

**State of Arizona
Office
of the
Auditor General**

PERFORMANCE AUDIT

**ARIZONA
HISTORICAL
SOCIETY**

**Report to the Arizona Legislature
By Douglas R. Norton
Auditor General
March 1998
Report No. 98-7**



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March 26, 1998

Members of the Arizona Legislature

The Honorable Jane Dee Hull, Governor

Mr. Felipe C. Jácome, Executive Director
Arizona Historical Society

Transmitted herewith is a report of the Auditor General, A Performance Audit of the Arizona Historical Society. This report is in response to a May 27, 1998, resolution of the Joint Legislative Audit Committee. The performance audit was conducted as part of the Sunset review set forth in A.R.S. §§41-2951 through 41-2957.

This report found AHS has made little progress in addressing the major deficiencies concerning care of the Society's collections that were documented in the 1995 Auditor General report (Report No. 95-7). The Society is still faced with substantial problems such as the lack of humidity and climate control in collection storage areas, and improper storage. AHS staff estimated it will cost at least \$4.8 million over several years to address the deficiencies; yet there is currently little funding available.

Second, although the Society opened the Marley Center Museum in January 1996, with five of its ten originally planned exhibits, it has experienced schedule delays in producing the remaining exhibits and has yet to raise the estimated \$5.5 million needed to complete them.

Third, although the Society's Board of Directors has made some efforts to address criticisms of its oversight activities, it has taken little responsibility in coordinating funding-raising efforts. Finally, certain accounting practices place the Society's monies at risk for loss or theft and hinder its fiscal accountability. Several internal control weaknesses may have contributed to a recent employee theft of over \$18,000 of the Society's nonappropriated monies.

As outlined in its response, the Society has agreed to and will implement or has already implemented all but one recommendation outlined in the report. The Society disagrees with the recommendation that the Legislature consider revising A.R.S. §41-821 to require AHS to deposit nonappropriated monies with the State Treasurer and to account for these monies on the Uniform Statewide Accounting System.

My staff and I will be pleased to discuss or clarify items in the report.

This report will be released to the public on March 27, 1998.

Sincerely,

Douglas R. Norton
Auditor General

Enclosure

SUMMARY

The Office of the Auditor General has conducted a performance audit of the Arizona Historical Society (AHS), pursuant to a May 27, 1997, resolution of the Joint Legislative Audit Committee. This audit was conducted as part of the Sunset review set forth in Arizona Revised Statutes §§41-2951 through 41-2957.

The Arizona Historical Society's mission is "to collect, preserve, interpret and disseminate the history of Arizona, the West and northern Mexico as it pertains to Arizona." To fulfill this mission, AHS cares for a collection of books, records, photographs, and objects related to Arizona history. For example, AHS has in its possession Geronimo's medicine pouch and Wyatt Earp's shotgun. These collections are housed and displayed in AHS museums in Tucson, Tempe, Flagstaff, and Yuma.

AHS is governed by a 31-member Board, charged with overseeing the Society and its over 75-member staff. The Board has also organized chapters to advise it on museum programs and exhibits, as well as to conduct fund-raising.

AHS Slow to Improve Museum Collection Management (See pages 9 through 16)

Little progress has been made in remedying the numerous collection management problems detailed in the 1995 Auditor General Review of the Society (see Auditor General Report No. 95-7). During the past two years, AHS staff have developed recommendations for corrective measures to improve collections care and corrected some minor collections deficiencies. However, unaddressed problems, such as improper environmental controls, inappropriate storage methods, poor exhibit procedures, and inadequate staffing, continue to place the Society's artifacts at risk for damage or loss. For example, many of AHS' artifacts are potentially threatened by insufficient temperature and humidity controls at its Flagstaff and Yuma museums. Further, inadequate storage space at the Flagstaff, Tempe, and Yuma facilities, in addition to inefficient use of storage space at the Tucson Museum, could potentially result in damage or loss of various artifacts. AHS estimates it will cost at least \$4.8 million over a period of three to seven years to address the deficiencies in the care of its collections; however, there is currently little funding available to make any substantial progress in improving overall collection management.

To ensure the preservation of its collections, AHS needs to develop a comprehensive collections management plan that details its collections priorities and their associated costs. At the

same time, AHS should identify various funding sources, such as private donations, federal grant money, and legislative appropriations, to secure additional money for correcting deficiencies in the care of its collections.

**AHS Management and the Board
Have Not Yet Completed
the Marley Center Museum
(See pages 17 through 22)**

While the Marley Center Museum officially opened in January 1996 with 5 of its 10 originally planned exhibits, schedule delays in producing the remaining exhibits hinder the Museum's completion. These delays stem primarily from poor project management and staffing problems. Specifically, a project oversight committee composed of AHS staff failed to meet regularly and, when it did meet, it focused on topics other than exhibit production. Further, AHS was not able to provide necessary exhibit production staff in a timely manner as detailed in its contract with the exhibits producer. Because of the lack of progress in developing and constructing the remaining exhibits and a change in the scope of needed work, AHS canceled its contract with the exhibits producer in December 1997.

In addition to exhibit production delays, the Society currently lacks sufficient funding needed to complete the remaining exhibits. In 1986, AHS estimated that all 10 of the Museum's planned exhibits would cost approximately \$5.5 million. However, since that time, the cost for these exhibits increased to approximately \$7.6 million, primarily due to technology upgrades and inflation. Further, AHS added Arizona Exposition 2000 to the original exhibits, bringing the total cost of exhibits to about \$9.7 million. Although AHS contracts with a fundraiser to raise the money needed for exhibits, approximately \$5.5 million has yet to be raised for exhibit production.

AHS management and the Board must take several steps to ensure the Museum's timely completion. Specifically, AHS should continue with its plans to hire a project manager, establish a new project oversight committee, organize staff into teams, and work on all the remaining exhibits concurrently. Moreover, AHS should develop a fund-raising plan specifying the amount of legislative appropriations it expects to receive and the private monies it intends to raise, along with estimated time frames for when the money is needed.

**Board Needs Further
Improvement to Adequately
Fulfill Its Oversight Role
(See pages 23 through 27)**

The AHS Board has not fully assumed its governance responsibilities for the Society. Since 1995, the Board has made some efforts to address criticisms of its oversight activities, but it

continues to lag in its oversight of fund-raising efforts and strategic planning. Specifically, the Board is not actively overseeing the efforts of the various groups or individuals that assist in fund-raising. Further, although the Board now has a strategic plan, it does not include several key elements suggested by strategic planning literature.

To ensure that AHS has sufficient monies to implement its projects, the Board should set fund-raising goals for its chapters, establish a position to coordinate Society fund-raising, and develop a plan to directly involve its own members in fund-raising efforts. Meanwhile, the Board should also strengthen its strategic planning process by assigning responsibilities for developing and implementing the plan's requirements, linking the plan to the Society's budgeting process, regularly monitoring the Society's progress in achieving its goals, and updating the plan as necessary to incorporate strategies and resource requirements.

Certain Accounting Practices Place Society's Monies at Risk (See pages 29 through 32)

Certain AHS accounting practices place its monies at risk for loss or theft and hinder the Society's fiscal accountability. First, AHS fails to maintain sufficient internal controls, which possibly contributed to a recent employee theft of over \$18,000 of the Society's nonappropriated monies. While an AHS official eventually discovered the theft and subsequently revised some of the Society's internal control procedures, several internal control weaknesses still remain.

In addition to insufficient internal control procedures, AHS was unable to properly account for all its monies for several months during fiscal year 1997. Like all state agencies, AHS' legislative appropriations are held by the State Treasurer's Office and accounted for on the Uniform Statewide Accounting System (USAS). However, AHS uses an internal accounting system as its only means of accounting for most of its nonappropriated monies, which are not deposited with the State Treasurer. In 1996, AHS' internal accounting system failed, causing the Society to lose nine months' worth of financial data and rendering it unable to account for its nonappropriated monies. AHS officials cite high staff turnover and inadequate staff training as the primary factors leading to the system's failure. To ensure that AHS is able to properly account for its monies in the future, the Legislature may want to consider revising A.R.S. §41-821 to require the Society to deposit all its nonappropriated monies with the State Treasurer and account for them on USAS.

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INTRODUCTION AND BACKGROUND

The Office of the Auditor General has conducted a performance audit of the Arizona Historical Society, pursuant to a May 27, 1997, resolution of the Joint Legislative Audit Committee. This audit was conducted as a part of the Sunset review set forth in Arizona Revised Statutes (A.R.S.) §§41-2951 through 41-2957.

AHS History and Purpose

The Arizona Historical Society (AHS) predates statehood. In 1884, at a Tucson hotel, a group of citizens formed the Society of Arizona Pioneers with the intent of preserving the history of their struggle to claim and settle the Arizona Territory. In 1897, the territorial legislature recognized and began funding the Society. In 1913, the Society became a state agency. AHS' purpose has remained consistent, though expanded, as exemplified by its mission statement:

“To collect, preserve, interpret and disseminate the history of Arizona, the West, and Northern Mexico as it pertains to Arizona.”

AHS originally operated only one museum in Tucson. Then, in the 1970s and 1980s, three local historical societies joined AHS, giving it four primary museums that cover various geographical areas of the State: Tucson, Flagstaff, Yuma, and metropolitan Phoenix. Each museum is a part of a regional division, and shares the same general mission of collecting, preserving, interpreting, and educating the public about Arizona's history, with each division concentrating on the history that is unique to that region. The Society's four primary museums served approximately 136,000 visitors during fiscal year 1997. Further, over 108,000 people throughout the State benefited from AHS' various public programs, such as lectures and festivals, during that same period. In addition, as mandated by statute, AHS certifies local historical organizations that work to preserve Arizona history around the State. Specifically, the Board certifies that these nonprofit organizations have functioning programs of historical value thereby allowing AHS to contract with them to perform services for the State's benefit.

Organizational Structure and Staffing

A.R.S. §41-821 establishes a Board of Directors that holds in trust for the State all property acquired by the Society. Further, the Board directs and oversees AHS' operations. The Board is composed of 31 voting members representing all 15 Arizona counties, according to population, in the following manner: 9 members from Maricopa County, 6 members from Pima County, 3 members from Coconino County, 2 members from Yuma County, and 1 member each from the remaining counties. Board members are elected by the AHS' membership (a total of 2,718 members), and meet monthly to conduct AHS business. The Board has organized four chapters that coincide with the geographic areas served by the Society's four museums. These chapters advise the museum division directors on museum programs and exhibits, advocate for each chapter's needs to the State Board, and conduct fund-raising. The presidents of these chapters also serve on the Board.

To carry out its mission, the Board appoints an Executive Director and employs a total of 75.5 state and privately funded full-time equivalent staff (FTEs). The staff are organized into seven divisions, including four geographic divisions each operating its own museum. Figure 1 (see page 3) provides a description and the location of each division.

Budget

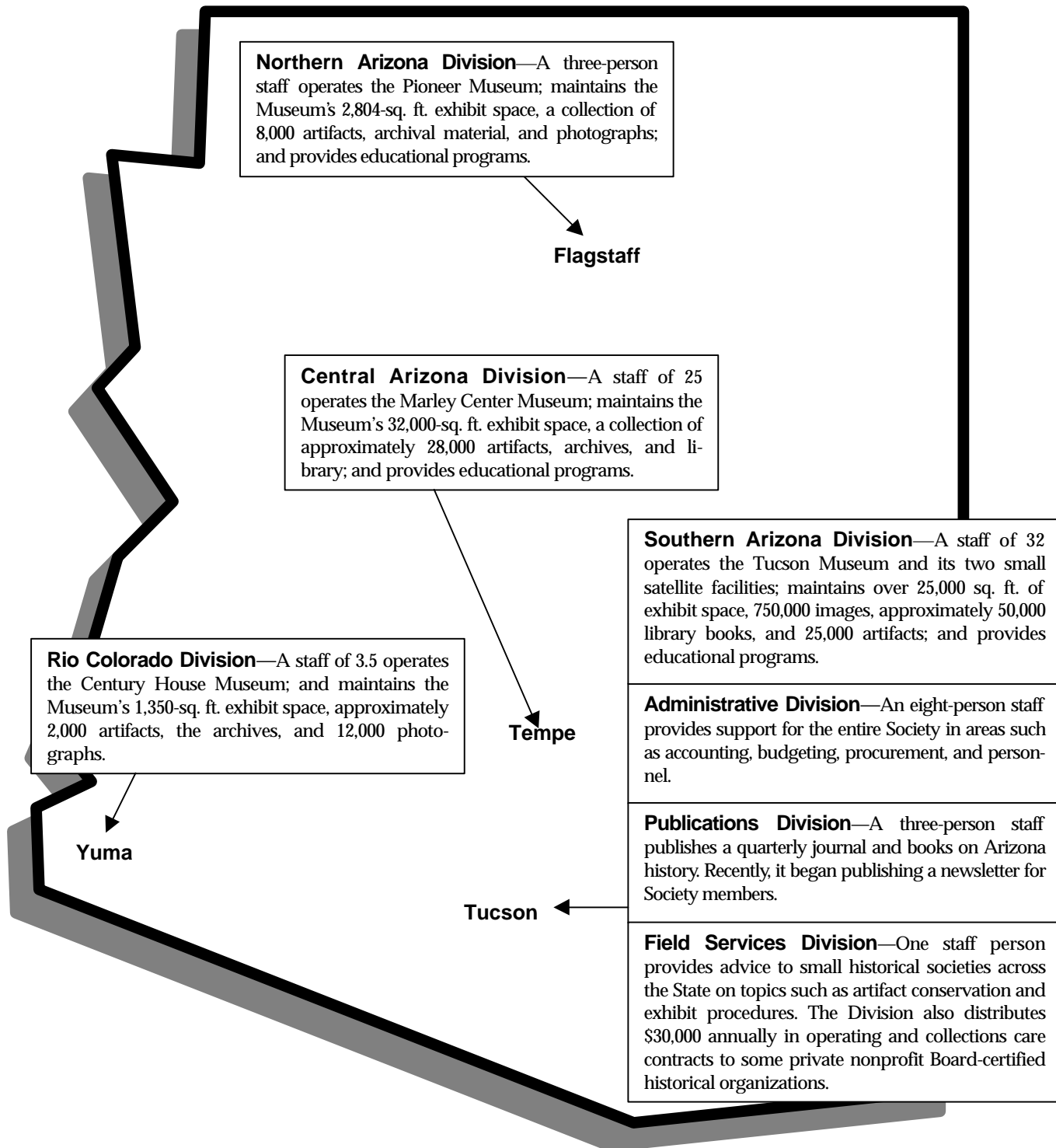
As illustrated in Table 1 (see page 4), in fiscal year 1997, AHS' \$5.4 million total revenue included both state and private funding. State appropriations, accounting for \$4.2 million, or 78 percent of revenues, are used to pay for the Society's buildings and personnel. The remainder of AHS' revenue is obtained privately through donations, grants, and other private sources, such as membership dues and gift shop revenues. Some of this money is received from donors or grantors who contribute for specific purposes. For example, one major corporation gave the society \$95,000 to publish a textbook on Arizona history. The remaining monies are used to fund some staff positions, and support museum functions such as programs and exhibits.

Follow-up to 1995 Auditor General Report

As part of the current audit, concerns identified in the Auditor General's 1995 performance audit (Auditor General Report No. 95-7) were reviewed. The 1995 report highlighted two areas for improvement: the need to address the care of collections at AHS museums, and the need for the AHS Board to improve its performance as the Society's governing body. This report finds that AHS has made some efforts to address the concerns raised in 1995, but continued work is needed in both areas. Specifically:

Figure 1

**Arizona Historical Society
Division Organization and Responsibilities**



Source: Auditor General staff summary of AHS Division staffing and responsibilities.

Table 1
Arizona Historical Society
Statement of Revenues, Expenditures, and Other Changes In Fund Balance¹
Years Ended June 30, 1995, 1996, and 1997
(Unaudited)

Revenues:	1995	1996	1997
State General Fund appropriations ²	\$3,957,832	\$4,079,255	\$4,227,660
Intergovernmental	297,307	542,675	69,273
Contributions and donations	376,484	660,204	696,831
Sales and charges for services	228,584	264,417	321,667
Interest on investments	14,498	15,506	15,276
Other	39,317	66,230	60,751
Total revenues	<u>4,914,022</u>	<u>5,628,287</u>	<u>5,391,458</u>
Expenditures:			
Personal services	1,579,433	1,786,486	1,812,471
Employee related	353,413	417,182	402,966
Professional and outside services	237,637	445,085	521,403
Travel, in-state	21,075	33,201	30,148
Travel, out-of-state	10,141	19,441	14,191
Other operating ³	2,009,852	2,275,199	2,058,979
Capital outlay	174,514	757,106	301,562
Total expenditures	<u>4,386,065</u>	<u>5,733,700</u>	<u>5,141,720</u>
Excess of revenues over (under) expenditures	527,957	(105,413)	249,738
Net operating transfers		(10,965)	(20,592)
Excess of revenues and transfers in over (under) expenditures and transfers out	527,957	(116,378)	229,146
Fund balance, beginning of year	<u>735,017</u>	<u>1,262,974</u>	<u>1,146,596</u>
Fund balance, end of year ⁴	<u>\$1,262,974</u>	<u>\$1,146,596</u>	<u>\$1,375,742</u>

¹ Excludes the Society's Enterprise and Nonexpendable Trust Funds. The funds' combined revenues and expenses were less than \$48,000 and \$33,000, respectively, for each fiscal year presented, and the June 30, 1997, fund equities were \$57,079 and \$118,588, respectively.

² Includes allocations from the Department of Administration for building renewal and immaterial reversions to the State General Fund.

³ Includes approximately \$1.2 million each fiscal year for lease payments on state-owned buildings.

⁴ Fund balance at June 30, 1997, includes \$884,700 legally restricted for specific purposes, such as Marley Center exhibits and other grants; \$281,200 reserved for capital outlay; and \$209,800 unreserved and undesignated.

Source: The Arizona Historical Society's statement of changes in fund balance (Overall by Fund Type) report for the years ended June 30, 1995, 1996, and 1997.

- **Museum Collections Management:** The 1995 report found that collection storage conditions fell considerably short of professional expectations, due to limited funding and inadequate staffing. Specific concerns revolved around inadequate climate controls, poor methods used to store some artifacts, and some inadequate exhibit procedures. The report recommended that AHS obtain a development officer position to help raise the money necessary for improving the care of its collections.

Although AHS has taken some steps to address the concerns raised in 1995, its overall progress in addressing deficiencies in its care of collections has been slow. (See Finding I, pages 9 through 16, for further discussion of collections management.)

- **Board of Directors:** The 1995 report also recommended that the Board improve its governance of the Society, since it has not adequately overseen policy-setting and fund-raising efforts. Specifically, the report recommended the Board reassess its relationship with affiliated groups, promote diversity and state representation on the Board, and continue to work on its development of policy and long-range planning.

Since 1995, AHS has made or attempted to make improvements based on the Auditor General's recommendations. For example, the Board revised the charters of its four chapter organizations, clarifying their advisory and fund-raising roles. In addition, the Board rewrote its bylaws, removing the provision that allows the Board to waive member term limits. Further, the Board tried adding more business expertise to its membership by recruiting two members representing prominent Phoenix-area corporations. However, these members have since left the Board because the Board's time commitments conflicted with their jobs. Also, although the Board attempted to provide for Governor-appointed members, there are none on the Board, because officials at the Governor's Office did not approve this measure.

Finally, the Board has approved a strategic plan defining the Society's goals and objectives and annually holds a Board member retreat to revise the plan. However, as noted in the current audit, these efforts are still incomplete. Therefore, the Board should take a more active role in coordinating AHS fund-raising efforts and improve its planning process (see Finding III, pages 23 through 27).

Other Changes Since the 1995 Review

AHS has undergone some significant leadership changes since the last audit. In November 1996 AHS' executive director resigned after 8 years of service. An interim executive director was appointed and served in this position for 11 months, until September 15, 1997, when a permanent executive director began work with the Society. In May 1996, AHS also lost its chief administrative officer and in July 1996 its comptroller, both of whom had been with the Society for several years.

The interim executive director implemented several Total Quality Management teams made up of staff from AHS' various divisions. These interdivisional teams have helped to foster cooperation and communication among AHS staff throughout the State in correcting current deficiencies. For example, an interdivisional collections management team developed a report identifying the Society's collection needs. Further, an interdivisional marketing and public relations team is currently working on a marketing plan for the entire Society. Other interdivisional teams established include executive management, interpretive planning, automation planning, and facilities planning.

Finally, after almost one year without a permanent director, AHS hired a new executive director in September 1997. This new director brings much-needed expertise in fund-raising, planning, and legislative advocacy to the Society.

Scope and Methodology

The audit focuses primarily on the current state of the Society's collections, the completion status of its newest museum (the Marley Center located in Tempe), the Board's oversight of AHS' operations, and the adequacy of its current accounting processes.

The assessment of AHS' care of its collections involved a review of its efforts to address concerns highlighted in the 1995 Auditor General report. Staff knowledgeable about AHS collections were contacted and asked to demonstrate changes made since the 1995 audit report. In addition, audit staff toured each of the four AHS museums.

Further, the audit team examined the Society's progress in completing and publicizing the exhibits at the Marley Center Museum. Audit work in this area included interviewing AHS personnel and chapter Board members, and reviewing AHS records and documents pertinent to the design and construction of the Marley Center's exhibits.

In examining agency operations, the work centered on the Board's role in coordinating fund-raising and directing agency planning. Specific audit work in this area included attending four Board meetings and conducting a content analysis of the meeting minutes for state Board meetings from January 1996 to September 1997. In addition, the audit team contacted historical societies in 12 states with governing boards that rely on both public and private funding, along with several Arizona museums and organizations that rely on fund-raising to help support their operations.

Finally, the review of AHS' accounting system examined the controls the Society uses to safely and accurately process donations, and the feasibility of depositing the monies with the State Treasurer's Office and tracking them on the State's accounting system (USAS). To meet this objective, AHS' internal controls were extensively reviewed, and the accuracy of AHS' appropriated and nonappropriated fund balances was determined.

This report presents findings and recommendations in four areas, addressing the need to:

- Develop a comprehensive collections management plan to ensure preservation of AHS' collections;
- Take a stronger role to ensure the timely completion of the Marley Center Museum;
- Strengthen the Board's current strategic planning process and have it take a more active role in fund-raising activities; and
- Employ adequate accounting practices to reduce the risk for loss or theft of Society monies and to better ensure fiscal accountability.

This audit was conducted in accordance with government auditing standards.

The Auditor General and staff express appreciation to the President of the Arizona Historical Society Board, Board members, and the management and staff of the Arizona Historical Society for their cooperation and assistance throughout the audit.

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FINDING I

AHS SLOW TO IMPROVE MUSEUM COLLECTION MANAGEMENT

Museum collection management problems continue to exist at AHS. Although the 1995 report detailed significant collections management problems, including improper environmental conditions and exhibit procedures, AHS has made little progress in addressing those concerns. AHS' inability to obtain funding has contributed to its slow response to the identified collections problems. To ensure the preservation of its collections, AHS should develop a comprehensive collections management plan and pursue funding from various public and private sources.

Background

During the Society's 1995 Sunset review (see Auditor General Report No. 95-7), an artifact conservation expert assessed AHS' collections care efforts and concluded, "AHS falls considerably short of professional expectations for quality collection management and care." Specifically, the consultant uncovered fundamental collection management and care problems at AHS' four museums, including improper environmental controls, inappropriate storage methods, poor exhibit procedures, and inadequate staffing.¹ These conditions represent factors that could potentially result in damage to or loss of various artifacts, such as Geronimo's medicine pouch, Wyatt Earp's shotgun, antique furniture, and old photographs.

Few Concerns Regarding Care of the Society's Collections Have Been Addressed

Despite the numerous collections problems detailed in the 1995 report, AHS has done little to remedy these concerns. Unaddressed problems such as the lack of humidity and climate control in collection storage areas and improper storage methods continue to endanger AHS' collections. While AHS staff developed a report recommending corrective measures for improving the care of its collections and addressed some deficiencies in this care over the past two years, these actions have not significantly improved care of the collections.

¹ The consultant assessed collections care efforts at AHS main museums in Tucson, Tempe, Flagstaff, and Yuma. At the time of her assessment, the Marley Center in Tempe was not yet open to the public.

AHS has not addressed major problems—Most of the major deficiencies concerning care of the Society’s collections that were documented in the Auditor General’s 1995 report still exist today. These problems center on four key areas, including environmental controls, storage methods, exhibit procedures, and staffing levels. Specifically, the following deficiencies still exist:

- **Environmental Controls**—AHS’ inability to control humidity and temperature at its museums represents an ongoing problem. In 1995, the consultant documented moisture levels outside the range considered safe for artifacts in collection storage areas at the Tucson and Flagstaff museums. Large fluctuations in humidity levels result in the loss of fiber strength in textiles, paper, and leather that can cause artifacts to become brittle, crack, or shrink. While the Tucson Museum has attempted to reduce humidity levels by turning on a heater, staff use this technique only in extreme conditions because of the resulting high utility bills. Meanwhile, Flagstaff’s Pioneer Museum’s humidity problem remains unchanged. In addition to extreme humidity levels, high temperatures serve to prematurely age and decompose artifacts. Even though the consultant noted temperatures as much as 16 degrees higher than recommended in Yuma’s Century House Museum’s collection storage areas, AHS has not yet addressed this concern.
- **Storage Methods**—All four of AHS’ museums continue to employ inadequate and insufficient storage methods. For example, the Pioneer Museum in Flagstaff continues to house the majority of its collections in the unfinished attic of the museum building. These artifacts must withstand dangerous temperature fluctuations and poor ventilation. Further, at the Century House Museum in Yuma, severe overcrowding forced staff to store artifacts in several small rooms, closets, and built-in-cabinets. At the Marley Center Museum in Tempe, a lack of sufficient designated collections storage space forces staff to arrange for the long-term loan of many artifacts to local museums in order to create more storage space. The Marley Center Library and Archives also suffers from storage problems because most of its available storage space is currently full. On the other hand, the Tucson Museum has sufficient storage space, but is not able to make efficient use of it. Currently, the Tucson Museum houses approximately 10 percent more artifacts than it can properly accommodate.
- **Exhibit Procedures**—The Century House and Pioneer Museums continue to employ outdated and potentially harmful exhibit procedures. These two AHS facilities use exhibit cases constructed of wood, paint, and glue. Under certain circumstances, some of these materials can produce gaseous fumes that may contribute to the corrosion of metal artifacts and could accelerate the aging process of wood, paper, and leather artifacts. Additionally, the Century House Museum’s exhibit light levels remain dangerously high, up to ten times greater than recommended for textiles and paper objects. Excessive light not only leads to premature fading, but can also cause fibers in organic materials such as leather and paper to darken and break down, potentially resulting in the total destruction of artifacts.

- **Staffing Levels**—In addition to deficiencies in the overall care of museum artifacts, AHS has not adequately addressed staffing needs. As noted in the 1995 report, staffing levels at AHS have remained constant or decreased over the past 20 years, while its collection size has doubled. Although AHS has increased its collections management staff during the past two years, including the re-establishment of a museum registrar at the Tucson Museum and the addition of an artifact conservator at the Marley Center Museum, understaffing remains a serious problem. For instance, at the Pioneer Museum, two professional staff must prepare and install exhibits and organize public programs for approximately 15,000 visitors per year, leaving little time for addressing problems with care of its collections. Further, lack of sufficient staff prevents the Tucson Museum from adequately preserving its photographic collection. To date, the Museum has conducted basic preservation work on 80,000 of its delicate nitrate photo negatives by storing them in a freezer to slow the deterioration process. However, a significant amount of work still needs to be done since approximately 50,000 additional nitrate negatives have not been given this basic conservation care. One museum official estimates that up to five additional trained staff are needed on a temporary basis to catalogue, process, and properly store these images.

AHS aware of collections problems—While AHS has yet to address several deficiencies in the care of its collections, AHS staff have prepared a report that details the steps it must take to improve collections care.¹ Specifically, this report, which was required as part of AHS' current strategic plan, identifies collection care deficiencies, associated costs, and recommended solutions for each museum. The following examples illustrate some of the problem areas identified by AHS staff:

- **Pioneer Museum**—The Pioneer Museum's problems with the care of its collection are "extremely critical" as evidenced by the fact that the majority of its artifacts are stored in the Museum building's uninsulated attic. Staff recommend moving the collections to a suitable storage area while renovating the existing buildings. Additionally, the report recommends expanding the Museum's staff to include an archivist.
- **Tucson Museum**—The Tucson Museum's collection needs center on upgrading physical facilities and more effectively using storage spaces. The staff recommends improving climate control by replacing all obsolete humidifiers and preparing and implementing a long-range space use plan including the installation of movable high-density storage systems.

¹ This report was prepared in response to the 1995 Auditor General report and addresses only the deficiencies associated with that report.

- **Century House Museum**—The Century House Museum presently lacks sufficient climate-controlled collections storage space. Further, overcrowding will continue until the renovation of the historic Molina Block, a set of adobe buildings AHS purchased to expand the Century House’s facilities, is completed. Additionally, the report recommends purchasing ultraviolet filters to reduce the amount of light inside the exhibit cases.
- **Marley Center Museum**—The Marley Center Museum suffers from a lack of designated collections storage space. Consequently, staff recommends the acquisition of special storage equipment that would expand the Museum’s storage capabilities.

Minor deficiencies addressed—In addition to producing the collections report, AHS took some specific steps to address several minor deficiencies. For instance, AHS repaired the roof of Tucson’s main museum building, allowing staff to better control the building’s temperature. As mentioned earlier, the Tucson Museum re-established a museum registrar position that had previously been eliminated, resulting in improved collections inventory and record-keeping. In addition, AHS staff report that steps have been taken at the Tucson Museum to address potential threats to artifacts caused by poor or inadequate exhibit techniques by dismantling problem exhibits and replacing them with exhibits constructed using techniques that are as sensitive to artifact protection as possible. Further, the Pioneer Museum weather-sealed and put shades on some of its windows, improving the building’s climate and light control. Moreover, even though the Century House Museum has exhausted all available storage space, its staff rearranged some Native American baskets, which the consultant previously noted as being inappropriately stacked, so that they are no longer stored in a manner that risks distortion of their shapes. These collections problems were corrected at little or no cost to the Society.

Lack of Sufficient Funding Contributes to Slow Progress

Although AHS has taken minor steps to improve care of its collections since the 1995 Auditor General’s report, it currently lacks sufficient funding to confront the majority of its critical needs in this area. This funding shortfall results from a variety of elements ranging from incomplete cost estimates for collections care projects to budget and accounting difficulties.

Lack of funding to meet needs—The cost of remedying AHS’ collections deficiencies is far greater than its current resources. While AHS estimates it will cost approximately \$4.8 million over the next three to seven years to address the deficiencies listed in its collections report, the actual cost is likely to be higher. Specifically, several of the items listed in the report lack a detailed cost estimate and, therefore, are not included in the \$4.8 million cost estimate. For instance, the Century House Museum lists both the cost of upgrading its Molina Block Annex for collections archival storage and the cost for photo preservation and organization as “unknown.” Despite the high estimated collections care cost, AHS’ Board requested only

about \$260,000 for collections needs in its fiscal year 1999 supplemental budget request. Therefore, even if the Legislature appropriates the entire \$260,000, AHS faces a minimum collections funding shortfall of over \$4 million.

Several factors affect ability to obtain funding—While AHS needs at least \$4.8 million in funding to address its collections care needs, several factors have prevented it from obtaining this money. These factors include incomplete cost estimates, ineffective prioritization of collections needs, the Board’s inability to make collections care a Society priority, and budget submittal and accounting difficulties.

- **Incomplete Cost Estimates**—As previously mentioned, the collections report that AHS developed does not provide sufficient cost information for at least 13 percent of the items that AHS needs to address. In addition to the Yuma Museum listing the cost of moving artifacts to the renovated Molina Block as “unknown,” the Tucson Museum listed the cost of expanding the collections data into a Society-wide database as “requires research.” Further, the Pioneer Museum does not list the cost of hiring a facilities engineer. Without complete cost estimates and adequate support for those estimates, AHS cannot develop viable budget requests for funding improved care of its collections.
- **Prioritization of Collections Needs**—In addition to the need for cost estimates, the Society has not effectively prioritized its proposed collections projects. Within the collections report, each listed project is assigned a priority ranging from “critical” to “desirable” and referenced as either a short-, mid-, or long-term goal. For instance, Tucson lists the replacement of obsolete humidifiers as a critical short-term goal, while Century House Museum states that creating and equipping a photo processing area in the Molina Block is an urgent long-term goal. However, the collections report gives little indication of how the projects are ranked against each other within each budget year and what budget year is associated with the short-, mid-, and long-term goal classifications. Until AHS’ collections projects are prioritized on a yearly basis that corresponds to the state budgeting process, the Society will be unable to submit organized and justifiable budget requests.
- **Inadequate Collections Oversight**—As noted in 1995, the Board is responsible for ensuring the proper care of collections, yet it has not provided sufficient oversight in this area. Although the Board’s collections committee has more recently worked with AHS collections management staff to compile a summary of the number of artifacts at each of AHS’ four main museums, it has not adequately overseen the collections care process. Specifically, it took over one year for collections staff to produce a report of the Society’s collections deficiencies although they had originally been assigned a three-month time frame to complete this report. A review of the Board’s meeting minutes revealed that the Board did not acknowledge that the plan had not been submitted until several months after its due date had passed.

- **Budget Submittals**—Untimely budget submittals and accounting difficulties over the past two years have also hindered AHS’ ability to secure funding from the Legislature for collections care. Due to turnover among staff critical to the budget process, such as the executive director, the chief administrative officer, and the comptroller, AHS submitted a late and incomplete fiscal year 1998 to 1999 budget request. Moreover, the Society lost several months’ worth of financial data when its internal accounting system failed, further contributing to AHS’ inability to submit a budget with provisions for addressing collection care deficiencies (see Finding IV, pages 29 through 32 for further information on the Society’s accounting systems). Consequently, increased funding for the Society’s need had to be requested through a Supplemental Budget request, which is normally reserved for emergency appropriations.¹ The Legislature will consider AHS’ Supplemental Budget request in the 1998 legislative session.

Comprehensive Collections Plan Needed

To ensure the Society has sufficient funding to address deficiencies in the care of its collections, AHS needs to develop a comprehensive collections management plan that prioritizes these needs and ties them into the Society’s budget. Additionally, the plan should identify and develop the various funding alternatives for collections including grant money, private fund-raising dollars, and legislative appropriations.

Need comprehensive plan—Building on the current collections report, AHS should incorporate, into its strategic plan, a long-term comprehensive collections management plan that prioritizes collections needs for each year and provides associated costs. A comprehensive collections management plan would assist AHS in preparing systematic collections management budget requests. A survey of other state historical societies shows that, while AHS is not alone in failing to adequately plan for long-range collections needs, one state provides a good example for AHS to follow. The Colorado Historical Society’s comprehensive long-range plan includes a collections section containing a goal statement, objectives, strategies, and tactics, as well as some cost estimates. Further, the Colorado report contains a long-range facilities planning chart that includes collections projects from 1992 to the year 2000 and beyond.

Similarly, AHS should produce a long-term comprehensive collections management plan. Specifically, the plan should include a prioritized year-by-year list of collections needs along

¹ AHS’ fiscal year 1998-99 supplemental budget request totaled \$4.3 million, and requested funding to address issues such as marketing and public relations, customer service, fund development, and exhibits at the Marley Center Museum. Approximately \$260,000 of the total amount requested was identified for collections care improvements for AHS’ four primary museums.

with a corresponding cost assessment for each item and the total cost per year. By prioritizing and assigning costs to collections needs on a yearly basis, AHS will be able to generate organized and viable budget requests for funding.

Develop funding alternatives—In conjunction with developing a collections management plan, AHS should identify various funding sources to secure additional money for its collections care deficiencies. AHS should seek money for collections care in the following sequential order:

- **Private Donations**—First, AHS should develop a fund-raising plan that identifies specific strategies for raising private money to fund its collections needs. The fund-raising plan should detail the role of AHS staff and the Board in these fund-raising efforts.
- **Federal Grants**—Second, AHS should seek federal grant money to help address collections deficiencies. However, it may take some time to qualify for such grants since AHS must take several steps to establish credibility with the federal granting agencies. For example, an AHS employee experienced in writing federal grants suggests an important step would be for AHS to produce a strategic plan that includes target dates and a facilities management plan. Further, the Society must demonstrate an institutional commitment to care of its collections. Once AHS has taken the steps necessary for establishing credibility, it should identify and apply for the federal grants available for collections management and care. For instance, both the Institute of Museum and Library Services (IMLS) and the National Endowment for the Humanities (NEH) administer grant programs that provide money for collections management and care. The NEH, through its National Heritage Preservation Program, offers grant money for both the purchase of collections storage shelving and for the improvement of environmental conditions, including climate control. Collections storage equipment and improvement in environmental conditions represent key deficiencies in AHS' care of its collections.
- **Legislative Support**—Finally, once it has taken the steps necessary to obtain private donations and qualify for federal grants, AHS should identify specific steps it can take to gain legislative support in the event that additional monies are needed. Other state historical societies surveyed, such as Minnesota, Nevada, and Kentucky, indicate that they work to educate legislators about historical collections and programs as a means of gaining monetary support. According to AHS' executive director, the Society is currently in the process of developing strategies for presenting its needs to the Legislature.

Recommendation

To ensure that identified deficiencies in AHS' care of its collections are corrected in a timely manner, AHS should produce a comprehensive collections management plan. The plan should include the following elements:

- A prioritized year-by-year list of collection projects;
- A cost assessment for each collection project, along with yearly totals; and
- A list of collection funding sources including strategies for raising private donations, securing federal grant money, and gaining legislative support for collection projects.

FINDING II

AHS MANAGEMENT AND THE BOARD HAVE NOT YET COMPLETED THE MARLEY CENTER MUSEUM

Although the building construction was complete in 1991, AHS has yet to fully complete its Marley Center Museum. AHS has experienced schedule delays in producing the remaining exhibits and has yet to raise the estimated \$5.5 million still needed for completion of the Museum's exhibits. Problems in completing the Museum appear to stem primarily from poor project oversight and inadequate staffing. Therefore, both AHS and the Board need to take a stronger role in ensuring timely completion of the Marley Center by actively supervising the project, ensuring sufficient staffing, and assessing its fund-raising abilities.

Background

In the early 1980s, the AHS' Board decided to construct a major new museum facility in central Arizona. While the Legislature funded building construction and operational costs, the Board agreed to raise the monies necessary to design and fabricate the ten planned museum exhibits as well as any temporary exhibits. From 1989 to 1991, AHS worked to complete building construction and develop conceptual plans for the Museum's exhibits, which focus on contemporary Arizona history. The Museum's exhibits use technology such as electronic maps, interactive touch-screen computer workstations, and film to tell various stories. For example, one exhibit tells the story of how the Theodore Roosevelt Dam brought an adequate, reliable source of water to the Salt River Valley, while another exhibit explains how mining and manufacturing enterprises contributed to the Valley's rapid population growth.

Facility construction was completed in 1991; however, the \$9.2 million Museum was unavailable for public viewing until five years later as AHS worked to design and build the Museum's first phase of exhibits (five of the ten planned exhibits).¹ A previous 1995 Auditor General Report (see Report No. 95-7) cited two primary reasons for the delayed opening, which were lack of fund-raising and a dispute between AHS and the AHS Foundation over the Museum's control.²

¹ Although the general public did not have access to the Marley Center until 1996, the Museum's Library and Archives have been available to researchers by appointment, since 1993.

² The AHS Foundation, a nonprofit organization, was established to raise the money needed to design and fabricate the Museum's exhibits.

Exhibit Production Delays and Funding Challenges Continue

While schedule delays continue to hamper the Marley Center's second phase exhibits production process, AHS also lacks sufficient funding to complete the Museum's exhibits. Although AHS contracted with an exhibits producer to assist in completing the second phase of exhibits, exhibit production is currently behind schedule. Further, despite efforts from a contract fund-raiser, AHS currently lacks \$5.5 million needed to complete exhibit production.

Contractor hired to expedite exhibits production—Although AHS hired a contractor to expedite the production of the Museum's five remaining exhibits, the Agency is currently behind schedule. After AHS opened the first phase of exhibits in January 1996, it determined additional resources were needed to successfully develop and open phase two. Therefore, in October 1996, AHS entered into a 32-month, \$500,000 contract with the American History Workshop (AHW). According to the contract, AHW is required to collaborate with museum staff to develop each exhibit in a three-phase sequence including interpretive design, design development, and fabrication. The contract also specifies an integral role for museum staff in all phases of exhibit production. For example, the contract requires museum staff to conduct historical research, select exhibit artifacts and images, and produce physical exhibit designs.

Although the contract established a process to guide exhibits production, neither the contractor nor AHS has been able to maintain the established schedule. According to the contract, AHS was to phase in the opening dates for the five remaining exhibits over a two-year period. For example, three exhibits were scheduled for completion between February and November 1998, and the other two exhibits were to be completed by July and September 1999. However, in September 1997, AHS prepared a revised production schedule, estimating that, while two exhibits would be completed in 1998, the remaining three exhibits would not be complete until late 1999 or early 2000.

Insufficient money available to complete exhibits—In addition to scheduling delays, the projected amount of money needed to complete the remaining exhibits exceeds what is currently available. In 1986, AHS estimated that it would cost approximately \$5.5 million to construct the Museum's original 10 planned exhibits. However, in the 11 years since the original estimate, the cost for all 10 exhibits increased to approximately \$7.6 million, primarily due to technology upgrades and inflation. Additionally, AHS added a new year-long exposition of exhibits and programs called Arizona Exposition 2000, at an estimated cost of approximately \$2.1 million. Thus, the total estimated cost for opening the 10 planned exhibits plus Arizona Exposition 2000 currently stands at approximately \$9.7 million. Of this amount, AHS has spent about \$2 million to construct the first phase of exhibits and, therefore, needs approximately \$7.7 million to complete the remaining exhibits. However, the Society has only about \$2.4 million in donations and pledges that can be used for exhibit production, leaving a deficit of \$5.5 million in monies needed to complete the Museum.

Poor Project Management the Primary Delay Factor

Poor project management appears to be the primary factor hindering AHS' timely progress in completing the Museum. A project oversight committee established to oversee the exhibits production process has failed to adequately coordinate and monitor exhibit production activities. Additionally, delays in addressing necessary AHS staffing needs resulted in further setbacks.

Project management lacking—Exhibit production delays appear to result primarily from poor project management. The contract between AHS and AHW designates a Project Oversight Committee, made up of museum staff, to act as a final approval body for work performed under the contract. Specifically, the Committee's role is to review the project's progress, ensure project goals are met, and review and approve deliverables produced under this agreement. Although assigned with overall management of the Museum's exhibit production, the Project Oversight Committee has provided ineffective oversight of this process. Specifically, the Committee seldom held the required monthly meetings and provided little project monitoring and resolution of project-related issues. In fact, project oversight was hampered from the beginning when the AHS executive director resigned the day after the AHW contract was signed in October 1996. The executive director was intended to be the Committee's Chairperson. Therefore, his departure left the committee without much-needed leadership.

In addition, the Committee met infrequently and did not necessarily focus on production of the second phase of exhibits. Since the contract's inception in late October 1996, there have been only six committee meetings, the first of which occurred in February 1997, four months after exhibit production began. Furthermore, once the Committee began to hold meetings, it spent several months planning and coordinating substantial modifications to three of the five exhibits completed in phase one and currently open to the public, to bring them up to acceptable museum standards. Additionally, the Committee spent time dealing with the restructuring of museum exhibits staff. All of these activities, although important, hindered the Committee's ability to effectively manage the remaining exhibits production.

Resource issues within AHS contributed to delays—Without the Committee's active involvement in project oversight, several staffing issues were unresolved for significant periods of time, further contributing to delays. When exhibit production for phase two initially began, AHS assigned approximately 12 staff to the project. Further, as part of the contract with AHW, AHS agreed to hire at least 5 additional employees. However, AHS has not been able to maintain a sufficient level of staffing for the project. In April 1997, AHW indicated that if exhibit production was to remain on schedule, AHS needed to provide additional staff immediately, as called for in the contract. Specifically, the contract required AHS to provide a draftsman and an education director. In addition to these positions, AHS and AHW identified the need for an additional curator to focus specifically on one exhibit. These positions are necessary to fulfill AHS' exhibit responsibilities, such as providing exhibit designs and devel-

oping the educational component for each exhibit, and are essential parts of the exhibit production team. However, because of uncertain funding sources and delays in processing personnel paperwork, the education director and curator were not hired until August and October 1997, respectively.

Additionally, even the 12 AHS staff already on board at the project's inception have not been able to devote sufficient time to completing the exhibits. AHS exhibit and interpretive staff stated they are frequently diverted from the remaining permanent exhibit production tasks to work on other museum assignments and can only spend about 50 percent of their time on phase two exhibit production. The remainder of their time is spent on day-to-day tasks, such as fielding questions from the public, supervising volunteers, and participating in inter-divisional team activities, as well as addressing problems with the first phase of exhibits.

AHS Needs to Take Stronger Role in Ensuring Museum Completion

AHS management and the Board must take a stronger oversight role to ensure the Marley Center's timely completion. First, AHS needs to improve project management to effectively monitor exhibit production schedules and ensure adequate staffing levels. Second, AHS should assess its ability to raise the money necessary to complete the second phase of exhibits.

State pays \$2.2 million annually—While AHS has been unable to secure sufficient monies to complete the Museum's exhibits, the State continues to support its operations, at a cost of approximately \$2.2 million per year.¹ As previously mentioned, the Legislature agreed to pay the Museum's annual operating costs including staff salaries, employee-related expenses, and building utilities. The State has been contributing in this manner since 1990. While the public now has the opportunity to visit the Museum, visitation to date has been low. For example, during its first full fiscal year of being open to the public, the Museum drew only about 25,000 visitors. However, the original concept plan projected that the fully completed Museum would draw 250,000 visitors annually. Although Museum visitation has been low, over 67,000 individuals have benefited from Marley Center community outreach efforts, such as living history programs and other off-site lectures.

Improved project management needed—To ensure the Museum's timely completion, AHS management and the Board must take steps to better ensure its ability to meet the Museum's exhibit production schedule and effectively monitor exhibit production. As mentioned previously, AHS is adding Arizona Exposition 2000 to the five originally planned exhibits in the

¹ Of this amount, \$1.26 million is designated for the lease-purchase payment for the Marley Center's building.

Museum's second phase. In addition, AHS wants to add another exhibit to its lobby/atrium area that would serve as an introduction to the Museum. Because of these two additional exhibits, AHS felt the scope of work in its contract with AHW had changed, and if it was to continue to collaborate with AHW, the contract would need to be renegotiated. However, AHW elected not to renegotiate. Therefore, the Society canceled its contract with AHW in December 1997.

Based on this new development, AHS' executive director is taking steps to enhance project staffing oversight. Specifically, AHS plans to establish a project manager position, responsible for activities such as project-related procurement, maintaining work flowcharts, and preparing project updates. Further, the executive director has established a new committee to oversee the exhibits production project. This committee is composed of AHS upper management, such as the executive director and the chief administrative officer, in addition to Board and Chapter members. Moreover, the executive director has reorganized AHS staffing to allow museum education staff as well as other exhibits staff to devote more time to exhibits production. For example, staff are now organized into teams constructed around the functions of interpretation, collections, and exhibit design. These teams are designed to carry out specific actions, such as developing interpretation and collections plans and designing exhibits, to better coordinate and expedite the exhibits production process. Finally, while the AHW contract called for staff to work on one exhibit at a time, the executive director plans to have staff work on all the remaining exhibits concurrently to further expedite the process.

Fund-raising alternatives need to be assessed—While AHS is now taking steps to increase project oversight, Society management and the Board should also begin assessing its ability to raise the monies necessary to complete the Museum since it still lacks sufficient revenues to complete exhibit production. The Society's contract fund-raiser has already raised over \$3.6 million for the Museum's exhibit, by soliciting donations from major Phoenix area corporations and securing monetary support from Maricopa County and most of its municipalities. However, as mentioned previously, AHS needs to raise at least an additional \$5.5 million to complete the Museum's remaining exhibits. To raise this money, AHS is attempting to identify additional private sources, such as trade and professional associations. In addition, AHS requested that \$3.6 million of its \$4.3 million Supplemental Budget request for fiscal year 1999 be allocated for the Museum.

Although AHS' fund-raiser is continuing to approach private sources and central Arizona municipalities that have not yet donated, AHS feels these potential donors will not actually give any money until the Legislature shows support through additional appropriations. In making any request to the Legislature, AHS should provide detailed information regarding its funding needs. Specifically, AHS needs to develop a plan outlining the total amount needed and the estimated time frames by which the money is needed. Further, the plan should specify how much of the amount needed AHS will request from the Legislature and how much it will pursue from private and other sources.

In pursuit of private donations, AHS should consider requesting Board members to assist with fund-raising efforts. Officials from both the Phoenix Symphony and the Phoenix Museum of History indicate they solicit as much participation as possible from Board members for fund-raising activities, since these individuals often have extensive community and business contacts.

Recommendations

1. To improve its project management and ensure adequate staff are available to complete the museum exhibits and effectively monitor exhibit production, AHS management and the Board should continue with plans to:
 - a. Hire a project manager to conduct project-related procurement activities, maintain work flowcharts, and prepare project updates; and
 - b. Utilize the new project oversight committee to oversee the exhibits production process.
2. AHS should assess its ability to raise sufficient revenues to successfully complete the remaining exhibits according to schedule. As part of that assessment, AHS should:
 - a. Develop a plan specifying the amount of monies it is expecting to receive from the Legislature and private and other sources as well as the estimated time frames in which the money is needed; and
 - b. Request Board members to assist with fund-raising efforts.

FINDING III

BOARD NEEDS FURTHER IMPROVEMENT TO ADEQUATELY FULFILL ITS OVERSIGHT ROLE

The AHS Board has not fully assumed its governance responsibilities for the Society. Since 1995, the Board has made some efforts to address criticisms of its oversight activities, particularly in the areas of fund-raising and planning. However, the Board continues to provide only minimal oversight of AHS' fund-raising efforts and has failed to adequately implement its strategic planning process. Therefore, to better ensure that AHS completes projects critical to its mission, the Board should take a more active role in fund-raising activities and strengthen its current strategic planning process.

Board Addressed Some 1995 Audit Recommendations

The 1995 Auditor General report (see Report No. 95-7) identified shortcomings in the Board's oversight of AHS. Particularly, the Board had not adequately identified overall fund-raising needs despite the fact that a significant portion of AHS' operations must be funded by private monies. The Board has made little progress in this area, but did work to clarify its chapter organization's fund-raising role as recommended in the 1995 audit report.

In addition to its weak oversight of fund-raising efforts, the 1995 audit reported that the Board had not been involved in many long-range planning activities, instead relying on Society divisions to plan for their regional needs. Since that time, the Board has made some progress in this area by adopting a strategic plan in June 1996. The plan focuses on AHS' need to develop its visibility, improve internal communications, improve museum educational programs, manage its facilities, and advance AHS as a statewide resource. Further, the strategic plan calls for an additional 18 plans or strategies to be developed to identify various short- and long-term needs, such as collections care and the Society's image. Finally, the Board achieved some accomplishments in this area, such as approving a staff-produced report detailing the Society's concerns with care of its collections and increasing its efforts to form partnerships with historical organizations throughout the State.

Board's Oversight Still Lacking in Two Primary Areas

Despite the efforts made, the Board continues to lag in its oversight responsibilities in two areas. Specifically, because the Board has taken little responsibility in coordinating fund-raising efforts, it lacks sufficient revenues to address critical issues facing AHS. Additionally, the Board's current strategic planning process lacks some key elements to ensure Society goals are achieved in a timely manner.

Board has minimal involvement in fund-raising—Similar to the observations made in the 1995 audit, this review found the Board continuing to lag in its involvement in Society fund-raising efforts. Despite the significant shortfall in revenues needed to care for museum collections and to pay for new exhibits and programs, the Board fails to actively oversee the fund-raising efforts of the various groups or individuals that assist in this function. As discussed in Finding I (see pages 9 through 16), AHS is faced with needing to raise a minimum of \$4.8 million in the next several years to address numerous collections management issues, including poor storage methods, inadequate environmental controls, and exhibit methods. Without sufficient monies available to address these issues, AHS' collections are at risk of deterioration. For example, the Pioneer Museum in Flagstaff lacks appropriate storage space and, as a result, some of its artifacts are endangered by the poor storage conditions. In order to construct a new building to properly house these artifacts, AHS would need to raise over \$7 million. However, according to the Pioneer Museum's Director, local organizations that support his Museum could potentially raise only \$350,000 toward a new building.

In addition to the lack of progress in addressing funding needs for museum collections, the Board has failed to establish a position to coordinate fund-raising for the items set out in its strategic plan. The 1995 performance audit recommended that AHS acquire a development officer to coordinate Society fund-raising efforts. According to Board members, AHS' former executive director indicated that the Board could hire someone to fill the position. However, the Board later found out there was no money available to fund the position. Further, while the Board continues to rely on a contract fund-raiser, his efforts are focused primarily on AHS' Marley Center Museum. Consequently, there is no one individual within AHS to coordinate and guide fund-raising efforts for the Society as a whole.

Strategic planning not fully implemented—The second key oversight area in which the Board has not fully addressed its responsibility is to adequately plan for the Society's future and funding needs. Although the Board now has a strategic plan in place, it has failed to incorporate key elements into the plan to ensure sufficient progress on meeting established goals. Strategic planning literature suggests that at least three critical factors should be addressed when implementing strategic plans, including:

- **Responsibilities should be assigned**—While AHS’ strategic plan requires the Society to meet a number of target performance measurements and produce a series of reports or strategies, for the most part it does not indicate who will be responsible for carrying out these steps. For example, AHS’ strategic plan calls for an increase in financial resources by increasing income from membership dues. However, no individual or group is assigned responsibility for bringing about these increases. According to literature, one of the major reasons strategic plans fail is that they lack detailed implementation steps, such as assigning responsibilities for executing the various parts of the plan.
- **Plan should be coordinated with budget**—Literature also points out the importance of linking strategic plans and budgets to provide a means for project implementation; yet, the Board has made no provisions for coordinating its strategic planning and budgeting process. Specifically, the Board has not adopted a process for financing the plan’s strategies or projects and incorporating them into the budget process. For example, as noted earlier, AHS has significant funding needs for enhancing its museum collections. While the Board acknowledges the improvement of museum collections management as a critical budget issue, it does not have a process for incorporating the estimated costs to address such issues into its budget.
- **Provisions should be made for monitoring progress**—Finally, while a key part of strategic planning involves monitoring, updating, and evaluating the plan to determine its continued viability, the Board has not performed this function. The Board has received at least one written update from the Society’s executive director on the strategic plan’s progress. However, a content analysis of the Board’s meeting minutes from June 1996 to September 1997 indicates the Board never discussed, evaluated, or took action based on that update to guide the executive director in completing the strategic plan.

Although the Board has sporadically addressed items in its strategic plan, it does not appear that it has placed high priority on ensuring that the goals set out in the plan are achieved or that the plan addresses all the Society’s needs. According to a Board official, the Board has spent much of its time over the past two years reacting to problems, such as the resignation of AHS’ executive director, or debating the issue of where AHS’ administrative headquarters should be located. Therefore, little time was left to focus on strategic planning issues. As a result, the Board is behind in achieving the goals set out in its strategic plan. For example, as previously mentioned, the plan calls for the development of 18 plans or strategies, including human resources and marketing plans, and fund-raising strategies for increasing Society revenue. However, to date, only 1 of the 13 plans or strategies due by November 1997 has been completed.

Moreover, the strategic plan does not address all of the Society’s needs or efforts. Specifically, while AHS continues to struggle to complete five permanent exhibits at the Marley Center Museum, there are no provisions in its strategic plan to ensure this effort is completed in a

timely manner or that sufficient revenues will be available. (See Finding II, pages 17 through 22 for further information on the completion of the Marley Center.)

Improvements Needed in Planning and Fund-raising

To better ensure the Board can adequately oversee the Society's progress in completing projects critical to its mission, the Board needs to take a more active role in fund-raising efforts and strengthen its strategic planning process. In conjunction with these efforts, the Board should assess the extent to which it can raise private monies to address the Society's needs and to what extent additional legislative support may be needed.

More active role in raising needed money—The Board should take a more active role in organizing the fund-raising activities needed to support AHS' programs. Specifically, the Board should set goals for its local chapters in terms of the dollar amount of donations it expects them to raise. In addition, the Board should work with the Society's executive director to implement a staffing plan to establish a position coordinating the fund-raising process. While the Board has attempted to do this by requesting funding for a development officer in its fiscal year 1998-99 supplemental budget request, it should continue to pursue this need on its own if the Legislature declines to fund the position. Finally, like other organizations, the Board should consider what fund-raising activities its own members can participate in to increase donations. For example, board members for the Phoenix Museum of History are expected to contribute \$1,000 to the Museum each year directly, in goods and services, or in corporate matching donations. They are also asked to participate directly in museum fund-raising activities. Similarly, board members for the Phoenix Symphony not only contribute \$1,000 each per year, they are also expected to raise an additional \$5,000 to support the Symphony.

Strengthen strategic planning process—To better ensure fund-raising efforts are effectively implemented, the Board needs to further improve its strategic planning process. One other state historical society contacted during the audit is also faced with raising money, but appears to have a more organized approach to coordinating fund-raising and long-term planning. The Colorado Historical Society is a state agency that has been combining its fund-raising, planning, and budgeting activities since 1991. Specifically, the agency uses committees made up of board members, staff, specialists, and community leaders to identify the strategies needed to achieve the agency's long-term goals, determine who is responsible for implementing the strategies and, where possible, determine the implementation costs. Using these strategies, the Board then develops the agency's budget and determines the proper mix of public and private monies needed to implement the strategic plan. These techniques are similar to those used by two other museums in Arizona. For example, Phoenix's Heard Museum ties its fund-raising efforts to its long-term planning. To begin with, the Heard's Board of Trustees sets major program goals for a 10-year period. Then, to meet these goals, in 1993

the Heard's Board developed a fund-raising program that defines whom to approach to fund programs and what techniques and strategies should be used. This plan is revised monthly.

Board should assess ability to raise needed money—As a part of coordinating its planning, budgeting, and fund-raising process, the Board will need to assess the feasibility that it can raise enough money on its own to address outstanding critical issues. As noted earlier, AHS staff estimate that it will cost at least \$4.8 million to address museum collection management issues, and the Board has yet to raise an estimated \$5.5 million to complete the Marley Center Museum's exhibits. Consequently, like the Colorado Historical Society, the Board should consider the proper mix of state, federal and private monies needed to address the Society's needs. Therefore, the Board should develop a detailed plan outlining what it realistically can expect to receive through its fund-raising efforts and how those monies will be used to address Society needs. At the same time, the Board should also identify what additional monetary support it may need from the Legislature and incorporate those needs into future budget requests.

Recommendations

1. To better ensure AHS has sufficient monies to implement projects necessary to fulfill its mission, the Board should:
 - a. Set fund-raising goals for its chapter organizations;
 - b. Work with AHS' executive director to obtain a development officer for the Society; and
 - c. Develop a plan to directly involve Board members in fund-raising efforts.
2. To strengthen its role in planning, AHS' Board should incorporate key elements into its strategic planning process. Specifically, the Board should:
 - a. Assign responsibilities for developing and implementing the plan's requirements;
 - b. Link the Society's budgeting process to its strategic plan;
 - c. Establish annual updates to incorporate the strategies and resource requirements recommended in study reports; and
 - d. Establish quarterly updates to monitor the Society's progress in achieving plan goals.

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FINDING IV

CERTAIN ACCOUNTING PRACTICES PLACE SOCIETY'S MONIES AT RISK

Certain AHS accounting practices place its monies at risk for loss or theft and hinder the Society's fiscal accountability. AHS fails to maintain sufficient internal controls, which possibly contributed to a recent employee theft. To reduce the risk of future theft or loss of monies, AHS should institute measures to strengthen its internal controls. Further, high turnover and insufficient training led to the failure of the Society's internal accounting system, its only method of accounting for its nonappropriated monies. Therefore, AHS should take steps to prevent similar occurrences from happening in the future and to ensure that it is able to properly account for all its monies.

Background

As previously mentioned, AHS receives appropriations from the Legislature as well as nonappropriated monies from donors and through grants. Like all state agencies, AHS' legislative appropriations are held by the State Treasurer's Office and the Society is required to account for them on the Uniform Statewide Accounting System (USAS). In addition to using USAS, AHS uses an internal accounting system as its primary method of reporting financial information for all its monies. Further, this internal system is AHS' only means of accounting for the majority of its nonappropriated monies, and these monies are deposited in a private bank account. According to AHS officials, the Society feels it has greater control over the expenditure of nonappropriated monies by depositing most of them in a private bank account. In addition, AHS officials state they prefer using their own accounting system for financial management because of its reporting capabilities.

Weak Internal Controls Jeopardize AHS' Monies

AHS' accounting function contains certain internal control weaknesses that potentially place Society monies at risk of loss due to fraud, waste, or abuse. A strong internal control structure requires policies and procedures that help ensure no one individual has access to cash and the related accounting records. In fact, lack of strong internal controls allowed an AHS employee to steal over \$18,000 of nonappropriated monies between June and October 1996. A Society employee with access to presigned checks was able to issue them without detection. While an AHS official eventually discovered the theft and

subsequently revised some of the Society's internal control procedures, some internal control weaknesses still remain. A review of AHS' accounting procedures and records for fiscal year 1996-97 revealed the following weaknesses that could be problematic if not adequately addressed:

- In two of five purchase orders examined, it was discovered that the same employee initiating a purchase order can also approve it, request bids, and receive goods or services. In addition, employees responsible for processing purchase orders can both add vendors to and delete them from the list of approved vendors.

To strengthen controls over purchasing, the Society should establish policies and procedures that include provisions for segregating the purchasing, processing, and receiving functions. In addition, vendors should be added to or deleted from the list of approved vendors on the basis of objective criteria by an employee not directly involved in purchasing activities.

- The Society maintained several bank accounts without written authorization from the State Treasurer. In addition, the signature card for a nonexpendable trust account still included four former Society employees as authorized signers.

To strengthen controls over bank accounts and ensure all state monies are adequately collateralized, the Society should establish policies and procedures that include provisions to ensure that written authorization is obtained from the State Treasurer to maintain outside bank accounts. Further, the policies and procedures should ensure that account signature cards are updated upon termination of authorized signers.

- Cash register overages/shortages at the Marley Center Museum's gift shop were not recorded in the daily cash receipt summary and investigated.

To strengthen controls over cash, the Society should establish policies and procedures that include recording, investigating, and documenting the disposition of all overages/shortages in the daily cash receipt summary.

- Cash receipts from the donation box at the Tucson Museum were not counted or recorded prior to being placed into the safe. In addition, the Society could not locate the prenumbered cash receipt books for fiscal year 1996-97.

To strengthen controls and safeguard cash, the Society should establish policies and procedures that include counting all donation cash receipts and recording the amounts on a receipt form. In addition, where possible, two employees should count the receipts. Further, the Society should retain all prenumbered cash receipt books.

System Failure Causes Breakdown in Financial Accountability

In addition to internal control weaknesses, the Society experienced a computer system failure in 1996, resulting in its inability to properly account for its monies. Society officials cite staff turnover and training as the primary factors leading to the computer system failure. According to AHS officials, the Society was experiencing significant turnover in its accounting department, including the loss of its Chief Administrative Officer and Controller. As a result, the department had no appropriately trained staff to enter financial data into the Society's internal accounting system. Therefore, the financial information produced by this system was unreliable for approximately nine months. As a result, AHS could not properly account for most of its nonappropriated monies until February 1997, when all necessary corrections to the internal system were completed. Additionally, because AHS could not properly account for most of its nonappropriated monies, it was not able to provide the Joint Legislative Budget Committee (JLBC) staff with accurate nonappropriated funds revenue and expenditure reports. Instead, AHS could only estimate the amount of money in these funds.

Although AHS officials feel that turnover problems such as those that contributed to the failure of the Society's accounting system will not likely reoccur, steps should be taken to ensure that AHS is able to properly account for all its monies. Specifically, the Legislature may want to revise A.R.S. §41-821, which currently gives the Board's Treasurer custody of AHS' nonappropriated monies, and require the Society to deposit all its monies with the State Treasurer's Office. Requiring AHS to deposit all its monies with the State Treasurer would increase the State's ability to monitor the activities of all public monies, including donated monies, and would allow AHS to account for its nonappropriated monies on USAS. In addition, using USAS' centralized accounting system to account for the Society's nonappropriated monies would also reduce the potential for future theft of state monies. Specifically, AHS could apply USAS controls such as passwords and authorization tables; segregation of authorization, data entry, and data correction duties; and centralized warrant processing. Finally, despite concerns by AHS Board members and staff that the Society would lose control over nonappropriated monies, depositing nonappropriated monies with the State Treasurer and accounting for them on USAS would not jeopardize the Society's discretion over how those monies are spent.

Although Society accounting staff would initially have to spend time transferring AHS' nonappropriated financial information to USAS, in the end, AHS could achieve greater financial accountability. According to AHS' controller, it would take approximately one month to set up its nonappropriated monies on USAS. However, the benefits discussed above far outweigh this one-time "cost."

Recommendations

1. AHS should take steps to strengthen internal controls and reduce the potential for fraud, waste, or abuse by establishing policies and procedures for:
 - a. Segregating the purchasing, processing and receiving functions;
 - b. Ensuring that written authorization is obtained from the State Treasurer to maintain outside bank accounts;
 - c. Recording, investigating, and documenting the disposition of all cash register overages/shortages; and
 - d. Logging in and recording all cash donations.
2. The Legislature may want to consider revising A.R.S. §41-821 to require AHS to deposit its nonappropriated monies with the State Treasurer's Office, and account for these monies on USAS.

SUNSET FACTORS

In accordance with A.R.S. §41-2954, the Legislature should consider the following 12 factors in determining whether the Arizona Historical Society should be continued or terminated.

1. **The objective and purpose in establishing the agency.**

Although in existence since 1884, the Arizona Historical Society (AHS) was established as a state agency by the Legislature in 1913 to procure books, maps, paper, materials, reports, data and narrative accounts of events pertaining to the history of Arizona and the West. Consequently, the Society's mission is to "collect, preserve, interpret, and disseminate the history of Arizona, the West, and Northern Mexico, as it pertains to Arizona."

Through its statutes, AHS is also charged with designating, upon legislative approval, historical organizations for each county in the State and contracting with designated local societies to perform services for the benefit of the State. These contracts enable AHS to ensure that history is adequately collected, recorded, and preserved on a local level. Statutes further require AHS to publish the *Journal of Arizona History* at least four times a year.

To accomplish its mission, AHS operates four primary museums across the State (in Tucson, Phoenix, Flagstaff, and Yuma) and employs over 75 staff to serve the public and assist researchers. AHS augments its staff through a corps of volunteers who serve in various capacities in AHS' four main museums, such as providing museum tours and assisting with festivals or other public program events. During fiscal year 1996-97, these volunteers donated over 22,400 hours of time.

2. **The effectiveness with which the agency has met its objectives and purposes and the efficiency with which it has operated.**

Although AHS has generally met its prescribed objectives and purpose, this review identified several areas where it could improve its effectiveness and efficiency in fulfilling its responsibilities. Specifically:

- AHS has been slow in correcting collections management deficiencies identified in the 1995 report. The current review found that most collections management problems identified in 1995 are still present, primarily because the Society has

only just recently begun planning to address these deficiencies and because it lacks the funding to implement corrective action (see Finding I, pages 9 through 16).

- Further, lack of strong project management at AHS' Marley Center has resulted in further delays in completing the Museum. In addition, the Society currently lacks sufficient funding to develop and construct the Museum's second phase of exhibits (see Finding II, pages 17 through 22).
- Additionally, in response to the 1995 Auditor General report, the AHS Board, the Agency's governing body, has made or attempted to make changes to improve its oversight role. However, the Board requires further improvements in the areas of planning and fund-raising oversight in order to ensure the Society can meet its mission (see Finding III, pages 23 through 27).

While many of the problems identified during the 1995 audit still plague AHS, the Society is attempting to address some of them through the establishment of interdivisional teams focusing on specific areas such as collections management, automation planning, executive management, facilities planning, interpretive planning, and marketing and public relations. These teams have helped to foster cooperation and communication among AHS staff throughout the State in correcting current deficiencies.

3. The extent to which the Agency has operated within the public interest.

AHS operates in the public interest by providing educational, research, and recreational opportunities to the public. Further, AHS provides technical assistance to local and county historical societies. AHS provides many of these services free of charge to the public, as required by statute. During fiscal year 1996-97, approximately 136,000 individuals visited AHS museums. In addition, over 108,000 individuals participated in various AHS public programs, such as lectures, during the same period.

4. The extent to which rules and regulations promulgated by the Agency are consistent with the legislative mandate.

AHS has no statutory authority to promulgate rules.

5. The extent to which the Agency has encouraged input from the public before

promulgating its rules and regulations, and the extent to which it has informed the public as to its actions and their expected impact on the public.

While AHS has no authority to promulgate rules, the public is generally informed of Board activities. Meetings of the Board of Directors appear to be held in accordance with Arizona governmental open meeting laws.

6. The extent to which the Agency has been able to investigate and resolve complaints that are within its jurisdiction.

This factor does not apply as AHS is not a regulatory agency and has no statutory authority to investigate and resolve complaints.

7. The extent to which the Attorney General or any other applicable Agency of state government has the authority to prosecute actions under enabling legislation.

This factor does not apply as AHS is not a regulatory agency.

8. The extent to which the Agency has addressed deficiencies in the enabling statutes which prevent it from fulfilling its statutory mandate.

AAHS has identified some deficiencies in its enabling statutes that it plans to address in future legislative sessions, including technical amendments regarding the approval procedure for appropriations expenditures, the amount of money the Society can borrow, and the Society's revolving fund.

9. The extent to which changes are necessary in the laws of the Agency to adequately comply with the factors listed in the Sunset Law.

To increase AHS' financial accountability and state oversight of nonappropriated monies, the Legislature may want to consider amending A.R.S. §41-821 to require the Society to deposit its nonappropriated monies with the State Treasurer's Office (see Finding IV, pages 29 through 32 for more information on the Society's accounting practices).

Further, the Society's Board of Directors plans to pursue a change in statute that would allow it to delegate authority to approve expenditures of legislative appropriations to the Society's executive director, providing the expenditures have been previously authorized by the Board.

10. The extent to which termination of the Agency would significantly harm the

public health, safety, or welfare.

Termination of AHS would not significantly harm the public's health, safety, or welfare. However, without AHS, the citizens of this State would lose a valuable educational and recreational resource that maintains the history of Arizona, the West, and northern Mexico. If terminated, accomplishment of AHS' objectives would be extremely difficult because private funding, which covers only 20 percent of its expenses, is not sufficient to maintain the current level of operations and programming.

- 11. The extent to which the level of regulation exercised by the Agency is appropriate and whether less or more stringent levels of regulation would be appropriate.**

This factor does not apply as AHS has no regulatory authority.

- 12. The extent to which the Agency has used private contractors in the performance of its duties and how effective use of private contractors could be accomplished.**

While the Society uses contracted services throughout its operations statewide, it is most evident at the Marley Center. The Museum has one contract employee who focuses on raising money to complete the Museum's exhibits. In addition, most of the Museum's exhibits could not be constructed without the use of contracted services. For example, AHS used private contractors to construct large exhibit platforms and a fiber optic map. Further, contractors are needed to develop interactive computer programs and provide sound and lighting consulting services.

Throughout Arizona, AHS uses contractors for security services, some gift shop operations, and equipment maintenance and repair. The use of contract services permits the Society to accomplish these important functions without hiring additional staff.

Finally, AHS contracts with individuals who act as living history characters. Through their portrayal of characters from Arizona's past, these individual contractors educate people throughout the State.

Agency Response

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19 March 1998

Mr. Douglas R. Norton
Arizona Auditor General
2910 N. 44th Street, Suite 410
Phoenix, Arizona 85018

BY FAX AND MAIL

Dear Mr. Norton:

I am writing to acknowledge your 13 March 1998 letter of instruction and the accompanying final draft report on the Arizona Historical Society.

As before, let me thank you for allowing the Society the opportunity to formally respond to your findings and the sunset review factors highlighted in your report. Your staff has produced a workmanlike document that will be useful as the Society plans for the future.

While I have to say that I am disappointed with the cursory nature of some of the recommendations included in this report, I am pleased with the care in which the recommendations are presented, and am further pleased that your staff has endorsed so many of the structural and procedural reform measures that have been developed and implementing since September 1997.

If you have any questions about this written response, please do not hesitate to contact me. Thank you for your consideration.

Sincerely,

Felipe Jácome
Executive Director

FCJ/do

Enclosures

Introduction

In 1913, the Arizona Historical Society (AHS) became a state **trust** agency. It had been receiving funds from the Arizona Territorial Legislature since 1897 and had been originally formed in 1884 (The Society of Arizona Pioneers) as a private, historical organization dedicated to collecting, preserving and interpreting the colorful history of pioneers in the recently-tamed territory. As such, the Society began collecting oral histories, artifacts of all description, letters, newspapers from around the territory and a host of other materials. When the Society became a state trust agency (as the Arizona Pioneers Historical Society) its collections became holdings **held in trust** for the people of the new state of Arizona. Arizona Revised Statutes (ARS) 41-821 **authorizes the AHS Board of Directors, as a trust**, to direct and oversee the Society.

Since that time the Arizona legislature has provided funds to support the Society's traditional operations, first in Southern Arizona, focused in Tucson -- and today -- throughout Arizona, with museums in Tempe, Flagstaff, Yuma and Tucson.

Response

The following section outlines the Society's official responses to the individual findings and recommendations of the Auditor General's draft report.

FINDING I

Recommendations concerning Collection Management

As an example of the Society's interest in its collections and the importance assigned to preserving Arizona history, it might be useful to describe improvements made since 1995 in one of the Society's geographical divisions.

For example, at the Society's Southern Arizona Division (SAD), major attention has been directed toward the upgrading of exhibits since 1995. The overwhelming majority of the exhibits, that existed in the Museum prior to 1995, have been dismantled and this has eliminated virtually all of the hazards relating to artifactual materials that had been placed in some jeopardy by poor or inadequate exhibition techniques. Of major significance in this regard, all exhibits installed by SAD in fiscal year 1997, have all utilized exhibit techniques that are as sensitive to artifact protection as possible. This is important because a total of **ten new exhibits** were produced by SAD in that year!

In so far as possible, this division has taken the stewardship of the AHS collections placed in their care seriously, and the progress that has been made in this particular area since 1995 is significant both in quantity and quality. The efforts of this division have been mirrored society wide.

- 1) A prioritized year-by-year list of collection projects.

The finding of the Auditor General is **generally agreed to** and the recommendation will be implemented.

- 2) A cost assessment for each collection project along with yearly totals.

The finding of the Auditor General is agreed to and the recommendation will be implemented

- 3) A list of collection funding sources including strategies for raising private donations, securing federal grant money and gaining legislative support for collection purposes.

The finding of the Auditor General is agreed to and the recommendation will be implemented.

FINDING II

Recommendations concerning the Marley Center Exhibits

- 1) To improve its project management and ensure adequate staff available to complete exhibits and monitor exhibit construction, AHS management and board should continue with plans to:

- a. hire a project manager to conduct project-related procurement activities, work flow charts, project updates

The finding of the Auditor General is agreed to and the recommendation **has been** implemented. The new project team assignments and the project management organizational chart are attached to this document.

- b. organize a new project oversight committee to oversee exhibit production process

The finding of the Auditor General is agreed to and the recommendation **has been** implemented. This oversight committee has been established and includes the AHS board president, AHS finance chair, CAD president and program chair, state executive director, Chief Administrative Officer (CAO), and the CAD director. The proposed project manager position will staff the meetings of this body, and other AHS staff may be invited to meetings as appropriate.

- c. organize staff into functional teams such as interpretation, collections and exhibit design

The finding of the Auditor General is agreed to and the recommendation **has been** implemented. For example, at CAD, James Haddan chairs the exhibition team, Anne Taylor chairs the collections team, and Michael Cook chairs the interpretation team.

- 2) AHS should assess its ability to raise sufficient revenues to complete remaining exhibits as scheduled and should continue with plans to:

- a. develop a **revenue stream** plan specifying amount of monies expected from the Arizona Legislature and private/other sources as well as estimated time frame in which money is needed

The finding of the Auditor General is agreed to and the recommendation will be implemented.

- b. request board members to assist with the AHS fund raising effort

The finding of the Auditor General is agreed to and the recommendation will be implemented.

FINDING III

Recommendations concerning improvement of Board Role in Fund Raising and Planning

The AHS Board of Directors works in conjunction with Society staff on all aspects of long-range planning. This process would be more efficient if more Board training were provided by the Arizona Department of Administration.

The most recent example of Board/staff combined planning involves the continuing work on the Society's Strategic Plan, which formed a major part of the agenda at the Board's February 1997 retreat. Unfortunately, staff input at that retreat was limited to the interim executive director, and no division directors were allowed to attend. Priorities set at that meeting included collections, governance, and revenue stream concerns which have now been formalized into the existing format of Goals, Objectives, Action Items, and Measures by AHS staff. This process is reflected in the budget submitted that have been received by administration for the next two-year appropriation cycle (FY 2000-2001). The revised Agency-wide Strategic Plan is scheduled to be ready for final Board approval by June 1998.

On 20 February 1998, the Board held a retreat which included all seven division directors. This retreat featured an executive session in which the recommendations of the Auditor General's report were considered in light of the existing Strategic Plan. The results of this retreat are included in this document as presented below.

1. To better ensure AHS has sufficient monies to implement projects necessary to fulfill its mission, the Board should:

- a. set fund raising goals for chapter organizations

The finding of the Auditor General is agreed to and the recommendation will be implemented. The Chapter advisory boards will be directly involved in the Annual Operating Fund Campaign scheduled for the Fall of 1998.

- b. work with the executive director to obtain development officer

The finding of the Auditor General is agreed to and the recommendation will be implemented. We requested funding from the Arizona Legislature in the FY 1999 supplemental request but funding was denied. This will be submitted again with the Society's FY 2000-2001 budget request.

- c. develop plan to directly involve own members in fund raising

The finding of the Auditor General is agreed to and the recommendation **has been** implemented. In January 1998, the board approved a membership program restructure plan which has been already implemented. The Society's first Annual Operating Fund Campaign is under way at the moment and this includes all current and past members.

- 2. To strengthen its role in planning, AHS' board should incorporate key elements into its strategic planning process. Specifically, the Board should:

- a. assign responsibilities for developing and implementing plan requirements

The finding of the Auditor General is agreed to and the recommendation will be implemented.

- b. link budget process to strategic plan

The finding of the Auditor General is agreed to and the recommendation will be implemented.

- c. establish annual updates to incorporate strategies and resource requirements recommended in study reports

The finding of the Auditor General is agreed to and the recommendation will be implemented.

- d. establish quarterly updates to monitor progress in achieving plan goals.

The finding of the Auditor General is agreed to and the recommendation will be implemented.

FINDING IV

Recommendations Concerning Accounting and Practices

- 1. AHS should take steps to strengthen internal controls and reduce the potential for fraud, waste, or abuse by establishing policies and procedures for:

- a. Segregating the purchasing, processing and receiving functions;

The finding of the Auditor General is agreed to and the audit recommendation **has been** implemented.

- b. Ensuring that written authorization is obtained from the State Treasurer to maintain outside bank accounts;

The finding of the Auditor General is agreed to and the audit recommendation **will be** implemented.

- c. Recording, investigating, and documenting the disposition of all cash register overages/shortages; and

The finding of the Auditor General is agreed to and the audit recommendation **has been** implemented.

- d. Logging in and recording all cash donations.

The finding of the Auditor General is agreed to and the audit recommendation **has been** implemented.

- 2. Legislature may want to consider revising ARS §41-821 to require AHS to deposit nonappropriated monies w/state treasurer and account for these monies on USAS.

The finding of the Auditor General is **not agreed to** and the recommendation will not be implemented.

AHS Board and staff believe that this measure would cause great difficulty for the Society -- particularly in trying to solicit additional private donations and grant funds. For example, the Heard Museum, a major nonprofit in the Phoenix area, would lose thousands of private dollars in donations if these contributions had to be deposited in the State Treasury. The Society is a **state trust agency** that depends on its associated nonprofit status to be able to solicit private contributions, and thereby provide tax deductible acknowledgment to its donors. Already, it is difficult to raise private funds for the Society due to the public perception that AHS is a state agency like the Arizona Department of Transportation (ADOT), which is completely funded with tax dollars.

Problems identified in the report have been resolved by way of procedural changes since Feb 1997 (please see the following specific response).

It is incorrect to say that poor accounting practices hinder the Society's fiscal accountability and place its monies at risk. While it is true that funds were at risk for a period of time in 1996, this is more a result of inadequate staffing, than improper accounting. Likewise the lack of internal controls during that same period were a direct result of this same inadequate staffing as evinced by the fact that as soon as normal staffing was in place, internal controls and standard accounting practices revealed past irregularities and controlled all disbursements.

Problems associated with internal accounting system- The Auditor General misstates that some AHS officials prefer using the internal system. **Accuracy requires stating that all AHS officials prefer the internal system.** The incident in question did involve accounting software problems and training issues, however, the problems were caused by a once in a lifetime phenomena of 100% turnover in financial staff in a four month period. As a result of the length of time required to go through the State hiring process, the Society was forced to operate with consultants, temporary accounting tech's and a clerk typist placed in special assignment. While it is accurate to say that this group lacked training in the internal system, they also lacked training in the State's (AFIS) system. They created as many posting inaccuracies on the state system as the internal system. When in September 1996, AHS asked the state to provide accelerated training or on site assistance to help correct these problems, the request was rejected, and staff was forced to taking the piecemeal sporadic training sessions normally provided. So while it is accurate to state that the internal accounting system was not fully restored until February 1997 -- journal entries correcting the state system were ongoing through the end of the fiscal year.

*Legislature should require AHS to deposit money with the State Treasurer-*The Auditor General concludes that deposit of non-appropriated funds with the State Treasurer's Office would eliminate the need to continue using the AHS internal accounting system. USAS information is extremely difficult to use for those who are untrained in its decipherment. The AHS internal system has been customized to give its end-users (Senior staff and board members) information in formats that they like and can understand. Information is of no value if it cannot be used.

The assumption that greater financial accountability would be achieved with USAS is not necessarily accurate. AHS does not need USAS to maintain financial accountability. AHS needs trained personnel that will stay with the agency. The financial system is maintained by three employees: a controller and two accounting technicians. The bulk of posting and operations is provided by the two accounting technicians. In a twelve month period of time five people have worked in those two positions. That's a 150% turnover. Four of those five left because of low pay. (The state recognized this issue in its last wage analyses, but refused to increase the salary.) It takes over six months to train the replacements on the state system. In contrast, the same technicians are fully trained on the AHS internal system in less than two months.

Weak Internal Controls Jeopardize AHS' Monies -- AHS believes the Auditor General to have made an incorrect assumption regarding an employee's theft of funds. It is debatable whether the employee had access to presigned checks. It is far more likely that the employee who was responsible for mailing the checks, stole them and "washed" the approved "Payable to" assignment and replaced it with one of her choosing. The employee in question was charged with "altering the public record," and not with theft.

The Auditor General's report apparently does not recognize the inability to maintain internal controls at that time due to the high turnover that occurred within the Society's administration division when one account technician was preparing and receiving everything. Once the Society was fully staffed and training started, the theft stopped and was quickly discovered. The weakness was not in internal controls directly -- but in lack of staffing.

Bank accounts and Trust account signature card - The AHS has consolidated its bank accounts

into one bank. While it is true that the non-expendable Trust signature card had four former Society employees as authorized signers, the card was no longer valid. The trust account was not a checking account, no checks ever existed for this account and authorization for transfers had been changed to the Executive Director and the CAO. This information had been given to the auditors while on site. (Note: the account is now closed and the trust funds are deposited with the State Treasurer in a separate investment fund. Those authorized to transfer funds are the AHS Executive Director, CAO, Comptroller and Board Treasurer.)

Theft of Society's private funds - internal controls were not effective at that time due to the high turnover that occurred within the Society's administration division and for the most part one account tech was preparing and receiving everything. Once this activity was full staffed and training started, the stealing stopped and was discovered by AHS personnel.

Private funds - The Society's private funds are now deposited with the State Treasurer's office in an investment account and only a small balance is maintained in one checking account that checks are written from weekly for private expenditure. Accounting for these funds on USAS, would add from seven to ten days to the disbursement process, by requiring the addition of several approval layers to the AHS system. This would make the Society less efficient rather than more efficient.

Additionally, having private funds on USAS system would cool the already chilly waters of private donation. AHS uses its independent 501 C (3) designation when seeking private contributions. The thought of contributing to a governmental bureaucracy is not appealing to many private and corporate benefactors.

The AHS agrees to strengthen controls over cash by recording, investigating and documenting the disposition of all overages/shortages in the daily cash receipt summary.

The AHS agrees to strengthen controls and safeguard cash by requiring that two employees count all donations cash receipts and record the amounts on a receipt form wherever possible. It must be understood that the AHS maintains several locations with only one employee. In these situations it is impossible to have two employees perform this recommended procedure. However, the Society will retain all prenumbered cash receipt books.

SUNSET FACTORS

Page 35, item 8

The Society has identified several major issues requiring statutory language changes. They are presented below.

- 1) Debt limit change - \$3 million. Our current agency figure is \$75,000 which we believe is inadequate. It is suggested that this be changed to a \$3 million capacity.
- 2) Claims/payments - It would be beneficial to have this process removed from our operating procedure. The Board approved correction language at their August, 1997 meeting in Flagstaff. To date, AHS has not found a sponsor for this technical correction language,

but will continue searching for a legislative patron.

3) Staff has suggested the following language be added to existing statutes:

Permanent Arizona Historical Society Revolving Fund for Programs

- A. A permanent Arizona Historical Society revolving fund is established in the state treasury in the amount of sixty thousand dollars for use in the planning, development, and implementation of the Society's programs.
- B. The permanent revolving fund shall be established as a separate account on the books of the Arizona Historical Society and a full accounting of its use shall be made to the Governor annually or as required by the Arizona Department of Administration. Balances remaining in such fund at the end of the fiscal year shall not revert to the general fund.
- C. All monies received by the Society from donations, facility rentals, and special fund raising programs shall be deposited into this fund.
- D. Fund monies shall be spent by the Society for the direct support and enhancement of its programs. Balances remaining in such a fund at the end of the fiscal year shall not revert to the general fund.
- E. All monies deposited in the revolving fund are appropriated to the Arizona Historical Society for use as provided in this section and shall be exempt from the provisions of ARS §35-190, relating to lapsing of appropriations.

Conclusion

While it is vital to enumerate areas needing improvement at the Arizona Historical Society, it is equally important to highlight areas already improved upon and problems already resolved, such as the financial system reform measures adopted in the last 18 months.

The State pays \$2.2 million annually for support of the CAD. It should be pointed out that \$1,260,000 of this amount is for principal payment and debt reduction on the building's initial costs!

AHS would lose its identity as a private, nonprofit organization if the State controlled all AHS private funds.

It should also be pointed out that it **will not** require \$4.8 million up front to adequately store AHS collections. Reallocation of existing space and personnel resources will significantly reduce costs. The \$4.8 million figure is the AHS estimate of **cost over time** (3-7 years) **assuming no significant reallocation of existing resources**. This second finding fails to take into account, or mention, repeated staff recommendations for more efficient and cost-effective means of accomplishing this goal.

The focus, on artifacts alone, missed the critical point from a lawmaker's perspective -- that the Society is more than a collection of museums. It is public programs, researcher support, technical assistance to small and rural museum, etc. This leaves the reader with the patently false impression that the Society only stores interesting artifacts.

AHS staff is larger than 75 members. Last count was 87 staff persons. Staffing levels has actually decreased over the past 20 years, as have the funds that support these levels in constant dollars.

As mentioned above, lack of sufficient staff is but one of the factors affecting the photo preservation process. Lack of funding over time and improper allocation of limited resources underlies this issue more than any other.

No mention is made of AHS fund raising successes since 1994, including over \$3.6 million in new private and local governmental funding for Marley Center. No mention is made of the first ever Annual Operating Fund Campaign of Fall 1997 and no mention is made of the membership program restructure completed in Jan 1998. In addition, no mention is made of the fact that the AHS Board is in the process of revising and implementing new fund raising and strategic plans for 1999-2001.

Unlike the Phoenix Symphony and the Heard Museum, the Society does not charge for its public exhibition programs. To compare the Society with these powerful, highly-organized, live performance-driven nonprofits is not a fair comparison. The Society is a state agency like ADOT. Arizona citizens don't pay each time they use a road, but only through their taxes. Likewise the Society does not charge people to see its exhibitions and serves a diverse statewide audience just like ADOT. The Heard Museum and the Phoenix Symphony serve a metropolitan Phoenix audience.

The comparisons and analogy between the Phoenix Symphony Board and AHS is not parallel. The Symphony does not provide free music for the entire state on a daily basis. The Society does provide historic education programming for free every day. The Board's ability to raise significant new dollars would be seriously compromised by the proposed change that this report mentions, which would undo the Auditor General's fine recommendations for strengthening the Board's role in development work.

The AHS accounting system is now consolidated and uses much stronger internal controls and procedures that ensure that the errors of the past will not be repeated. Sufficient safeguards are in place at this time and there is no need to revise ARS 41-821, to require that AHS' nonappropriated funds be removed from AHS custody.

Imagine what would happen to the Heard Museum's donor contributions if they had to deposit these funds with the State Treasurer. This would truly have a chilling effect on their private fund raising, as it will on the Society's if this kind of measure were to be adopted by the Arizona Legislature.

AHS CAD Big 6 Project Organization Chart

Felipe Jácome, January 27, 1998

AHS Executive Director

Project Oversight Committee

- AHS Executive Director
- AHS/CAD Director
- AHS Project Manager
- AHS President
- AHS Treasurer
- AHS/CAC President
- AHS/CAC Program Chairman
- AHS Chief Administrative Officer

AHS Fund Raiser

AHS/CAD Director

- The Big 6 Exhibitions**
- Lobby/ Atrium
 - Futures Lab
 - Military
 - Boomtown
 - Health, Tourism, & Retire
 - Visions and Persistence

	Project Manager	Vendors	Inter-pretation Team	Collections Team		Exhibit Design Team	Traditional Museum Functions Administration, Education, Library & Archives, Curation, Collections, Public Affairs
Interpretive Plan	Directs		Performs		Approves	Advises	
Exhibition Design	Directs	Supports team	Advises	Advises	Approves	Performs	Advises
Collections Plan	Directs		Advises	Performs	Approves		Supports team
Exhibit Fabrication	Directs	Performs				Advises	
Exhibit Installation	Directs	Supports team				Performs	Supports team
Opening Plan	Advises				Directs		Performs

- Project Master Plans
- PAR Status Reports
- Project Master Schedule
- Project Costing
- Exhibit Integration Plan
- Vendor Mgt.

- Pre-Big 6 Projects**
- Moreland Truck
 - AT-6 [Rockwell Int'l]
 - Patent Medicine
 - History Makers™ Exhibit
 - Rough Riders Exhibits
 - Health, Tourism & Retire
 - Exhibit Upgrades

- Cooperative Efforts**
- CAD and other Divisions
- CAD and volunteers
- CAD and SAD
- CAD and Arizona Historical League
- CAD, NAD, RCD, & SAD
- CAD, NAD, RCD, & SAD
- CAD and other Divisions

AHS CAD BIG 6 Project Team Appointments

Felipe Jácome,
January 27, 1998

**AHS Executive Director
Jácome**

**LIST NAMES OF
PERSONNEL APPOINTED
TO THE PROJECT TEAM**

- F = Full time assignment
- T = Three Quarter time assign.
- H = Half time assignment
- Q = Quarter time assignment
e.g., John Doe, F

**Project Manager
TBA F**

Vendors

**AHS/CAD Director
Piazza**

Interpretation Team

Cook	Chair	T
Cook	Futures	Q
Akers	Boon	T
Akers	HR	Q
Moore	M/Boon	H
Moore	HR/V&P	H
Hoza	M	T
TBAN	HR	H
Cantley	HR	Q
Cantley	Boon	H
Tatum	V&P	H
Cochell	Boon	Q
Cassity	Boon	Q
TBAN	CurAide	H

Collections Team

Taylor	Chair	H
Ashton	Archiv	H
Schindel	Conserv	H
TBAN	CurAide	H
TBAN	RegAide	H
Tatum	Coll	Q
TBAN	OralHis	H

Exhibit Design Team

Haddan	Chair	F
Morris	Des	F
Affolter	Des	F
TBAN	Techn	F
TBAN	Prepar	F

Traditional Museum Functions

Administration, Education,
Library & Archives, Curation,
Collections, Public Affairs

Taylor	Lib&Arc	H
Ashton	Archiv	H
Schindel	Conserv	H
Contreras	PIO	F
Steinberg	IntEd	F
Hoza	Regis	Q
TBAN	Outrch Ed	F
TBAN	CurAide	H
TBAN	RegAide	H
Tatum	Coll	Q
Cochell	Education	T
TBAN	OrlHist	H