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Office of the City Auditor  
Audit of Museum Stores

Report Date: March 6, 2014

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## Office of the City Auditor

*"Promoting Accountability and Integrity in City Operations"*

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Office of the City Auditor  
Transmittal Letter



Date: March 6, 2014  
To: James K. Spore, City Manager  
Subject: Audit of Museum Stores

I am pleased to present the report of our Audit of Museum Stores. Our audit focused on the operational procedures and controls in place at the Virginia Aquarium and Historic Houses museum stores.

Overall, based on our review, the processes and controls governing management and oversight of the City's museum stores were adequate, but management can enhance these processes and improve efficiency and accountability by implementing our recommendations related to controlling and monitoring the operation of the City's museum stores.

Findings considered to be of insignificant risk have been discussed with management. The results of this audit will be provided to City Council and the City's Audit Committee.

The Office of the City Auditor reports to City Council through the City's Audit Committee and is organizationally independent of all other City Departments. This report is intended solely for the information and use of the Audit Committee, City Council, City Manager, and appropriate management. It is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

We would like to thank the staff of the Virginia Aquarium and the Historic Houses for their courteous and prompt assistance during our review.

If you have any questions about this report, or any audit-related issue, I can be reached at 385.5872 or via email at [lremias@vbgov.com](mailto:lremias@vbgov.com).

Respectfully submitted,

Lyndon S. Remias, CPA, CIA  
City Auditor

c: City Council Members  
Audit Committee Members  
Lynn Clements, Director, Department of Museums and Historic Resources



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## **Purpose**

The purpose of this audit was to ensure adequate controls and processes are in place to properly account for revenue and to safeguard assets at the museum stores. This audit was requested by department management through the annual risk assessment process performed by the City Auditor's Office.

## **Scope and Objectives**

The objective of our audit was:

- To ensure adequate controls, procedures and processes are in place to properly account for museum store revenue and to safeguard assets (i.e., inventory).

This audit included the five museum stores located at the Virginia Aquarium and the historic houses owned and operated by the City of Virginia Beach. The audit covered sales transactions from October 15, 2012 through September 9, 2013. Our fieldwork concluded on December 31, 2013.

## **Methodology**

To accomplish our objectives, we performed the following procedures:

- Reviewed existing policies and procedures related to museum store operations and interviewed staff to gain an understanding of operations.
- Reviewed internal controls through inquiry and examination of documents and data.
- Performed analysis and tests of transactions to determine/identify patterns and anomalies.
- Independently computed sales and cost of sales.
- Compared sales and cost figures to prior years.
- Calculated common retail ratios. Compared results to industry standards.
- Reconciled automated POS sales information to the City's General Ledger.
- Selected a sample of daily receipts and traced to General Ledger.
- Reviewed sales tax submissions for reasonableness.
- Reviewed and tested procedures for discounts, voids, refunds and no sales.
- Reviewed logical access controls for the automated POS systems.
- Reviewed process for issuance and redemption of gift certificates.
- Selected a sample of purchase orders and traced through purchasing cycle.
- Reviewed and tested procedures for transfer of inventory between locations.
- Reviewed and tested procedures for recording damaged goods and monitoring shrinkage.
- Reviewed and tested procedures for price changes and markdowns.
- Performed test counts of year end inventories.
- Verified cash on hand for change funds agreed with the City's General Ledger.
- Made recommendations to improve processes and enhance internal controls.



## **Standards**

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained during this audit provides a reasonable basis for our findings and conclusions.

The Office of the City Auditor reports to City Council through the Audit Committee and is organizationally independent of all City Departments. This report will be distributed to the City's Audit Committee, City Council, City Manager, and appropriate management within the City of Virginia Beach. This report will also be made available to the public.



## Background

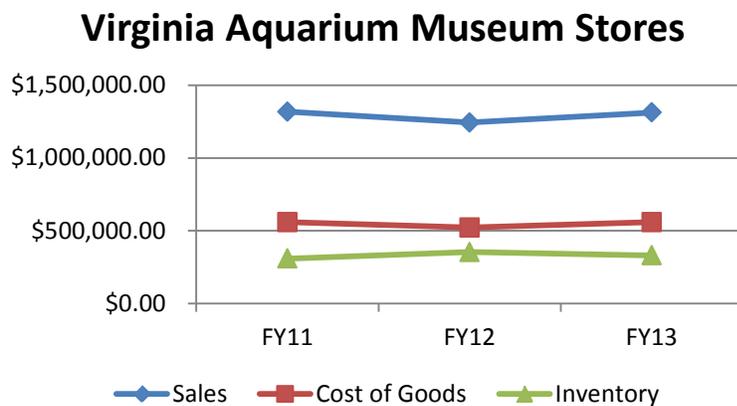
The Department of Museums and Historic Resources provides a variety of educational opportunities for residents and visitors that help them to experience the unique marine environment of Virginia Beach and the plants and animals that may be found here, and to learn about the City's history as represented by three historic houses and the families associated with them. The Department also operates the Princess Anne County Training School/Union Kempsville High School Museum located in the Renaissance Academy. The department is also extensively involved in the conservation of the natural environment and the preservation of historic resources.



The services provided are divided between the Virginia Aquarium & Marine Science Center (Aquarium) and Historic Resources which oversees the operations and programming at the City's historic houses: the Francis Land House, the Adam Thoroughgood House, the Lynnhaven House, and the Princess Anne County Training School/Union Kempsville High School Museum located in the Renaissance Academy.

Both the Aquarium and the historic houses generate revenue through ticket sales, memberships, store sales and special events. The department relies on the support of private citizens as volunteers, board members and donors.

Table 1. Three-Year Comparison

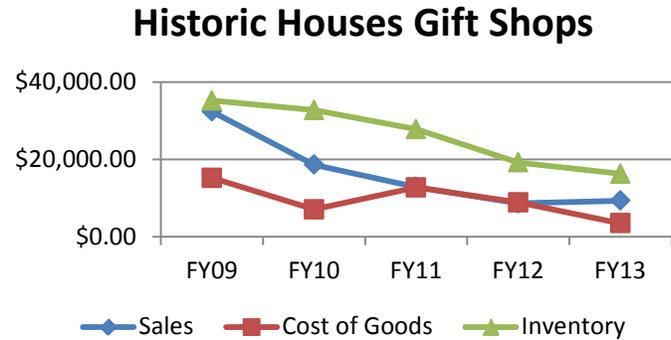


The Virginia Aquarium has two stores: Water's Edge in the North Building and Fiddler's Cove in the South Building. The Aquarium also utilizes an offsite storage facility for inventory. In addition to the Aquarium locations, a small selection of items is available for sale at the Virginia Beach Convention Center. Sales, cost of sales and inventory data is provided in Table 1.



Table 2. Three Year Comparison

The City operates three historic houses. Each of the three (Francis Land, Adam Thoroughgood and Lynnhaven) has a small gift shop. Table 2, below, depicts the relationships between sales, cost of goods sold and inventory at the gift shops. Management is making a concerted effort to sell down the current inventory. The Princess Anne County Training School/Union Kempsville High School Museum located in the Renaissance Academy does not sell tickets, nor does it have a gift shop.



The Aquarium stores implemented a new point-of-sale system called CounterPoint in October 2012. CounterPoint is also used to manage and track the stores' inventories. The historic houses use Microsoft Dynamics Retail Management System to record admissions, sales and program revenues. The department plans to switch the historic houses to CounterPoint as funds become available.



## **Findings and Recommendations**

### **Strengthen controls over processing of cash refunds**

The museum stores' refund policies are specific as to the situations in which refunds may be granted. Refunds must be made back to the original method of payment, i.e., credit card sales must be refunded back to the same credit card and cash sales to cash refunds. Cash refunds over \$100 are paid by check. Refunds are documented using an *incident slip* or *cash refund slip*.

The museum stores processed 365 refunds to customers amounting to \$4,554.22 during our review period. While most refunds are processed via credit card, *cash refunds* present a higher risk for misappropriation. We reviewed refund transactions included in our sample of daily sales to determine whether refunds were properly authorized, adequately documented and made in accordance with departmental policy. General observations based on our review are as follows:

- Refunds were not consistently documented by using *Incident or Cash Refund Slips*.
- Reasons for the refund were not consistently provided.
- Written acknowledgement from the customer verifying that he/she requested and received the refund was not consistently obtained.
- Authorization and approval for the refund by a store manager was not consistently documented. A signature provides responsibility and accountability over disbursement of cash back to the customer.

### **Recommendations**

We offer the following recommendations to strengthen controls over refunds and reduce the risk of loss to the City:

- 1.1 Require *all* refunds be supported by a system generated *Refund Request Slip* and maintain this form with the *Cashier's Daily Report*. The *Refund Request Slip* should contain all of the following elements:
  - Reference to the initial transaction/ticket number;
  - Descriptive reason for the purpose of the refund;
  - Separate signature authorizing the refund;
  - Customer's signature acknowledging request for and receipt of the refund.
- 1.2 Have the automated POS system generate the *Refund Slip*.
- 1.3 Ensure POS system prohibits refunding to a credit card other than the one used for the initial purpose.
- 1.4 Monitor refund activity by cashier on a regular basis.



## **Ensure voids and no sale transactions are adequately supported, approved and monitored**

Reasons for voids and no sale transactions were not consistently documented on the receipts, nor were receipts consistently maintained for documentation purposes. Whenever a transaction is voided or cancelled or the cash drawer is opened during a no sale transaction, a receipt should be printed and a reason for such action should be notated on the receipt to provide accountability and possible resolution in the event of a discrepancy.

At the time of our audit, management was not actively monitoring void and no sale activity. The number of voids and no sales does not appear on the *CounterPoint Z-Tape Report* and the information provided in the *Point of Sale Exceptions Report* is not accurate. Aquarium staff is working with the vendor to determine why.

### **Recommendations**

To ensure voids and no sales are adequately supported, management should:

- 2.1 Print and maintain receipts for all voided and no sale transactions.
- 2.2 Require all voided transactions be approved by someone other than the cashier processing the transaction. Review/approval should be indicated on the receipt, or documented within the POS.
- 2.3 Require the cashier notate the reason for no sale and/or voided transactions on the receipt or within the POS.
- 2.4 Maintain voided transaction and no sale receipts with the *Cashier's Daily Report*.
- 2.5 Monitor void and no sale activity by cashier on a regular basis. Excessive voids and no sale activity can be an indicator of improper training or act as a red flag for inappropriate access to monies.
- 2.6 Ensure use of electronic means of drawer opening. Drawer keys should be safeguarded and not used by the cashiers to routinely open the drawers.
- 2.7 Continue to work with CounterPoint to ensure the accuracy of the information included on the *Point of Sale Exceptions Report*.



## **Strengthen internal control and accounting for gift certificates**

During our audit period, the Aquarium stores sold 25 gift certificates totaling \$675. The museum stores use preprinted, prenumbered gift certificates. Gift certificates expire one year from the date of issuance.

Gift certificates are not validated at time of purchase. The purpose of the validation is to authenticate the purchase amount; therefore, the current process does not include manual or automated controls to associate the redemption of the gift certificate with the sale. Gift certificates sold are not regularly reconciled to gift certificates on hand.

Without appropriate internal controls, gift certificates are susceptible to manipulation by employees and/or customers possibly resulting in reduced revenue.

### **Recommendation**

To reduce the risks associated with the issuance and redemption of gift certificates, management should:

- 3.1 Consider the use of system generated gift certificates to eliminate the need for preprinted gift certificates and ensure that all sales and redemptions are properly recorded in the point of sale (POS) system.

In the meantime, management should at a minimum:

- Affix the sales receipt to the gift certificate at the time of sale.
  - Effectively cancel redeemed certificates and file with daily reports to satisfy City record retention policies and also provide supporting documentation for future reconciliations.
  - Reconcile the certificates on hand to the number of certificates sold on a regular basis.
  - Compare the redemption amounts to the sales amounts periodically.
- 3.2 Ensure proper accounting for the sale and redemption of gift certificates by using the Aquarium's deferred revenue account.



## Enhance accountability by controlling access and ensuring appropriate controls are in place

Both the Aquarium and the historic houses use automated point of sale systems to manage their retail operations. The systems allow for individual login and security profiles based on a user's roles and responsibilities.

Our review of Counterpoint users, identified two active users that were no longer employed by the Aquarium. We also

noted that several employees had rights to perform functions not related to their normal job duties. Users at the historic houses shared a username and password.



To enhance accountability and system access controls, management should:

- 4.1 Reiterate to employees the importance of locking the terminal when not in use.
- 4.2 Regularly review security profiles to ensure access rights are appropriately assigned to employees based on their roles and responsibilities.
- 4.3 Develop a process to ensure employee rights are terminated at the end of their employment period and/or upon changing jobs within the department.
- 4.4 Ensure staff responsible for system set up, monitoring and reporting are appropriately trained.
- 4.4 Ensure employees are assigned individual usernames and passwords (Historic Houses).



## Enhance inventory management and efficiency through further automation

The Virginia Aquarium has two stores: Water's Edge and Fiddler's Cove. The Aquarium also utilizes an offsite facility for storing inventory items. The merchandise stored in the offsite facility is included in the Water's Edge inventory, thereby, making it difficult to manage and track the merchandise by location.



In addition to managing and tracking the stores' inventory, CounterPoint allows for automation of the order and receipt of merchandise, including the use of handheld devices to facilitate the receipt and transfer of merchandise for resale. At the time of our audit, the Aquarium's process for receiving and transferring merchandise between locations was manual and labor intensive.

The historic houses inventory receipt and transfer process is also a manual one, which requires items to be entered multiple times at the various locations. The Microsoft Dynamics Retail Management System is installed on standalone computers at each location which requires staff to be physically present within the store to be able to run reports and make adjustments.

The marketing functions of both the Aquarium and the historic houses routinely purchase merchandise from their respective facilities at a reduced price to be used to advertise and market the site. The historic houses currently purchase these items at no cost. The purchase of these items should be appropriately authorized and documented at the time of sale. The historic houses should account for these purchases as a sale, rather than an adjustment to inventory.

## **Recommendations**

To reduce the risks associated with the management of merchandise for resale, management should:

- 5.1 Make Aquarium's warehouse and the Virginia Beach Convention Center separate locations within CounterPoint.
- 5.2 Appropriately document the transfer of merchandise between locations using the automated system and ensure adequate segregation of duties exist.



- 5.3 Use the order/receipt and stocking capabilities of Counterpoint as designed.
- 5.4 Explore the use of handheld devices to facilitate the receipt and transfer of merchandise for resale.
- 5.5 Costs associated with freight and design charges should be included in cost of items, rather than expensed at time of purchase.
- 5.6 Work with ComIT to network the computers in the stores at the historic houses.
- 5.7 Properly authorize, record and document the purchase of items by department staff for marketing purposes.



## Clearly delineate roles and responsibilities of the Historic Houses Foundation and Friends of Historic Houses

The Virginia Beach Historic Houses Foundation was formed in February 2013 to replace the defunct Francis Land Historical Museum Foundation. The new Foundation exists to generate supplemental support for historic city owned properties. The Deputy Director of the City's Department of Museums and Historic Resources serves as the Executive Director of the Foundation.



The Friends of the Virginia Beach Historic Houses formed in March 2011, replacing the three individual Friends organizations. The Friends organization supports the historic houses by selling memberships, providing volunteers and conducting fundraising events at the houses. Membership in the Friends organization includes admission to the houses, shop discounts and opportunities to attend exclusive members' events.

There are no memorandums of understanding or operating agreements between these organizations and the City. As a result, the roles and responsibilities of each entity or group are not clearly delineated.

### Recommendations

- 6.1 Develop Memorandums of Understanding and/or Operating Agreements with the Virginia Beach Historic Houses Foundation and Friends of Historic Houses that clearly delineate the roles and responsibilities of each group.
- 6.2 Meet with the City's Risk Manager to ensure operations and special events hosted at the historic houses comply with City and State laws and regulations and appropriate policies are in place to reduce the City's risk.
- 6.3 Ensure volunteers at the historic houses are registered and administered through the City's Volunteer Resources Office and have undergone the necessary background checks and that their hours are recorded.
- 6.4 The bank account for the now defunct Francis Land Historical Museum Foundation should be closed and the remaining funds disbursed in accordance with the intended purpose.



## **Enhance segregation of duties by transferring accounting management and oversight responsibilities at the historic houses to the department's accounting unit**

The Administrative Assistant at the historic houses is responsible for collecting the monies from each house, preparing and making the deposit. The Administrative Assistant is also responsible for reconciling the revenues and submitting the necessary paperwork for posting to the City's General Ledger and the remittance of sales and admission taxes. At the time of our audit, deposits were made one to two times a month with each deposit containing, on average, 15 or more days of collection activity. The submission of paperwork to the City for the posting of revenue and remittance of sales and admissions taxes was often delayed and/or incomplete.

### **Recommendations**

To enhance segregation of duties and oversight, management should:

- 7.1 Transfer the reconciliation and oversight of accounting duties performed at the historic houses to the department's accounting unit.
- 7.2 All monies collected by the historic houses should be deposited no less than once a week and whenever monies on hand exceed \$100. Supporting paperwork should be submitted to the City Treasurer in a timely manner to facilitate the posting of revenues to the City's General Ledger and timely remittance of sales and admissions taxes.



## **Conclusion**

Overall, based on the results of our audit, the processes and controls governing management and oversight of the City's museum stores were adequate, but management can enhance these processes and improve efficiency and accountability by implementing our recommendations related to the operation of the City's museum stores.

## **Acknowledgements**

We would like to thank the management and staff of the Department of Museums and Historic Resources for their courteous and prompt assistance during our audit.



# City of Virginia Beach

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March 4, 2014

Office of the City Auditor  
2401 Courthouse Drive, Room 344  
Virginia Beach, VA 23456

Subject: Audit of Museum Stores

Dear Lyndon:

Thank you for the Audit Report regarding the Museum Stores for the Department of Museums and Historic Resources. We agree with your findings and recommendations, and have already implemented a large portion of the recommendations listed, and we are working toward implementing the remaining items within a short period of time. In this regard, we will send a detailed action report to your office as we complete action items. Thank you again for your assistance in completing the audit at our request. We appreciate your thoroughness, and diligence in reviewing our operational procedures and controls.

Sincerely,

Lynn B. Clements  
Director

CC: James K. Spore  
Gretchen W. Hudome  
Cynthia W. Spanoulis  
Donna J. Ellis