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Date: February 28, 2013

To: Audit, Finance & Enterprise Committee

From: Jennifer Ruttman, City Auditor

Subject: Audit of Arizona Museum of Natural History – Final Report

cc: Natalie Lewis, Assistant to the City Manager  
Cindy Ornstein, Arts and Culture Department Director  
Robert Schultz, Arts Administrator  
Tom Wilson, Museum Administrator

Attached is the final report on our Audit of the Arizona Museum of Natural History. The report includes 4 Corrective Action Plans (CAPs) with responses from management. We will perform a follow-up review in approximately 12 months to determine whether the action plans have been implemented. The report will be presented at the next scheduled meeting of the Audit, Finance and Enterprise Committee. If you have any questions, please feel free to contact me at x3767.

## AUDIT REPORT

CITY AUDITOR

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<b>Report Date:</b>	<b>February 28, 2013</b>
<b>Department:</b>	<b>Arts &amp; Culture</b>
<b>Subject:</b>	<b>Arizona Museum of Natural History (AzMNH)</b>
<b>Lead Auditor:</b>	<b>Bill D'Elia</b>

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### **OBJECTIVE**

This audit was conducted to determine whether internal controls are in place and operating effectively to provide reasonable assurance that management's objectives will be achieved, and to reduce the risk that losses due to errors or fraud could occur without detection.

### **SCOPE & METHODOLOGY**

To accomplish our objective, we:

- Reviewed departmental and applicable citywide policies and procedures
- Interviewed staff members
- Tested inventory, administrative, and financial records from the current & prior fiscal years.
- Reviewed contracts and agreements with affiliate entities

### **BACKGROUND**

The AzMNH is an 80,000 square foot museum which houses tens of thousands of archaeological and paleontological objects, historic photographs, and educational exhibits. The Museum operates with approximately 13 FTEs, on an annual budget of \$1.4M, about half of which is offset by revenues. The staff is supplemented by more than 170 active volunteers. In addition to general and group admission fees, revenues are generated by various educational programs and events held throughout the year, and for space rented to private parties. The Museum Gift Shop and its revenues are managed by the Museum Guild; and revenues from membership sales are managed by the Museum Foundation. Both of these entities are non-profit organizations that exist to support the Museum.

The AzMNH was last audited by the City Auditor in FY 2000/2001. At that time, several recommendations were made to improve controls, with specific emphasis on purchasing, cash handling, and relationships with supporting organizations. These areas were reviewed again for the current audit; and additional areas, including but not limited to inventory management and security, were added to the audit program.

### **CONCLUSION**

In our opinion, except as noted below, internal controls are in place and operating effectively to provide reasonable assurance that management's objectives will be achieved, and to reduce the risk that losses due to errors or fraud could occur without detection. A summary of key

observations and recommendations is presented below. For additional details, please see the attached corrective action plans (CAPs).

### **SUMMARY OF OBSERVATIONS & RECOMMENDATIONS**

1. Collection/exhibit inventory management needs improvement. The Museum should maintain more complete records of all collection objects and any objects of significant value held for exhibition and/or education purposes. In addition, regular inventory procedures should be performed, to verify the existence, location and condition of each object; and to ensure the ongoing accuracy of the database.
2. Agreements with affiliate entities are outdated. The Museum should execute new agreements with its supporting affiliates, i.e. the Museum Foundation and the Museum Guild, to define roles and responsibilities, and to ensure the interests of all parties are protected.
3. Initial processing of volunteers needs improvement. The Museum should perform background checks on all volunteers who are anticipated to have contact with minors or the disabled, as well as any volunteers with access to valuable artifacts and/or City computer systems. In addition, parental consent forms should be obtained for volunteers under the age of 18.
4. Opportunities exist for improvement of certain financial controls. Overall, financial controls at the Museum are strong and effective. However, a few minor improvements are needed with regard to cash donations, revenue from promotional passes, and certain credit card transactions.

## **CAP#1: Collection/Exhibit Inventory Management**

- Observations:**
- 1-1. The information recorded in the Museum's automated collections database is not always accurate and complete.
  - 1-2. A complete inventory has not been performed, and a formal periodic inventory process has not been established.
  - 1-3. Collection objects and other items loaned to outside organizations and have not been closely tracked and many have not been returned in a timely manner.

- Criteria:**
- The Arizona Museum of Natural History Policy on Collections, adopted in January 2006 by the Museum & Cultural Advisory Board, defines how the museum acquires, cares for and manages its collections. According to this policy, the Museum is required to:
- Maintain a database of accession records, catalog records, donor information, and location and inventory information.
  - Keep records of objects acquired for education or exhibition use.
  - Conduct periodic inventories of the collection, to ensure the ability to locate and assess the condition of objects.
  - Limit loans of collection or exhibit objects to one year, unless a written request for extension or renewal has been approved.

- Comments:**
- 1-1. Database Completeness/Accuracy:  
The information recorded in the collections system is not always complete and accurate. According to staff, the system does not serve as a comprehensive inventory management system, and the Museum has not had the resources required to maintain it as such.  
  
Objects are not recorded in the Museum's database until they are fully accepted into the collection, which is often a lengthy process. This can result in an object being held on the premises for an extended period of time (>1 year), with no record of its status, location, or value. Adding such an object to the database with an appropriate identifying code would provide accountability as well as a method for tracking items awaiting accession into the collection.  
  
In addition, the automated collections system is not used to track non-collection objects held by the Museum for exhibition or educational use. Some of these items are of significant value, such as the Museum's mammoth casting, which is worth well over \$100,000. Not having valuable items listed on inventory records is a significant internal control deficiency and increases the risk that theft, damage, or other losses could occur without detection or accountability. Such losses would be difficult to recover without detailed records to substantiate the existence and value of the items.
  - 1-2. Periodic Inventories: Occasional inventories of selected areas have been conducted, but a complete inventory has not been conducted to ensure all objects are accounted for and records are current, and a

formal periodic inventory process has not been established.

- 1-3. Objects on Loan to Other Entities: The data in the automated collection system for objects out on loan is not always accurate. There is no system in place to flag overdue objects, and staff members must periodically go through the files to look at the status of these objects. As a result, objects are often not returned in a timely manner.

- Recommendations:**
- 1-1. The Museum should maintain accurate records of all collection objects, all objects held pending accession to the collection, and all objects of significant value held for exhibition or educational use. To the extent possible, the Museum's collection database should be utilized for this purpose. The purchase price or other record of value (if any) should also be recorded.
- 1-2. Management should develop a plan to:
- Perform a complete inventory and bring the database up to date.
  - Implement a periodic or perpetual inventory process, to ensure the ongoing accuracy of the inventory records.
- 1-3. All loans of Museum collection objects should be recorded in the collections database, which should be used to track loan status.

**Management Response:**

- 1-1. Agree

Implementation plan: Agree that museum should keep accurate records in all categories listed. Agree that all collection objects should be in collections management database. The museum will keep accurate records of all objects pending accession and all objects of significant value held for exhibition or educational use. The museum will record the purchase price or appraised value in appropriate location.

Implementation Date: Ongoing

- 1-2. Agree

Implementation plan: Museum currently performs periodic and perpetual inventory, to ensure the ongoing accuracy of inventory records. A complete inventory of the collections of a museum of the size and type of AzMNH normally takes years, as will bringing the database up to date. AzMNH will comply commensurate with staffing and financial availability.

Implementation Date: Ongoing; complete inventory by 2020

- 1-3. Agree

Implementation plan: Agree that loans should be in the collections database. For this to occur, the objects lent need to be in the collections database. While we catch up on entering collections objects in the collections database, loans will be recorded in the non-electronic collections database, the loan files.

Implementation Date: Ongoing

## **CAP#2: Affiliate Agreements**

- Observations:**
- 2-1. The "Agreement between The City of Mesa and The Southwest Museum Foundation" is 15 years old and does not accurately reflect the current relationship between the two organizations.
  - 2-2. The "Cooperative Relations Agreement between The City of Mesa and The Mesa Southwest Museum Guild" expired 8 years ago and may not reflect current requirements.

**Criteria:** Valid agreements between the City and its affiliate entities should be maintained, in order to accurately define the roles, responsibilities, and expectations of all parties. Such agreements help to ensure business objectives are met, responsibilities are fulfilled, accountability is possible, and all parties are protected from potential liabilities.

- Comments:**
- 2-1. Agreement with the SW Museum Foundation: Under the current (1997) agreement, the primary responsibility of the Foundation is to raise funds for the Museum expansion (which was completed approximately 12 years ago). Today, the funds raised by the Foundation are used for many other purposes, including: care of collections; temporary exhibits; special programs; general operations; etc. These uses of funds are not provided for in the agreement.  
  
While the Foundation does receive private donations, the majority of its revenue comes from selling memberships, which entitle the purchaser to unlimited admission to the Museum. There is no provision for this in the current agreement. However, since this activity directly impacts museum revenue, the related roles and responsibilities should be included in the agreement. For the fiscal year ended 6/30/2012, membership sales exceeded \$44,000.
  - 2-2. Agreement with the SW Museum Guild: The Guild operates the Museum's gift shop and runs the volunteer program, but the agreement governing the Guild's activities expired in 2004. One of the provisions of that agreement was for the Guild to obtain both liability and worker's compensation insurance. They have not done so, however, because Guild members thought they were covered by the City. This leaves the City exposed to unnecessary liability and risk of loss.

- Recommendations:**
- 2-1. Management should negotiate a new agreement between the City and the Museum Foundation, to define their respective roles and responsibilities, and to ensure the interests of both parties are protected.
  - 2-2. Management should negotiate a new agreement between the City and the Museum Guild, to define their respective roles and responsibilities, and to ensure the interests of both parties are protected.

**Management  
Response:**

2-1. Agree

Implementation plan: AzMNH will initiate the process with AzMNH Foundation by March 31, 2013. AzMNH will then work with the 501(c)(3) organization and City of Mesa departments to guide and keep on track the process of updating the agreement.

Implementation Date: 12/31/2013

2-2. Agree

Implementation plan: AzMNH will initiate the process with AzMNH Foundation by March 31, 2013. AzMNH will then work with the 501(c)(3) organization and City of Mesa departments to guide and keep on track the process of updating the agreement.

Implementation Date: 12/31/2013

### CAP#3: Initial Processing of Volunteers

- Observations:**
- 3-1. Background checks are performed only for volunteers who work alone with children, but are required for all volunteers who have *contact* with minors, disabled or homebound persons.
  - 3-2. Parental authorization forms were not required for volunteers under age 18.

**Criteria:**

Arts and Cultural Department Administrative Regulation 3.6 states:  
*"Persons who volunteer their time to the City of Mesa must be fingerprinted for the purpose of a background check if their volunteer duty involves contact with minors, disabled or homebound persons. If an individual is a member of an organization which exists only to serve the City or one of its operations, then members of that organization who volunteer are considered to be City volunteers and must be fingerprinted and have a background check if their volunteer duty involves contact with minors, disabled or homebound persons. The determination of which volunteer positions require fingerprinting and which will not lies with the responsible Administrator."*

Management Policy 349 (Volunteer Program) states:  
*"...City Ordinance 3217 requires fingerprints for volunteers who are anticipated to be in contact with minors, homebound, or disabled persons."*

*"...Youth ages 12-17 - A signed parent authorization for is required to participate in a City sponsored Youth Volunteer program."*

- Comments:**
- 3-1. Background Checks: The Museum's Volunteer Coordinator (employed by the Guild, not the City) is responsible for deciding which volunteers will require background checks. Her current practice is to only do background checks on individuals she determines will work alone with children. We found that 69 (or 93%) of the 74 volunteers who potentially had contact with minors or the disabled had not been background checked.  
  
We also noted that some volunteers have access to City computer systems and/or work alone with Museum artifacts. Although the full fingerprint-based background checks may not be required for these individuals, the City does offer a low cost web-based background check that may provide additional protection for the City when volunteers work with valuable City assets or have access to City computer systems.
  - 3-2. Parental Consent: None of the 26 volunteers under age 18 have been required to submit the required parent authorization form.

- Recommendations:**
- 3-1. Management should require the Volunteer Coordinator to background check all volunteers who have contact with minors or the disabled; and should determine whether any other volunteer positions should be subject to the web-based background check.
  - 3-2. Management should require the Volunteer Coordinator to obtain parental authorization forms for all volunteers under age 18.

**Management  
Response:**

- 3-1. Agree  
Implementation plan: Implement immediately.  
Implementation Date: 3/31/2013
  
- 3-2. Agree  
Implementation plan: Implement immediately.  
Implementation Date: 3/31/2013

#### **CAP#4: Financial Controls Need Improvement**

- Observations:**
- 4-1. Greater controls are needed with regard to the donation box located at the Museum's front desk.
  - 4-2. Activity associated with certain promotional passes was not tracked to ensure revenue was received in accordance with the contract.
  - 4-3. Credit card information is recorded on paper forms by Education personnel and is not effectively redacted.
- Criteria:**
- 4-1. Management Policy 210 (Cash Handling) requires that cash be protected from loss.
  - 4-2. Revenue payable to the City should be tracked and reconciled to actual amounts received.
  - 4-3. The Payment Card Industry Data Security Standard (PCI DSS) requires the City to limit the creation of sensitive paper documents regarding credit card transactions; and to effectively redact credit card numbers written on paper documents when no longer needed.
- Comments:**
- 4-1. Donation Box: Although the donation box belongs to the Foundation, the controls in place to protect it should be the same as if it belonged to the City.
  - 4-2. Promotional Passes: The Museum entered into an agreement with a vendor that sells passes valid for admission to multiple venues in the Phoenix Metro area, including the Arizona Museum of Natural History. The agreement grants the Museum a portion of the pass sales revenue, but does not provide the Museum with a means to verify that the correct amount was received. Management emphasized the marketing benefits associated with the passes, but did not ensure that controls were in place to monitor the associated revenue.
  - 4-3. Credit Card Data: The Payment Card Industry Data Security Standard (PCI DSS) requires the City to limit the creation of documents containing credit card data, and fully redact credit card numbers written on documents when no longer needed. The Museum's Education staff members manually write credit card information on registration forms, and use a marker to mask this information after it is entered into the computer system. However, the numbers remain visible when the documents are scanned.
- Recommendations:**
- 4-1. The Museum should improve controls related to the Foundation's donation box.
  - 4-2. In the future, if the Museum enters into a contract that provides

revenue on the basis of another entity's sales, the contract terms should require that entity to provide an accounting of those sales. In addition, Museum administrative staff members should implement procedures to monitor such contracts for compliance.

- 4-3. Management should prohibit Education staff from manually recording credit card numbers on paper forms. These payments should be entered directly into the computer system, or the calls should be transferred to the front desk staff for processing. Any credit card information written on registration forms (i.e. by customers) should be fully and effectively redacted or destroyed.

**Management  
Response:**

4-1. Agree

Implementation plan: Implement immediately.

Implementation Date: 2/28/2013

4-2. Agree

Implementation plan: Implement immediately.

Implementation Date: 2/28/2013

4-3. Agree

Implementation plan: Implement immediately.

Implementation Date: 2/28/2013