



FLORIDA
INTERNATIONAL
UNIVERSITY

OFFICE OF INTERNAL AUDIT

Date: September 11, 2014

To: Michael Heithaus, Interim Dean, College of Arts and Sciences
Joanne Arnowitz, Director, Jewish Museum of Florida-FIU

From: Allen Vann, Audit Director

A handwritten signature in blue ink, appearing to read 'Allen Vann', is written over the printed name.

Subject: **Audit of the of the Jewish Museum of Florida-FIU**
Report No. 14/15-02

Pursuant to our approved annual plan, we have completed an audit of the Jewish Museum of Florida-FIU. The Museum became a part of the University in December 2012 through a gift agreement with FIU's Foundation. The Museum has a collection of nearly 33,000 objects devoted to preserving and interpreting for the public the historical evidence of the Jewish experience in Florida from its inception to the present. Revenues consist mostly of endowment and other contributions, which provide for self-sustaining programs and operating costs.

Overall, our audit disclosed that during the transition period the University has been reliant on the experience and knowledge of the employees who have been with the Museum for a lengthy period of time. In turn, the Museum's staff has had to acclimate to FIU's systems, processes and policies. Based on its limited staff size, processes are somewhat informal and opportunities for better segregation of duties are limited. However, there were areas where internal controls could be strengthened. Our recommendations focus on improvements that can be made to collection controls, the Museum store, expenditure controls, human resources, and cash controls. The audit resulted in 17 recommendations which management agreed to implement.

We would like to take this opportunity to express our appreciation for the cooperation and courtesies extended to us during this audit.

Attachment

C: Sukrit Agrawal, Chair, BOT Finance and Audit Committee and Committee Members
Mark B. Rosenberg, University President
Kenneth Furton, Executive Vice President & Provost
Howard Lipman, Senior Vice President University Advancement
Kenneth A. Jessell, Chief Financial Officer and Senior Vice President
Javier I. Marques, Chief of Staff, Office of the President

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OBJECTIVES, SCOPE, AND METHODOLOGY

Pursuant to our approved annual plan, we have completed an audit of the Jewish Museum of Florida-FIU ("Museum"). The objectives of our audit were to ensure that the: (a) collection and other inventory procedures and records were adequate; (b) collection was properly maintained and safeguarded; (c) store inventory procedures were adequate; and (d) payroll and other expenditures were appropriate.

Our audit was conducted in accordance with *the International Standards for the Professional Practice of Internal Auditing*, and included test of the accounting records and such other auditing procedures as we considered necessary under the circumstances. Our audit included all of the Museum's expenditures, including both the FIU Foundation and University accounts, for the period from December 10, 2012 (date of acquisition) through December 31, 2013. Based on our preliminary evaluation of inherent risks and available audit resources we did not include testing of revenues and information technology controls as part of the audit. Audit fieldwork was conducted from April 2014 to July 2014.

During the audit, we reviewed FIU Foundation's policies and procedures, Florida statutes, and FIU Foundation rules, observed current practices and processing techniques, conducted inventories of the collection and store, interviewed responsible personnel, and tested selected transactions. Sample sizes and transactions selected for testing were determined on a judgmental basis.

As a recent acquisition, an internal audit of the Museum has never been conducted, and there were no other external audit reports issued with applicable prior recommendations related to the scope and objectives of this audit.

BACKGROUND

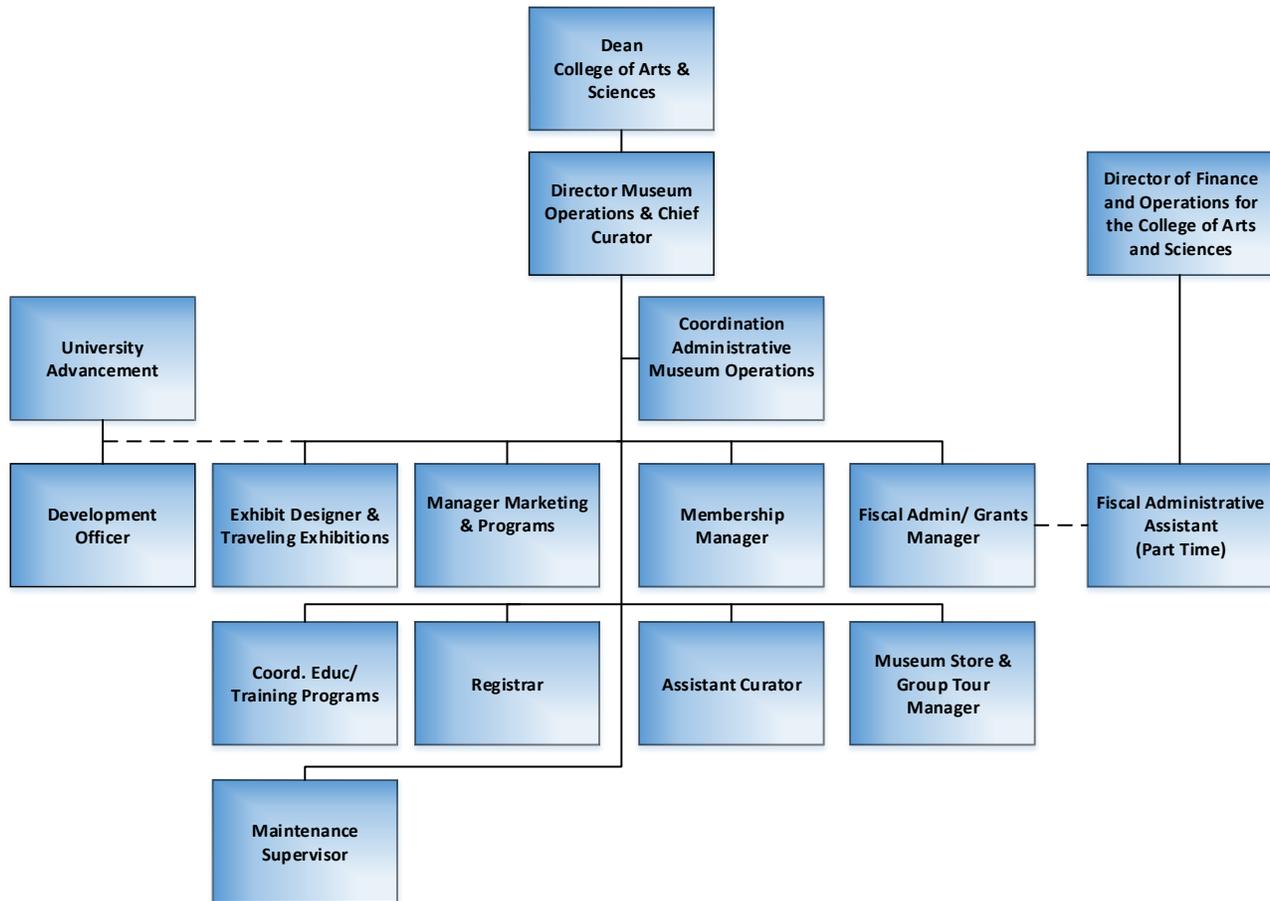
Jewish Museum of Florida, Inc. (“JMOF”), a Florida not-for-profit corporation, was established in 1989 (originally incorporated as MOSAIC, Inc.) to collect, preserve and interpret for the public the material evidence of the Florida Jewish experience from at least 1763 to the present. On December 10, 2012, a gift agreement (“Agreement”) among the Florida International University Foundation, Inc. (“FIU Foundation”), the University, and the Museum went into effect, whereby JMOF agreed to donate all of its rights, title and interests in all objects constituting the “JMOF Collection” to the University, and to donate its financial assets and related liabilities, including the real property at 301, 311 and 321 Washington Avenue to the FIU Foundation.

After the Agreement, the operation of the Museum, formally operated by JMOF, became an academic unit of the University reporting directly to the Dean of the College of Arts & Sciences (“Dean”), and is referred to as the “Jewish Museum of Florida-FIU”. Subsequent to implementing the Agreement, employees of the Museum, the respective academic programs, and the JMOF Collection became part of the University. The real property along with all furniture, fixtures and equipment was made part of Foundation Enterprise Holdings II, LLC, while all financial assets and operations were part of the FIU Foundation. As a result, all financial transactions are processed and recorded on the books and records of the FIU Foundation, including payroll. Payroll is processed by the University for all Museum employees and is subsequently reimbursed by the FIU Foundation.

The Museum Director and appropriate staff and the University jointly developed an initial budget for the costs of operating, staffing, and maintaining the Museum. All revenues arising from the operation of the Museum and donations and grants generated for Museum operations and capital expenditures are to be used to support the Museum’s mission. It is expected that revenues from Museum operations, donations with respect to the Museum, and income from its endowment will be sufficient to fund the Museum expenses. In the event that during the first three years following the closing date, the Museum’s actual revenues are insufficient to cover its budgeted expenses, the shortfall may be addressed using a combination of available funds from the College of Arts & Sciences, the FIU Foundation and its financial assets.

The University and FIU Foundation provide the Museum with the same general administrative support afforded to other departments/units pursuant to University or FIU Foundation policies, including development, business and finance, information technology, human resources, legal support and the like.

Currently, the Museum is organized as follows:



The Museum has a collection of nearly 33,000 accessioned-numbered objects and was accredited in 2002 and reaccredited in 2011 by the American Alliance of Museums for a period of fifteen years.

We identified 12 accounts with activity under the direction of the Museum, 11 at the FIU Foundation, and the payroll account at the University, totaling \$5,005,848 in revenues and \$1,489,333 in expenditures for the audit period ended December 31, 2013. This included \$3,443,076 in endowment contribution revenues.

Jewish Museum of Florida-FIU
Results of Operations (Consolidated)
December 10, 2012 through December 31, 2013

REVENUES:

Endowment Contributions	\$ 3,443,076.19	68.8%
Other Contributions	1,217,594.84	24.3%
Endowment Investment Earnings	144,126.11	2.9%
Dues Revenue	135,447.98	2.7%
Store Revenue	47,320.54	1.0%
Program Revenue	25,942.20	0.5%
Rental Income	19,891.34	0.4%
Admission Revenue	6,714.20	0.1%
Event and Auction Revenue	2,185.00	0.0%
Miscellaneous Revenues	1,690.10	0.0%
Endowment Unrealized Losses	(16,673.06)	-0.3%
Foundation Advancement Initiative Fee	(21,467.47)	-0.4%
Total Revenues	\$ 5,005,847.97	100.0%

EXPENDITURES:

Staff salaries & benefits	\$ 868,324.28	58.3%
Professional Services	143,792.71	9.7%
Insurance	66,120.28	4.4%
Utilities	62,242.13	4.2%
Other Materials and Supplies	60,117.38	4.0%
Mortgage	50,000.00	3.4%
Security Services	42,152.70	2.8%
Promotional Advertising	41,036.37	2.8%
Repairs & Maintenance	37,478.72	2.5%
Administrative Fee on Endowments	25,557.92	1.7%
Catering	19,537.33	1.3%
Rental of Facilities	14,283.30	1.0%
Printing	14,120.01	0.9%
Accounting Services	9,000.00	0.6%
Phone Equipment Rental & Repairs	7,717.48	0.5%
Other	7,499.02	0.5%
Communication Charges Other	6,374.26	0.4%
Postage	5,634.53	0.4%
Banking Fees	5,670.78	0.4%
Freight	2,673.98	0.2%
Total Expenditures	\$ 1,489,333.18	100.0%
Net Revenues over Expenditures	\$ 3,516,514.79	

Source: General Ledger/University and Foundation accounts consolidated

FINDINGS AND RECOMMENDATIONS

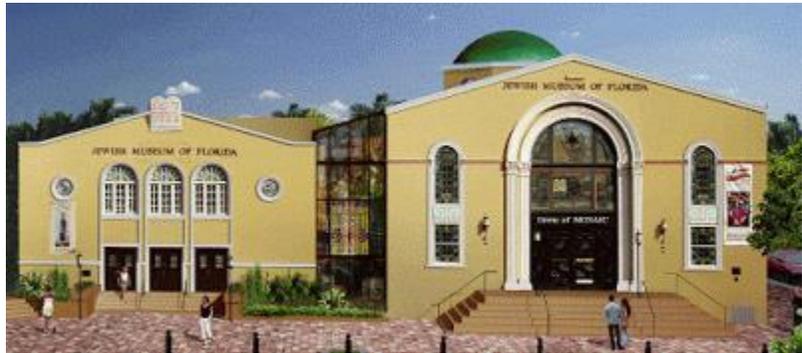
During the transition period the University has been reliant on the experience and knowledge of the employees who have been with the Museum for a lengthy period of time. In turn, the Museum's staff has had to acclimate to FIU's systems, processes and policies. Based on its limited staff size, processes are somewhat informal and opportunities for better segregation of duties are limited. Consequently, any errors or irregularities that occur are less likely to be detected timely. In evaluating their controls, we weighed those circumstances against the limited risks involved, as the collection has a very limited monetary value and there are relatively minimal resources available to the Museum. We considered controls fair in light of the circumstances. Our recommendations focus on improvements that can be made to collection controls, the Museum store, expenditure controls, human resources, and cash controls, with a view towards minimizing the amount of additional cost to the University.

INTERNAL CONTROLS RATING			
CRITERIA	SATISFACTORY	FAIR	INADEQUATE
Process Controls		x	
Policy & Procedures Compliance		x	
Effect		x	
Information Risk		x	
External Risk	x		
INTERNAL CONTROLS LEGEND			
CRITERIA	SATISFACTORY	FAIR	INADEQUATE
Process Controls	Effective	Opportunities exist to improve effectiveness	Do not exist or are not reliable
Policy & Procedures Compliance	Non-compliance issues are minor	Non-compliance Issues may be systemic	Non-compliance issues are pervasive, significant, or have severe consequences
Effect	Not likely to impact operations or program outcomes	Impact on outcomes contained	Negative impact on outcomes
Information Risk	Information systems are reliable	Data systems are mostly accurate but can be improved	Systems produce incomplete or inaccurate data which may cause inappropriate financial and operational decisions
External Risk	None or low	Potential for damage	Severe risk of damage

1. Collection Controls

The Museum's collection is comprised of 33,000 accessioned objects. The objects are primarily documents, publications, photographs and other items of a historical nature tying to the history of Jews in Florida. Although the vast majority of the objects have no appraisal value they do have academic, research and historical value. The objects are mostly stored on the second floor of the Museum, while approximately 100 objects are stored at third-party, off-site storage locations.

The Museum is housed in two side-by-side restored former synagogues in Miami Beach that are on the National Register of Historic Places. The buildings were built in 1929 and 1936 and are manned by one security guard during operating hours who requires all visitors to pass through a metal detector. According to management, all purses, backpacks, and the like are also opened and inspected. Additionally, there are three panic buttons that if activated automatically notify the City of Miami Beach Police Department.



The buildings are also secured by an alarm connected to a central monitoring station and with cameras which record activity both inside and outside the Museum. During operating hours two monitors with the live feed from all 12 cameras are viewable by several employees. However, the outside surveillance cameras do not cover all entrances to the building, leaving back entry doors and windows leading directly to the collection area exposed to potential entry without detection.

Most employees have keys to access the Museum. Physical inventories are not routinely performed. In addition, the Registrar has access to the building and has authority to adjust the collection inventory records. Thus, objects could be removed without detection or identification of who was responsible for the removal.

Objects Inventory Observations

We tested 35 objects from the Collection report produced at the time of acquisition. The objects were located both at the Museum building and at the off-site storage locations.

Twenty-five objects were traced from the report to the shelves, while ten objects were traced from the shelves to the report. Our observations follow:

- Two objects from the report could not be located.
- One item selected from the shelf was not included in the report. The item was a high-value item, worth approximately \$438,000, and had been gifted to the Museum in 2007 but never accessioned until 2014, thus, it was not included in the report at the time of acquisition.
- One item considered to be a research item had been accessioned and included in the report.
- Three objects' locations were not updated in the system.

Recommendations

The Museum should:	
1.1	Consider installing additional camera(s) to cover rear entryways.
1.2	Consider separating inventory recordkeeping responsibilities from individuals who have direct access to the collection.
1.3	Establish a reasonable and systematic inventory process for the collection.
1.4	Ensure that accessions are timely recorded when received, research items are deaccessioned, when appropriate, and the database is updated on a timelier basis when items are transferred from one location to another.

Management Response/Action Plan:

1.1 Currently our security guard does make regular inspections of all doors and walks the entire property. However, we will contact our security firm to see what can be added to our existing equipment and the associated costs of equipment and try to find funding.

Implementation Date: September, 2015

1.2 The responsibilities of the Museum Registrar include both inventory record keeping and having direct access to the collection, which is a common museum practice and aligned with the professional standards of accredited museums such as ours. Given the current size of our staff, we are unable to separate these duties. It is also noted in the report that ours is an historic collection, with the bulk of items having no monetary value, and as such, the overall risk is minimal and does not warrant changing the procedures at this time. If our situation changes in the future, we will review the current operations at that time.

Implementation date: Immediately

- 1.3 The Museum will review Section II of the Registrar Manual to determine if any additional steps should be implemented. We will also look at setting up an inventory schedule to verify the location of items. In addition, the Registrar is in the process of a multi-year full inventory review and if any discrepancies are identified they will be corrected immediately.

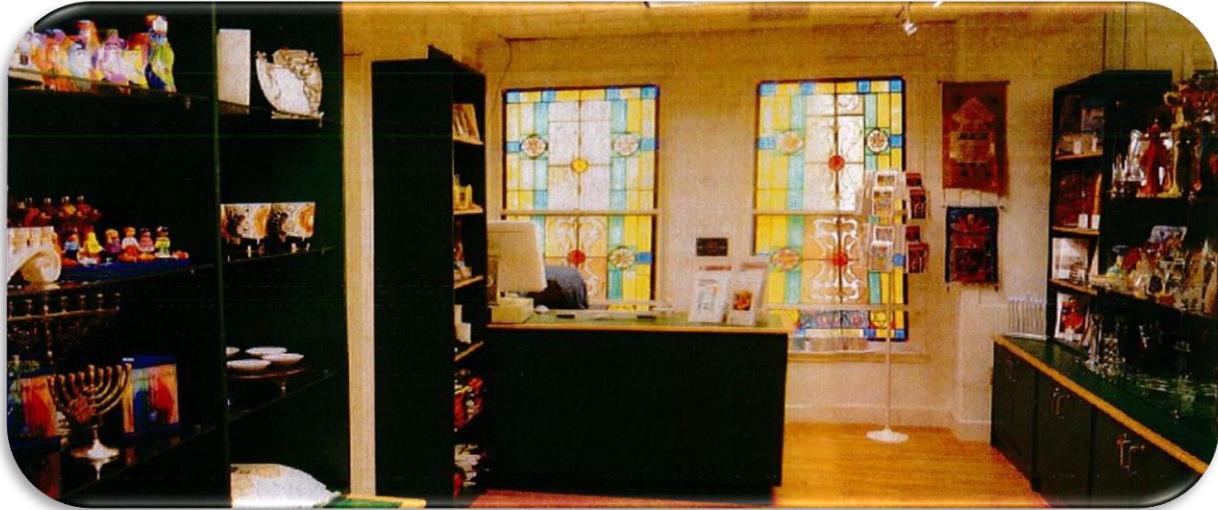
Implementation date: December, 2014

- 1.4 The Museum will continue to make every effort to record accessions in a timely manner, however, as in the case of most museums, collection cataloging is an ongoing task that is never completed. We are fortunate to be known as the repository for materials on the Florida Jewish community, and as such, we are constantly receiving new acquisitions, many of which can take months to input. We rarely deaccession items from the collection. The Museum will also continue to make every effort to update the database in a timely manner as far as the location of items. Just before the audit, we were in the process of a complete reorganization of our off-site storage units, so there was a short lag time in updating the database during this period.

Implementation date: Immediately

2. Museum Store

The Museum Store generated sales of over \$47,000 during the audit period. Store items and price points complement the Museum's collection.



Inventory Count

The Museum Store maintains its inventory on a perpetual basis. A physical inventory is conducted every year-end. We selected 25 products to test from the April 23, 2014 store inventory report, with a cost totaling \$7,543, from a total store inventory cost of \$30,817.

Some of the selected items were stored in the Museum's basement storage room. The room was not locked and reportedly remains open during operating hours. During our count, we learned that a maintenance employee has a desk in the room to work from.

As a result of our 25 test counts, we observed 7 items (or 28%) with count differences ranging from plus 12 to minus 12.

Inventory Costing

Management had informed us that inventory was kept on a first-in, first-out (FIFO) method of accounting. However, during our testing we determined that the April 23, 2014 store inventory report used for our testing was costed out at last cost, which in many cases reflected the same cost as FIFO, but not in all circumstances. After inquiring of management and their discussions with the software vendor, it became apparent that the system can only provide inventory reports either using the last cost or a weighted-average method. The weighted-average method would provide a means to cost inventory and be allowed under generally acceptable accounting practices (GAAP).

Nonetheless, we tested inventory costing by selecting 10 items and found 6 exceptions, as follows:

- Two items, costed at last cost, differed from its costing under FIFO. One item reflected a cost of \$15, which under FIFO would have been \$2.95. However, a secondary issue was found in that similar items costing different amounts were assigned the same SKU number and costed at the same price. The second item was costed at \$12, which would have been \$11.16 under FIFO.
- Two items were costed at the incorrect price as a result of input errors. One was at \$15, but when traced to the supporting documentation reflected an actual cost of \$16. The second was costed at \$8, but the invoice reflected \$7.
- One item costed at \$12, when traced to the supporting documentation reflected that the Museum had received 11 units, 1 of which was “free”. The total cost should have been based on the 11 units received and not the 10 costed out on the invoice which would have reduced the per-unit cost to \$10.90.
- One item costed at \$12 reflected a quantity of 31 items in stock, with the last purchase of 10 items on November 18, 2013. Management informed us that the 10 items were input inadvertently. The previous invoice which was for 48 items was also on November 18, 2013 and we calculated the cost at \$12.09 per-unit.

During our inventory testing we observed that different items were assigned the same SKU number. It was explained that was the result of items being similar in nature and having the same cost. However, as noted above, in some cases we observed that even if the costs were not identical they would still be assigned the same SKU number and the same cost, regardless of its actual cost. Management explained that the Store Manager, which as explained below has total control over the inventory, was unaware of the impact the costing of items in the system has on inventory valuation and cost of goods sold determination.

Other

The Museum Store is run on a day-to-day basis by one employee who is responsible for all store activities, including cash management, purchases, sales, and inventory control, and is also responsible for daily admissions sales. The employee reconciles cash at the end of the day and performs inventories routinely. We noted that although this employee is also responsible for viewing the activities throughout the Museum on her monitor of cameras, there is no camera set to view the cash register area.

Recommendations

The Museum should:	
2.1	Consider whether the basement storage room should be locked and off-limits to other employees.
2.2	Ensure inventory counts are adjusted and resolve quantity differences.
2.3	Ensure the system properly calculates inventory costing using the weighted-average method.
2.4	Develop a mechanism to ensure inventory data input is verified as to quantity and cost.
2.5	Ensure that different inventory items, especially those with different costs, are assigned different SKU numbers in order to properly track the items.
2.6	Consider improving internal controls in the store by segregating some of the duties currently relegated to the one employee.

Management Response/Action Plan:

- 2.1 During the day it is difficult to lock the storage room as it is also the maintenance office, extra storage for office supplies, and store inventory and packing supplies. Locking after public hours is not practical for staff who may need to replace supplies. Ideally if we can add a camera along with the 1.1 recommendation that would be our best option.

Implementation date: September, 2015

- 2.2 Museum store manager has been instructed to review inventory discrepancies quarterly to make adjustments and resolve quantity on hand on a regular basis.

Implementation date: Immediately

- 2.3 Management has been in contact with the software vendor and they have made formula corrections so that the weighted average cost of inventory is now properly calculated. Testing is also being done quarterly to confirm that the system is working.

Implementation date: Immediately

- 2.4 Museum store manager has been instructed as to proper input procedures for cost and quantity. Fiscal administrator will do spot checking during the year.

Implementation date: Immediately

- 2.5 As new items are purchased new SKU numbers will be added to the inventory when the cost is different to better track the items.

Implementation date: Immediately

- 2.6 Due to staff size it is difficult to separate the controls at the store level. However, daily close outs are performed and then reviewed by the accounting assistant who also counts the cash and makes the bank deposits. Additionally, the daily tapes are reviewed by the accounting assistant who prepares the weekly journal entries for the Foundation. The accounting assistant also tracks all credit card charges from the store and confirms they have been deposited in the Foundation bank account.

Implementation date: Immediately

3. Expenditure Controls

The Museum has 12 budgetary accounts from which nearly \$1.5 million in expenditure activities occurred. Included in this total were \$868,324 in payroll and related expenditures. Of the remaining \$621,009, we tested 43 transactions, totaling \$366,914 (or 59%). These included Foundation expenses paid for: (a) general and grant expenditures; and (b) credit card expenditures.

Since the expenditures were processed by the Foundation, we tested the 43 transactions against the Foundation's policies and procedures. All expenditures greater than \$5,000 had to be approved by the Foundation's CEO.

During our testing, we found two general expenditure transactions, totaling \$16,667, which were not approved by the Foundation's CEO, as required. They both involved transactions for monthly payments to the Museum's Founding Executive Director. We also tested credit card expenditures totaling \$7,876, from a population of \$36,908, and found one invoice for \$1,666 as part of a payment totaling \$5,269, which was not approved by the CEO. However, all three transactions appear to have been proper. Strong Foundation internal controls over such processes are essential because as Museum management stated at the commencement of our audit that they did not have the managerial tools necessary to produce meaningful financial statement to keep them apprised of their financial position.

In addition, we found one transaction for a utility deposit, totaling \$6,174, classified as an expenditure rather than an asset.

Recommendations

3.1	The Foundation should ensure that all expenditures greater than \$5,000 are approved as required, and that payments representing deposits be classified as assets.
3.2	The Museum should work with the Foundation to ensure that all financial statements are obtained and reviewed on a recurring basis.

Management Response/Action Plan:

3.1 The Foundation will continue to work on monitoring disbursements to ensure that proper approvals are obtained and that deposit type transactions are properly coded in the accounting system. It is important to note that the two disbursements in question were part of the liability assumed by the Foundation as part of the gift agreement with the JMOF. Therefore, the disbursement was appropriate and pre-approved. As part of year-end financial statement procedures, disbursements are reviewed to verify if any balance sheet reclassifications are warranted. The deposit noted in by the auditors has been properly reclassified for the year end June 30, 2014 financial statements.

Implementation date: Immediately

3.2 The Museum internet has recently been upgraded so that an “Nvision” statement is now available for the Museum.

Implementation date: Immediately

4. Human Resources

Payroll and Personnel Administration

Payroll and fringe benefits represent fully 58% of the Museum's expenditures. These expenditures are processed by the University and subsequently reimbursed by the Museum through the Foundation. We reviewed the employees' hours worked and/or leaves taken for the \$868,324 in related expenditures during the audit period and found the controls to be mostly adequate.

Employees Brought Onboard

At the time of the gift agreement, there were 13 employees and we agreed all salaries and wages to their starting salaries and wages at the University without exception.

Background Checks

University Policy No. 1710.257 requires the performance of criminal history checks on all newly hired employees. The Policy also requires more in-depth criminal history checks including fingerprinting, through the Florida Department of Law Enforcement for new employees handling cash or managing cash transactions. We confirmed that all employees were processed for criminal history checks. However, two employees that handle cash had not been subjected to the more in-depth fingerprinting requirements.

Payroll Approval

The University's payroll guidelines require managers/proxies to have first-hand knowledge of the employee's hours reported or obtain written confirmation from the employee's supervisor of the hours being reported prior to approving the payroll.

Subsequent to the gift agreement employees began getting paid with the January 25, 2013 payroll, although some employees got paid starting with the December 28, 2012 payroll. Accordingly, we reviewed time and attendance records covering pay dates from December 28, 2012 through December 27, 2013, which included 15 employees (682 transactions):

- 93% of the employees' hours were approved by their managers/supervisors; while
- 7% of employees' hours were automatically approved by the Payroll Department.

Recommendations

The Museum should:	
4.1	Consult with HR to ensure that all employees handling cash or managing cash transactions are fingerprinted.
4.2	Ensure that all payroll time approval is completed by the appropriate supervisor on a timely manner.

Management Response/Action Plan:

- 4.1 We have contacted HR to arrange for fingerprinting of all employees who have not been fingerprinted by FIU.

Implementation date: October, 2014

- 4.2 Manager has been made aware of this observation will approve all payroll in a timely fashion.

Implementation date: Immediately

5. Cash Controls

As previously mentioned, admissions and Museum Store receipts are handled primarily by one employee. In addition, monies received by mail at the Museum for memberships, donations and program payments are logged into a manual log when received by a second employee. Accounting staff is then responsible for the deposits and preparing the journal entries. However, the original manual log is never reviewed as a means of reconciling the monies received and/or deposited. The log is maintained by one employee but kept in the open for other employees to review whenever questions arise.

Museum personnel deposit cash receipts weekly, and when the amounts warrant. During our walk-through we found that the Museum had cash funds that had been received 28 days prior. Although the University has a policy to deposit all funds within 48 hours of receipt, the Foundation has no similar policy.



Two change funds are maintained by the Museum, a \$150 change fund for the Museum Store and a \$100 change fund for admissions. The admissions change fund is maintained in a locked register drawer in the lobby area. However, since currently all admissions are processed at the Store, the admissions change fund located in the lobby is going unused.

Recommendations

The Museum should:	
5.1	Consider having the employee opening the mail logging in all receipts into an electronic spreadsheet which could be maintained in a shared drive for other employees to review but not edit. This spreadsheet can then be used to ensure deposits are made and provide for proper segregation of duties.
5.2	Ensure deposits are made on a timely basis as a form of good business practice.
5.3	Transfer the change fund from the lobby area into the Museum's safe until such time as admissions is processed in the lobby again.

Management Response/Action Plan:

5.1 We will consider implementation of an electronic sheet as time and staff permits.

Implementation date: September, 2015

5.2 With the addition of the accounting assistant (although only part time) all deposits are now being made on a timely basis. This includes cash, checks and non-store related credit card charges (Store charges post daily from the POS sales system).

Implementation date: Immediately

5.3 Funds are now held in the Museum safe in the administrative offices.

Implementation date: Immediately