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AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

December 21, 2015

The Honorable Judy Burges, Chair
Joint Legislative Audit Committee

The Honorable John Allen, Vice Chair
Joint Legislative Audit Committee

Dear Senator Burges and Representative Allen:

Our Office has recently completed a 24-month followup of the Arizona Historical Society (Society) regarding the implementation status of the 45 audit recommendations (including sub-parts of the recommendations) presented in the performance audit report released in September 2013 (Auditor General Report No. 13-13). As the attached grid indicates:

- 30 have been implemented;
- 1 has been implemented in a different manner;
- 1 legislative recommendation has been implemented;
- 8 have been partially implemented;
- 4 are in the process of being implemented; and
- 1 is no longer applicable.

Unless otherwise directed by the Joint Legislative Audit Committee, this concludes our follow-up work on the Society's efforts to implement the recommendations from the September 2013 performance audit report.

Sincerely,

Dale Chapman, Director
Performance Audit Division

DC:kf
Attachment

cc: Marshall Trimble, President
Arizona Historical Society Board of Directors

Anne Woosley, Director
Arizona Historical Society

Arizona Historical Society

Auditor General Report No. 13-13

24-Month Follow-Up Report

Recommendation	Status/Additional Explanation
Finding 1: Society and Board should take additional actions to address declining revenues	
1.1 The Board should continue its effort to establish a tax-exempt nonprofit organization to serve as a private fund-raising arm for the Society.	Implemented at 24 months
1.2 The Society should continue its efforts to identify ways to reduce its operating costs through partnerships or other means.	Implemented at 6 months
1.3 The Society should develop a fund-raising action plan that identifies specific, measurable, aggressive/attainable, results-oriented, and time-bound action steps designed to help it achieve the fund-raising goals and objectives outlined in its fiscal years 2013-2017 Strategic Plan.	Implemented at 24 months
1.4 The Society should ensure that its fund-raising action plan is tied to other relevant planning documents it develops, such as collections-management plans, capital improvement plans, and the Society's operating budget.	<p>Partially implemented at 24 months</p> <p>As reported in Recommendation 1.3, the Society has implemented a fund-raising action plan that supports the fund-raising goals and objectives outlined in its strategic plan. Although this fund-raising plan is not tied specifically to any other relevant planning documents, the Society's strategic plan includes strategic priorities related to financial planning, capital planning, and collections stewardship.</p>
1.5 The Society should, as resources allow, work toward assigning responsibility for completing its action steps and implementing its fund-raising action plan to a development officer position.	<p>Implemented in a different manner at 24 months</p> <p>The Society hired a new Central Division Director in the summer of 2015 whose duties include placing a high priority on fund-raising. The position description indicates that this person should spend 15 percent of their time planning, directing, and managing fund-raising activities, and documentation reviewed by auditors showed that the Central Division Director is spending part of her time on fund-raising activities.</p>
1.6 The Board should monitor the Society's progress toward implementing its fund-raising goals and objectives.	<p>Implementation in process</p> <p>According to the Society, the Board has requested quarterly status updates from the Society to demonstrate its progress toward achieving its fund-raising goals and objectives. However, the documentation the Society provided to support that staff have provided updates to the Board did not specifically address fund-raising activities or progress toward achieving fund-raising goals and objectives.</p>

Recommendation	Status/Additional Explanation
<p>1.7 The Society should develop a workable tracking document that tracks the status of each action step; identifies the person responsible for the action step; and provides explanations on actions taken to date and information on the plan's current status.</p>	<p>Partially implemented at 24 months As reported in Recommendation 1.3, the Society has implemented a fund-raising action plan that supports the fund-raising goals and objectives outlined in its strategic plan. The Society reported that it intends to use this action plan as its tracking document. Although this action plan identifies the person responsible for the action steps, it does not include information that explains the actions taken to date or each item's current status.</p>
<p>1.8 The Board should review and determine whether its regional chapters have a continuing role in working with the Society. If not, the Board should eliminate the regional chapters. If the Board decides the regional chapters should continue, the Board should review, possibly revise, and clearly define the regional chapters' roles and responsibilities</p>	<p>Partially implemented at 24 months Although the Board's meeting minutes indicate that the Board determined that it would continue with its regional chapters, no documentation was provided to support that the Board reviewed, revised, or more clearly defined the regional chapters' roles and responsibilities.</p>
<p>1.9 The Board should review and determine whether it should continue its practice of allocating a portion of its membership dues to its regional chapters or retain those monies to help meet society funding priorities.</p>	<p>Implemented at 24 months</p>
<p>1.10 The Board should enter into a formal agreement with each of its support groups that clearly describes roles, expectations, and authority. In drafting these agreements, the Society should confer with the Attorney General or seek legal counsel on these agreements where appropriate.</p>	<p>Implemented at 24 months</p>
<p>Finding 2: Society has taken steps to address collections-management issues, but needs collections-management plan to better direct efforts</p>	
<p>2.1 The Society should develop and implement a comprehensive collections-management plan. In developing this plan, the Society should:</p> <ul style="list-style-type: none"> a. Conduct assessments at all of the museums to identify the collections, preservation, and management needs facing the museums now and in the future; b. Develop a list of action steps and prioritize them; c. Include timelines and the resources needed; and d. Regularly update its plan and track its progress in completing its action steps. 	<p>Implemented at 24 months</p> <p>Implemented at 24 months</p> <p>Implemented at 24 months</p> <p>Implemented at 24 months</p>
<p>2.2 The Society should continue its efforts to develop and implement a comprehensive collections-management manual by December 2014 as planned. Implementation should include providing staff training related to the manual's guidance as appropriate. In developing this manual, the Society should ensure that it includes and/or enhances procedures that will:</p>	<p>Implemented at 24 months</p>

Recommendation

Status/Additional Explanation

a. Address the collections-management issues identified in this audit, including cataloging and inventorying; and

Implemented at 24 months

b. Enhance its artifact removal policy by providing guidelines to staff on how to identify and assess other items for removal, such as when conducting an inventory or preparing items for an exhibit.

Implemented at 24 months

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

a. Ensure all items are recorded using the cataloging software, electronic databases, or card catalog system, as applicable;

Implementation in process

The Society has purchased and is using software at its Tempe, Yuma, Flagstaff, and Tucson locations to record collections items. The Society reported that it has made progress cataloging all of its collections items and that the percentage of items recorded at its different locations ranges from 35 to 90 percent complete. The Society reported that it anticipates recording all collections items using this software by October 2017.

b. Create a single, centralized listing of all collection items;

Implementation in process

The Society has purchased and is using software that allows it to create centralized listings for its different collections, including three-dimensional, Natural History, and Library and Archives items, from its different locations. However, until it fully implements Recommendation 2.3a by cataloging all items with its new software, this recommendation cannot be fully implemented.

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

Implementation in process

Although the Society has purchased and is using backup support software for its Library and Archives collections, it is still in the process of purchasing backup support software for its three-dimensional collections.

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

Implemented at 6 months

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

Implemented at 24 months

Recommendation**Status/Additional Explanation**

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

- a. Continue to receive regular updates at board meetings regarding collections management, and as part of the updates, regularly review the implementation of the Society's collections-management plan; and
- b. Adopt a practice similar to Minnesota's by developing a tracking document to show what steps have been accomplished in the collections-management plan.

Partially implemented at 24 months

The Society has developed a process for reporting its collections-management plan updates monthly to the Director, who uses this information to report to the Board's Library, Archives, and Collections Committee chairperson by e-mail. The Society reported that the Library, Archives, and Collections Committee updates the Board as necessary or as new information becomes available on the Society's progress. However, auditors' review of board meeting minutes did not find evidence that the Library, Archives, and Collections Committee regularly updates the Board on the Society's implementation of its collections-management plan. The Society reported that it will include more specific information in the Board's meeting minutes regarding the Board's discussions about the Society's collections-management plan.

Implemented at 24 months

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

1. To help strengthen its controls over cash receipts and comply with the *State of Arizona Accounting Manual*, the Society should:

- a. Develop detailed written cash receipt policies and procedures for all museums and distribute them to all society employees and volunteers responsible for handling cash;
- b. Require employees and volunteers to endorse checks immediately upon receipt;

Implemented at 6 months**Partially implemented at 24 months**

The Society has updated its policies and procedures manual to include the requirement that staff are to endorse checks immediately upon receipt. Although society staff have implemented these policies and procedures at most of the Society's museums, based on interviews with the staff at one museum, they do not immediately endorse checks upon receipt but wait until the end of each day to endorse them all at once. As a result, the Society reported that it has re-emphasized the requirement to endorse checks immediately upon receipt and that it has added an endorsement stamp to the front desk so that checks can be endorsed immediately upon receipt.

Recommendation

Status/Additional Explanation

c. Require that voided transactions and refunds be authorized by a second employee;	Partially implemented at 24 months The Society has updated its policies and procedures manual to include the requirement that voided transactions and refunds must be authorized by a second employee. Although society staff have implemented these policies and procedures at most of the Society's museums, based on interviews with the staff and examination of supporting evidence at one museum, a secondary approval is still not required to void a transaction in the point-of-sale system. As a result, the Society reported that it has re-emphasized the requirement that voided transactions and refunds be authorized by a second employee and that user rights to the point-of-sale system have been adjusted so that all voided transactions, returns, and exchanges require secondary approval.
d. Require that cash receipts be reviewed daily for accuracy and completeness by another person;	Implemented at 24 months
e. Require each museum to deposit cash and checks at least weekly;	Implemented at 24 months
f. Require cash receipts to be adequately safeguarded prior to deposit. This could include locking cash receipts in a safe or filing cabinet;	Implemented at 24 months
g. Ensure that safe combinations are restricted to an essential number of employees; and	Partially implemented at 24 months The Society has updated its policies and procedures manual to limit access to safe combinations to authorized personnel. Although society staff have implemented these policies and procedures at most of the Society's museums, based on interviews with staff at one museum, it was determined that this museum had not implemented the policy. As a result, the Society reported that it has re-emphasized the requirement to restrict safe combinations to an essential number of employees and limited the combinations to three authorized staff members.
h. Require two employees to be present when donation boxes are opened, counted, and recorded.	Implemented at 24 months
2. To help maintain an accurate capital assets listing and comply with the <i>State of Arizona Accounting Manual</i> , the Society should:	
a. Perform a physical inventory of capital assets at least once a year;	Implemented at 24 months
b. Submit the inventory sheets to the Society's accounting office and reconcile them to the internal listing and the State's Fixed Asset System;	Implemented at 24 months

Recommendation	Status/Additional Explanation
<ul style="list-style-type: none"> c. Add new capital assets to the State's Fixed Asset System within 5 working days from the date the warrant was issued; d. Require a second employee to approve property-disposal request forms and submit the forms to the Society's accounting office so the internal listing and the State's Fixed Asset System can be updated; e. Tag each capital asset item individually or otherwise identify it as state property; and f. Record the property identification numbers, descriptions, and locations of its capital assets in enough detail in its internal listing or in the State's Fixed Asset System in order to locate them in the museums. 	<p>Implemented at 24 months</p> <p>Implemented at 24 months</p> <p>Implemented at 24 months</p> <p>Partially implemented at 24 months The Society has revised its policies to require that all assets be recorded with sufficient description and location detail to aid in completing the annual inventory. However, a few items on the Society's asset listing were missing location information.</p>
<p>3. The Society should coordinate with the Arizona Department of Administration's General Accounting Office and Risk Management Division to ensure that the Society has a reasonable method for valuing its collections that also ensures proper insurance coverage and premiums.</p>	<p>Implemented at 24 months</p>
<p>4. The Society should ensure it complies with state laws by:</p> <ul style="list-style-type: none"> a. Depositing all monies promptly with the State Treasurer and closing its private bank account; and b. Monitoring changes to governing statutes to help ensure compliance. 	<p>Implemented at 6 months</p> <p>Implemented at 24 months</p>
<p>5. The Society should review travel claims to ensure compliance with the State's travel policies and ensure that its staff are aware of the State's travel policy.</p>	<p>Implemented at 6 months</p>
<p>Sunset factor #5 The extent to which the Society has encouraged input from the public before adopting its rules and the extent to which it has informed the public as to its actions and their expected impact on the public.</p>	
<p>1. To fully comply with the State's open meeting law, the Society should ensure that it takes written minutes or a recording of the Board's standing, special, or advisory committee's or subcommittees' meetings as required by A.R.S. §§38-431.01(B) and 38-431(1) and (6).</p>	<p>Implemented at 24 months</p>

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

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| 1. Because State General Fund appropriations represent the majority of the Society's funding, the Legislature should consider amending A.R.S. §41-821 to provide for a governor-appointed board. | Implemented at 24 months
Laws 2015, Ch. 229, amended A.R.S. §41-821 to provide for a governor-appointed board. |
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| 2. If the Legislature does not amend A.R.S. §41-821, the Society's Board should revise its bylaws to ensure that board members receive appropriate training and establish specific criteria for qualification and appointment of the Society's board members. | No longer applicable
See explanation for Sunset Factor #9, Recommendation 1. |
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