



Office of the Inspector General

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To Bill Moggridge, Director, Cooper-Hewitt, National Design Museum

cc Andrew Zino, Comptroller
Bruce Dauer, Acting Chief Financial Officer
Caroline Bauman, Deputy Director, Cooper-Hewitt, National Design Museum
Nate Wilcox, Director of Operations, Cooper-Hewitt, National Design Museum

From A. Sprightley Ryan, Inspector General
Daniel R. Dauer for

Subject Management Advisory on Controls Over Admission-Related Cash Receipts at the Cooper-Hewitt, National Design Museum, Number M-11-03

A recently discovered pattern of theft of \$55,173 in cash from the Cooper-Hewitt, National Design Museum alerted us to weaknesses in the museum's internal controls over admission-related cash receipts. As a result, we initiated a review to: (1) analyze the internal control deficiencies that allowed the theft to occur and go unnoticed for over two months, (2) understand the actions taken by museum management in response to the theft, and (3) assess the adequacy of the internal control enhancements over admission-related cash receipts to minimize the risk of similar thefts.

BACKGROUND

Cooper-Hewitt, National Design Museum is the only museum in the nation devoted exclusively to historic and contemporary design. Cooper-Hewitt is housed in the landmark Andrew Carnegie mansion in New York City. Cooper-Hewitt's collections contain more than 250,000 design objects and a design library. The museum is in the process of a major renovation; museum officials plan to close the Cooper-Hewitt Museum building during the summer of 2011 and reopen it in 2013 when renovations are complete.

The Cooper-Hewitt Museum is one of two Smithsonian museums that charges admission. The museum currently collects \$15 for general admission and \$10 for senior citizens and students. The museum accepts payment by cash, check, or credit card. The museum collects, on average, \$680,000 in admissions fees each year.

The Theft

An employee in the Operations Division stole \$55,173 in admission receipts, which represented a substantial portion of the total cash collected for admission to the museum for the months of August and September 2010. The employee was responsible for controlling numerous aspects of the cash management process, including maintaining custody of cash collections, depositing the cash in the bank, and preparing the daily cash receipts voucher (CRV) for submission to the Office of the Comptroller (OC). Cash admissions sales are recorded in the museum's ticketing system (TM Vista) at the point when cash is collected. The museum's ticketing system provides an independent control point to confirm that the amount of cash actually deposited in the bank, and reported to the OC for entry into the official accounting records, is complete. No one in a supervisory or review capacity over the employee who stole the cash routinely confirmed that cash deposits were made timely, nor validated that all daily admissions sales cash recorded in the museum's ticketing system was deposited daily in the bank and reported daily on the CRVs. Although the Finance Department verified the accuracy of the CRVs to the ticketing system, they did not ensure that all CRVs were submitted to the Finance Department daily. The employee concealed the theft by delaying both the deposits and the submission of the cash receipts vouchers.

The theft came to the attention of the Cooper-Hewitt Museum's Chief Financial Officer (CFO) in October 2010 when he noticed that the cash receipts vouchers had not been prepared for cash admission sales for the two months in question. The museum officials contacted the bank and confirmed that no cash had been deposited for that time. After referral from our office, the United States Attorney's Office filed a criminal complaint and the individual pled guilty to one felony count for this theft at a hearing on June 1, 2011 before the U.S. District Court for the Southern District of New York. The court scheduled a sentencing hearing for September 16, 2011. On June 14, 2011, Cooper-Hewitt management told us that they have secured the admission cash receipt process and will discontinue admissions after the museum closes for renovations on July 5, 2011. Management also told us that they will hire a new Chief Financial Officer and new Visitor Services Manager who will seek further process improvements. The museum is scheduled to reopen in approximately two years.

Internal Controls

Deficiencies in the museum's internal controls allowed the theft to take place and go unnoticed. Principally, the museum relied on the same person to handle all admissions-related cash activity. In May 2009, due to budget constraints the museum reduced the Finance Department's staffing from four to three positions and combined three key duties within the Operations Department: custody of cash, depositing cash in the bank, and preparing the daily CRVs. The Operations Department in turn entrusted a sole employee to handle all three duties.

Before May 2009, the museum had divided these duties between the Operations Department and Finance Department. The Operations Department had custody of the cash, while the Finance Department made the daily bank deposits and prepared the daily CRVs.

In addition, there were other control breakdowns that allowed for the theft to take place and go unnoticed:

Lack of Written Procedures in the Operations Department

Although the museum's management moved duties under the Director of Operations, the museum did not develop written procedures for supervision of these duties. No one prepared written procedures for someone to: (1) confirm that all daily cash receipts were counted and that bank deposits agreed with the cash admission sales in the TM Vista ticketing system, (2) secure cash in the museum's safe each night, (3) ensure that the daily cash received by the museum was deposited in the bank promptly, and (4) verify the accuracy and completeness of cash activity recorded on the CRVs. The absence of such procedures prevented the museum from detecting the theft within its own organization.

Inadequate Procedures in the Finance Department

We found that the Finance Department also lacked detective controls that could have promptly served to identify that a theft had taken place. The Cooper-Hewitt CFO did not: (1) compare bank statements against the cash recorded in the TM Vista ticketing system to confirm that all cash was deposited in the bank daily;¹ (2) compare CRVs daily against the TM Vista ticketing system to confirm that all cash was reported to the OC daily for recording in the official accounting records; (3) review the timeliness of CRV transmittals to the OC; (4) match CRV's daily against the posting to the general ledger to confirm that all CRV's transmitted to OC were actually recorded in the general ledger;² or (5) review voided transactions.³ By not designing these procedures into its system of internal controls, the museum failed to fully utilize the function of the CFO to internally oversee the high-risk cash management practices of the Operations Department.

Smithsonian Institution Response to the Theft

Museum management responded to the theft by correcting the major control weakness, a lack of segregation of duties. Management reverted back to the original division of responsibilities that existed prior to May 2009: the Operations Department maintains the custody of cash, while the Finance Department makes the daily bank deposits and prepares the CRVs.

Additionally, the CFO improved the museum's supervision over these duties in both the Operations and Finance departments by developing and improving written procedures (see the diagram in Appendix A).

First, the CFO developed written procedures to strengthen the management oversight of the admission-related cash process within the Operations Department. The procedures call for Operations Department staff to:

- secure the cash received each day in the museum's safe nightly,
- document that all daily cash receipts were counted, and
- verify the cash count to the cash admission sales amount per the payment summary report from the ticketing system.

¹ There was no Finance Department or Smithsonian procedure that required the CFO to receive or review bank statements.

² The CFO reviewed cumulative CRV postings to general ledger for reasonableness each quarter.

³ Voided transactions involve the cancellation of an admission fee and return of money to the museum patron. Without careful control, Admissions' staff could conceal a theft by recording a fictitious void on the ticketing system after the fact.

Second, the CFO developed revised written procedures to strengthen management oversight of the admissions-related cash process in the Finance Department. The procedures call for the CFO to personally:

- pick up the cash daily from the safe and prepare the deposit slips,
- compare deposits slips to the admission report and the ticketing system,⁴
- review voided transactions using a new report from the ticketing system, and
- make daily bank deposits.

The procedures also call for the Finance Department staff to:

- ensure that the daily cash received by the museum was deposited in the bank,
- prepare the CRVs, and
- ensure the accuracy and completeness of the CRVs.

RESULTS OF OIG REVIEW

We reviewed the design of internal controls over the admission-related cash receipt process and tested transactions for the month of November 2010. We found that the museum has improved the controls over depositing cash receipts from admissions and has re-segregated the cash management duties. The museum now separates the tasks of maintaining custody of cash, making bank deposits, and recording cash activity on the CRVs. Such segregation of duties is important because an individual with both custody of cash and access to accounting records can hide a theft of cash by manipulating the accounting records. We tested all the internal control improvements in the Operations and Finance departments and generally found them working as intended.

The museum could further strengthen internal controls in the following manner:

- Management was not ensuring bank deposits were always made within one business day. We found that the museum took a week to deposit some cash because the CFO was on annual leave. The museum should promptly deposit funds even when key personnel are absent. The procedures did not provide for an alternate person to make deposits.
- The Finance Department was not ensuring that CRVs were promptly sent to OC in Arlington, Virginia or ensuring OC promptly recorded the CRVs into the Smithsonian's accounting records. The department kept a log of CRVs the Finance Department sent to OC; however, the log did not track the date they were sent. The CFO performed a cursory quarterly review of accounting records to ensure that that OC has promptly and accurately recorded the accounting information from the CRVs into the Smithsonian's accounting records. We believe that a cursory review of the accounting records is not an adequate control. For example, OC did not post 46 percent of November 2010's daily cash receipts, totaling \$15,110, to the accounting records as of the time of our review. The

⁴ During our review, the Operations Department began running a report from the ticketing system that summarized daily activity. Before our review, because the Operations Department relied solely on the admission staff's review of a ticketing system screen, the department had no paper record from the system to verify daily admission cash sales. The Finance Department had a ticketing system report that summarized daily activity; however, in the past they had not checked to ensure that the CRVs produced agreed with the daily activity on that report.

museum should routinely conduct a detailed verification that OC has promptly and accurately recorded the accounting information into the Smithsonian's accounting records.

- The CFO was not reconciling the bank deposits to data from the ticketing system. The CFO could strengthen controls by reconciling the deposits on the bank statement monthly to ensure all cash received has been deposited.

Conclusion

Although the museum corrected the most significant control weaknesses, we believe that more can be done to limit the risk of theft. We recommend the museum make the following improvement to strengthen its controls over admission-related cash receipts:

1. Strengthen cash management procedures to require the Finance Department to deposit cash receipts in the bank within one business day of receipt. The museum should assign an alternative person this duty for those instances when the designated staff person is not available.
2. Promptly submit accounting information to the Smithsonian's OC in Arlington, Virginia for recording into the Smithsonian's official accounting records.
3. Routinely review the accuracy of CRV postings into the Smithsonian's official accounting records. The museum could reconcile monthly the amounts on the CRV's sent to OC to the amounts OC recorded in the accounting records.
4. The CFO should review bank statements for accuracy and completeness of deposits.

Please notify us in writing within 60 days how you have handled these matters. If you have any questions, please call Brian Lowe or Daniel Devlin on 202.633.7050.

APPENDIX A. Cooper-Hewitt Admissions Sales Process Chart

Cooper-Hewitt Museum Cash Receipts from Admissions Fees December 2010

