



A REPORT  
TO THE  
ARIZONA LEGISLATURE

Performance Audit Division

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Performance Audit and Sunset Review

# Arizona Historical Society

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September • 2013  
REPORT NO. 13-13



**Debra K. Davenport**  
Auditor General

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

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DEPUTY AUDITOR GENERAL

September 30, 2013

Members of the Arizona Legislature

The Honorable Janice K. Brewer, Governor

Mr. Michael Urman, President  
Arizona Historical Society Board of Directors

Dr. Anne Woosley, Executive Director  
Arizona Historical Society

Transmitted herewith is a report of the Auditor General, *A Performance Audit and Sunset Review of the Arizona Historical Society*. This report is in response to an October 26, 2010, resolution of the Joint Legislative Audit Committee. The performance audit was conducted as part of the sunset review process prescribed in Arizona Revised Statutes §41-2951 et seq. I am also transmitting within this report a copy of the Report Highlights for this audit to provide a quick summary for your convenience.

As outlined in its response, the Arizona Historical Society agrees with all of the findings and plans to implement or implement in a different manner all of the recommendations.

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

Sincerely,

Debbie Davenport  
Auditor General

Attachment

cc: Arizona Historical Society Board of Directors

## REPORT HIGHLIGHTS PERFORMANCE AUDIT

### Our Conclusion

The Arizona Historical Society (Society) predates statehood and was established to obtain, hold in trust, and provide access to items pertinent to Arizona history. The Society's state appropriations have decreased by 16 percent from \$3.2 million in fiscal year 2008 to \$2.7 million in fiscal year 2012. Nonappropriated revenues have also decreased by 29 percent from \$1.4 million to \$1 million over the same period. To address declining revenues, the Society needs to develop a fund-raising action plan, create and assign fund-raising responsibilities to a development officer position as resources allow, evaluate the need for regional chapters, and strengthen relationships with private support groups. The Society also needs to develop a comprehensive collections-management plan to identify and prioritize its collections-management needs. The Legislature should also consider providing for a governor-appointed board.



2013

## Society should do more to address declining revenues

The Society was established in 1864 and operates seven museums state-wide. Statute establishes a Board of Directors (Board) to oversee the Society. Board members are elected by the Society's members, and society membership is open to any individual who pays an annual membership fee. The majority of the Society's revenues, which have been declining, comes from state appropriations, while less than a quarter of its revenues comes from donations, admission fees, and goods sold at museum stores. To provide effective oversight of state monies, the Legislature should consider amending statute to provide for a governor-appointed board.

### Society is taking steps to increase nonappropriated revenues or cut costs—

Museums nation-wide witnessed a decline in monies obtained from private sources due to the economic downturn, and Arizona is no exception. For example, the Society's membership dues are down by 44 percent, from \$136,958 in fiscal year 2008 to \$77,170 in fiscal year 2012. Over the same period, donations are down by 59 percent, from nearly \$794,000 in fiscal year 2008 to approximately \$327,000 in fiscal year 2012. Declining revenues have prevented the Society from filling key positions, upgrading heating and cooling systems, and purchasing computer servers to support large-scale digital conversion projects, such as converting its historic newspapers and photographs to electronic format for storage and to provide online access.

To address these funding shortfalls, the Society has tried to increase membership revenue and donations through its Web site and sell society items online. The Board has also established a nonprofit corporation to act as a private fund-raising arm for the Society. As an example of how the nonprofit corporation can help the Society, New Mexico has established a private foundation to support its state-run museum system. The foundation reported that it received private contributions and pledges of \$4.8 million in fiscal year 2012 and managed endowment funds worth \$16.9 million as of September 2012. In addition, to enhance revenue generation, the Society entered into an intergovernmental agreement with the State Parks Board to operate the Riordan Mansion State Historic Park (Park). In 2012, it cost the Society approximately \$177,000 to operate the Park, and the Society received approximately \$182,000 in revenue. The Society has also reduced operating costs by replacing staff at its Yuma museum with temporary staff.

**Society should take additional steps to obtain adequate funding—**The Society should develop a fund-raising action plan that contains specific, measurable, and aggressive/attainable steps to increase revenue. Such a plan would help the Society achieve its fund-raising goals and objectives and better position itself to compete for federal grants for projects such as making environmental improvements for its collections and exhibits, and inventorying and cataloging collections.

In addition, fund-raising is too important to assign to staff who are already working full-time on other responsibilities, so as resources allow, the Society should move toward establishing a development officer position to oversee its fund-raising activities. Other states, such as Oregon, have a similar position that is responsible for overseeing its fund-raising programs, membership recruitment, grant writing, and marketing efforts. Our 1995 and 1998 performance audit reports also recommended that the Society establish a development officer position to take charge of fund-raising.

**Society should decide whether regional chapters are necessary**—Since 1999, the Society has given its regional chapters part of the Society’s annual membership dues. Although these regional chapters are advisory in nature, they also have responsibilities such as fund-raising in their respective geographical areas. However, in fiscal years 2008 through 2012, regional chapters did not raise any money for the Society. In addition, at an October 2012 society board meeting, board members discussed whether the regional chapters are needed. The Society’s Board should review and determine the need for these chapters and whether it should continue allocating money to these chapters or use the money for other needs such as to pay for a development officer, computer upgrades, or obtaining sufficient storage space for its collections.

**Society should strengthen relationships with private support groups**—The Society is affiliated with eight nonprofit support groups that raise money for the Society. For example, one such support group, the Historical League, raised approximately \$72,000 in fiscal year 2012. The American Alliance of Museums and the American Association for State and Local History recommend that museums enter into written agreements with its support groups that outline the parties’ responsibilities. For example, the National Park Service has a standard agreement it uses with its support groups that includes a history of the relationship, the scope of work that the group will perform, and who is responsible for coordination and communications. The Society should enter into a similar agreement with each of its support groups.

## Recommendations

The Legislature should consider amending statute to provide for a governor-appointed board.

The Society and its Board should:

- Develop a fund-raising action plan;
- Work toward creating and assigning fund-raising to a development officer position;
- Consider the need for regional chapters and allocating monies to these chapters; and
- Develop and enter into formal agreements with its support groups.

## Society needs a comprehensive collections-management plan

The Society has taken steps to address various collections-management issues, but has not developed a comprehensive collections-management plan to guide these efforts. For example, the Society has addressed some environmental issues, such as fixing ventilation or controlling humidity in museum storage spaces, repackaging artifacts in acid-free boxes to buffer fluctuations in humidity, and moving artifacts to storage locations with better conditions. However, collections issues involving improper environmental conditions and storage methods and difficulties tracking and inventorying its collections have not been fully addressed. Specifically, controlling the environment keeps artifacts from deteriorating as quickly, but both the Society’s Arizona History Museum in Tucson and Pioneer Museum in Flagstaff have environmental issues. In addition, the Society does not have sufficient space to store its collections, which can prevent it from acquiring important historical artifacts. Artifacts also need to be tracked, which prevents loss, by identifying their location and condition. The Society is behind in recording some of its artifacts using cataloging software purchased in 2006.

Although the Society is working on developing a comprehensive collections-management manual that includes policies and procedures for how to properly procure, protect, and remove artifacts, it also needs to develop a comprehensive collections-management plan to identify, prioritize, and determine the costs and action steps needed to address its collections-management issues. After the plan is implemented, the Board should receive regular updates to ensure that the Society meets its collections-management goals.

## Recommendations

The Society should develop and implement a comprehensive collections-management plan, continue to develop a collections-management manual, and the Board should receive regular updates on the plan’s progress.

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## INTRODUCTION

### Scope and Objectives

The Office of the Auditor General has conducted a performance audit and sunset review of the Arizona Historical Society (Society) pursuant to an October 26, 2010, resolution of the Joint Legislative Audit Committee. This audit was conducted as part of the sunset review process prescribed in Arizona Revised Statutes (A.R.S.) §41-2951 et seq. This performance audit:

- Assesses the impacts of the Society's declining revenues and makes recommendations for enhancing the Society's efforts to raise additional revenues;
- Examines both new and long-standing issues with the Society's efforts to properly protect the State's historical artifacts;
- Includes information on the legislative transfer of responsibilities and museum artifacts from the former Department of Mines and Mineral Resources to the Society and the Arizona Geological Survey; and
- Provides responses to the statutory sunset factors.

## Society responsible for collecting, preserving, and providing access to Arizona history

### Society purpose and mission

The Society predates statehood and was established by an Act of the First Territorial Legislature on November 7, 1864. The Society was established to obtain, hold in trust, and provide access to items pertinent to Arizona history. The Society's statutory purpose is reflected in its mission statement (see textbox).

#### Society's mission

To collect, preserve, interpret and disseminate the history of Arizona and the West.

The Society operates a total of seven museums.<sup>1,2</sup> Each museum is a part of a regional division (see Figure 1, page 2) that shares the same general mission of collecting, preserving, interpreting, and educating the public about Arizona's history; however, each division concentrates on the history that is unique to that region. According to the Society, its museums served approximately 64,000 visitors during fiscal year 2012.

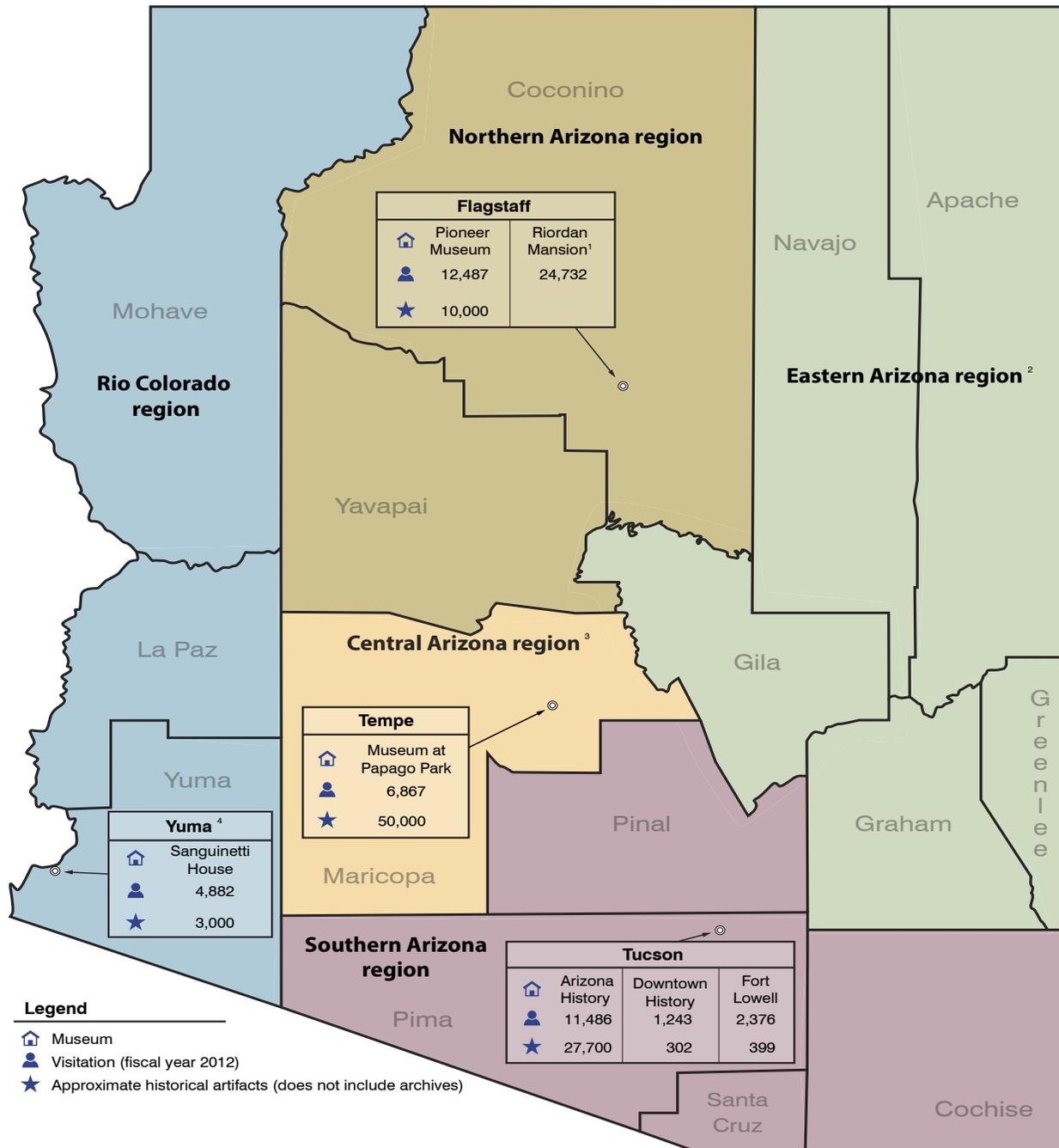
### Society board, members, and responsibilities

Statute establishes a Board of Directors (Board) to oversee the Society's activities. Although statute establishes that the Board shall consist of a president, treasurer, and other officers, it does not establish the total number of board members. However, society bylaws cap the number of board members at 31 and require that each county in the State be represented by one board member, except Coconino, Maricopa, and Pima Counties, which are allowed to have up to 2, 8, and 5 members, respectively. As of June 2013, the Board was composed of 27 members. Statute also establishes that board

<sup>1</sup> In addition to the seven operating museums shown in Figure 1 (see page 2), the Society has another six museums and/or historical properties throughout the State. However, three of these museums and/or historical properties are managed by or leased to other organizations: the Douglas-Williams House in Douglas (managed by the Douglas Historical Society); the Strawberry Schoolhouse in Pine (managed by the Pine-Strawberry Archaeological and Historical Society); and the Charles O. Brown House in Tucson (leased to three nonprofit corporations—Ben's Bells, Borderlands Theater/Teatro Fronterizo, and the Santa Cruz Valley Heritage Alliance). The remaining three museums and/or historical properties are not open to the public: the Oro Belle Mine in the Tiger Mining District in Yavapai County; the Arizona Experience Museum in Phoenix; and the Sosa-Carillo-Frémont House in Tucson.

<sup>2</sup> Laws 2010, Ch. 227, §6, added A.R.S. §41-827 requiring the Society to operate and maintain the Centennial Museum, which would also house the former Mining and Mineral Museum's artifacts. This museum, known as the Arizona Experience Museum, is not yet open (see Other Pertinent Information, pages 35 through 37, for more information).

**Figure 1: Society's regional museums, visitorship, and artifacts  
Fiscal year 2012**



<sup>1</sup> In 2010, through an intergovernmental agreement, the Society began operating the Arizona State Park Board's Riordan Mansion. There are no society artifacts housed at the Mansion.

<sup>2</sup> The Eastern Arizona region does not have a society museum within its boundaries.

<sup>3</sup> This region also manages the Arizona Experience Museum's 22,000 artifacts. This museum is not yet open (see Other Pertinent Information, pages 35 through 37, for more information).

<sup>4</sup> The Yuma museum property also includes two additional structures—the Mellon House, which contains a gift shop operated by the Yuma Historical Society, and the Molina Block, which is closed (see Finding 1, page 14, for more information).

Source: Auditor General staff analysis of society information, including visitor numbers for fiscal year 2012.

members are elected by the Society's members in accordance with the Society's bylaws. The Society's bylaws call for annual elections, and individuals who are elected serve a 1-year first term on the Board, but are eligible to be reelected for two additional 3-year terms.

Society membership is open to any individual, with an annual membership fee starting at \$50 for individuals (see textbox).<sup>1</sup> Membership benefits include:

- Unlimited admission to all society museums;
- Receiving *The Journal of Arizona History* (see page 5);
- 10 percent discount on society lectures, classes, publications, museum gift shop purchases; and
- Member voting privileges.

The more expensive membership levels, such as the sustaining-membership level, include other benefits, such as guest passes. According to the Society, there were nearly 1,600 society members in fiscal year 2012.

Statute also indicates that the Board may organize chapters made up of groups of its members who have a common interest in a geographical area of the State. As a result, the Board has organized five regional chapter boards serving Arizona's Central, Eastern, Northern, Rio Colorado, and Southern regions (see Figure 1, page 2).<sup>2</sup> According to the Society's bylaws, these regional chapter boards are advisory in nature. The chapters' responsibilities may include encouraging society membership, assisting in fund-raising for the Society, providing names of people to fill positions on the state Board, and offering recommendations and advice regarding the museums and facilities within their respective regions (see Finding 1, pages 9 through 23, for recommendations related to the regional chapter boards).

In addition to its regional advisory chapter boards, the Board appoints an executive director and may authorize the employment of other staff to help carry out its mission. According to an August 2011 Arizona Department of Administration directive, each state agency's workforce size has been limited to the agency headcount on July 1, 2011, plus an additional 5 percent. Under this directive, the Society is allowed a staff of 50 individuals. As of April 2013, the Society had a total of 45 individuals on staff, which equates to approximately 41 full-time equivalent positions because some of the individuals work part-time.<sup>3</sup> Society staff's key responsibilities include:

### Society membership levels and annual fees

Level	Annual fee
Individual	\$ 50
Household	65
Sustaining	100
Patron	250
Sponsor	500
Director's Circle	1,000

Source: Society's Web site. Fees current as of June 15, 2013.

<sup>1</sup> The Society also offers a \$25 annual student membership that provides unlimited individual admission to all society museums.

<sup>2</sup> In August 2012, the Board created the Eastern Arizona Chapter Board to address a lack of society participation and central board representation from Arizona's eastern counties. The Eastern Arizona Chapter Board does not have a society museum within its boundaries.

<sup>3</sup> The Society also contracts for temporary staff to fill some vacant positions, such as front desk receptionist positions at the museums (see Sunset Factor 12, page 47, for more information).

- Operating society museums**—Society staff, including regional directors, curators, and archivists, are responsible for operating the Society’s seven museums located across the State (see Figure 1, page 2). These museums house more than 110,000 three-dimensional historical artifacts, such as Geronimo’s personal possessions, military implements from World War II and jewelry made in a Japanese-American internment camp in Arizona, and archival materials dating from the 1500s, including architectural drawings, maps, newspapers, photographs, radio recordings, and television and movie film. The Society reported that its museums house a total of nearly 1.2 million units of historical artifacts and archival materials. Museum responsibilities include planning and designing exhibits; cataloging, protecting, and preserving collections; and running museum admission counters and gift shops.
- Certifying local historical museums**—As allowed by statute, the Board certifies local historical organizations that work to preserve Arizona history throughout the State.<sup>1</sup> Specifically, the Board certifies that these nonprofit organizations have a functioning museum program of historical value, thereby allowing the Board to contract with them to perform services for the State’s benefit. The Board has established criteria for museum certification, which includes being guided by a mission statement; offering educational programs, special events, and research tied to its mission; and being open to the public for at least 208 hours per year. In fiscal year 2013, there were 73 certified museums. According to society documents, benefits of certification include technical support from society staff and eligibility for annual society project grants. During fiscal year 2013, 34 of 73 certified museums received a total of \$38,375 in society grants, with individual grants ranging from \$500 to \$1,500 each (see textbox).

**Examples of local historical organization grants  
Fiscal year 2013**

Organization	Amount	Description
Arizona State Railroad Museum	\$1,500	Collection inventory and archival preservation
Douglas Historical Society	900	Inventory and storage upgrade
Peoria Arizona Historical Society	500	Yearbook and newspaper preservation

Source: Auditor General staff analysis of information from the Society’s 2012-2013 grant funding recommendations document.

- Providing educational programs**—Society staff are responsible for implementing youth, adult, and community programming throughout Arizona. For example, the Society serves as the State Coordinator for National History Day in Arizona. According to the National History Day Web site, National History Day is an academic program that serves students in all U.S. states and territories. Each year, more than 500,000 students participate in the National History Day contest where they conduct research on historical topics related to a theme and present their work in original papers, Web sites, exhibits, performances, and documentaries. These projects

<sup>1</sup> A.R.S. §41-821(H)

are then evaluated at local, state, and national competitions. The program culminates in June with a national contest held at the University of Maryland at College Park.

- **Publishing journals and books**—The Society is statutorily required to publish the *Journal of Arizona History* four times a year. This journal features articles about the State's history and region, photo essays, and critical book reviews. The Society also publishes books about Arizona and the Southwest. The Society's publications can be purchased by downloading and mailing an order form located on its Web site. In addition, electronic versions of some of the Society's publications can be purchased or accessed online through Web sites such as Amazon, Barnes & Noble, and JSTOR.

## Budget

As illustrated in Table 1 (see page 6), the Society received revenues from various sources between fiscal years 2011 and 2013. The majority of its revenues come from a State General Fund appropriation, which was approximately \$5.3 million in fiscal year 2011, \$4.2 million in fiscal year 2012, and approximately \$3 million in fiscal year 2013. The decrease in appropriations is primarily related to the ending of lease-purchase and rental payments that were previously paid with appropriations. However, excluding appropriations for lease-purchase and rental payments, the Society's state appropriations have decreased by approximately 16 percent, from \$3.2 million in fiscal year 2008 to \$2.7 million in fiscal year 2012 (see Finding 1, pages 9 through 23, for more information).

The Society also receives revenue from nonappropriated sources. During fiscal years 2011 and 2012, its annual nonappropriated revenues totaled approximately \$1 million. The Society's nonappropriated revenue sources include cash donations; museum admission fees; gift shop sales and sales of books and photos; and revenue from the rental of its facilities for events such as weddings, trainings, and business meetings. As indicated in Finding 1 (see pages 9 through 23), the Society's nonappropriated revenues have decreased by 29 percent, from \$1.4 million in fiscal year 2008 to approximately \$1 million in fiscal year 2012. These revenues totaled approximately \$1 million in fiscal year 2013 as well. More than 91 percent of the Society's revenues are used to pay for personnel costs, including related employee benefits, and other operating costs such as lease purchase and rental payments for museums and electricity.

The Society also receives noncash, or in-kind, donations of goods and services from private individuals, regional chapters, and various support groups (see next paragraph) to assist with its operations, programs, and exhibits. For fiscal year 2012, the Society estimated that the fair market value of its in-kind donations totaled approximately \$50,000.<sup>1</sup> Types of in-kind donations received by the Society included advertising for the Society's facility rental program at the Museum at the Papago Park in Tempe (Tempe museum), collection-preservation materials, building and office equipment, and professional services.<sup>2</sup> For example, in fiscal year 2012, a support group donated an air

<sup>1</sup> This amount was reported on the Society's Form 990—*Return of Organization Exempt from Income Tax* filed with the U.S. Internal Revenue Service in November 2012. The Society used the cost or selling-price method to determine the fair market value of the donated items.

<sup>2</sup> According to the Society, professional services include services provided by temporary staff, independent contractors, or lobbyists.

**Table 1: Schedule of revenues, expenditures, and changes in fund balance  
Fiscal years 2011 through 2013  
(Unaudited)**

	2011	2012	2013
<b>Revenues and transfers from other agencies</b>			
State appropriations: <sup>1</sup>			
State General Fund	\$ 5,264,500	\$ 4,228,800	\$ 3,061,900
Capital Outlay Stabilization Fund	430,800		
Donations	273,969	325,242	298,521
Admissions and programs <sup>2</sup>	250,748	247,963	249,560
Charges for goods sold, including gift store sales	252,667	133,593	93,844
Rental income	161,765	151,731	173,443
Membership dues	82,325	77,170	76,815
Grants	15,093	37,945	58,245
Other	8,988	32,708	81,284
Total revenue	<u>6,740,855</u>	<u>5,235,152</u>	<u>4,093,612</u>
Transfers from other agencies <sup>3</sup>	<u>590,213</u>	<u>32,157</u>	<u></u>
Total revenues and transfers	<u>7,331,068</u>	<u>5,267,309</u>	<u>4,093,612</u>
<b>Expenditures and transfers to the State General Fund</b>			
Personal services and related benefits	2,326,620	2,415,653	2,371,473
Professional and outside services	254,437	216,796	256,453
Travel	26,012	52,451	42,466
Other operating <sup>4</sup>	4,530,364	2,510,163	1,343,050
Equipment	30,418	16,404	42,814
Total expenditures	<u>7,167,851</u>	<u>5,211,467</u>	<u>4,056,256</u>
Transfers to the State General Fund	<u>2,300</u>	<u>2,500</u>	<u></u>
Total expenditures and transfers	<u>7,170,151</u>	<u>5,213,967</u>	<u>4,056,256</u>
Net change in fund balance	160,917	53,342	37,356
Fund balance, beginning of year	<u>1,497,799</u>	<u>1,658,716</u>	<u>1,712,058</u>
Fund balance, end of year	<u>\$ 1,658,716</u>	<u>\$ 1,712,058</u>	<u>\$ 1,749,414</u>

<sup>1</sup> Fiscal year 2011 amounts include \$2,643,200 and \$430,800 from the State General Fund and Capital Outlay Stabilization Fund, respectively, to make the final payment on the Tempe museum lease-purchase that began in fiscal year 1991. Fiscal year 2012 amounts include \$1.1 million from the State General Fund to pay the Arizona Department of Administration (ADOA) for the Tempe museum rent; however, in fiscal year 2013, the appropriation for the Tempe museum was discontinued because the Society was exempted from paying rent to ADOA for the Tempe museum since ADOA does not manage or maintain the facility. In addition, both fiscal years 2012 and 2013 appropriations include amounts to pay rent for the Mining and Mineral Museum.

<sup>2</sup> According to the Society, amount includes revenue collected for tours, educational programs, lectures, license plate sales, and classes offered to the public.

<sup>3</sup> Amount primarily consists of a transfer from the Department of Mines and Mineral Resources (Department) to the Society to pay rent and help operate the Mining and Mineral Museum. During fiscal year 2011, Laws 2010, Ch. 227, transferred the museum from the Department to the Society (see Other Pertinent Information, pages 35 through 37, for additional information).

<sup>4</sup> Amount includes a lease-purchase payment and rent on museums referred to in footnotes 1 and 3.

Source: Auditor General staff analysis of the society-prepared financial information for fiscal years 2011 through 2013 and Arizona Financial Information System Accounting Event Transaction File for fiscal years 2011 and 2012.

conditioning unit to the Sanguinetti House Museum (Yuma museum) valued at approximately \$9,000. Similarly, in that same fiscal year, a support group paid \$4,300 in staffing costs for four interns who worked at the Tempe museum's library or assisted the Society's education staff in facilitating the Society's National History Day program.

As indicated earlier, some of the Society's cash and in-kind donations come from nonprofit, tax-exempt 501(c)(3) support groups. To become a nonprofit, tax-exempt organization, these groups have filed articles of incorporation with the Arizona Corporation Commission and then received approval for their tax-exempt status from the U.S. Internal Revenue Service (IRS). There are eight nonprofit support organizations that were established to benefit the Society (see textbox). Although these organizations raise monies to benefit the Society, the Society does not receive any financial statements or other documentation on how much money these organizations might have available to assist the Society. Therefore, it is unclear how much money these organizations have raised or might have available to benefit the Society. However, auditors obtained a report filed with the IRS for one of these organizations—the Historical League, Inc. (League)—showing that it had net assets of nearly \$312,000 in fiscal year 2012. The League also reported revenues of nearly \$72,000 in fiscal year 2012, down from its fiscal year 2011 reported revenues of nearly \$210,000. According to the Society, this is one of its largest support groups (see Finding 1, pages 9 through 23, for recommendations related to these support groups).

### Society support groups

**Arizona Historical Society/Southern Arizona Chapter Fund, Inc.**—This organization was established in 2000 and supports the activities of the Society's Southern Division by providing fund-raising and volunteers.

**Arizona Historical Society/Southern Arizona Division Docent Council**—This volunteer organization was established in 1996 and provides service to the Society and educational support services to the Tucson museum's Education Department, including guided tours of the museum facility.

**Arizona Pathfinders, Inc.**—This organization was established in 1977 and provides support to the Society's Southern Division.

**Friends of the *Journal of Arizona History*, Inc.**—This organization was established in 1999 and raises funds for an endowment fund to support the publication of *The Journal of Arizona History*.

**Fund for Central Arizona History**—This organization was established in 1997 and was organized and is operated exclusively for the benefit of the Society.

**Historical League, Inc.**—This organization was established in 1979 and preserves Arizona's rich cultural heritage and promotes community awareness of the Society. The Historical League also provides fund-raising and volunteer assistance for the Tempe Museum.

**Northern Arizona Pioneers' Historical Society and Riordan Action Network**—The Northern Arizona Pioneers' Historical Society was established in 1905 to preserve memories of the early times and incidents of Northern Arizona's pioneer days. This organization is affiliated with the Riordan Action Network that promotes, advocates for, and raises funds on behalf of Riordan Mansion State Historic Park.

**Yuma County Historical Society, Inc.**—This organization was originally established in 1963 and aids and supports the programs of the Society's Rio Colorado Division.

Source: Auditor General staff analysis of the Society's and other organizations' Web sites and IRS documents for two of the support organizations.



## FINDING 1

The Arizona Historical Society (Society) and its Board of Directors (Board) should take additional actions to address declining revenues. From fiscal years 2008 to 2012, the Society experienced a decline of approximately \$900,000 in both its state appropriations and nonappropriated revenue sources. These revenue reductions have limited the Society's ability to fill key positions, make equipment upgrades and improvements, and change exhibits on a regular basis. Although the Society has taken some actions to address declining revenues, the Society and its Board should take additional actions such as continuing efforts to establish a private fund-raising arm for the Society, identifying ways to further reduce operating costs, developing a fund-raising action plan, and as resources allow, creating a development officer position that focuses on fund-raising. Finally, the Board should review the need for its regional chapters and its practice of allocating monies to these chapters, and strengthen its fund-raising relationships with private support groups by entering into formal, written agreements that clearly describe roles, expectations, and authority.

## Society and Board should take additional actions to address declining revenues

### Society depends on state appropriations and nonappropriated revenues to support operations

The Society's operating budget includes both state appropriations and nonappropriated revenues. As illustrated in Table 1 (see Introduction, page 6), the Society received a \$4.2 million State General Fund appropriation in fiscal year 2012.<sup>1,2</sup> This appropriation accounted for approximately 81 percent of the Society's total revenues, and was used to pay for personnel costs, including related employee benefits, and operating costs such as rental payments for museums, utilities, and the Board's museum certification program, which issues project grants to local historical organizations (see Introduction, page 4, for more information on this program).<sup>3</sup> The remainder of the Society's revenues in fiscal year 2012, approximately \$1 million, or 19 percent, of total fiscal year 2012 revenues, was obtained through nonappropriated revenue sources, such as cash donations, grants, membership dues, museum admission fees, and gift shop sales. These monies were used to pay for personnel and operating costs that exceeded amounts covered by State General Fund appropriations. For example, 5.65 of the Society's 43.6 full-time equivalent positions that were filled in fiscal year 2012 were paid from nonappropriated monies. A portion of its cash donations, approximately \$15,000, was also used for building maintenance and repair at the Museum at Papago Park in Tempe (Tempe museum).

In addition to its cash donations, the Society also receives noncash, or in-kind, donations of goods and services from private individuals and various support groups to assist with its operations, programs, and exhibits. The Society reported on its 2012 information return to the U.S. Internal Revenue Service (IRS Form 990) that the fair market value of its in-kind donations totaled approximately \$50,000 in fiscal year 2012.<sup>4</sup> Types of in-kind donations the Society received included advertising for the Society's facility rental program at

<sup>1</sup> The Society's State General Fund appropriation was approximately \$3 million in fiscal year 2013. The decrease in this appropriation was primarily related to the ending of a rental payment that was previously paid with State General Fund appropriations.

<sup>2</sup> Auditors analyzed the Society's financial information for fiscal years 2008 through 2012 for purposes of this report because fiscal year 2012 was the last year that was complete and final at the time of auditors' review.

<sup>3</sup> Excluding monies appropriated for museum rental payments, the Society's fiscal year 2012 State General Fund appropriation accounted for approximately 73 percent of its remaining revenues, while the Society's nonappropriated revenues accounted for approximately 27 percent of its remaining revenues.

<sup>4</sup> IRS Form 990 is an annual information return required to be filed with the IRS by most organizations exempt from income tax under section 501(a) of the Internal Revenue Code, including corporations organized exclusively for charitable, scientific, and educational purposes under section 501(c)(3). Organizations are required to report information on their exempt and other activities, finances, governance, and compensation paid to certain persons during the fiscal or calendar year.

the Tempe museum, collection-preservation materials, building and office equipment, and professional services.<sup>1</sup> For example, in fiscal year 2012, a private support group donated an air conditioning unit to the Sanguinetti House Museum (Yuma museum) valued at approximately \$9,000. Similarly, in fiscal year 2012, a support group paid \$4,300 in staffing costs for four interns at the Tempe museum who worked in the library or assisted the education staff in facilitating the Society's National History Day program.

## Some society operations face risks due to declining revenues

The Society's ability to perform some functions is at risk due to declining revenues. During fiscal years 2008 through 2012, the Society experienced declines in both its state appropriations and nonappropriated revenue sources. The Society attributes the decline in nonappropriated revenues to the economic downturn and difficulties recruiting and retaining society members. As a result, the Society lacks monies to fill key positions, pay for items such as building maintenance and technology improvements, and change exhibits at its museums on a regular basis.

**Society suffers from declining revenues**—During fiscal years 2008 through 2012, the Society experienced declines in many of its revenue sources. Specifically, the Society's state appropriations, excluding appropriations for lease-purchase and rental payments, decreased by approximately 16 percent, from \$3.2 million in fiscal year 2008 to \$2.7 million in fiscal year 2012. The decrease was primarily due to the Society receiving a \$413,100 State General Fund reduction between fiscal years 2008 and 2009 as part of the State's overall budget cuts.<sup>2</sup>

In addition, the Society's overall nonappropriated revenues have decreased by 29 percent—from \$1.4 million in fiscal year 2008 to \$1 million in fiscal year 2012. The largest declines were in revenues generated from cash donations and membership dues. Specifically, cash donations have decreased by 59 percent, from nearly \$794,000 in fiscal year 2008 to approximately \$327,000 in fiscal year 2012, and membership revenue has decreased by 44 percent, from \$136,958 in fiscal year 2008 to \$77,170 in fiscal year 2012. The Society also experienced revenue declines in other areas during the same period as follows: publications and reproduction revenue, 30 percent; program revenue, 25 percent; and rental income, 24 percent. Although the Society experienced increases during this same time period in other nonappropriated revenue sources, such as sales revenue, admissions revenue, and grants, these revenue increases were not enough to offset the revenue decreases from the sources previously discussed.

**Society attributes declining revenues to the economic downturn and changing demographics**—According to the Society, the economy has played a major role in the reduction of donations and membership revenues because when the economy is bad, people generally cut back on things that are not essential. The Society also reported that this problem is not limited to the Society, as museums nation-wide have been affected. According to an American Alliance of Museums' report, many museums have experienced multiple years of shrinking reve-

<sup>1</sup> According to the Society, professional services include services provided by temporary staff, independent contractors, or lobbyists.

<sup>2</sup> The state budget reduction was implemented by Laws 2009, 1st S.S., Ch. 1, §§3 and 6.

nues since the start of the economic downturn in 2008.<sup>1</sup> Specifically, the report noted that in 2011, more than 70 percent of the 433 museums surveyed reported economic stress at their institutions ranging from moderate to very severe. Museums also reported declines in various private revenue sources as follows: private corporate donations, 31 percent; private individual donations, 33 percent; and membership fees, 28 percent.

In addition, the Society attributes declining membership revenues to difficulties in recruiting new members and retaining existing members due to changing demographics. Since fiscal year 2008, the Society's membership has decreased by 24 percent, from 2,080 members in fiscal year 2008 to 1,571 members in fiscal year 2012. The Society believes that younger generations are not as interested in becoming society members and prefer to participate in other ways, such as attending an event. The Society further reported that the trend is for historical organizations to reduce their dependence on members for financial support.

**Declining revenues limit Society's operations**—According to the Society, declining revenues have limited its operations. Specifically:

- **Key positions unfilled**—The Society reported that its greatest challenge during the economic downturn has been the lack of personnel resources. In particular, the Society has been unable to fill some key museum operational positions, such as the division director position in the Southern Division, which has been vacant since December 2009. This position is responsible for overseeing operations and programming at the Society's three museums in Tucson, including the Arizona History Museum (Tucson museum) (see Introduction, page 2, for regional map of the Society's museums). Instead, the Society's executive director has taken over the division director's job duties.

The Society also indicated that it does not have the budget to establish additional Information Technology (IT) positions. According to the Society, it has only one IT specialist, based at the Tempe museum, who has to commute to each of the Society's museums located throughout the State to manage servers, computers, and/or telephone equipment when the task cannot be completed remotely. To assist with IT efforts, one of the Society's museum curators is responsible for updating and maintaining several pages on the Society's Web site and troubleshooting any problems that may arise.

To compensate for some of its position vacancies, the Society uses volunteers to assist with museum operations. The Society reported on its IRS Form 990 that it used the services of 620 volunteers in various areas of its museums, including gift stores, admissions counters, and libraries in fiscal year 2012. Volunteers also assisted society staff in implementing educational programs and events.

- **Needed upgrades and improvements not made**—The Society reported that it lacks monies to upgrade the heating and cooling systems at the Tempe museum and the Tucson museum, which has major problems, including climate control issues in the collections areas (see Finding 2, pages 27 through 28, for more information on the Tucson museum's climate control

<sup>1</sup> American Association of Museums. (2012). *Museums and the American economy in 2011*. Washington, DC: Author. In September 2012, the American Association of Museums changed its name to the American Alliance of Museums.

issues). In June 2012, the Society submitted a *Fiscal Year 2014 Capital Improvement Plan* to the Arizona Department of Administration requesting \$550,000 from the State General Fund to install computer and digital controls for its heating and cooling systems at the Tempe and Tucson museums. In addition, the Society reported that it lacks monies to purchase a storage area network computer server to support large-scale digital conversion projects. According to the Society, its current servers do not have the storage capacity to support the Society's long-term goal of converting the majority of its archival collections, such as historic newspapers and photographs to electronic format for storage and retention, and to provide online access to the public. The Society indicated that a storage area network computer server would allow the Society to properly store, protect, and back up this archival data. The Society estimates that the server will cost between \$15,000 to \$20,000.

- **Exhibits not changed regularly**—The Society reported that it has been forced to use more of its nonappropriated monies to pay for repairs and utilities instead of programs and exhibits. In fiscal year 2012, the Society expended approximately \$271,000, or 27 percent, of its nonappropriated monies on repairs and utilities at its museums. As a result, the Society has not had the financial resources to change exhibits on a regular basis at its museums. According to the October 2012 board meeting minutes, board members agreed that the Society needs to have new exhibits in its museums more frequently than every 6 months. A society staff member commented that if the Society could fund exhibits—such as the *100 Years—100 Quilts* exhibit—more often, it would have a significant impact on the Society's revenues because attendance revenue at the Tucson museum during the first 6 months of the quilts exhibit increased by 275 percent from the previous year.
- **Some collections issues remain**—Finally, the Society has been unable to address some issues facing proper collections management, such as problems with sufficient storage space. For example, the collections storage areas at four of the Society's museums—Flagstaff, Phoenix, Tempe, and Tucson—were filled to near or beyond normal capacity. Insufficient storage space has also prevented the Flagstaff and Tempe museums from acquiring important historical artifacts. As indicated in Finding 2 (see pages 25 through 33), the Society should develop and implement a comprehensive collections-management plan that includes a list of prioritized collections-management needs, action steps, and the timelines and resources needed to complete the plan's steps.

## Society has taken some recent actions to address declining revenues

Consistent with best practices, the Society has begun taking steps to address declining revenues. According to the American Alliance of Museums' *National Standards and Best Practices for U.S. Museums*, museums that are organized under state government should reduce their dependence on state funding and increase their income from outside sources. This minimizes the impact of state funding cuts and the likelihood that the state will see eliminating museums as an attractive financial

strategy.<sup>1</sup> Specifically, in calendar years 2012 and 2013, the Society began taking steps that its projects will generate additional revenues or reduce its operating costs, such as:

- **Increasing online fund-raising efforts**—The Society has worked to increase the ways individuals can contribute to the Society or purchase society items online. For example, in May 2012, the Society established the ability for individuals to become society members or make donations directly through its Web site. In addition, the Society has made a special edition of the *Journal of Arizona History* that commemorates the 100th anniversary of Arizona statehood available for sale on Web sites such as Amazon. According to the Society, these efforts generated approximately \$2,600 in revenue in fiscal year 2012.
- **Creating a nonprofit corporation**—In May 2012, the Board established a nonprofit corporation, the Arizona Historical Society, Inc., which will eventually serve as a tax-exempt fund-raising arm for the Society. According to a board official, the corporation was established in response to the Board's fear that monies donated directly to the Society could be "swept," or transferred by the Legislature into the State General Fund. Establishing a private, nonprofit corporation would protect these monies from potential transfer to the State General Fund, as the corporation would privately hold any monies it raises on behalf of the Society. In April 2013, the Board adopted bylaws that contain provisions for regulating the affairs of the nonprofit corporation. However, according to the board official, the Board has not yet applied with the IRS to become a tax-exempt 501(c)(3) organization.

The Board should continue its effort to establish a tax-exempt nonprofit organization to serve as a private fund-raising arm for the Society. The American Alliance of Museums encourages museums organized under state government to develop a separate 501(c)(3) corporation, because the corporation can provide significant income, serve as an advocate for the museum, and buffer the museum against sudden organizational changes from the State, such as funding cuts.<sup>2</sup> Obtaining status as a tax-exempt organization could also lead to increased financial support as individuals and corporate donors are more likely to support organizations if their donations are tax-deductible.<sup>3</sup>

Other state-run museum systems have established nonprofit corporations to assist with their fund-raising activities. For example, the Museum of New Mexico Foundation (Foundation) supports New Mexico's state-run museum system. The Foundation was established in 1962 to prevent private donations from becoming part of New Mexico's General Fund. The Foundation raises monies to support collections, exhibitions, and education programs at four museums and seven historical sites within the New Mexico museum system through various methods, including membership programs, exhibition development funds, planned giving programs, and endowment funds. For example, the Foundation reported that it managed 28 endowment funds with a market value of \$16.9 million as of September 2012. The Foundation also operates an online store that sells art, jewelry, textiles, and other merchandise to the public, and has

<sup>1</sup> American Association of Museums. (2008). *National standards and best practices for U.S. Museums*. Washington, DC: Author. In September 2012, the American Association of Museums changed its name to the American Alliance of Museums.

<sup>2</sup> American Association of Museums, 2008

<sup>3</sup> U.S. Department of the Treasury, Internal Revenue Service. (2009). *Applying for 501(c)(3) tax-exempt status* (IRS Publication No. 4220). Washington, DC: U.S. Government Printing Office.

established a licensing program to collect royalties for the commercial use of the Museum of New Mexico name and access to the collections. The Foundation reported that it received private contributions and pledges of \$4.8 million in fiscal year 2012.

- **Negotiating intergovernmental agreements to enhance revenue generation**—In June 2013, the Society extended its intergovernmental agreement with the Arizona State Parks Board to manage the Riordan Mansion State Historic Park (Park) until June 30, 2016. Under the terms of the agreement, the Society is responsible for staffing, operating, and paying for routine maintenance costs at the Park. In return, the Society retains all revenues derived from the Park, including admission fees. According to the Society's financial records, in fiscal year 2012, the Society expended approximately \$177,000 to operate the Park and received approximately \$182,000 in total revenues. The majority of the Park's revenues in fiscal year 2012 were from admission fees. In addition, since the Society added the Park to its operations in 2010, the Society's admissions revenues from its museums and the Park have increased by approximately 270 percent from approximately \$52,000 in fiscal year 2009 to approximately \$191,000 in fiscal year 2012.

The Society is also in the process of negotiating an intergovernmental agreement with the City of Yuma to cooperatively improve, manage, and operate the Yuma museum campus. According to the Society, under the agreement, the City of Yuma, as part of its effort to renovate the Yuma Historic Downtown District, would renovate the Yuma museum and two additional society-owned facilities on the museum's campus. The Society would provide the City of Yuma with \$30,000 to oversee the construction and event coordination. In addition, the City of Yuma would be responsible for operating and maintaining the campus facilities, except the Yuma Museum, which would remain under the Society's management and control. The Society projects that this agreement could generate additional revenues for the Society because the Yuma museum would become part of the City of Yuma's unified marketing plan aimed at increasing public awareness, tourism, and business in Yuma's Historic Downtown District.

- **Reducing operating costs**—The Society has also taken steps to reduce its operating costs. According to board meeting minutes, in October 2012, the Society temporarily transferred archive collections that were housed in the Adobe Annex adjacent to its Yuma museum to the Tempe museum to be evaluated, processed, conserved, and cataloged because an inventory of these collections was never taken. The board minutes also indicated that the Society asked the Yuma County Historical Society, Inc., a 501(c)(3) support group, to contribute \$10,000 to \$15,000 for this project. Additionally, according to the Society, it is using interns and a certified librarian archivist, who is donating his time, to assist on this project. The Society estimates that the value of the certified librarian archivist's donated professional work will total \$39,200 by the end of January 2014.

The Society reported that transferring these collections to the Tempe museum has allowed the Society to replace 2.5 full-time equivalent positions at the Yuma museum with temporary staff at a reduced cost of approximately \$1,800 per pay period. As these items are being processed and cataloged, the Society also reported that it is negotiating an intergovernmental agreement with the Yuma County Library District to house these collections in a library building that will allow the public to have greater accessibility to these collections than the Society's facilities can provide.

According to the American Alliance of Museums, measures such as reducing staff size and transferring material that can no longer be appropriately cared for to another suitable caretaker can be a responsible and necessary corrective action in response to revenue reductions.<sup>1</sup> As a result, the Society should continue its efforts to identify ways to reduce its operating costs through partnerships or other means.

## Additional actions necessary to ensure Society has adequate monies to support operations

To help ensure that the Society has adequate monies to support its operations, the Society and its Board should strengthen its efforts to increase revenues. Although the Society's fiscal years 2013-2017 Strategic Plan includes some broad-based goals and objectives for increasing revenues through fund-raising, the Society should develop an action plan for achieving these goals and objectives. In addition, the Society should assign responsibility for implementing this action plan, and the Society's Board should monitor its progress in achieving its fund-raising goals and objectives.

**Society should develop a fund-raising action plan**—To help ensure its strategic goals and objectives related to fund-raising are achieved, the Society should develop a fund-raising action plan. As required by Laws 2012, Ch. 296, in October 2012, the Society established a 5-year strategic plan.<sup>2</sup> The Society's fiscal years 2013-2017 Strategic Plan includes fund-raising goals and objectives, such as increasing state-wide fund-raising efforts to expand its National History Day Program, planning and executing major capital and endowment campaigns, and writing grants for acquiring computer hardware and software. However, the Society has not established any formal mechanisms to guide staff in achieving these goals and objectives, such as an action plan that details the steps it plans to take. According to model planning practices developed by the Governor's Office of Strategic Planning and Budgeting (OSPB), state agencies should establish an action plan that includes specific, measurable, aggressive/attainable, results-oriented and time-bound steps to help meet its goals and objectives.<sup>3</sup> The action plan should describe who is responsible for performing each step and the time frame in which the step should be completed. Establishing an action plan would help the Society allocate resources and formulate strategies to implement its goals and objectives.

Therefore, as recommended by OSPB and similar to the Oregon Historical Society, the Society should develop a fund-raising action plan that contains specific, measurable, aggressive/attainable, results-oriented, and time-bound steps to help it achieve its fund-raising goals and objectives outlined in its fiscal years 2013-2017 Strategic Plan. The Oregon Historical Society's (Oregon) 2011-2016 Strategic Plan includes similar fund-raising objectives as the Society's strategic plan, such as planning and executing major capital and endowment campaigns. However, in contrast to the Society, Oregon developed a corresponding action plan that identifies

<sup>1</sup> American Association of Museums, 2008

<sup>2</sup> This law required all executive branch agency budget units to submit a 5-year strategic plan to the Governor with their fiscal year 2013-2014 budgets.

<sup>3</sup> State of Arizona, Office of Strategic Planning and Budgeting. (2011). *Managing for results*. Phoenix, AZ: Author.

specific, measurable, results-oriented, and time-bound action steps for achieving this objective. These action steps included deciding what to include in the campaign, completing a compelling case statement, appointing leadership, creating a campaign cabinet, and launching a feasibility study in 2012 and 2013.

In developing the fund-raising action plan, the Society should ensure that the action plan is tied to other relevant planning documents, such as collections-management plans (see Finding 2, pages 25 through 33), capital improvement plans, and the Society's operating budget. According to the American Alliance of Museums, grant makers and philanthropic foundations are increasingly concerned that recipients of their funding demonstrate that they know what they are going to do with the monies and that their plan is part of an integrated, sustainable vision for the museum.<sup>1</sup> For example, the Institute of Museum and Library Services, a federal agency that administers grant programs for museums and libraries, awards grants to eligible museums on a competitive basis for projects such as technology enhancements, environmental improvements to collections storage and exhibit areas, and inventorying and cataloging collections. According to the Institute of Museum and Library Services' program guidelines, strategic planning is the foundation for all project proposals because reviewers use a summary of the museum's strategic plan to understand how project activities supported by grant(s) will further institutional goals and objectives. In addition to a strategic plan, the Institute of Museum and Library Services recommends that grant applicants submit a project work plan that identifies details such as what specific activities will be carried out, when and in what sequence activities will occur, and what financial, personnel, and other resources will be needed to carry out the activities.

**Assign responsibility for implementing the fund-raising action plan**—In the process of developing its fund-raising action plan, the Society should also assign responsibility for completing the identified action steps. The American Association for State and Local History and OSBP model-planning practices recommend assigning responsibility for achieving actions to a specific individual as a means of managing the action plan and helping to ensure goals and objectives are met.<sup>2</sup> Consistent with actions in other states and recommendations from prior Office of the Auditor General performance audit reports on the Society (Report No. 95-7 and Report No. 98-7), as resources allow, the Society should move toward assigning fund-raising responsibilities to a development officer position. Specifically:

- **Other state historical societies assign fund-raising responsibilities to a development officer position**—Other state historical societies have established a development officer position to oversee fund-raising activities. For example, the Oregon Historical Society assigns fund-raising responsibilities to its director of development and marketing. This person works in partnership with the society's executive director, board, and senior staff to define, implement, and manage fund-raising programs and is responsible for prospecting and building relationships with private donors, foundations, and corporate sponsors. This person also oversees 4.5 full-time equivalent positions that are responsible for the Oregon Historical Society's membership recruitment, grant-writing, and marketing efforts. According to financial information provided by the Oregon Historical Society, the director of development and

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<sup>1</sup> American Association of Museums, 2008

<sup>2</sup> Arizona OSPB, 2011; American Association for State and Local History. (2009). *Standards and excellence program for history organizations*. Nashville, TN: Author.

marketing helped the Oregon Historical Society raise approximately \$3.6 million in calendar year 2012 from various sources, such as fund-raising events, grants, memberships, and exhibit and project sponsorships. Similarly, History Colorado, formerly called the Colorado Historical Society, reported in its fiscal year 2013-2014 Budget Request Strategic Plan that hiring a director of development in fiscal year 2012 to manage its capital campaign and build the infrastructure to support a robust fund-raising program has already yielded foundation support and corporate sponsorships the organization has never before received. For example, according to its 2011/2012 annual report, History Colorado received \$1.8 million from donations in fiscal year 2012. According to History Colorado, its development office consists of six staff persons who are responsible for the organization's fund-raising, membership recruitment, grant-writing, and project sponsorship efforts.

- **Prior audits recommended the Society assign fund-raising responsibilities to a development officer position**—The Office of the Auditor General's 1995 performance audit of the Society found that while a significant portion of the Society's operations (e.g., programs, exhibits, collections care) must be funded by nonappropriated monies, the Board had not identified fund-raising needs overall. Rather, funding for improvements had been requested from the Legislature or obtained by society staff in piecemeal fashion. Auditors cited a report issued by the Governor's Office of Excellence in Government, which found that society staff spent as much as 40 percent of their time coordinating fund-raising activities. To address the Society's limited fund-raising efforts, the 1995 report recommended that the Society establish a development officer position to "jump-start" fund-raising efforts. The report noted that the creation of a development officer position should be viewed as an investment rather than an expense because, over time, the position should become self-supporting through private donations. Similarly, the Office of the Auditor General's 1998 performance audit report found that the Board needed to take a more active role in organizing the Society's fund-raising activities and recommended that the Board work with the Society's executive director to obtain a development officer position.

According to the Society, it lacks the budget to establish a development officer position to oversee its fund-raising activities. Rather, the Society has plans to continue assigning fund-raising responsibilities to staff who have full-time responsibilities in other areas. However, due to the critical nature of its fund-raising objectives, assigning implementation of the action plan to existing staff who already have full-time responsibilities in other areas may not ensure that the Society's fund-raising efforts receive sufficient attention. Therefore, as resources allow, the Society should move toward creating and assigning fund-raising responsibilities to a development officer position.

**Society's Board should monitor the plan's progress**—Finally, since the Society's Board is responsible for providing oversight of the Society's activities, it should monitor the Society's progress toward implementing its strategic goals and objectives, particularly those related to fund-raising. Consistent with museum standards published by the American Association for State and Local History and OSPB model planning practices, the Board should require regular updates at its board meetings from the Executive Director or other society staff on the specific actions taken toward implementing its fund-raising goals and objectives.<sup>1,2</sup> To assist in this process, the Society

<sup>1</sup> American Association for State and Local History, 2009

<sup>2</sup> Arizona OSPB, 2011

should develop a workable tracking document that tracks the status of each action step; identifies the position responsible for the action step; and provides explanations on actions taken to date and information on the plan's current status.

## Society's Board should evaluate need for its regional chapters and better define support groups' roles

The Society's Board should evaluate whether its regional chapters have a continuing role in the Society and better define the roles and expectations of its support groups. Specifically, the Board should determine whether its regional chapters are necessary because they have not helped raise any monies in fiscal years 2008 through 2012. If the Board decides to retain the regional chapters, it should clarify their role, including whether they should assist in fund-raising, and whether it should continue allocating a portion of its membership dues to the chapters. Additionally, the Board should strengthen its relationship with its eight support groups by entering into a formal agreement with each support group that clearly describes roles, expectations, and authority.

**Board should determine whether regional chapters are necessary**—As allowed by Arizona Revised Statutes (A.R.S.) §41-821(H), the Board has established five regional chapter boards (regional chapters) that are advisory in nature, but have responsibilities such as fund-raising, nominating individuals from the chapter area to serve on the state Board, and authorizing the use of chapter monies (see Introduction, page 3, for more information on the Society's regional chapters). In an effort to support the programs of these regional chapters, since 1999, the Society has allocated membership dues above the general membership level, \$50 as of July 2013, to be used as determined by the chapter in the member's geographical area.<sup>1</sup> For example, if an individual residing in Phoenix purchases a \$100 membership, the Society allocates \$50 of this amount to the Central Arizona Chapter (Chapter), which it can use to support the Chapter's programs, including any programs that support the Society's Tempe museum. In fiscal year 2012, the Society reported that it allocated \$28,480, or 37 percent, of its total membership dues to its regional chapters.

However, a review of these regional chapters' roles, responsibilities, and activities suggests that they no longer may be necessary. Specifically:

- **Regional chapters not fulfilling their fund-raising purpose**—According to the Society's bylaws, each regional chapter is responsible for raising monies on the Society's behalf. However, regional chapter fund-raising has historically been unsuccessful. Specifically, in fiscal years 2008 through 2012, regional chapters did not raise any monies for the Society. According to the Society, regional chapters do not typically engage in fund-raising activities, but may periodically suggest or participate in activities that bring patrons to the museums. In

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<sup>1</sup> Although the Society maintains custody of all membership monies, the Society has established a separate fund, or account, for each chapter within its internal accounting system. When an individual purchases a membership above the general membership level, the Society allocates the base amount of \$50 to the Society's administrative account and allocates the remaining amount to the applicable chapter account. Monies allocated to chapter accounts may be expended as determined by the chapter boards. The Society processes expenditures requested by the chapter board and maintains an accounting of all chapter account transactions.

addition, a board official reported that regional chapters' fears that monies donated directly to the Society could be transferred into the State General Fund have also contributed to the regional chapters' reluctance to solicit donations. Although the Society's bylaws permit regional chapters to allow a 501(c)(3) corporation to raise and hold monies for the regional chapter under the terms of a written agreement approved by the Board, which would protect monies from being transferred into the State General Fund, according to the Society, none of the Society's regional chapters have entered into a written agreement with a 501(c)(3) corporation for this purpose.

The Office of the Auditor General's 1995 performance audit of the Society (see Report No. 95-7) also reported that regional chapter fund-raising was unsuccessful. Specifically, the report noted that the regional chapters conducted very little fund-raising and that one regional chapter had not raised any monies for several years. At the time of the 1995 audit, society officials and regional chapter members indicated that regional chapters did not aggressively raise monies because they felt they had no control over how these monies were spent.

- **Board has already questioned whether the regional chapters are necessary**—The Board itself has questioned the purpose and role of the regional chapters. According to the Society's October 15, 2012, board meeting minutes, board members discussed that the regional chapters' role needs to be further reviewed to determine if they should be abolished or given something meaningful to do. In particular, one board member commented that the regional chapters may not be necessary and their duties could be delegated to a private support group. The board member further stated that it is impossible to offer challenging enough duties to get people to serve on regional chapter boards, and that offering nominations of individuals to serve on the Society's Board and oversight of regional chapter monies is not enough. Another board member commented that it is challenging to recruit regional chapter members without having a clear understanding of the regional chapters' role and responsibilities.
- **Regional chapter priorities may differ from Society's priorities**—As discussed previously, the regional chapters have autonomy over how their monies are spent. The Society reported that some regional chapters prefer their monies to be used for programs and exhibits and do not like to provide monies for general operating costs, such as personnel costs and building maintenance, even though the Society may determine additional monetary support is needed for such areas. In addition, the Society reported that regional chapters generally are only interested in supporting society efforts that benefit their particular region. For example, if the Society has established a state-wide priority to plan an exhibit for the museum in the Northern region, it would be difficult for the Society to obtain financial support from chapters other than the Northern Arizona regional chapter.
- **Society members have not indicated a preference for regional allocation of monies**—Although the Society allocates membership dues above the general membership level of \$50 to the chapter in the member's geographical area, neither the Society nor the Board has received any indication from its members that they prefer regional allocation of these monies. For example, a society and board official reported that private donors who contribute to the Society's Annual Fund, including society members, generally prefer that their monies be used

for the Society's greatest need, even though they have the option of designating their gift to a particular region.

- **Western states' historical and cultural agencies do not have regional chapters**—Auditors obtained information from state historical and cultural agencies in nine western states that perform functions similar to the Society's objectives and purpose, such as collecting, preserving, and providing access to historical materials and artifacts, and/or publishing historical journals.<sup>1</sup> Auditors did not identify that any of these agencies have established regional chapters as part of their organizational structure.

Therefore, the Board should review and determine whether 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. For example, if the Board determines that the regional chapters can assist with fund-raising, it should clearly define the fund-raising expectations for the regional chapters. Similar to a recommendation from the Office of the Auditor General's 1998 performance audit report, this could include establishing goals regarding the amount of donations that it expects the regional chapters to raise. In addition, the Board should review and determine whether it should continue allocating a portion of its membership dues to the regional chapters or instead retain those monies to help pay for a development officer position, or help meet society funding priorities, such as upgrading computer equipment, or addressing issues related to collections management at its regional museums (see Finding 2, pages 25 through 33, for more information on collections-management issues). According to the Society's financial records, chapter account balances totaled \$54,630 as of February 2013.

#### **Board should strengthen fund-raising relationships with private support groups—**

As indicated in the Introduction (see page 7), the Society is affiliated with eight nonprofit, 501(c)(3) tax-exempt support groups that were established for the purpose of benefiting the Society. To become a nonprofit, tax-exempt organization, these support groups have filed articles of incorporation with the Arizona Corporation Commission, and then received approval for their tax-exempt status from the IRS. These organizations support the Society through various methods, including providing volunteers for the Society's museums and activities, arranging guided tours of the museum facilities, and raising monies for the Society's programs and activities. In contrast to the Society's regional chapters, the Society reported that support groups are very active in their efforts to raise monies for the Society's programs and activities. For example, the Historical League, Inc. (League) reported on its 2012 IRS Form 990 that it raised approximately \$72,000 in fiscal year 2012 for the Society's benefit. The League also reported that it had net assets of approximately \$312,000 at the end of fiscal year 2012.

Although these organizations are vital to the Society's ability to meet its mission and were established to benefit the Society, it does not request copies of the support groups' financial statements or other documentation to determine the amount of monies raised during a particular fiscal year or the amount they may have available to assist with the Society's programs and activities. In addition, the Society does not verify that these organizations are in good standing with the Arizona Corporation Commission. For example, one of the Society's support groups, the

<sup>1</sup> Western states included California, Colorado, Idaho, Montana, Nevada, New Mexico, Utah, Washington, and Wyoming.

Arizona Historical Society/Southern Arizona Chapter Fund, Inc. was administratively dissolved by the Arizona Corporation Commission from October 2012 to May 2013 for failure to file an annual report.<sup>1</sup> According to A.R.S. §10-1421, an administratively dissolved corporation retains its existence, but is prohibited from conducting any business except that which is necessary to wind up its business or affairs. Auditors found that the Society was unaware that the corporation had been administratively dissolved or whether the corporation had engaged in any fund-raising activities during the administrative dissolution period.

The American Alliance of Museums and the American Association for State and Local History recommend that museums enter into written agreements with support groups to define the relationship between the support group and the governing authority and to ensure that there is a clear and formal division of responsibilities between the parties.<sup>2</sup> For example, the National Park Service strongly recommends a Friends Group Agreement (Agreement) when an ongoing relationship is anticipated between the National Park Service and a program-support organization, such as a park-friends group. The Agreement is designed to formalize the relationship between the National Park Service and the friends group, incorporate clauses that are universally applicable to future partnership activities, and allow the National Park Service to efficiently and economically accomplish its mission.

To guide its staff in creating these agreements, the National Park Service developed a standard template for its Agreement. The Agreement includes background information, such as a description of the friends group's nonprofit status, a description of what the parties want to accomplish together (i.e., the scope of the work), a brief history of the relationship between the parties, and any relevant legislation that governs the Agreement. The Agreement also designates key officials who will be responsible for coordination and communication between the parties and establishes notice requirements for the delivery of information. In addition, the Agreement defines the parties' specific responsibilities and includes provisions to assist the National Park Service in providing oversight of its friends groups, such as requiring the friends group to:

- **Comply with applicable standards and laws**—The Agreement requires the friends group to be qualified to solicit and accept philanthropic contributions, conform with best practices and ethics common to nonprofit organizations, and conform with applicable laws and regulations.
- **Submit financial information**—The Agreement requires the friends group to annually provide a copy of its IRS Form 990 to the National Park Service, which would include the amount of cash and in-kind donations, gifts, grants, or other property received by the support group for the benefit of the National Park Service during the calendar or fiscal year. The friends group must also submit a financial audit prepared by an independent certified accountant once its fund-raising exceeds a specified dollar amount. In addition, the National Park Service reserves the right to inspect and audit any financial records related to the Agreement.
- **Transfer monies and in-kind contributions to National Park Service upon termination**—The Agreement requires the friends group to transfer all monies held for the benefit of the

<sup>1</sup> In May 2013, the corporation was reinstated by the Arizona Corporation Commission. As of June 2013, the corporation's status was in good standing according to the Arizona Corporation Commission's Web site.

<sup>2</sup> American Association of Museums, 2008; American Association for State and Local History, 2009

National Park Service, including interest earnings, and all in-kind contributions to the National Park Service or to a third party deemed acceptable by the National Park Service upon termination of the Agreement or termination of the operations of the friends group for any reason.

- **Develop an annual work plan**—The Agreement requires the friends group to work in conjunction with the National Park Service to develop an Annual Work Plan. The Plan identifies the projects and programs that the parties agree to undertake in a specific year; specifies the respective roles of the National Park Service and the friends group in carrying out the projects; describes the proposed expenditure of available monies held by the friends group in connection with the identified projects; and/or identifies any monies the parties have agreed to set aside for use in future projects or programs.

Therefore, as recommended by the American Alliance of Museums and the American Association for State and Local History, and similar to the National Park Service, the Board should enter into a formal agreement with each support group 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.<sup>1</sup>

## Recommendations:

- 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.
- 1.2 The Society should continue its efforts to identify ways to reduce its operating costs through partnerships or other means.
- 1.3 The Society should develop a fund-raising action plan that identifies specific, measureable, 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.
- 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.
- 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.
- 1.6 The Board should monitor the Society's progress toward implementing its fund-raising goals and objectives.

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<sup>1</sup> American Association for State and Local History, 2009

- 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.
- 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.
- 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.
- 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.



## FINDING 2

The Arizona Historical Society (Society) and its Board of Directors (Board) should develop a comprehensive collections-management plan and take other steps to ensure that the State's historical collections are properly protected, preserved, and cataloged. Although the Society has taken steps to address various collections-management issues, it has not developed a comprehensive collections-management plan to guide its efforts. Without such a plan, the Society cannot ensure that it is focusing on the most important collections needs given its resources, and issues involving improper environmental conditions and storage methods and difficulties tracking and inventorying its collections have not been fully addressed. Therefore, the Society should develop and implement a comprehensive collections-management plan that includes prioritized action steps. Further, the Society should continue its efforts to develop and implement a collections-management manual to provide its museums with more comprehensive guidance. Additionally, the Society should implement the recommendations from the Office of the Auditor General's August 2013 procedural review related to strengthening its controls over collections items. Finally, the Board should enhance its oversight of the Society's efforts to continue to address collections-management issues.

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

### Society has not developed a comprehensive collections-management plan to identify collections-management needs and direct efforts

The Society lacks a comprehensive plan to help identify and prioritize its work on collections-management needs. As a result, even though the Society has taken steps to address various collections-management issues, critical collections issues involving environmental conditions and storage methods and tracking and inventorying its collections have not been fully addressed.

**Society lacks comprehensive plan to address collections needs**—The Society is statutorily responsible for obtaining, protecting, preserving, and properly cataloging artifacts pertinent to Arizona history.<sup>1</sup> Although the Society indicated that a lack of resources has affected its ability to address the many collections issues it faces, it has not developed a comprehensive collections-management plan to guide the efforts it is able to perform. Rather, individual museums have sought to address issues on a case-by-case basis, such as fixing the environmental concerns for one storage space at the Pioneer Museum in Flagstaff (Flagstaff museum) (see page 27). However, given that it operates seven museums state-wide and has experienced a decline in revenues, as discussed in Finding 1 (see pages 9 through 23), without a comprehensive long-term plan to direct collections-management efforts, it will be difficult for the Society to appropriately address these concerns because it lacks important information such as the type, number, priority, and estimated costs of the collections-management issues its museums face.

In October 2012, the Society took a step in the right direction by submitting a 5-year strategic plan as required by Laws 2012, Ch. 296.<sup>2</sup> The Society's fiscal years 2013-2017 Strategic Plan includes a section outlining collection stewardship goals and objectives. These goals and objectives include:

- Prioritizing and addressing the preservation needs of all of its collections;

<sup>1</sup> Arizona Revised Statutes §41-823 (A) and (B)

<sup>2</sup> This law required all executive branch agency budget units to submit a 5-year strategic plan.

- Developing and implementing a comprehensive collections management manual;
- Beginning an inventory process;
- Creating a plan for cataloging and processing collections; and
- Maximizing the existing collections storage capacity to meet current needs and expected growth.

However, specific action steps, which could be included in a collections-management plan, are needed to help ensure the broader collection stewardship goals and objectives are met. According to model planning practices developed by the Governor’s Office of Strategic Planning and Budgeting, specific, measurable, aggressive/attainable, results-oriented and time-bound steps should be established to help an agency meet its goals and objectives.<sup>1</sup>

Despite lacking a collections-management plan, the Society has addressed some collections-management issues, but others remain—The Society reported having in its collections nearly 1.2 million units of historical artifacts and archival materials, including more than 110,000 three-dimensional artifacts. According to fiscal year 2012 society records, these items have an estimated value of \$55 million. The Society’s collections include artifacts unique to Arizona’s territorial period, such as Geronimo’s personal possessions and Spanish Colonial silverwork; items pertinent to the 19th and 20th century, such as military implements and uniforms from Arizona citizens in World War II, Wallace and Ladmo television show artifacts, jewelry made in a Japanese-American internment camp in Arizona; and natural history items from the former Mining and Mineral Museum such as the State of Arizona Apollo 11 Goodwill Moon Rock and large mining equipment used in Arizona.<sup>2</sup> Given the importance of these and other artifacts to Arizona’s history, their care is important and the Society has taken some steps to address collections-management issues identified in prior Office of the Auditor General reports (see Report Nos. 95-7 and 98-7). Specifically:

- **Three society museums are accredited**—In 2006, the Society’s Southern Division, which operates three museums in Tucson (see Figure 1, page 2), was reaccredited by the American Alliance of Museums for 10 years. According to the American Alliance of Museums’ Web site, accreditation offers a high-profile, peer-based validation of a museum’s operations and requires things such as having a formal and appropriate program of documentation, care, and use of collections. For example, according to the Society’s accreditation information, it evaluated whether the Society maintains good environmental conditions and monitors and secures a neat, clean, and well-organized collections environment.
- **Society has undertaken specific projects to preserve artifacts**—The Society reported that it has undertaken several conservation or preservation projects. For example, in 2009, the Society reported that it outsourced the restoration of a firearm to a Winchester firearm restorer. Additionally, in 2009 the Society restored an antique wedding gown belonging to a prominent

<sup>1</sup> State of Arizona, Office of Strategic Planning and Budgeting. (2011). *Managing for results*. Phoenix, AZ: Author.

<sup>2</sup> See Other Pertinent Information, pages 35 through 37, for information on the transfer of this museum from the former Department of Mines and Mineral Resources to the Society.

family in the Southwest. Further, in early 2011, the Society hired a contractor to repair, polish, wax, and seal a statue of Father Kino that is located on the Arizona History Museum in Tucson's (Tucson museum) property.

- **Society has taken steps to protect its artifacts from environmental concerns**—Controlling the environment where collections are stored is important to keep the Society's artifacts from deteriorating.<sup>1</sup> For example, extremes in temperature and humidity can cause gradual disintegration, discoloration, or other damage to organic and other materials. The Society has had difficulty protecting the stored collections in some of its museums from fluctuations and extremes in humidity and temperature. Specifically, the 1995 and 1998 Office of the Auditor General audits identified unsafe moisture levels or temperature extremes for artifacts in the Tucson museum and the Flagstaff museum. The 1995 audit identified that the environmental concerns could, in part, damage various artifacts such as Geronimo's medicine pouch, Wyatt Earp's shotgun, antique furniture, and old photographs. Society staff indicated that these types of items have since received more special care. In addition, the Society has addressed environmental concerns as follows:
  - At the Tucson museum, the Society has addressed fluctuations in humidity by rehousing some artifacts in acid-free boxes to buffer fluctuations in humidity. For example, in 2008, the Society indicated it rehoused a doll collection using funds provided by a private group. Additionally, in 2008, a private firm assessed the condition and preservation needs of the Tucson museum's photographic collections. This assessment found much of the collection to be well housed, but there appeared to be large amounts of unprocessed or partially processed photographic materials. The survey recommended that the Society should conduct an inventory and address the backlog of unprocessed photographs and improve its cold storage facilities. As a result, the Society indicated that it is planning to renovate cold storage at its Tempe museum to consolidate the Society's nitrate photo negatives from its photographic collections. Further, in 2010, the Society purchased steam humidifiers to maintain a constant relative humidity for a copy of the Declaration of Independence housed in the auditorium of the Tucson museum.
  - At its Flagstaff museum, the Society improved temperature conditions by insulating one of the museum's storage spaces and adding an exhaust vent to facilitate ventilation.
  - At its Museum at Papago Park in Tempe (Tempe museum), in 2012, the Society reported that it evaluated and repurposed some space so that there would be room to move its natural history collections from the closed Mining and Mineral Museum. According to the Society, the Mining and Mineral Museum has a leaking roof and little climate control.

However, some environmental concerns remain and the Society also has difficulties ensuring its museums appropriately track and inventory its artifacts. Specifically:

- **Some environmental concerns continue at its museums**—Although the Society has addressed some environmental issues, the following concerns continue:

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<sup>1</sup> National Park Service. (2006). *Museum handbook: Part 1, Museum collections*. Washington, DC: Author. See Chapter 4, Museum collections environment.

- The Tucson museum continues to experience seasonal increases in relative humidity that endanger its collections, according to society staff. For example, humidity fluctuations at the Tucson museum may have prematurely disintegrated some of the museum’s historic newspapers, some of which date to the early 1800s, to the point that further handling may render them unreadable. Society staff indicated that the newspapers are acidic and, as they draw moisture from the air, they begin to chemically disintegrate.
- The Flagstaff museum stores many items in a barn and in two noninsulated shipping containers that do not have climate control. According to society staff, items that are not as prone to deterioration, such as buggies and farming equipment, are stored in the barn; but furniture and textiles such as costumes, military uniforms, and carpets are stored in the shipping containers. Textiles may incur damage from fluctuations in temperature and humidity.<sup>1</sup> However, the Society reported that it frequently monitors these collections for damage and has not observed any damage.
- Some of the collections are also threatened by pest damage. Specifically, the Tempe museum staff reported that mice have damaged some of its collections, including a beaded “flapper”-style purse owned by a local Phoenix resident in the 1920s that was destroyed beyond preservation.
- **Insufficient storage spaces for collections items**—Well-planned and organized storage space and proper storage for existing collections artifacts reduces the risk to artifacts in terms of deterioration, damage, and loss.<sup>2</sup> However, the Society’s museums continue to struggle with insufficient storage space, which has been a long-standing issue. For example, the 1998 performance audit found that the limited space at the Tempe museum forced staff to arrange for long-term loans of many artifacts to local museums to create more storage space for the collections. Additionally, the 1998 performance audit reported that the Tucson museum housed approximately 10 percent more artifacts than it could properly accommodate. According to the Society, to mitigate these issues, the Tucson museum formally removed some of the items from its collections and moved some items needing less security, such as large, heavy furniture, to less-secure storage space.

Despite these efforts, storage problems persist. During this audit, four collections storage areas in Flagstaff, Phoenix, Tempe, and Tucson were filled to near or beyond the normal capacity of those spaces, according to society staff. Insufficient storage space can prevent the museums from acquiring important historical artifacts. For example, Flagstaff museum officials reported that they had to turn down an opportunity to acquire a saloon gaming table that pertains to Northern Arizona history because of insufficient storage space. Additionally, society staff indicated that the Tempe museum was unable to acquire a 1950s pink refrigerator pertinent to Phoenix history because of insufficient storage space.

- **Inconsistent tracking of artifacts**—Cataloged records provide the Society access to information about its museum collections and serve as the primary property accountability records. Proper cataloging helps to prevent loss by recording what artifacts are contained in

<sup>1</sup> National Park Service, 2006; See Part I, Chapter 4, Museum collections environment

<sup>2</sup> National Park Service, 2006; See Part I, Chapter 7, Museum collection storage

the collections, their condition, and where they are located.<sup>1</sup> The Society provided its museums in Flagstaff, Tempe, and Tucson with cataloging software in 2006 and society staff have indicated that this software provides a number of added benefits over previous cataloging systems, such as enhanced photo storage and improved report processing. However, each museum varies in the percentage of artifacts cataloged using this software. Society staff at four museums indicated that the percentage of artifacts cataloged on this software ranges from less than 10 percent at the Flagstaff museum and less than 30 percent at the Tempe museum, to almost 100 percent at the Tucson museum and 100 percent of the natural history collection housed in Phoenix and Tempe. Society staff indicated that resource limitations prevent them from cataloging more artifacts with the software, but staff continue to work on this as time allows. However, the cataloging software could help the Society better ensure that its artifacts are accounted for and can be easily located, which reduces the risk of loss or theft. For example, many artifacts at the Flagstaff museum are not entered into the new software, and the paper record does not contain any location information. Therefore, the Society must rely on the museum staff's knowledge to locate items.

Although many of its items are not yet cataloged using the cataloging software, according to the Society, the amount of historical artifacts its museums have cataloged, whether on paper or electronically, is better than other historical societies nation-wide. For example, according to a 2004 survey conducted by Heritage Preservation, Inc., less than 5 percent of the 476 historical societies responding to the survey reported having 100 percent of their collections cataloged, and approximately 30 percent reported having no catalog records.<sup>2</sup>

- **Inventory issues**—Museum standards and Arizona State accounting standards require periodic inventorying of all assets, including artifacts, to ensure that the assets are properly accounted for. Specifically, according to the American Association for State and Local History, museums should effectively manage their collections by at least being able to physically locate randomly selected artifacts at any time, and ideally by inventorying their collections every 3 to 5 years.<sup>3</sup> In addition, the *State of Arizona Accounting Manual* indicates that state agencies should annually perform a physical inventory. Although society staff are in the process of inventorying the Mining and Mineral and Tempe museum collections' artifacts, none of the Society's three other main museums—Flagstaff, Tucson, and Yuma—have conducted a complete inventory of their collections in the past 14 years.

## Society and Board should take additional actions

The Society should take additional steps to address its collections-management issues. Specifically, the Society should develop and implement a comprehensive collections-management plan that includes prioritized action steps for addressing its collection management issues. Further, the Society should ensure its collections-management manual, which will provide museums with more

<sup>1</sup> National Park Service. (2006) *Museum handbook: Part II, Museum records*. Washington, DC: Author. See Chapter 3, Cataloging.

<sup>2</sup> Heritage Preservation, Inc. (2005). *A public trust at risk: The Heritage Health Index report on the state of America's collections*. Washington, DC: Author.

<sup>3</sup> American Association for State and Local History. (2009). *Standards and Excellence Program for History Organizations*. Nashville, TN: Author.

comprehensive guidance about how to properly procure, protect, catalog, and dispose of artifacts, is completed by the established deadline. Finally, the Board should enhance its oversight of the Society's efforts to manage the collections.

### Society should develop and implement a collections-management plan—

According to museum standards, a collections plan is a valuable tool to ensure museums appropriately collect and preserve artifacts.<sup>1</sup> The Minnesota Historical Society (Minnesota) has developed a long-range collections preservation plan.<sup>2</sup> Minnesota's plan, developed in 2004, is updated annually and identifies the following:

- **Prioritized collections needs**—The plan identifies the most pressing preservation needs and then prioritizes these needs according to institutional priorities and mission.
- **Steps necessary to meet the needs**—The plan lists the actions required to meet the collections preservation needs.
- **A timetable to complete the steps**—The plan creates a timetable for completing action plans, which were all due in fiscal year 2012 (see textbox example).
- **Resources needed to complete the steps**—The plan identifies whether the preservation actions will require additional resources, such as special staffing, equipment, and space, sometimes with the associated costs.
- **Progress in accomplishing the steps**—The plan has a list of preservation actions completed to date, which illustrates what has been accomplished on an annual basis and documents progress.

#### Minnesota preservation plan action step examples for fiscal year 2012

- Develop a storage plan for digital media.
- Modify ways to accomplish preservation goals in response to staff reductions and institutional reorganizations.
- Research and initiate cold storage planning, providing cold storage for furs and certain other objects.

Source: Auditor General staff analysis of Minnesota's Long-Range Preservation Plan.

In developing its collections-management plan, the Society should work with its staff state-wide to identify and prioritize its collections-management needs. Specifically, the Society should conduct assessments at all of the museums to identify the collections, preservation, and management needs facing the museums now and in the future. The assessments should also identify the resources needed to address the issues identified. For example, in March 2004, an architectural firm developed a 10-year master plan for the Flagstaff museum. Although this plan did not focus much attention on collections-management issues, it had several important features, including a needs assessment, specific action steps along with priority levels, an implementation schedule, and projected costs.

Once the issues are identified, the Society should use information from the individual assessments to create a comprehensive collections-management plan that includes a list of prioritized collections-

<sup>1</sup> American Association of Museums (2008) *National Standards and Best Practices for U.S. Museums*. Washington, DC: Author.

<sup>2</sup> Minnesota is considered by the Society as a model agency and a good benchmark by an American Alliance of Museums' official.

management needs, action steps, and timelines, and the resources needed to complete the steps. The Society should also regularly update its plan and track its progress in completing its collections-management plan action steps.

**Society should ensure completion and implementation of comprehensive collections-management manual**—To provide its museums with more comprehensive guidance about how to properly procure, protect, catalog, and dispose of artifacts, 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. Although the Society has a collections-management policy that provides some important guidelines, according to society staff, the manual will provide detailed procedures regarding how to properly manage the collections, including how to manage fluctuations in temperature and humidity, ensure adequate storage space, and use the cataloging software to track the collections. These procedures will work together with the collections-management plan to address the Society's collections-management issues. In developing the collections-management manual, the Society should ensure that it includes and/or enhances procedures that will address the collections-management issues identified in this audit, including:

- **Cataloging policy and procedures**—To ensure the collections are properly cataloged, the manual should have a policy and procedures for cataloging the Society's artifacts. Procedures should cover items such as the type of information that should be included for each item as well as how quickly items should be entered once acquired. Further, according to the Office of the Auditor General's August 2013 procedural review, which reviewed the Society's controls over collection items in conjunction with this performance audit, the Society should ensure all items are recorded using the cataloging software, electronic databases, or card catalog system as applicable; create a single centralized listing of all collection items; and retain an off-site backup copy of its centralized listing. Further, the Society should retain all documentation relating to the acquisition of collection items, including the deed of gift and purchase receipt.<sup>1</sup>
- **Inventory policy and procedures**—To ensure the Society appropriately conducts inventories of the collections, which will also enable staff to identify collections-management problems, the manual should incorporate a policy and procedures for society staff to periodically review the physical location, condition, and other pertinent information regarding the artifacts in its collection. The Society should ensure that its procedures align with recommendations outlined in the Office of the Auditor General's August 2013 procedural review. Specifically, the Society should collaborate with the Arizona Department of Administration's General Accounting Office to develop an acceptable time frame for completing a physical inventory that is in line with industry best practices.
- **Policy and procedure to remove items not pertaining to the Society's mission**—The Society has a policy and procedure that provides criteria to help determine when artifacts should be formally removed from its collections. A society official indicated that the Society actively works with the Board to formally remove artifacts from the collections. Society officials said removing items frees up storage space to accommodate future collections. For example, in November 2012, the Board formally removed a Ford Edsel that did not pertain to Arizona

<sup>1</sup> Procedural Review of the Arizona Historical Society as of February 28, 2013, issued August 29, 2013.

history from the Society's collection, and the Society plans to propose to the Board that it formally remove a set of artifacts in Tucson, including a pair of South American stirrups. However, the Society may have other artifacts that do not pertain to its mission. Therefore, this procedure should be enhanced to provide 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. Such a process could help ensure the Society has room for future collections. The Society's Collections Policy requires board approval before removing any items from its collections.

Society's Board should enhance its collections-management oversight—To ensure that the Society effectively and appropriately addresses the collections-management issues, the Board should enhance its oversight of the Society's efforts. Auditors reviewed board meeting agendas and minutes from January 2012 to January 2013 and found that each meeting provided time for a discussion regarding collections management and that the Board received regular updates regarding collections-management issues. In addition, museum standards recommend that governing authorities review implementation of the institution's policies and regularly review the institution's collecting plan.<sup>1</sup> Therefore, the Board should 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. In addition, the Board should adopt a practice similar to Minnesota's by developing a tracking document to show what steps have been accomplished in the collections-management plan.

## Recommendations:

- 2.1 The Society should develop and implement a comprehensive collections-management plan. In developing this plan, the Society should:
  - a. Conduct assessments at all of the museums to identify the collections, preservation, and management needs facing the museums now and in the future;
  - 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.
- 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:

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<sup>1</sup> American Association for State and Local History, 2009

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

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

- a. Ensure all items are recorded using the cataloging software, electronic databases, or card catalog system as applicable;
- b. Create a single centralized listing of all collection items;
- c. Retain an off-site backup copy of its centralized listing;
- d. Retain all documentation relating to the acquisition of collection items, including the deed of gift and purchase receipt; and
- 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.

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.



## Other Pertinent Information

The Office of the Auditor General received several questions from members of the public about the closing of the Mining and Mineral Museum. This section of the report has no recommendations, but provides information about the legislative transfer of responsibilities, equipment, records, and museum artifacts from the former Department of Mines and Mineral Resources to the Arizona Historical Society (Society) and the Arizona Geological Survey.

## Legislature transferred Department of Mines and Mineral Resources' responsibilities and assets to Society and the Arizona Geological Survey

### Mining and Mineral Museum transferred to Society in 2010

In 2010, responsibility for operating the Mining and Mineral Museum was transferred from the former Department of Mines and Mineral Resources (Department) to the Society. Specifically:

- **New museum established**—Laws 2010, Ch. 227, §6, added Arizona Revised Statutes (A.R.S.) §41-827 requiring the Society to operate and maintain the Centennial Museum, now referred to as the Arizona Experience Museum (Museum), which would also house the former Mining and Mineral Museum's artifacts. According to the *Fiscal Years 2009-2011 Master List of State Government Programs*, the Mining and Mineral Museum served "to educate the children and the public of the importance of minerals in our society and their aesthetic value." The House of Representatives' summary of this law change indicated that the Mining and Mineral Museum received over 40,000 visitors each year. Additionally, society documents indicate that the mining and mineral collection contains approximately 22,000 rocks, minerals, fossils, and mining artifacts (see pages 36 through 37 for more information on the artifacts).

According to A.R.S. §41-827, the purposes for creating the Museum included promoting the recognition and celebration of the contributions made by the Five C's of Arizona—cattle, copper, cotton, climate, and citrus—for the observation of Arizona's centennial celebration; and to maintain the Museum as the State's depository for collecting, cataloging, and displaying mining and mineral artifacts and specimens. However, the Museum has not yet opened (see page 36 for more information on the Museum's status).

- **Responsibilities and monies transferred**—Laws 2010, Ch. 227, §§8 and 9, also transferred the responsibilities and some money for operating the Museum from the Department to the Society. Specifically, this law transferred money and the obligation to pay for the Museum's rent and its curator's salary and employee-related expenses from the Department to the Society.

Although the law provided for the Museum's curator to transfer to a comparable position and pay classification at the Society, according to the Society, the Museum's curator had planned to retire before the transfer, and thus did not transfer to the Society. If the curator did not transfer to the Society, the law authorized the Society's executive director to employ a curator for the Museum. The law also provided for an advisory council that among other things could assist in hiring a curator. However, the advisory council, which included several governor-appointed members, was never established. Therefore, according to the Society, in order to fulfill its mandate to care for the collections, after informing the Governor's Office, it posted the Arizona Experience Museum curator position on [azstatejobs.gov](http://azstatejobs.gov) in March 2011, and the position was filled in June 2011.

## Status of the Museum

The Museum was a project slated for Arizona's Centennial celebration. Through Executive Order 2008-24, former Governor Janet Napolitano established the Arizona Centennial Commission (Commission) to create a state-wide plan to commemorate Arizona's Centennial. According to the Commission's Centennial Plan, one of the Commission's signature projects was the Arizona Experience Museum, "*Designed with the idea that Arizona's past will lead us to our future as a state...*" As indicated on page 35, Laws 2010, Ch. 227, §6, added A.R.S. §41-827 requiring the Society to operate this museum, which would also house the former Mining and Mineral Museum's artifacts.

The Museum has not yet opened because of inadequate funding. According to the Commission's Plan, the Commission assumed the responsibility for raising funds to support the signature projects. However, Executive Order 2008-24 also provided for the establishment of a not-for-profit corporation to raise funds for the Commission's centennial projects. The Arizona Centennial 2012 Foundation (Foundation) was established as a 501(c)(3) to help support the Commission's projects. According to the Director of the Commission and Foundation, the Foundation needed to raise \$15.5 million to open the Museum, but was able to raise only \$1.5 million. The Commission's Director also indicated that some of this money was used on architectural plans and concepts for the Museum and the Arizona Experience Web site. Although the Museum is construction-ready, the Commission's Director indicated that after the Centennial celebration, the Foundation's fund-raising efforts stopped because there were not many corporations interested in supporting the project. Further, the Commission's Director stated that although the Foundation is meeting quarterly to conclude some contracts, the museum project is not being worked on and the Foundation will probably cease operations sometime in 2014. In addition, the Commission expired on July 1, 2013.

## Status of the Museum's collections

Because it does not appear that the Foundation will continue raising monies for the Museum, the Society has incorporated the Museum's collections into its existing collections, designating them as natural history collections. Additionally, the Society is researching available grants to assist in

supporting the collections and their use. According to the Society, the collections contain approximately 22,000 rocks, minerals, fossils, and mining artifacts; and examples of the collections include the Apollo 11 Goodwill Moon Rock for the State of Arizona and an HK Porter Steam Locomotive. Many of these items are stored at the former Mining and Mineral Museum's building or have been moved to storage at the Museum at Papago Park in Tempe (Tempe museum). However, some specimens from the collections are on display for public viewing at a society museum or other Arizona museums. For example, the Tempe museum has some minerals on display. According to the Society, the majority of mineral specimens on loan are at the University of Arizona Museum of Natural History, including the Apollo 11 Goodwill Moon Rock. In addition, the Bullion Plaza Cultural Center and Museum located in Miami, Arizona, has minerals on display that are on loan from the Society. This display, according to society records, is titled Minerals of Gila County and includes 25 mineral specimens, such as galena, a lead sulfide mineral, and diopside, an intense emerald-green to bluish-green copper cyclosilicate mineral. In addition, through a society application process, researchers can gain access to the stored collections for research purposes.

## Other department records, responsibilities, and personnel transferred to Arizona Geological Survey in 2011

In 2011, all of the Department's remaining responsibilities and assets became a part of the Arizona Geological Survey. Specifically, except for the Museum's collections and responsibilities (see page 35), Laws 2011, Ch. 27, §58, transferred all the Department's remaining duties and responsibilities, equipment, records, furnishings, other property and data, appropriated monies that were unexpended and unencumbered, and personnel under the state personnel system to the Arizona Geological Survey. Prior to this consolidation, the Arizona Geological Survey indicated that it received a grant to digitize all the mining and mineral paper records, such as maps and mine files, and is in the process of digitizing the records. According to the Arizona Geological Survey, these records were not part of the Museum's collections.



## SUNSET FACTORS

## Sunset factor analysis

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

This analysis includes recommendations related to enhancing various internal control procedures such as those related to cash receipts, capital assets, valuation of collections, and compliance with statutes and state travel policies (see pages 41 through 43); improving compliance with the State's open meeting law by taking minutes of its standing, special, or advisory committees' or subcommittees' meetings (see page 44); and providing for a Governor-appointed Board of Directors, ensuring board members are trained, and establishing qualifications and appointment criteria (see pages 45 through 46).

### 1. The objective and purpose in establishing the Society and the extent to which the objective and purpose are met by private enterprises in other states.

As indicated in the Introduction (see page 1), the Society was established in 1864 and its purpose is reflected in its mission statement (see textbox). Auditors obtained information from ten western states: California, Colorado, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, and Wyoming, and found that all ten states provide financial support to a historical or cultural organization that performs functions that are similar to the Society's objectives and purpose, such as collecting, preserving, and providing access to historical materials and artifacts, and/or publishing historical journals. Only one state, Oregon, contributes financial support to a private enterprise—the Oregon Historical Society—to perform these functions.<sup>1</sup> The remaining nine states have assigned historical collection and preservation responsibilities to a historical or cultural state agency.<sup>2</sup> However, similar to the Society, all nine states' historical or cultural agencies also use private funding in performing their duties. For example, all nine states' historical or cultural agencies actively solicit private donations and/or membership dues or are affiliated with a nonprofit organization established for this purpose.

#### Society's mission

To collect, preserve, interpret and disseminate the history of Arizona and the West.

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

The Society has met its statutory objectives and purposes in some areas, but should enhance its efforts in other areas. Specifically, according to A.R.S. §41-823(A), the Society is responsible for procuring books, maps, papers, narratives, reports, and materials pertaining to Arizona history, its early settlement, the West, and Indian tribes. These items are housed in and made available to the public through seven museums across the State (see Introduction, pages 1 through 2, for more information on its museums). In addition, according to A.R.S. §41-824(A), the Society is

<sup>1</sup> The State of Oregon recognizes, under its state statutes, a continuing obligation to contribute a biennium appropriation to the Oregon Historical Society.

<sup>2</sup> In addition to their historical or cultural agencies, three of these states, California, New Mexico, and Wyoming, also have private enterprises that perform similar functions to the Society. However, the California Historical Society reported that, with the exception of competitive state grants, it does not receive any direct funding from the State of California. Auditors also did not identify that the Historical Society of New Mexico or the Wyoming State Historical Society receive funding from their respective states.

required to publish a *Journal of Arizona History* at least four times a year. Society members receive a subscription to the journal, and this journal is also available for purchase by nonmembers. The Society's Board of Directors (Board) also certifies local museums (see the Introduction, page 4, for more information on this certification program). Further, the Society operates with some efficiency by making use of volunteers to enhance society operations. These volunteers lead tours, assist with collections and archive work, and perform administrative duties. On a U.S. Internal Revenue Service form, the Society reported that it used the services of 620 volunteers in fiscal year 2012.

This audit also identified areas where the Society should enhance its efforts to meet its statutory objectives and purposes. Specifically, the Society should:

- **Take additional actions to address declining revenues**—From fiscal years 2008 to 2012, the Society experienced a decline of approximately \$900,000 in both its state appropriations and nonappropriated revenue sources combined. These revenue reductions limited the Society's ability to fill key positions, make equipment upgrades, and frequently change exhibits. Although the Society has taken some actions to address declining revenues, the Board should take additional actions such as continuing efforts to establish a private fund-raising arm for the Society, identifying ways to further reduce operating costs, developing a fund-raising action plan, and, as resources allow, creating a development officer position that focuses on fund-raising. Finally, the Board should review the need for its regional chapters and its practice of allocating monies to these chapters, and strengthen its relationships with its eight private support groups by entering into formal, written agreements that clearly describe roles, expectations, and authority (see Finding 1, pages 9 through 23, for more information).
- **Take additional actions to address collections-management needs**—Although the Society indicated that a lack of resources has affected its ability to address the many collections-management issues it faces, the Society has not developed a comprehensive collections-management plan to guide the efforts it is able to perform. The Society has taken steps to address various collections-management issues, such as rehousing some artifacts in acid-free boxes to buffer fluctuations in humidity. However, without a comprehensive plan, it will be difficult for the Society to appropriately address its collections-management concerns because it lacks important information such as the type, number, priority, and estimated costs of the collections-management issues its museums face. Therefore, the Society should develop a comprehensive collections-management plan that includes prioritized action steps and ensure timely completion of a collections-management manual. In addition, as recommended by the Office of the Auditor General's August 2013 procedural review, the Society should 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.<sup>1</sup> The Board should also enhance its oversight of the Society's efforts to effectively care for the State's historical collections (see Finding 2, pages 25 through 33, for more information).

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<sup>1</sup> Procedural Review of the Arizona Historical Society as of February 28, 2013, issued August 29, 2013.

- **Take steps to improve controls over several areas**—According to the Office of the Auditor General’s August 2013 procedural review, the Society should take steps to improve controls over cash receipts, capital assets, valuation of collections, and compliance with Arizona Revised Statutes and state travel policies (see procedural review report for complete information). Specifically, the Society lacked policies, procedures, and adequate controls over cash receipts. Auditors’ review of procedures at the individual museums found deficiencies at four of the Society’s seven operating museums. These deficiencies included items such as not endorsing checks immediately upon receipt, not completing daily independent reviews of cash receipts, not securing cash properly, not depositing monies in a timely manner, and allowing a single person to open, count, and record cash from the cash donation boxes located at its museums. As a result, the Society’s cash receipts are inadequately safeguarded and at greater risk for loss or theft.

In addition, auditors were unable to determine the completeness and accuracy of the Society’s capital assets reported on the State’s Fixed Asset System in part because the Society had not conducted a complete physical inventory. The Society also lacked controls over recording and deleting capital assets from the State’s Fixed Asset System and properly tagging and identifying them. As a result of these weaknesses, the reported capital asset amount may be inaccurate, and these assets were exposed to potential theft or misuse.

The Society also does not assign a value to all collection items it acquires. Specifically, the Society records donated items that do not include a donor-assigned fair value or outside, independent appraisals with a zero value. As a result, the amount of the collection items reported to the Arizona Department of Administration’s Risk Management Division may be incomplete, and therefore, the Society’s insurance coverage and premiums may be insufficient and inaccurate (see Finding 2, pages 25 through 33, for additional information and recommendations related to the Society’s collections).

Finally, the Society violated state law by maintaining a private bank account where it deposited all nonappropriated monies, and did not fully comply with the State’s travel policies. Specifically, although the Society established a private bank account in May 1997 for its nonappropriated monies as allowed by A.R.S. §41-821(E), subsequent revisions to state laws in 2004 required the Society to obtain State Treasurer approval to maintain its private bank account. The Society did not obtain this approval. Additionally, according to A.R.S. §41-826(B), monies received from admission fees, gift store sales, and facility rental fees should be deposited directly with the State Treasurer. Instead, the Society deposited these monies in its private bank account before transferring them to the State Treasurer on a monthly basis. Further, auditors reviewed five society travel claims and found that three of the claims did not comply with the State’s travel policy as outlined in the *State of Arizona Accounting Manual*.

To enhance its controls over these areas, the Society should implement the following recommendations:

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;
  - c. Require that voided transactions and refunds be authorized by a second employee;
  - d. Require that cash receipts be reviewed daily for accuracy and completeness by another person;
  - e. Require each museum to deposit cash and checks at least weekly;
  - f. Require cash receipts to be adequately safeguarded prior to deposit. This could include locking cash receipts in a safe or filing cabinet;
  - g. Ensure that safe combinations are restricted to an essential number of employees; and
  - h. Require two employees to be present when donation boxes are opened, counted, and recorded.
2. To help maintain an accurate capital assets listing and comply with the *State of Arizona Accounting Manual*, the Society should:
- a. Perform a physical inventory of capital assets at least once a year;
  - b. Submit the inventory sheets to the Society's accounting office and reconcile them to the internal listing and the State's Fixed Asset System;
  - c. Add new capital assets to the State's Fixed Asset System within 5 working days from the date the warrant was issued;
  - d. Require a second employee to approve property-disposal request forms and submit the forms to the Society's accounting office so the internal listing and the State's Fixed Asset System can be updated;
  - 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.
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.

4. The Society should ensure it complies with state laws by:
  - 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.
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.

**3. The extent to which the Society serves the entire State rather than specific interests.**

The Society serves the entire State by making historical artifacts available to the public through seven museums located in Flagstaff, Tempe, Tucson, and Yuma (see Introduction, pages 1 through 2, for more information on its museums). Also, the Board has established a museum certification program for local historical organizations that work to preserve Arizona history around the State, and the Board also has an annual grant program for these certified museums that can be used to help the collection, preservation, and interpretation of local and regional history. As of fiscal year 2013, the Board had certified 73 local historical organizations, with at least 1 certified organization in each of Arizona's 15 counties. During fiscal year 2013, the Board awarded a total of \$38,375 in grants, which ranged from \$500 to \$1,500 apiece, to 34 of these certified organizations (see Introduction, page 4, for more information on this certification program).

In addition, the Society provides information about the Society and its activities on its Web site and makes other items, including historical publications, available for purchase through mail order or through Web sites, such as Amazon and Barnes & Noble. For example, the Society publishes books and monographs about Arizona, the Southwest, and northern Mexican history, which can be purchased by downloading and mailing an order form located on its Web site. Individuals can also connect with the Society through social media, including Facebook, Twitter, and YouTube.

**4. The extent to which rules adopted by the Society are consistent with the legislative mandate.**

This factor does not apply because the Society has no statutory authority to promulgate rules.

**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.**

The Society does not have statutory authority to promulgate rules (see Sunset Factor 4), but the Society informs the public about its actions and their expected impact on the public through both its board meetings and information available on its Web site. During calendar year 2012, the Board held seven meetings and as of June 2013, has held four meetings in calendar year 2013. Based on a review of the Society's Web site, observation of the Board's November 2012

meeting, information from society staff, and a review of board meeting minutes for three meetings held in calendar years 2012 and 2013, the Board complied with most provisions of the State's open meeting law that auditors reviewed. Specifically, as statutorily required, the Society's board meetings are open to the public, public meeting notices and agendas for such meetings are posted 24 hours in advance of the meeting on the Society's Web site, and the Society takes written minutes for its meetings and makes a recording of its meetings available to the public within 3 days as required.

However, auditors found that the Society did not comply with A.R.S. §38-431.02(A)(1)(a), which requires agencies to indicate on their Web site both the physical and electronic locations where they will post all public notices. Although the Society posts its meeting notices on its Web site, as of November 2012, the Society's Web site disclosure statement indicated only the physical location where public notices would be posted. However, as of July 25, 2013, the Society had revised its Web site disclosure statement to also indicate the electronic location where it will post its meeting notices.

In addition, auditors found that the Board has not provided written minutes or a recording of meetings for its adhoc committee on strategic planning, which is considered a special committee according to the State's open meeting law statutes, for calendar years 2009 through 2012. The Society reported that the Board does not record or consistently provide written minutes for all of its standing or special committee meetings. Therefore, 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 committees' or subcommittees' meetings as required by A.R.S §§38-431.01(B) and 38-431(1) and (6).

As indicated in Sunset Factor 3 (see page 43), the Society also informs the public about its activities through its Web site and other social media outlets, such as Facebook. For example, its Web site has information about current exhibits, how to volunteer, and how to research and access its library and archives materials.

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

This factor does not apply because the Society has no statutory authority to investigate and resolve complaints. However, according to the Society, if it receives concerns related to its services, these concerns are handled by its department leaders and forwarded to the executive director as necessary. The Society also indicated that it has received but forwarded concerns about historic properties to the State Historic Preservation Office because these concerns fall outside of the Society's purview.

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

This factor does not apply to the Society because it is not a regulatory agency. However, the Attorney General is the Society's legal advisor and renders legal services as needed according

to A.R.S. §41-192(A). According to the Society, it seeks legal advice from the Attorney General's Office two to three times a year on matters such as employment and contract issues.

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

According to the Society, there are no deficiencies in its enabling statutes that prevent it from fulfilling its statutory mandate. However, in 2010, there was a significant change to the Society's enabling statutes. Specifically, Laws 2010, Ch. 227, §6, added A.R.S. §41-827 requiring the Society to operate and maintain the Centennial Museum, which would also house the former Mining and Mineral Museum's artifacts. This change resulted in transferring the mining and mineral collection from the former Department of Mines and Mineral Resources to the Society. The Centennial Museum, now referred to as the Arizona Experience Museum, was a project slated for Arizona's Centennial celebration. However, the Arizona Centennial Commission was responsible for raising money to support this project, and the museum has not yet opened because of inadequate funding (see the Other Pertinent Information, pages 35 through 37, for more information).

**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.**

This audit recommends one change to the Society's statutes. As indicated in Sunset Factor 1 (see page 39), nine of ten western states have assigned historical collection and preservation responsibilities to a historical or cultural state agency.<sup>1</sup> In contrast to Arizona, which has a member-elected board, eight of these nine western states have established a governor-appointed board or executive to oversee their state or historical or cultural agency.<sup>2</sup> For example, the Montana Historical Society is overseen by a Board of Trustees whose members are appointed by Montana's governor. However, in Arizona, despite the fact that the Society received a \$4.2 million State General Fund appropriation for fiscal year 2012, neither the Board nor the executive director is governor-appointed. Specifically, according to A.R.S. §41-821, the Society's Board of Directors is elected by its members. Society membership is open to any individual who pays an annual membership fee. A.R.S. §41-821 also authorizes the Board to appoint an Executive Director and employ other staff to help carry out the functions of the Society (see Introduction, pages 1 and 3, for more information on the Society's Board).

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. Similarly, the 1995 Office of the Auditor General's performance audit report on the Society (see Report No. 95-7) also found that at least some level of state-appointed membership on the Board was needed and recommended that the Legislature consider amending A.R.S. §41-821 to provide for state-appointed board members. Further, establishing a governor-appointed board would ensure that society board members receive a public service orientation as required

<sup>1</sup> These nine states are California, Colorado, Idaho, Montana, Nevada, New Mexico, Utah, Washington, and Wyoming.

<sup>2</sup> Although Washington has not established a governor-appointed board or executive to provide oversight of the Washington State Historical Society, the governor, secretary of state, superintendent of public instruction, and four state legislators are ex officio voting members of the Washington State Historical Society's Board of Trustees. The society's director is appointed by the board and serves as the board's secretary. The remaining officers and trustees are elected by the society's members.

by A.R.S. §38-592 on laws related to the proper conduct of public business, such as bribery, conflicts of interest, and financial disclosure. The Society's board appointment and orientation process does not include this important step.

Revising A.R.S. §41-821 would also allow the Legislature to establish specific criteria for qualification and appointment of the Society's board members, such as requiring members to possess knowledge, skills, and competence in an area that would help the Society meet its mission, such as fund-raising or preserving historical collections (see Findings 1 and 2, pages 9 through 33). For example, Idaho requires that members of the Idaho Historical Society's Board of Trustees be chosen with due regard to their knowledge, competence, experience, and interest in the fields related to the preservation and promotion of Idaho history. Montana also requires that the Board of Trustees for the Montana Historical Society include at least one recognized historian and at least one recognized archaeologist. Although the Board's nominating committee considers background information, such as professional experience, education, fund-raising experience, and interest in Arizona's history when nominating candidates to serve on the Board, the committee has not formally established any skill-based qualifications for its members.

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.

**10. The extent to which the termination of the Society would significantly affect the public health, safety, or welfare.**

Termination of the Society would not significantly affect the public health, safety, or welfare. However, without the Society or another entity performing its duties or maintaining the historical collections, Arizona's citizens may lose access to numerous historical books, narratives, and other artifacts pertinent to Arizona's history that the Society houses in its museums across the State. Although a private entity could accomplish the same mission, a review of ten western states found that all ten states provide financial support to a historical or cultural organization that performs functions that are similar to the Society's objectives and purposes, such as collecting, preserving, and providing access to historical materials and artifacts, and/or publishing historical journals. Only one state, Oregon, contributes financial support to a private enterprise—the Oregon Historical Society—to perform these functions. The remaining nine states have assigned historical collection and preservation responsibilities to a historical or cultural state agency (see Sunset Factor 1, page 39).

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

This factor does not apply because the Society is not a regulatory agency.

12. **The extent to which the Society has used private contractors in the performance of its duties as compared to other states and how more effective use of private contractors could be accomplished.**

As shown in Table 1 (see page 6), during fiscal year 2012, the Society spent approximately \$2.7 million on other operating expenses and professional and outside services, some of which are provided by private companies. These included costs to maintain and operate the Society's facilities. For example, the Society spent approximately \$1.5 million on building rent to the Arizona Department of Administration, approximately \$358,000 on utilities, and approximately \$226,000 for building repair and maintenance including pest control. However, the Society also uses private companies for other services including:

- **Building security**—The Society spent approximately \$21,000 to keep the Society's property, including collections, safe in fiscal year 2012. For example, the Society paid one security contractor approximately \$11,000 in fiscal year 2012 to provide security guard services at its Tempe and Tucson museums.
- **Temporary staffing**—The Society spent more than \$57,000 on temporary staffing positions. For example, the Society indicated it uses temporary staff to fill positions such as front desk receptionist positions at the museums, such as the Museum at Papago Park in Tempe.
- **Advertising**—The Society spent approximately \$15,000 in fiscal year 2012 for advertising.
- **Interpreters and lecturers**—The Society spent approximately \$13,000 in fiscal year 2012 on interpreters and lecturers.
- **Off-site storage space**—The Society contracts for additional off-site storage space for the collections in Yuma. For example, in fiscal year 2012, the Society paid a private company in Yuma \$3,600 to store some of the collections, such as furniture.

As indicated in Sunset Factor 2, the Society also uses volunteers to assist with some of its projects (see page 40).

Based on interviews with eight western states, this audit did not identify how more effective use of private contractors could be accomplished.<sup>1</sup> Other states contracted for areas that the Society indicated it mostly performs in-house, such as exhibit fabrication and installation. However, the Society indicated it is less expensive to perform these duties in-house than to contract for them. In addition, the Society indicated it also contracts for services when they are beyond its expertise.

<sup>1</sup> Auditors contacted other state historical society officials from Colorado, Idaho, Montana, Nevada, Oregon, Utah, Washington, and Wyoming. Auditors also contacted but did not hear back from California and New Mexico.

## APPENDIX A

## Methodology

This appendix provides information on the methods auditors used to meet the audit objectives.

This performance audit was conducted in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain sufficient appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Auditor General and staff express appreciation to the Arizona Historical Society's (Society) Board of Directors (Board), Executive Director, and staff for their cooperation and assistance throughout the audit.

Auditors used various methods to study the issues addressed in this report. Auditors interviewed society officials and board members, attended a board meeting, and reviewed and analyzed information in various documents including the board bylaws, society policies, and prior audit reports. Auditors also reviewed the state statutes applicable to the Society and its Board.

Auditors also used the following specific methods to address the audit's objectives:

- To assess the Society's efforts to address declining nonappropriated revenues, auditors reviewed and analyzed the Society's fiscal years 2013-2017 Strategic Plan and planning process, and the Governor's Office of Strategic Planning and Budgeting's 2011 *Managing for Results* handbook.<sup>1</sup> Auditors also reviewed museum standards and interviewed and/or obtained information from officials in Colorado and Oregon as well as reviewed strategic planning documents for these states.<sup>2,3</sup> In addition, auditors reviewed society membership data for fiscal years 2008 through 2012 to assess trends in membership. Auditors also analyzed revenue data from the Society's internal financial statements for fiscal years 2008 through 2012. Auditors determined that this financial information was reasonably complete and accurate for the audit's purposes by analyzing the fiscal years 2011, 2012, and 2013 through February 28, 2013, financial information from the Society's financial system and comparing it to the Arizona Financial Information System (AFIS) *Accounting Event Transaction File* for fiscal years 2011 through 2013 through February 28, 2013. Auditors also reviewed the January 2013 reconciliation between the Society's financial system and AFIS for one of its funds.
- To assess the Society's efforts in managing its collections, auditors conducted interviews and site observations at the Society's Pioneer Museum in Flagstaff, the Arizona History Museum in Tucson, the Museum at Papago Park in Tempe, and the natural history collections stored primarily in Phoenix at the former Mining and Mineral Museum. Auditors also reviewed board meeting minutes from January 2012 through January 2013 and interviewed society officials to determine the type of collections management reporting to the Board and upper management that was occurring. Auditors also reviewed the Society's collection policy. In

<sup>1</sup> State of Arizona, Office of Strategic Planning and Budgeting. (2011). *Managing for results*. Phoenix, AZ: Author.

<sup>2</sup> American Alliance of Museums (2008). *National Standards and Best Practices for U.S. Museums*. Washington, DC: Author.

<sup>3</sup> American Association for State and Local History (2009). *Standards and Excellence Program for History Organizations*. Nashville, TN: Author.

addition, auditors reviewed best practice standards for museums and the State of Minnesota's 2004 (revised 2012) *Collections Management Plan*.<sup>1,2,3,4</sup>

- To determine the status of the Mining and Mineral Museum, auditors reviewed various laws passed in 2010 and 2011, reviewed House of Representative summary documents, and other documents such as an Executive Order, and society cataloging and loan documents. In addition, auditors interviewed the State's geologist and society staff.
- To obtain information for the Introduction and Sunset Factors auditors used other methods including interviewing officials and/or obtaining and reviewing Web site information and other documents from ten western states: California, Colorado, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, and Wyoming.<sup>5</sup> In addition, auditors reviewed state laws and the *Arizona Attorney General's Agency Handbook*, attended a board meeting, and reviewed agenda postings, board agendas, and board meeting minutes for the November 2012, January 2013, and February 2013 board meetings. Auditors also analyzed society-prepared financial information for fiscal years 2011 through 2013 and information from the AFIS *Accounting Event Transaction File* for fiscal years 2011 and 2012. Auditors also analyzed information about various nonprofit organizations whose purpose is to benefit the Society.
- Auditors' work on internal controls focused on reviewing the Society's processes for strategic planning and collections management, including policies and procedures. Auditors also reviewed the Office of the Auditor General's August 2013 procedural review of the Society's internal controls related to cash receipts, cash disbursements, purchasing, payroll, journal entries and transfers, capital assets, collections items, and compliance with Arizona Revised Statutes.<sup>6</sup> Auditors' conclusions on internal controls are reported in Findings 1 and 2, and Sunset Factor 2 of the report.

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<sup>1</sup> See footnote 2, page a-1.

<sup>2</sup> See footnote 3, page a-1.

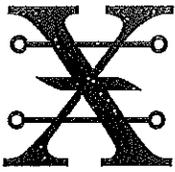
<sup>3</sup> National Park Service. (2006). *Museum handbook: Part 1, Museum collections*. Washington, DC: Author; National Park Service. (2006) *Museum handbook: Part II, Museum records*. Washington, DC: Author.

<sup>4</sup> The Minnesota Historical Society (2004 updated 2012). *Long Range Preservation Plan*. Saint Paul, MN.

<sup>5</sup> Auditors interviewed eight of these states regarding their use of contractors: Colorado, Idaho, Montana, Nevada, Oregon, Utah, Washington, and Wyoming.

<sup>6</sup> Procedural Review of the Arizona Historical Society as of February 28, 2013, issued August 29, 2013.

# AGENCY RESPONSE



# Arizona Historical Society

founded by an act of the Arizona Territorial Legislature in 1864

24 September 2013

#### Executive Offices

949 E. 2nd St.  
Tucson, AZ 85719-4898  
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Fax 520-628-5695

#### Education Division

1300 N. College Ave.  
Tempe, AZ 85281-1211  
480-929-0292  
Fax 480-967-5450

#### Publications Division

949 E. 2nd St.  
Tucson, AZ 85719-4898  
520-617-1166  
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#### Central Division

Museum at Papago Park  
1300 N. College Ave.  
Tempe, AZ 85281-1211  
480-929-0292  
Fax 480-967-5450

#### Northern Division

Pioneer Museum  
2340 N. Fort Valley Rd.  
Flagstaff, AZ 86001-1200  
928-774-6272  
Fax 928-774-1596

#### Rio Colorado Division

Sanguinetti House Museum  
240 S. Madison Ave.  
Yuma, AZ 85364-1421  
928-782-1841  
Fax 928-783-0680

#### Southern Division

Arizona History Museum  
949 E. 2nd St.  
Tucson, AZ 85719-4898  
520-628-5774  
Fax 520-629-8966

Debra K. Davenport, CPA  
Auditor General  
Office of the Auditor General  
2910 44<sup>th</sup> Street, Suite 410  
Phoenix, Arizona 85018

Dear Ms. Davenport:

On behalf of the Arizona Historical Society, I am pleased to provide the Society's response to the revised preliminary report of the performance audit and sunset review conducted by your office. Our introductory remarks first address the four principal areas identified in the report, followed by specific responses to each recommendation.

We appreciated open, attentive manner that characterized all discussions between the Society and your staff. With our best wishes.

Sincerely,

Anne I. Woosley, Ph. D.  
Executive Director

C: Michael Urman, President, AHS Board of Directors

Attachment



*Let's Make History!*  
[www.arizonahistoricalsociety.org](http://www.arizonahistoricalsociety.org)

## Arizona Historical Society Responses Introductory Remarks

Findings by the Office of the Auditor General identify four principal areas that the Arizona Historical Society (the Society) should address: 1) declining revenues; 2) need for a collections-management plan; 3) collections management/care; and 4) a politically appointed Board of Directors. These subjects are discussed below, followed by the agency's responses to specific findings.

**Declining Revenues:** The audit discusses at length the need to generate additional non-appropriated dollars from the private sector, but ignores the fact that funding for operations—facility maintenance, personnel costs, and utilities—is virtually impossible to raise from private donors. And, it is precisely these areas that have been most impacted by the reduction in appropriated funding.

The reduction of appropriated funds limits funds available for operations. It also then forces the Society to use private dollars to stabilize and sustain operations, reducing the amount that can be used for collections and exhibitions. The comparison of appropriated funds to non-appropriated funds raised by the Society now takes on a different perspective. For example, at the time of the last sunset hearing in fiscal year 2003, the Society had \$2,908,500 in appropriated revenue available for operations and \$886,791 in private funds. Private funds equaled 30.49% of appropriated revenues. By comparison, in fiscal year 2012 appropriated revenues available for operations were \$2,699,800, while private funds were \$986,480. Appropriated dollars had decreased by over \$208,000 during the decade, while private funds had increased by almost \$100,000. Private funds then equaled 36.54% of appropriated revenues, demonstrating that even in tough economic times; the Society continued to work hard at sustaining its revenue sources.

The recent economic downturn has impacted both state revenues and private sector support. The state has been unable to allocate necessary appropriations to maintain the properties and resources it owns. Cuts in appropriations have compelled the Society to use non-appropriated dollars to meet the shortfall in its operations budget which, in turn, has greatly affected the agency's ability to move forward with plans to meet the management needs identified in the audit. Donors, seeing their contributions used "to pay the light bill," stopped giving. Many potential donors no longer have the discretionary dollars that they might otherwise have given. Despite these challenges, the Society and its Board are committed to increasing non-appropriated revenues. Fundraising and development are the goals of the newly established AHS, Inc.

The recommendation that a development officer position will fulfill the need to generate non-appropriated dollars is not borne out by the Society's previous experience (see Finding 1.5). An agency already cut to the bare bones lacks discretionary funding to "jump start" an investment that our past experience suggests will not succeed without significant support staff. Successful fundraising occurs when institutions are embedded in the communities they serve. Successful fundraising, tied to an overall plan, demands not only the leadership of a development officer, but dedicated staff who are knowledgeable, identified with their community, and capable of forging important local relationships. The organizations cited in this audit all have development departments, consisting of a director, or directors, working with discrete marketing, public

relations, and membership staff. Furthermore, salary scales for development positions are extremely high. The Society's development director (2003-2006), based out of the Tucson facility, met little success with Pima County donors, who were reluctant to donate to a state agency, and had no success with donors outside the community, who objected that their contributions would not directly benefit their local museum. The new AHS, Inc., is designed to work—through division staff and board members representing the agency's geographic divisions/chapters (Central, Eastern, Rio Colorado, Northern, and Southern)—directly with the communities the Society serves.

The Society and/or the Society Board is currently re-examining the role of chapter advisory boards. The thrust of the discussion suggests that fundraising efforts should be the responsibility of the agency's 501(c)(3) support organizations, with the chapter boards acting as liaisons between the local museum, or certified museums within the geographic area served by the chapter, and the Society Board. In this regard, the chapter advisory boards will assist in building community relationships for the geographic divisions, and the Society generally, while training and nominating prospective members to the Society Board.

AHS, Inc., will open discussions with support groups on the subject of formalizing agreements between the Society and its various 501(c)(3) organizations. In the final analysis, however, the existing 501(c)(3)s are autonomous entities and the final decision on entering into formal agreements is theirs. The *Friends of the Journal of Arizona History* has written into its bylaws the requirement that it report its financial condition to the AHS membership at the Society's Annual Meeting. AHS, Inc., will attempt to develop similar reporting requirements with other support groups. Because virtually all of the Society's current support groups have members on their governing boards who are also members of the Society Board, the Society has always had an avenue for obtaining information on its support groups' status. In order to qualify for 501(c)(3) status, every support group must agree that, should it be dissolved, funds remaining in its coffers must revert to a similarly qualified entity, such as AHS, Inc.

**Collections Management Plan:** Recognizing the critical importance of collections-management planning, the Society has staged the development of its Collections Management Plan in distinct phases. Phase I concluded with the Society Board's approval of an overarching Collections Management Policy in November 2012. Many of the audit team's recommendations are addressed in this document. Phase II relates to the Collections Procedure Manual that puts into operation the Society's collection policies. The Manual is a work-in-progress, scheduled for completion by January 2014. Procedure manuals specific to the Society's main types of collections (Library/Archives; Museums; Natural History), that detail priorities and identify specific actions, will be completed in December 2014. Phase III will incorporate formatting and reporting elements modeled after the Minnesota Historical Society's Collection Preservation Plan, including priorities, timelines, and actions taken. This data will be incorporated into the Society's Collections Management and Five-Year Strategic plans.

**Collections Management/Care:** The audit notes steps the Society has taken to care for its collections, but points to a critical lack of storage space for its holdings. Collections capacity is less about square footage and more about maximizing existing space. The Society initiated significant space-saving measures including, but not limited to, deaccessioning and transferring

collections not relevant to Arizona; consolidating and reorganizing collections; and transporting old damaged equipment, unused furniture, and construction materials from its facilities to State Surplus. This resulted in capturing an additional 5,616 cubic feet to house natural history collections at the Society's Papago Park museum. With the reorganization, only 75% of the original footprint is now required to house these collections. These space-saving efforts are ongoing. If budgetary constraints allowed, compact storage systems would solve virtually all of the Society's storage issues for the foreseeable future.

**Politically Appointed Board:** The Society has a proud tradition, dating back at least to 1885, as a membership organization whose members throughout the state nominate and elect their representatives to the governing board. To replace this system with a politicized procedure of gubernatorial appointments would likely result in a major backlash from the Society's statewide membership, a decline in members and friends, and a drop in volunteer participation, thereby significantly reducing donations. (See also comments, Factor 9).

### Society Responses to Finding 1

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

**Nonprofit organization already implemented by the Society Board.**

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

**The Society has already implemented IGAs and partnerships with state, county, and city entities, and is in the process of establishing others.**

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

**This effort is underway by the Society Board's Development, Ad Hoc Strategic Planning, and Ad Hoc Planned Giving committees.**

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

**Process is underway.**

1.5 The finding of the Auditor General is agreed to and a different method of dealing with the finding will be implemented.

**The Society hired a development director in 2003-2006, at great expense and using private dollars, with no success (see opening remarks). The Society Board, through AHS, Inc., and its Development, Ad Hoc Planned Giving, and Ad Hoc Strategic Planning committees is currently exploring other fundraising avenues. To prevent repeating an expensive mistake of the past, we suggest that, as in any public-private partnership, the State should DIRECTLY fund the development director position so that the resources generated will lessen future reliance on the State General Fund. The State's investment, as an equal partner, will generate needed revenue to carry out the mission of AHS.**

- 1.6 The finding of Auditor General is agreed to and the audit recommendation will be implemented.  
**The Society Board and its committees already monitor progress and will continue to do so.**
- 1.7 The finding of the Auditor General is agreed to and the audit recommendation will be implemented.
- 1.8 The finding of the Auditor General is agreed to and the audit recommendation will be implemented.  
**The roles and relevance of advisory chapter boards are currently under study by the Society Board.**
- 1.9 The finding of the Auditor General is agreed to and the audit recommendation will be implemented.  
**The Society Board is currently studying this matter as part of the discussion relating to Recommendation 1.8 above.**
- 1.10 The finding of the Auditor General is agreed to and the audit recommendation will be implemented.  
**The Society Board will open discussions with 501(c)(3) organizations. However, the willingness of 501(c)(3) to establish formal agreements is their decision and falls under their authority (see opening remarks).**

### **Society Responses to Finding 2**

- 2.1 The finding of the Auditor General is agreed to and the audit recommendation will be implemented.  
**The Society includes these elements in its comprehensive Collections Management Plan, which is currently under development in accordance with the Society's Five-Year Strategic Plan.**
- 2.2 The finding of the Auditor General is agreed to and the audit recommendation will be implemented.  
**The comprehensive Collections Manual is a work-in-progress scheduled for completion in 2014. Issues identified in the audit are addressed in current drafts of the manual.**
- 2.3 The finding of the Auditor General is agreed to and the audit recommendation will be implemented.  
**The Society continues to ensure that collections are recorded according to industry best practices and maintains collection documentation as permanent agency records. The Society actively pursues computer networking and software solutions to centralize data with off-site backup, and will collaborate with AZGOA as recommended.**

2.4 The finding of the Auditor General is agreed to and a different method will be implemented. **Adapting the Minnesota Historical Society's reporting document as its template, the Society will incorporate a tracking mechanism that reports action steps taken. The document will provide timely updates to the Society Board, and will be embedded in the Society's Strategic and Collections Management plans, both of which are reviewed annually.**

#### **Society Response to Sunset Factor 2**

As indicated in the AHS response to the Auditor General Procedural Review, the findings of the Auditor General are agreed to and the audit recommendations will be implemented as outlined in the AHS response.

**The Society's goal is to be fully compliant with all State requirements. Accordingly, the Society will strengthen and enhance its existing policies and procedures, and provide additional training to all staff in order to eliminate deficiencies and weaknesses.**

**The Society utilizes an industry standard collection management system for tracking and control. The Society is in the process of upgrading its information technology system. Our goal is to capture the collection management information in a single list, with a secondary listing maintained at a separate location. This system is key for tracking the 1.175 million archival and artifact units in the Society's collections. Because the use of this collection management system for inventory purposes does not fully coincide with the State of Arizona Accounting Manual and Fixed Asset System, the Society has begun working with the State Treasurer, General Accounting Office, and Risk Management to devise policies and processes that are fully acceptable to all agencies.**

#### **Society Response to Sunset Factor 5**

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

**The Society Board and its Committees will fully comply with Open Meeting Law requirements.**

#### **Society Response to Sunset Factor 9**

The finding of the Auditor General is agreed to and a different method of dealing with the finding will be implemented.

**Comments:** The Society Board pulls together representation from all geographic areas of the State, just as members of the State Legislature represent constituents from across their geographic area(s). In identifying prospective members, the Society Board's Nominating Committee considers board needs, as well as the expertise of potential board members; board members are evaluated annually on both criteria. Board members are keenly aware of their public service responsibilities; undergo orientation; receive all State Policy documents; and sign

an oath of allegiance. Language in the Society's bylaws can strengthen Society Board member qualifications and obligations.

The Society Board, membership, and friends (through its statewide network of certified museums) value the Society's politically neutral position. A shift to a politically appointed board will remove stakeholders' ability to participate in the representative governance of a membership-based Society.

Moreover, a politically appointed board will significantly damage the Society's ability to engage donors and raise private dollars. The audit recommendations suggesting that gubernatorial appointees can be more responsible in overseeing state funding are misdirected. If anything, the Society should enhance its board membership qualifications in order to encourage and facilitate donations from the private sector.

Oversight of the Society's appropriated (and non-appropriated) dollars, its personnel, and all aspects of its operations is rigorous and is conducted, in line with state policies, through the State's auditing mechanisms. The Society's executive director reports regularly through AHS's governor-designated policy advisor; his/her performance is reviewed annually by the Society Board's Executive Committee. Staff participate in all State-mandated training.

## Performance Audit Division reports issued within the last 24 months

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<b>11-07</b>	Department of Corrections— Oversight of Security Operations	<b>12-06</b>	Arizona Health Care Cost Containment System—Medicaid Fraud and Abuse Prevention, Detection, Investigation, and Recovery Processes
<b>11-08</b>	Department of Corrections— Sunset Factors	<b>12-07</b>	Arizona Health Care Cost Containment System—Sunset Factors
<b>11-09</b>	Arizona Department of Veterans’ Services—Veterans’ Donations and Military Family Relief Funds	<b>13-01</b>	Department of Environmental Quality—Compliance Management
<b>11-10</b>	Arizona Department of Veterans’ Services and Arizona Veterans’ Service Advisory Commission— Sunset Factors	<b>13-02</b>	Arizona Board of Appraisal
<b>11-11</b>	Arizona Board of Regents— Tuition Setting for Arizona Universities	<b>13-03</b>	Arizona State Board of Physical Therapy
<b>11-12</b>	Arizona Board of Regents— Sunset Factors	<b>13-04</b>	Registrar of Contractors
<b>11-13</b>	Department of Fire, Building and Life Safety	<b>13-05</b>	Arizona Department of Financial Institutions
<b>11-14</b>	Arizona Game and Fish Commission Heritage Fund	<b>13-06</b>	Department of Environmental Quality—Underground Storage Tanks Financial Responsibility
<b>12-01</b>	Arizona Health Care Cost Containment System— Coordination of Benefits	<b>13-07</b>	Arizona State Board of Pharmacy
<b>12-02</b>	Arizona Health Care Cost Containment System—Medicaid Eligibility Determination	<b>13-08</b>	Water Infrastructure Finance Authority
<b>12-03</b>	Arizona Board of Behavioral Health Examiners	<b>13-09</b>	Arizona State Board of Cosmetology
<b>12-04</b>	Arizona State Parks Board	<b>13-10</b>	Department of Environmental Quality—Sunset Factors
<b>12-05</b>	Arizona State Schools for the Deaf and the Blind	<b>13-11</b>	Arizona State Board of Funeral Directors and Embalmers
		<b>13-12</b>	Arizona State Board for Charter Schools

## Future Performance Audit Division reports

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