

LEGISLATIVE AUDIT DIVISION

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MEMORANDUM

TO: Legislative Audit Committee Members

FROM: Sarah Carlson, Senior Performance Auditor

CC: Marilyn Ross, Chairperson, Montana Heritage Commission
Elijah Allen, Executive Director, Montana Heritage Commission

DATE: November 2018

RE: Performance Audit Follow-Up (18SP-19) of Montana Heritage Commission:
Managing Virginia City, Nevada City, and Reeder's Alley Historic Properties
(orig. 16P-05)

ATTACHMENTS: Original Performance Audit Summary

Introduction

The *Montana Heritage Commission: Managing Virginia City, Nevada City, and Reeder's Alley Historic Properties* (16P-05) report was issued to the Legislative Audit Committee in June 2017. The audit included three recommendations to the Montana Heritage Commission (MHC). We conducted follow-up work to assess implementation of the report recommendations. This memorandum summarizes the results of our follow-up work.

Overview

Our original audit found MHC manages its historic properties in a manner that both preserves the properties and encourages economic stability as required by law. However, our work identified opportunities for MHC to adopt a more business-oriented approach by engaging commissioners more fully, improving organizational planning processes, and gathering additional information. We made three recommendations related to these issues. Our follow-up work indicates one recommendation has been implemented and two are not implemented. MHC has implemented work to increase commissioner engagement, but follow-up work found MHC has more changes to make to its organizational planning and information gathering processes as recommended in the audit and has not made clear how they are going to continue and make the necessary changes.

Background

The buildings and artifacts making up the attractions in Virginia and Nevada Cities were purchased by the state for \$6.5 million in 1997. The purchase included 148 buildings, 160 acres of land near Alder Gulch in Madison County, and 1 million artifacts currently estimated at a value of nearly \$50 million. Virginia and Nevada Cities include displays depicting life in the 1860s, and MHC offers a variety of activities such as panning for gold or riding a tour train. Other venues such as historic lodging, live theater shows, gift and specialty shops, fine dining, and old-fashioned ice cream and candy shops are operated by concessionaires

in buildings owned by MHC. Other stores and eateries are owned and operated by private owners. Some businesses are open year-round, but most are open only in the summer months. MHC properties expanded in 2000 with the addition of Reeder's Alley, including the Pioneer Cabin, in Helena. This location is also a mix of public and private ownership, with concessionaires running businesses out of the historic buildings. To manage the properties, the legislature also established the Montana Heritage Commission in 1997, tasking it with hiring staff and running day-to-day operations. MHC is responsible for managing its properties in a manner that protects the properties and encourages economic stability. This 14-member commission sets the direction of the MHC, with staff responsible for carrying it out. The details are largely at the discretion of an executive director hired by MHC to implement work related to MHC priorities. Membership of the commission is detailed in state law and includes three state agency directors, two members appointed by legislative leadership, and nine members with various historical and tourism-related experience appointed by the governor.

Audit Follow-up Results

Our follow-up work included traveling to Virginia City and attending the most recent MHC commission meeting. We reviewed newly developed commissioner's job description and other governance documents distributed to commissioners and interviewed the executive director and commission members. We also reviewed the organization's most recent meeting notes, as well as strategic and business plans. The following sections summarize information relating to follow-up work and the implementation status of recommendations.

RECOMMENDATION #1

We recommend the Montana Heritage Commission improve commission engagement by:

- A. Developing a commissioner's job description.**
- B. Developing a specific packet of governance materials for distribution to each new commissioner, such as Montana Heritage Commission most recent by-laws, strategic plan, business plan, and commissioner's job description.**
- C. Developing and implementing a training plan for all commission members.**

Implementation Status – Implemented

Best practices of organizations managing historic sites indicate an oversight body such as the commission should clearly understand its responsibilities and receive information to fulfill those responsibilities. Our audit work found that some commission members were not able to provide their expertise or impartial evaluation to the commission's work because they had a limited understanding of their role as a commissioner. To provide oversight, commissioners needed to know their role more clearly, so our first recommendation focused on improving commissioner engagement by developing a commissioner member job description, distributing MHC governance materials to all commissioners, and providing training for all commissioners related to their MHC duties. We found this recommendation has been implemented. Our review of commission meeting notes and interviews with commissioners and staff indicate a commissioner's job description has been developed and was reviewed and approved by the commission in December 2017. The job description highlights areas for which commissioners are responsible, including budgetary oversight and policy consideration. Also, governance packets are provided to each new commissioner as part of initial orientation and all commissioners receive updated materials each June. The packet contains the organization's most recent by-laws, strategic plan, and the commissioner's job description. It also includes state law and administrative rules related to MHC, and the Montana Appointee Handbook, produced by the governor's office. Interviews with a commissioner and MHC staff describe the packets as helping ensure commissioners have the information they need to fully participate

on the commission. In addition, two training sessions, organized by the Montana State University Local Government Center, were held for commissioners prior to the convening of the December 2017 and March 2018 commission meetings. MHC staff stated at least one training session per year will continue to be planned for commissioners. The next training session is anticipated to be held in December 2018.

RECOMMENDATION #2

We recommend the Montana Heritage Commission expand its information collection practice to include:

- A. Identifying and documenting assumptions and other background data used to develop business plans, and**
- B. Gathering demographic and other detailed data regarding visitors, their activities at the historic properties, and using this data for future resource allocation planning.**

Implementation Status – Not Implemented

This recommendation relates to MHC's need to expand its information collection activities. Audit work found MHC was not documenting the underlying assumptions upon which its business plan is based. By not doing this, MHC cannot be certain it has accurately assessed the success of items in the plan. In addition, we found the organization was not collecting data about visitors and their preferences regarding historic properties and other attractions. This is essential information needed to determine future resource allocation. Overall, we found MHC performed some work related to this recommendation, but this work has stalled with limited progress. Our review of the most recent business plans and interviews regarding visitor data collection indicates there has been few changes to these processes. The most recent version of the MHC business plan incorporated projected cost estimates and anticipated revenues of their business ideas, but MHC staff indicated the underlying assumptions upon which the estimates are based are still not currently being documented nor included in the plan. Further discussion with the staff determined it is their intention to implement all recommendations but have not yet done so because of a lack of knowledge regarding how to proceed with implementing this recommendation fully. However, there is no indication how the organization plans to do this. Additionally, our follow-up work found that MHC is currently using the same informal data collection approach found in the audit: pen and paper. However, MHC staff reports that there are plans to update data collection process via touchscreen kiosk systems in several locations. This new method is intended to save time in collecting visitor demographic information during the peak summer tourist season. In addition, the electronic interface is anticipated to better incentivize visitors to voluntarily provide their information. However, it was not clear from interviewing staff how the newly acquired data will ultimately be used or the timeline for implementing this change.

RECOMMENDATION #3

We recommend the Montana Heritage Commission strengthen its organizational planning processes by expanding its:

- A. Business plans to include a timeline for completion, an evaluation of resources needed, and an assessment of staff time required for each proposed project.**
- B. Strategic plans to include an assessment of current resources, and a strategic analysis indicating how those resources will be distributed among activities identified in the plan.**

Implementation Status – Not Implemented

This recommendation relates to MHC's need to plan in a more business-like fashion by estimating how many resources new projects proposed in MHC business plans would need, and how those needs intersect with the goals of the strategic plan. We found MHC began work on this recommendation, but work has

also stalled due to a lack of knowledge in how to proceed in getting it fully implemented. The most recent version of the MHC business plan incorporates projected cost estimates and anticipated revenues of business ideas. However, when reviewing the most recent MHC strategic plan completed September 2018, we found limited changes have been made when compared to the 2016 strategic plan reviewed during the audit, and none related to the resources needed to reach strategic goals. While MHC indicated they intend to implement this recommendation, we do not know how this will be accomplished because they could not provide evidence on how they would do this or an estimated timeline for completion.

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