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AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

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DEPUTY AUDITOR GENERAL

June 20, 2014

The Honorable John Allen, Chair
Joint Legislative Audit Committee

The Honorable Chester Crandell, Vice Chair
Joint Legislative Audit Committee

Dear Representative Allen and Senator Crandell:

Our Office has recently completed an initial followup of the Arizona Historical Society regarding the implementation status of the 45 audit recommendations (including sub-parts of the recommendations) presented in the performance audit report released in September 2013 (Auditor General Report No. 13-13). As the attached grid indicates:

- 5 have been implemented;
- 27 are in the process of being implemented;
- 4 are not yet applicable;
- 8 have not been implemented; and
- 1 legislative recommendation has not been implemented.

Our Office will conduct an 18-month followup with the Society on the status of those recommendations that have not yet been fully implemented.

Sincerely,

Dale Chapman, Director
Performance Audit Division

DC:bh
Attachment

cc: Michael Urman, President
Arizona Historical Society Board of Directors

Anne Woosley, Director
Arizona Historical Society

Arizona Historical Society

Auditor General Report No. 13-13

Initial Follow-Up Report

Recommendation	Status/Additional Explanation
Finding 1: Society and Board should take additional actions to address declining revenues	
1.1 The Board should continue its effort to establish a tax-exempt nonprofit organization to serve as a private fund-raising arm for the Society.	Implementation in process In January 2014, the Board submitted an application to the U.S. Internal Revenue Service (IRS) for Arizona Historical Society, Inc. to become exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. According to a February 2014 IRS letter, it would take between 3 and 6 months to make a determination. In addition, the Board established a commercial bank account for Arizona Historical Society, Inc. Finally, the Board reported that the organization has not conducted any formal business since its initial organizational meeting in April 2013, as it has not been necessary. Auditors will follow up at 18 months to determine if Arizona Historical Society, Inc. has received tax-exempt status from the IRS and has initiated its fund-raising efforts on behalf of the Society.
1.2 The Society should continue its efforts to identify ways to reduce its operating costs through partnerships or other means.	Implemented at 6 months
1.3 The Society should develop a fund-raising action plan that identifies specific, measurable, aggressive/attainable, results-oriented, and time-bound action steps designed to help it achieve the fund-raising goals and objectives outlined in its fiscal years 2013-2017 Strategic Plan.	Not implemented According to the Society, it has not yet developed a fund-raising action plan, but has assigned responsibility for developing a plan to its affiliate nonprofit organization, Arizona Historical Society, Inc. The Society reported that efforts to develop a plan will be ongoing through 2014, and it intends to ratify a plan at its September 2014 board meeting. Although the Society reported that it already held some discussions with Arizona Historical Society, Inc. regarding the plan, the Society indicated that these discussions were informal and, therefore, it was unable to provide any documentation of these discussions.
1.4 The Society should ensure that its fund-raising action plan is tied to other relevant planning documents it develops, such as collections-management plans, capital improvement plans, and the Society's operating budget.	Not yet applicable This recommendation will not be applicable until the Society implements Recommendation 1.3.
1.5 The Society should, as resources allow, work toward assigning responsibility for completing its action steps and implementing its fund-raising action plan to a development officer position.	Not yet applicable This recommendation will not be applicable until the Society implements Recommendation 1.3.

Recommendation	Status/Additional Explanation
<p>1.6 The Board should monitor the Society’s progress toward implementing its fund-raising goals and objectives.</p>	<p>Not yet applicable This recommendation will not be applicable until the Society implements Recommendation 1.3.</p>
<p>1.7 The Society should develop a workable tracking document that tracks the status of each action step; identifies the person responsible for the action step; and provides explanations on actions taken to date and information on the plan’s current status.</p>	<p>Not yet applicable This recommendation will not be applicable until the Society implements Recommendation 1.3.</p>
<p>1.8 The Board should review and determine whether its regional chapters have a continuing role in working with the Society. If not, the Board should eliminate the regional chapters. If the Board decides the regional chapters should continue, the Board should review, possibly revise, and clearly define the regional chapters’ roles and responsibilities</p>	<p>Not implemented According to the Society, its Governance Committee is in the process of addressing regional chapter bylaws and representation, and the topic of the role/relevance of regional chapters was recently raised at its Pioneer Conclave in May 2014. However, the Society did not provide any supporting documentation of these discussions.</p> <p>The Society also reported that the Board will be making a final decision on whether the regional chapters will have a continuing role in working with the Society sometime in 2014, but did not provide a specific date.</p>
<p>1.9 The Board should review and determine whether it should continue its practice of allocating a portion of its membership dues to its regional chapters or retain those monies to help meet society funding priorities.</p>	<p>Not Implemented The Society reported that the Board discussed its practice of allocating a portion of its membership dues to its regional chapters and decided to continue this practice. However, the Society could not provide any supporting documentation of the Board's review and discussion, such as board meeting minutes.</p>
<p>1.10 The Board should enter into a formal agreement with each of its support groups that clearly describes roles, expectations, and authority. In drafting these agreements, the Society should confer with the Attorney General or seek legal counsel on these agreements where appropriate.</p>	<p>Implementation in process The Society has not yet entered into a formal agreement with any of its support groups, but provided a copy of a draft agreement with one of its support groups, Arizona Historical Society, Inc. According to the Society, it has also engaged in some informal discussions with its other support groups regarding entering into formal agreements and that while some groups have indicated a willingness to cooperate, others prefer a complete separation. The Society reported that efforts to enter into formal agreements with its support groups will be ongoing through 2014.</p>

Finding 2: Society has taken steps to address collections-management issues, but needs collections-management plan to better direct efforts

2.1 The Society should develop and implement a comprehensive collections-management plan. In developing this plan, the Society should:

a. Conduct assessments at all of the museums to identify the collections, preservation, and management needs facing the museums now and in the future;

Implementation in process

Although the Society provided copies of some assessments, these assessments were generally informational, including information such as the facility address and the number and type of collections items. These assessments did not identify the collections, preservation, and management needs facing the museums now and in the future. Auditors will follow up at 18 months to review the Society's assessments of the collections, preservation, and management needs facing the museums now and in the future.

b. Develop a list of action steps and prioritize them;

Implementation in process

Although the Society provided two action plans containing prioritized action steps with resources needed and timelines, it first needs to identify the collections, preservation, and management needs facing the museums now and in the future (see Recommendation 2.1a) because its action steps and priorities should be based on the identified needs. Until this step occurs, auditors will be unable to determine whether the Society has developed a comprehensive collections-management plan that includes appropriate, prioritized action steps, timelines, and the resources needed.

c. Include timelines and the resources needed; and

Implementation in process

See Recommendation 2.1b.

d. Regularly update its plan and track its progress in completing its action steps.

Implementation in process

Although the Society provided evidence that one of its two action plans was being updated, the other documents provided did not clearly link back to the other action plan the Society provided as a part of Recommendation 2.1b. In addition, until it fully implements Recommendations 2.1b and 2.1c, this recommendation cannot be fully implemented.

Recommendation

Status/Additional Explanation

2.2 The Society should continue its efforts to develop and implement a comprehensive collections-management manual by December 2014 as planned. Implementation should include providing staff training related to the manual's guidance as appropriate. In developing this manual, the Society should ensure that it includes and/or enhances procedures that will:

- a. Address the collections-management issues identified in this audit, including cataloging and inventorying; and
- b. Enhance its artifact removal policy by providing guidelines to staff on how to identify and assess other items for removal, such as when conducting an inventory or preparing items for an exhibit.

Implementation in process

The Society finalized its procedural manual on April 14, 2014, and reported that staff training will begin in June 2014.

Implementation in process

The Society has developed a plan to perform an agency-wide Information Technology (IT) refresh and upgrade that will occur in phases during fiscal years 2014 through 2016. The Society expects these changes to improve its cataloging and inventorying capabilities. Although the Society did not develop any policies and procedures for cataloging and inventorying in its comprehensive collections-management manual, it reported it plans to develop these policies and procedures for each of its divisions by December 2014.

Not implemented

The Society has not yet enhanced its artifact removal policy by providing guidelines to staff on how to identify and assess other items for removal, such as when conducting an inventory or preparing items for an exhibit. However, the Society reported that these guidelines will be included in its division manuals as of December 2014.

2.3 The Society should implement the recommendations from the Office of the Auditor General's August 2013 procedural review to strengthen its controls over collections items. Specifically, the Society should:

- a. Ensure all items are recorded using the cataloging software, electronic databases, or card catalog system, as applicable;
- b. Create a single, centralized listing of all collection items;

Implementation in process

The Society has developed a plan to perform an agency-wide IT refresh and upgrade that will occur in phases during fiscal years 2014 through 2016. Further, as part of the plan, the Society will purchase PastPerfect Version 5 proprietary software for improved inventory control. Auditors will follow up at 18 months to determine whether all items are being recorded in the updated electronic systems.

Implementation in process

According to the Society, it is in the process of updating its technology in phases and plans to implement a new library and archives software that can generate reports of its library and archives collections. The Society also plans to purchase PastPerfect Version 5 proprietary software for the three-dimensional collection items for improved control.

Recommendation

Status/Additional Explanation

- c. Retain an off-site backup copy of its centralized listing;

Implementation in process

The Society is working on establishing a plan to retain an off-site backup copy of all digital information, including the collections databases. However, this process is dependent upon the Society completing Recommendation 2.3b by creating a single, centralized listing of all collection items.

- d. Retain all documentation relating to the acquisition of collection items, including the deed of gift and purchase receipt; and

Implemented at 6 months

- e. Collaborate with the Arizona Department of Administration's General Accounting Office to develop an acceptable time frame for completing a physical inventory of its collections that is in line with industry best practices.

Implementation in process

The Society has taken steps to work with the Arizona Department of Administration's General Accounting Office to develop a time frame for completing a physical inventory of its collections that is in line with industry best practices. So far, the Society has developed a draft policy that includes different time frames for completing a physical inventory based on the value of the collection items. However, this policy and corresponding processes are still being developed.

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- 2.4 The Board should enhance its oversight of the Society's efforts to address collections-management needs. Specifically, the Board should:

- a. Continue to receive regular updates at board meetings regarding collections management, and as part of the updates, regularly review the implementation of the Society's collections-management plan; and

Implementation in process

The Society's Division Directors have been directed to produce a monthly collections report that will be provided to the Board. Auditors will follow up at 18 months to ensure that these reports are regularly provided to the Board to facilitate a review of the implementation of the Society's collections-management plan.

- b. Adopt a practice similar to Minnesota's by developing a tracking document to show what steps have been accomplished in the collections-management plan.

Implementation in process

The Society has developed a tracking document to demonstrate which steps have been completed in the collections-management plan. Auditors will follow up at 18 months to ensure that this tracking document is regularly provided to the Board and corresponds to any improvements made to the plan when Recommendations 2.1a, 2.1b, 2.1c, and 2.1d are implemented.

Sunset factor #2 The extent to which the Society has met its statutory objective and purpose and the efficiency with which it has operated.

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| <p>1. To help strengthen its controls over cash receipts and comply with the <i>State of Arizona Accounting Manual</i>, the Society should:</p> <p>a. Develop detailed written cash receipt policies and procedures for all museums and distribute them to all society employees and volunteers responsible for handling cash;</p> <p>b. Require employees and volunteers to endorse checks immediately upon receipt;</p> <p>c. Require that voided transactions and refunds be authorized by a second employee;</p> <p>d. Require that cash receipts be reviewed daily for accuracy and completeness by another person;</p> <p>e. Require each museum to deposit cash and checks at least weekly;</p> | <p>Implemented at 6 months</p> <p>Implementation in process
The Society has updated its policies and procedures manual to include the requirement that staff are to endorse checks immediately upon receipt. However, based on interviews with the staff at two museums, they do not immediately endorse checks upon receipt, but wait until the end of each day to endorse them all at once.</p> <p>Implementation in process
The Society has updated its policies and procedures manual to include the requirement that voided transactions and refunds must be authorized by a second employee. However, based on an interview with and observation of staff at the one museum where this problem existed, a secondary approval is still not required to void a transaction in the point of sale system. In addition, user rights have not been updated to ensure that some staff, such as those involved in sales transactions, do not also have the capability of accepting returns and exchanges.</p> <p>Not implemented
The Society did not update its policies and procedures manual to specify that cash receipts be reviewed daily by a second person. Further, based on interviews with the staff at the museum locations where this problem existed, this recommendation is not being performed for three of the four museums.</p> <p>Implementation in process
The Society has updated its policies and procedures manual to require this practice. Further, auditors reviewed seven deposit forms and supporting documentation from two museum locations where this problem existed, and determined that six of the seven deposits were made weekly as recommended. The seventh deposit included monies that were received 2 weeks prior to deposit. Auditors will follow up at 18 months to determine whether this recommendation is being consistently followed.</p> |
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Recommendation

Status/Additional Explanation

- f. Require cash receipts to be adequately safeguarded prior to deposit. This could include locking cash receipts in a safe or filing cabinet;
- g. Ensure that safe combinations are restricted to an essential number of employees; and
- h. Require two employees to be present when donation boxes are opened, counted, and recorded.

Implementation in process

The Society has updated its policies and procedures manual to require this practice and two of the three museums where this problem existed have implemented this recommendation. Auditors will follow up at 18 months to determine whether this process is being followed at all museums.

Not implemented

The Society has not included this practice in its policies and procedures manual or otherwise implemented it.

Implementation in process

The Society has updated its policies and procedures manual to require this practice. However, this practice is not being performed by one of the four museums. Auditors will follow up at 18 months to determine whether this process is being followed at all museums.

- 2. To help maintain an accurate capital assets listing and comply with the *State of Arizona Accounting Manual*, the Society should:

- a. Perform a physical inventory of capital assets at least once a year;
- b. Submit the inventory sheets to the Society's accounting office and reconcile them to the internal listing and the State's Fixed Asset System;
- c. Add new capital assets to the State's Fixed Asset System within 5 working days from the date the warrant was issued;
- d. Require a second employee to approve property-disposal request forms and submit the forms to the Society's accounting office so the internal listing and the State's Fixed Asset System can be updated;

Implementation in process

The Society has updated its policies and procedures manual to require this practice. However, based on documentation provided by the Society, auditors were not able to verify that a complete physical inventory of capital assets had been completed.

Not implemented

The Society has not included this recommendation in its policies and procedures manual and did not provide evidence that a reconciliation between its internal listing and the State's Fixed Asset System had occurred.

Implementation in process

The Society has updated its policies and procedures manual to require this practice. However, because it had obtained no new capital assets, the Society had not had an opportunity to implement this recommendation.

Implementation in process

Although the Society updated its policy to require an approval by one of three people, the policies do not yet require two employees to approve of disposals. In addition, although the Society also updated its internal listing and the State's Fixed Asset System to reflect the one disposal it had during the period of this review, it did not properly authorize the property disposal request for the related item.

Recommendation	Status/Additional Explanation
<p>e. Tag each capital asset item individually or otherwise identify it as state property; and</p> <p>f. Record the property identification numbers, descriptions, and locations of its capital assets in enough detail in its internal listing or in the State's Fixed Asset System in order to locate them in the museums.</p>	<p>Implementation in process Although all assets on the Society's internal listing had been assigned a unique tag number, the Society had not included this required practice in its policies and procedures manual.</p> <p>Implementation in process The Society has not included this practice in its policies and procedures manual. In addition, based on a review of documentation submitted by the Society, auditors determined that although the Society's listing contained property identification numbers for each item, it was still missing specific descriptions and location information.</p>
<p>3. The Society should coordinate with the Arizona Department of Administration's General Accounting Office and Risk Management Division to ensure that the Society has a reasonable method for valuing its collections that also ensures proper insurance coverage and premiums.</p>	<p>Implementation in process The Society has taken some steps to develop a reasonable method for valuing its collections that also ensures proper insurance coverage and premiums. However, this method is still being developed and therefore, its collections values have not been updated with the State's Risk Management Division.</p>
<p>4. The Society should ensure it complies with state laws by:</p> <p>a. Depositing all monies promptly with the State Treasurer and closing its private bank account; and</p> <p>b. Monitoring changes to governing statutes to help ensure compliance.</p>	<p>Implemented at 6 months</p> <p>Implementation in process The Society began to monitor changes made to its governing statutes on a quarterly basis, as of April 2014. Auditors will follow up at 18 months to ensure the Society continues to monitor changes to its governing statutes.</p>
<p>5. The Society should review travel claims to ensure compliance with the State's travel policies and ensure that its staff are aware of the State's travel policy.</p>	<p>Implemented at 6 months</p>

Sunset factor #5 The extent to which the Society has encouraged input from the public before adopting its rules and the extent to which it has informed the public as to its actions and their expected impact on the public.

<p>1. To fully comply with the State's open meeting law, the Society should ensure that it takes written minutes or a recording of the Board's standing, special, or advisory committee's or subcommittees' meetings as required by A.R.S. §§38-431.01(B) and 38-431(1) and (6).</p>	<p>Implementation in process Although the Society provided meeting minutes for four of its standing, special, or advisory committee's or subcommittees' meetings, it did not provide minutes for all of the meetings that have occurred in 2014. Auditors will followup at 18 months to determine whether the Society has provided written minutes or recordings for all of the Board's standing, special, or advisory committee's or subcommittees' meetings.</p>
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Recommendation**Status/Additional Explanation**

Sunset factor #9 The extent to which changes are necessary in the laws of the Society to adequately comply with the factors listed in the sunset law.

1. Because State General Fund appropriations represent the majority of the Society's funding, the Legislature should consider amending A.R.S. §41-821 to provide for a governor-appointed board.

Not Implemented

During the 2014 Regular Session, the Legislature had not considered a bill related to the Society's board.

2. If the Legislature does not amend A.R.S. §41-821, the Society's Board should revise its bylaws to ensure that board members receive appropriate training and establish specific criteria for qualification and appointment of the Society's board members.

Not Implemented

The Society reported that it plans to revise its bylaws to strengthen board obligations and qualifications during the third quarter of calendar year 2014.