



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
520-617-1169
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 44th 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

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.