



A REPORT
TO THE
ARIZONA LEGISLATURE

Financial Audit Division

Procedural Review

Arizona Historical Society
As of June 30, 2002



Debra K. Davenport
Auditor General

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

**STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL**

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

October 15, 2002

Anne I. Woosley, Ph.D., Executive Director
Arizona Historical Society
949 East Second Street
Tucson, AZ 85719

Dear Dr. Woosley:

We have performed a procedural review of the Society's internal controls in effect as of June 30, 2002. Our review consisted primarily of inquiries, observations, and selected tests of internal control policies and procedures, accounting records, and related documents. The review was more limited than would be necessary to give an opinion on internal controls. Accordingly, we do not express an opinion on internal controls or ensure that all deficiencies in internal controls are disclosed.

Specifically, we reviewed cash receipts, cash disbursements, payroll, purchasing, checking accounts, revolving accounts, equipment, financial reporting, and statutory compliance.

As a result of our review, we noted certain deficiencies in internal controls that the Society's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate internal controls. Our recommendations concerning them are described below.

**The Arizona Historical Society should follow
all required competitive purchasing procedures**

The Arizona Historical Society is required to comply with the state's competitive purchasing rules and regulations. These rules and regulations were designed to help ensure that state agencies get the best value for the money it spends and that all vendors have a fair chance at obtaining state business.

However, the Society did not always comply with purchasing rules and regulations. For example, the Society identified purchases as only available from one vendor without obtaining State Procurement Office approval, purchased items not listed on a state contract from a state-contracted vendor, and documented that it purchased items from a vendor who did not submit the lowest quotation because of certain equipment specifications; however, these specifications were not included in the Society's request for quotations. In addition, the Society contracted for services

with a vendor who submitted an incomplete quote, resulting in the Society amending the contract and paying the vendor more than twice the original contract amount. Finally, the Society did not obtain State Procurement Office approval of the amended contract.

The Society must follow the state's purchasing rules and regulations to help ensure that it gets the most favorable purchase terms. Specifically, the Society should:

- Search for alternative vendors, goods, or services before identifying a purchase as only available from one vendor.
- Obtain advance approval from the State Procurement Office when sole source purchases are not avoidable, determine that the cost was reasonable, and document these procedures in the purchasing files.
- Purchase goods and services from vendors with state contracts when the items are listed in the contracts.
- Select the vendor submitting the lowest-priced bid or quotation that meets the Society's specifications.
- Critically evaluate all quotations and bids received to determine all requirements are met and obtain advance approval from the State Procurement Office when contract change orders or amendments are necessary.

The Office of the Auditor General also reported similar Society violations of the Arizona competitive purchasing rules and regulations in a special investigative report dated August 28, 2002.

This letter is intended solely for the information and use of the Society and is not intended to be and should not be used by anyone other than the specified party. However, this letter is a matter of public record, and its distribution is not limited.

Should you have any questions concerning our procedural review, please let us know.

Sincerely,

Dennis L. Mattheisen, CPA
Financial Audit Director



Arizona Historical Society

founded by Arizona pioneers in 1884

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September 13, 2002

Dennis Mattheisen, CPA

Financial Audit Director

Office of the Auditor General

2910 N. 44th Street, Suite 410

State of Arizona

Phoenix, Arizona 85007

Dear Mr. Mattheisen:

Thank you for your procedural review of the internal controls of the Arizona Historical Society. The Society is continually working on improving all aspects of its operations and your comments will allow us to strengthen deficiencies in this very important area.

We recognize the breadth of your review into the areas of cash receipts, cash disbursements, payroll, purchasing, checking accounts, equipment, financial reporting and statutory compliance. We are encouraged that with such comprehensiveness, there were relatively few deficiencies noted. It is also encouraging that those few noted were confined to purchasing. This will allow the Society to focus its efforts for implementing your suggestions and ultimately improving this agency.

The Society recognizes the value of compliance with the purchasing rules and regulations. It has been and remains a high priority to have a staff member dedicated to ensuring this compliance. However, in light of the current economic environment, this might not be possible. Still, in its efforts to aggressively pursue 100% compliance, the Society has mandated procurement training for all staff involved in purchasing. We have and will continue to work directly with the State Procurement Office to provide this training. With successful completion of this training, the State Procurement Office issues each employee a "Certificate in Public Procurement".

The Society will implement each of the five suggestions your office has made. Specifically, the Society will:

- Search for alternative vendors, goods, or services before identifying a purchase as available from one vendor.

- Obtain advance approval from the State procurement Office when sole source purchases are not avoidable, determine that the cost was reasonable, and document these procedures in the purchasing files.
- Purchase goods and services from vendors with state contracts when items are listed in the contracts.
- Select the vendor submitting the lowest-priced bid or quotation that meets the Society's specifications.
- Critically evaluate all quotations and bids received to determine all requirements are met and obtain advance approval from the state Procurement Office when contract change orders or amendments are necessary.

Once again, the Society appreciates your calling these deficiencies to our attention.

Sincerely,

William Ponder
CAO

- c. Anne I. Woosley, AHS Executive Director
John Lacy, AHS President