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Date: May 13, 2014

To: Audit, Finance and Enterprise Committee

From: Jennifer Ruttman, City Auditor

Subject: Follow-up Review – Audit of AZ Museum of Natural History

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

Pursuant to the Council-approved Audit Plan, the City Auditor's office has completed a follow-up review of our audit of our audit of the AZ Museum of Natural History. The final report is attached and will be presented at the next scheduled meeting of the Audit, Finance and Enterprise Committee. Please feel free to contact me with any questions or concerns.

FOLLOW-UP REVIEW

CITY AUDITOR

Report Date:	May 13, 2014
Department:	Arts and Culture
Subject:	Arizona Museum of Natural History (AZMNH)
Auditor:	Bill D'Elia, Sr. Internal Auditor

OBJECTIVE

The objective of this review was to determine whether AZMNH management has effectively implemented the action plans presented in their response to our February 2013 audit.

SCOPE & METHODOLOGY

To accomplish our objective, we interviewed AZMNH staff members, observed operations, and reviewed relevant documents provided by management.

BACKGROUND

In 2013, we audited the Museum to determine whether internal controls were in place and operating effectively to provide reasonable assurance that management's objectives would be achieved and to reduce the risk that losses due to errors or fraud could occur without detection. Based on our findings, we recommended that the Museum do the following:

- Maintain accurate records of all objects, including exhibition objects of significant value.
- Perform inventories to bring the collections database up to date.
- Record loans of Museum collection objects in the collections database.
- Negotiate revised agreements with the Museum Foundation and Guild.
- Perform background checks on all volunteers who have contact with minors.
- Obtain written parental authorization for all volunteers under the age of 18.
- Secure the donation box.
- Establish controls for and monitor promotional sales.
- Prohibit staff from manually recording credit card information on paper forms.

CONCLUSION

In our opinion, most of the corrective actions planned by management in response to the audit have been substantially implemented. Progress is being made in the effort to update inventory records, a process which was expected to take several years to complete. A revised agreement with the Museum Guild has been completed, but has not yet been finalized. As of this review, however, a revised agreement with the Foundation has not yet been completed. In addition, procedures for documenting background checks for volunteers and permission slips for minors are still in need of improvement. A complete list of the original recommendations and responses, along with our findings regarding the implementation status of each corrective action plan at the time of this review, is presented in the attached Appendix.

APPENDIX

✓ = Implemented ♦ = In Progress X = Not Implemented

<u>Corrective Action</u>	<u>Implementation Status</u>	
CAP#1: Collection/Exhibit Inventory Management		
<p>Recommendation #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.</p> <p>Management Response: <i>"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."</i></p>	<p>In Progress The Museum has begun the process of establishing formal records for objects not previously in the database.</p>	♦
<p>Recommendation #2: Management should develop a plan to:</p> <ul style="list-style-type: none"> – 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. <p>Management Response: <i>"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."</i></p>	<p>In Progress The Museum has developed a plan, obtained outside help, and performed substantial work to bring the database up to date. As discussed in their original response to the audit, this would be an ongoing process that would take several years, based on available resources; therefore, while progress has been made, continued attention to this area must be maintained.</p>	♦

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<p>Recommendation #3: All loans of Museum collection objects should be recorded in the collections database, which should be used to track loan status.</p> <p>Management Response: <i>"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."</i></p>	<p>In Progress The Museum has established procedures to enter loan information into the collection database. They were in the process of entering the information during this review. We note that this area is considered ongoing, and completion will be contingent on available resources.</p>	◆
CAP#2: Affiliate Agreements		
<p>Recommendation #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.</p> <p>Management Response: <i>"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."</i></p>	<p>Not Implemented The new agreement has not been negotiated.</p>	X
<p>Recommendation #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.</p> <p>Management Response: <i>"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."</i></p>	<p>In Progress A new agreement has been negotiated but not sent to the City Attorney for review because the Museum was waiting for the Foundation agreement to be complete.</p>	◆

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CAP#3: Initial Processing of Volunteers		
<p>Recommendation #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.</p> <p>Management Response: <i>"Implement immediately."</i></p>	<p>Implemented, but Needs Improvement Background checks are now required for all volunteers who have contact with minors or the disabled. However, staff members were not able to locate documents proving all current volunteers have been background checked. We recommend that management review & improve recordkeeping procedures to ensure this information is maintained for all volunteers.</p>	<p>✓ -</p>
<p>Recommendation #2: Management should require the Volunteer Coordinator to obtain parental authorization forms for all volunteers under age 18.</p> <p>Management Response: <i>"Implement immediately."</i></p>	<p>Implemented, but Needs Improvement Parental authorization forms are now required for all volunteers under age 18. However, these forms were not on file for 10 out of the 55 individuals in this group. We recommend that management review & improve recordkeeping procedures to ensure this information is maintained for all volunteers under age 18.</p>	<p>✓ -</p>
CAP#4: Financial Controls Need Improvement		
<p>Recommendation #1: The Museum should improve controls related to the Foundation's donation box.</p> <p>Management Response: <i>"Implement immediately."</i></p>	<p>Implemented The donation box is properly secured.</p>	<p>✓</p>
<p>Recommendation #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</p>	<p>Implemented The Museum negotiated one contract of this nature. The contract terms required an accounting of the sales, and</p>	<p>✓</p>

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<p>an accounting of those sales. In addition, Museum administrative staff members should implement procedures to monitor such contracts for compliance.</p> <p>Management Response: <i>"Implement immediately."</i></p>	<p>administrative staff implemented procedures to monitor compliance.</p>	
<p>Recommendation #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.</p> <p>Management Response: <i>"Implement immediately."</i></p>	<p>Implemented Education staff is now prohibited from manually recording credit card information on paper registration forms. Payments are entered directly into the computer system.</p>	<p>✓</p>