROL PROCEDURES TO ENSURE THE ACCURACY AND ACCOUNTABILITY OF ITS PUBLICATIONS INVENTORY AND EXPENDITURES.

### **AGENCY PRELIMINARY RESPONSE**

The Department agreed with the recommendation and informed us that test verification of inventory accounts against records was begun and not continued because of staff vacancies. The vacancies have been authorized to be filled and the practice will resume no later than April 1, 2000. In addition to the current practice of checking expenditures against the State's accounting system, MHC will add a formal monthly report of discrepancies in expenditures to MHC's budget officer, who will handle needed corrections. Further, the Department's budget staff discovered and corrected an error that accounted for \$55,000 of the variance reported in the audit.

### **FINDING**

#### **7. Michigan History Magazine Distributor Collections**

MHC did not establish effective control procedures to help ensure that it invoiced and collected from the wholesale distributor for sold copies of the *Michigan History Magazine*. Also, MHC did not enter into a contract with the wholesale distributor.

The Publications Section provided 1,600 magazines of each issue to its distributor to be sold in retail stores. The distributor submitted periodic statements to the Section indicating the issue and certifying the number of magazines not sold. However, MHC had not invoiced the distributor for magazines sold in retail stores since September 7, 1997. As a result, the distributor owes the State approximately \$12,500. Also, MHC did not obtain a signed agreement with the wholesaler that specified the conditions of the services provided to the State. The agreement should provide what services the distributor will provide and the cost of those services.

## **RECOMMENDATIONS**

We recommend that MHC establish effective control procedures to help ensure that it invoices and collects from the wholesale distributor for sold copies of the *Michigan History Magazine*.

We also recommend that MHC enter into a contract with the wholesale distributor.

## **AGENCY PRELIMINARY RESPONSE**

The Department agreed with the recommendations and informed us that the Publications Section has collected \$3,000 of the \$12,500 owed by the distributor, which has gone out of business. The Section has set up wholesale procedures and is distributing invoices and magazines to a small number of retailers and wholesalers using these procedures. The Section chief will review invoices and payments quarterly and discontinue distribution to any retailer or wholesaler that has not fulfilled its obligations in a timely manner.

## **FINDING**

### **8. Michigan History Magazine Promotional Efforts**

The Publications Section did not implement procedures to analyze the effectiveness of its promotional efforts for the *Michigan History Magazine*.

Determining the effects of promotional efforts is good business practice and leads to more effective and efficient means of promoting a magazine.

The Section promoted the *Michigan History Magazine* through promotional cards that were mailed with vehicle registration and driver license renewals and inserted in the magazines. Between January 20, 1998 and March 2, 1999, the Section purchased a total of 10,900,000 insert cards for approximately \$58,230.

The Section has not compiled information to determine the number of magazine subscribers that subscribed as a direct result of its promotional efforts and to assess whether to continue those efforts.

Also, the Section provided 1,600 magazines of each issue to a distributor to be sold in retail stores. The Section did not know where the distributor placed the magazine for resale, which would help the Section analyze the effectiveness of the distributor.

### **RECOMMENDATION**

We recommend that the Publications Section implement procedures to analyze the effectiveness of its promotional efforts for the *Michigan History Magazine*.

### **AGENCY PRELIMINARY RESPONSE**

The Department agreed with the recommendation and informed us that the Publications Section has long maintained source information for its subscriptions that can indicate the effectiveness of promotional efforts. The Section stopped running reports using this information because of unfilled vacancies. The Section will begin running the reports no later than April 1, 2000. However, the computer system that generates this information is 14 years old and somewhat cumbersome. During 2000, possible upgrades that would make analysis of promotional efforts and inventory control easier will be considered.

## Glossary of Acronyms and Terms

AAM	American Association of Museums.
accession	The acceptance by the State Archives of the transfer of the legal and physical custody of permanent records or the acceptance by the State Historical Museum of artifacts for its collections and the recording of the records' or artifacts' origin and current location.
catalog	To record detailed information about an artifact based on research and information provided by the donor as well as an image (digital or photographic) of the artifact.
CQI	continuous quality improvement.
effectiveness	Program success in achieving mission and goals.
efficiency	Achieving the most outputs and outcomes practical for the amount of resources applied or minimizing the amount of resources required to attain a certain level of outputs or outcomes.
FTE	full-time equated employee.
goals	The agency's intended outcomes or impacts for a program to accomplish its mission.
MHC	Michigan Historical Center.
mission	The agency's main purpose or the reason the agency was established.
objectives	Specific outputs a program seeks to perform and/or inputs a program seeks to apply in its efforts to achieve its goals.

outcomes	The actual impacts of the program. Outcomes should positively impact the purpose for which the program was established.
outputs	The products or services produced by the program. The program assumes that producing its outputs will result in favorable program outcomes.
performance audit	An economy and efficiency audit or a program audit that is designed to provide an independent assessment of the performance of a governmental entity, program, activity, or function to improve public accountability and to facilitate decision making by parties responsible for overseeing or initiating corrective action.
performance indicators	Information of a quantitative or qualitative nature indicating program outcomes, outputs, or inputs. Performance indicators are typically used to assess achievement of goals and/or objectives.
performance standards	A desired level of output or outcome as identified in statutes, regulations, contracts, management goals, industry practices, peer groups, or historical performance.
process	To arrange and describe archive records in a manner that makes them accessible to researchers.
reportable condition	A matter coming to the auditor's attention that, in the auditor's judgment, should be communicated because it represents either an opportunity for improvement or a significant deficiency in management's ability to operate a program in an effective and efficient manner.