

# **Audit of the Historical Society of Central Florida, Inc.**

**Report by the  
Office of County Comptroller**

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**Report No. 453  
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February 15, 2016

Teresa Jacobs, County Mayor  
And  
Board of County Commissioners

We have conducted an audit of the Historical Society of Central Florida, Inc. The audit scope included a review of the Historical Society's operation of the Orange County Regional History Center and compliance with the Operating Agreement for the Regional History Center. The period audited was October 1, 2011 through September 30, 2013. In addition, certain procedures in effect during the 2015 fiscal year were considered.

We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that 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 provides a reasonable basis for our findings and conclusions based on our audit objectives.

Responses to our Recommendations for Improvement were received from the Manager of the Orange County Regional History Center and are incorporated herein.

We appreciate the cooperation of the personnel of the Family Services Department and the Historical Society during the course of the audit.

Martha O. Haynie, CPA  
County Comptroller

c: Ajit Lalchandani, County Administrator  
Lonnie Bell, Director, Family Services Department  
Michael Perkins, Manager, Orange County Regional History Center  
Jeff Jakubik, Board President, Historical Society of Central Florida, Inc.

# EXECUTIVE SUMMARY

## Executive Summary

Orange County and the Historical Society of Central Florida, Inc. (Historical Society) entered into a partnership agreement (Operating Agreement) in April 1998 to operate the Orange County Regional History Center (History Center). The Historical Society is a 501(c)(3) entity governed by a Board of Directors (Board). The Board is responsible for setting the operating policies of the Historical Society and ensuring the museum's assets are used for public purposes. The Historical Society funds the revenue generating portion of the History Center's operation, including the staff accountant, development/resource officers, store staff, and sales/rental staff. The remaining staff is funded by Orange County. Other expenses that are funded by the Historical Society include the exhibits, exhibit renovations, educational programming, fundraising, and special events.

The audit scope included a review of the Historical Society's overall operation and compliance with the Operating Agreement for the History Center. The period audited was October 1, 2011 through September 30, 2013. In addition, certain procedures in effect up to May 31, 2015, were considered. The audit objectives were as follows:

- Ensure the controls over revenues, cash, purchasing, and employee management were adequate; and,
- The Historical Society complied with the insurance and loss prevention requirements of the Operating Agreement.

In our opinion, the controls over revenue collection, cash, purchasing, and employee management were not adequate. In addition, based on the results of our testing, the Historical Society was not in compliance with the insurance and loss prevention requirements of the Operating Agreement. Opportunities for improvement were noted and described below.

The individuals authorized by the bank as signatories on the Historical Society's bank account were not kept up-to-date and some held positions which were not authorized in the Historical Society policies. Additionally, one individual listed as a bank signatory was not a current Board member.

Bank account reconciliation procedures for the Historical Society's checking account were not adequate. Specifically, the accountant responsible for performing the monthly bank reconciliation was also responsible for maintaining the accounting records and custody of blank check stock. In addition, the reconciliation procedures performed were not sufficient to detect bank errors or employee errors or irregularities.

A complete and accurate listing of checks used or voided was not maintained. For instance, four checks recorded as void on a "void check list" had cleared the bank.

Amounts recorded for individual transactions in the financial system were sometimes changed to account for checks not used or voided. Although the net effect of these transactions reflected an accurate accounting of the amount paid, the audit trail available was erased and difficult to decipher.

The cash and checks received were not timely deposited or adequately secured prior to being deposited. Further, amounts deposited were not reconciled to what should have been deposited.

The Historical Society accountant wrote himself and subsequently cashed 78 checks totaling approximately \$24,275 over the audit period to provide new cash banks for various events, to pay cash for merchandise, and reimburse expense items related to the Historical Society. Based on our review of the available documentation, the expenses paid from the above funds appeared appropriate. However, an individual writing checks to himself, cashing the check, and then providing the cash to a third party creates an additional unnecessary step and increases the risk of loss from theft.

The Historical Society does not have adequate refund procedures that require sufficient supporting documentation and approvals. When reviewing a sample of refunds made; we noted calculation errors, inadequate documentation of requests for the refund, a lack of evidence the refunded amount was originally paid, and refunds made in a different form than the original payment.

The Historical Society does not have a comprehensive purchasing policy and procedures. We found four instances where multiple checks were written on the same day to the same vendor to avoid exceeding the dollar limit of a check requiring dual signatures. Contractual arrangements for other services rendered were not formalized with contracts or agreements therefore we could not verify the amounts invoiced were the agreed upon amounts. While reviewing the support for 24 payments for the purchase of merchandise, we noted the majority of the purchases did not have documented approval obtained before the purchase was made. In addition, the support was not sufficient to evidence the items billed were received for ten of the purchases.

There were no written policies and procedures for obtaining authorization for purchases and the subsequent approval of purchases made with the Historical Society purchase card.

The Historical Society paid approximately \$20,000 each year for property insurance for the building; however, according to the Agreement, the County was responsible for insuring the building through its self-funded insurance program. In addition, certificates of insurance have not been provided to the County and the County was not listed as an additional insured as required by the Operating Agreement.

The Historical Society does not have a classification and pay plan for employee positions. Further, job descriptions and minimum qualifications are not reviewed and updated on a regular basis.

Adequate documentation for new hires, such as rates of pay and benefits are not always documented in the employee file. In addition, we found three of the 12 employees that ended employment during the audit period remained active in the employee leasing company's system for between one and seven months after termination. Further, there was no documentation to determine when the security access was deactivated and parking cards were left active for two employees for over six weeks after termination.

Leave accrual amounts noted in some of the offer letters located in employee files differed from the Historical Society's written leave policy. Further, in some cases, the leave did not accrue in accordance with either the policy or offer letter. We also noted the leave paid did not always match the reduction of hours recorded in the internal leave tracking spreadsheet used to track available leave. In addition, our recalculation of leave payouts made to employees who terminated service found that eight out of nine employees paid-out were overpaid a total of approximately \$8,200, and the other employee was underpaid approximately \$800.

Inadequate segregation of duties exists in the payroll processing function. Although the payroll is processed by an outside company, only one employee had access to the company's payroll system. The same employee was also responsible for inputting hours worked and updating rates of pay and benefit elections, including his own.

The Historical Society paid various individuals to provide services including supervision and programs for school-age children during scheduled school breaks and actors for various programs offered by the History Center. Relating to this, we found that most of the individuals (23 of the 28) who were issued an Internal Revenue Service (IRS) 1099 form as an independent contractor appear to meet the IRS definition of a common law employee and not an independent contractor. In addition to the employees paid over \$600 and issued 1099, we identified an additional 11 individuals who received less than \$600 that also appear to meet the IRS definition of a common law employee. We also noted some contractors were not issued a 1099, despite exceeding the IRS amount that requires it.

Policies and procedures were not adequate to ensure facility rentals and events held at the History Center were correctly charged and all monies due were received and deposited. In addition, contracts for some of the rentals were missing and nine percent of the files had support for of an amount that did not equal the contract amount.

Twenty-five of the contract files reviewed contained the full credit card information of the contracting individual or organization in the contract file. These files are generally kept unlocked and accessible to multiple individuals.

The Historical Society's collection and deposit procedures for donations, memberships, attendance, and Historical Society sponsored events were not adequate to ensure all monies collected were deposited.

There were no procedures to verify that each person entering the exhibit area either presented a valid membership card, paid the admission cost, or was allowed to enter for free because of other qualified membership presented.

Procedures relating to revenue collection for Historical Society sponsored events to promote an exhibit or the History Center (e.g., retro-game night, evening lectures and lunch-and-learns) did not provide an adequate accounting of attendance and the sale of food items. Some of these events had several thousand dollars of reported revenues.

Recommendations for Improvement were developed and discussed with the Historical Society during the course of fieldwork. The Historical Society concurred with all of the Recommendations for Improvement and is in the process of implementing or has implemented procedures to address the items noted. The Historical Society worked to address many of the control weaknesses noted during our fieldwork.



# ACTION PLAN

**AUDIT OF THE HISTORICAL SOCIETY OF CENTAL FLORIDA, INC.  
ACTION PLAN**

NO.	RECOMMENDATIONS	MANAGEMENT RESPONSE			IMPLEMENTATION STATUS	
		CONCUR	PARTIALLY CONCUR	DO NOT CONCUR	UNDERWAY	PLANNED
1.	We recommend the Historical Society reviews and updates current procedures to ensure the following:					
A)	Only authorized individuals are recorded as bank signatories.	✓			✓	
B)	Bank account reconciliations are performed timely and accurately.	✓			✓	
C)	The person preparing the reconciliation does not have access to change financial system records.	✓			✓	
D)	An accurate and complete listing of all checks written including the payee and amounts is kept. All voided check numbers should also be included.	✓			✓	
2.	We recommend the Historical Society reviews the cash handling procedures and ensures adequate controls exist from the point of collection to deposit. In addition, these procedures should be documented.	✓			✓	
3.	We recommend the Historical Society reviews the cash reimbursement procedures and ensures:					
A)	A change fund is utilized for events, including assigning a custodian and adequately securing and accounting for change fund cash by event;	✓			✓	
B)	Adequate controls are implemented in the cash expense and reimbursement payment process; and,	✓			✓	
C)	Checks are not written and cashed to pay vendors.	✓			✓	

**AUDIT OF THE HISTORICAL SOCIETY OF CENTAL FLORIDA, INC.  
ACTION PLAN**

NO.	RECOMMENDATIONS	MANAGEMENT RESPONSE			IMPLEMENTATION STATUS	
		CONCUR	PARTIALLY CONCUR	DO NOT CONCUR	UNDERWAY	PLANNED
4.	We recommend the Historical Society ensures adequate support and approval is obtained for refunds. In addition, refunds should be issued with the same payment method as the original payment. Further, the Historical Society should consider creating a standard refund form that has prompts to help ensure all the required information is obtained and attached.	✓			✓	
5.	We recommend the Historical Society develops a comprehensive purchasing policy. This policy should specifically address the following:					
A)	Issuing multiple checks on the same day to pay for one invoice should not be allowed;	✓			✓	
B)	Providing guidance on budgeting, selecting, authorizing, and contracting for speaker engagements;	✓			✓	
C)	Require detailed billing to support the payments agree to the contract/agreement;	✓			✓	
D)	Requiring all purchases above a set dollar limit receive documented approval prior to purchasing; and,	✓			✓	
E)	Requiring signatures from the person receiving the product or services to evidence receipt.	✓			✓	
6.	We recommend the Historical Society develops and implements procedures for credit card use. The procedures should detail the types of purchases that can be made, specific restrictions, and the required documentation for purchases. Additionally, the procedures should include a review of the transactions by someone other than the card holder.	✓			✓	

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NO.	RECOMMENDATIONS	MANAGEMENT RESPONSE			IMPLEMENTATION STATUS	
		CONCUR	PARTIALLY CONCUR	DO NOT CONCUR	UNDERWAY	PLANNED
7.	We recommend the Historical Society adds Orange County as the additional insured to each insurance policy and continues to provide copies of certificates of coverage to the County's Risk Management Division at the beginning of a policy period.	✓			✓	
8.	We recommend the Historical Society reviews its current employee positions. This review should include establishing a classification and pay plan, comparing positions to market conditions, and periodically reviewing job descriptions.	✓			✓	
9.	We recommend the Historical Society develops and implements written policies and procedures for employee management. This should include the required documentation for hiring employees, and actions to be taken when an employee terminates.	✓			✓	
10.	We recommend the Historical Society clarifies the application of the current leave policy and continues to use the employee leasing company to maintain leave accruals.	✓			✓	
11.	We recommend the Historical Society reviews their current payroll process and the controls available with the employee leasing company to ensure adequate segregation of incompatible tasks exist. Further, the process should include an independent documented review to ensure hours paid agree to the hours recorded on the timesheets.	✓			✓	

**AUDIT OF THE HISTORICAL SOCIETY OF CENTAL FLORIDA, INC.  
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NO.	RECOMMENDATIONS	MANAGEMENT RESPONSE			IMPLEMENTATION STATUS	
		CONCUR	PARTIALLY CONCUR	DO NOT CONCUR	UNDERWAY	PLANNED
12.	We recommend the Historical Society performs the following:					
A)	Review anticipated temporary positions to ensure the position is classified according to IRS rules; and,	✓			✓	
B)	Prepare contracts for any individuals participating as an independent contractor.	✓			✓	
13.	We recommend the Historical Society implements procedures to record and account for all facility and event rentals. This should include reconciling facility rentals and events to ensure all required documents were prepared and monies were collected and deposited.	✓			✓	
14.	We recommend the Historical Society improves the control procedures for donations, memberships, History Center attendance, and sponsored events to gain assurance monies received are deposited.	✓			✓	
15.	We recommend the Historical Society develops policies and procedures for volunteer and employee related meal expenses and memberships.	✓			✓	
16.	We recommend the Historical Society ensures contractual agreements are adequately monitored and proper approvals are obtained.	✓			✓	
17.	We recommend the Historical Society utilizes a more appropriate contract for selecting cashiers for the History Center store. In addition, employees with access to cash and sales merchandise should be required to have a level 2 background screening performed.	✓			✓	

**AUDIT OF THE HISTORICAL SOCIETY OF CENTAL FLORIDA, INC.  
ACTION PLAN**

NO.	RECOMMENDATIONS	MANAGEMENT RESPONSE			IMPLEMENTATION STATUS	
		CONCUR	PARTIALLY CONCUR	DO NOT CONCUR	UNDERWAY	PLANNED
18.	We recommend the Historical Society work with the County's Risk Management Division to ensure the level of background screening performed for all new hires, independent contractors, and volunteers are appropriate. This should include a criminal background check for any individual who could potentially interact with children.	✓			✓	

# INTRODUCTION

## **Background**

The Historical Society of Central Florida (Historical Society), is a 501(c)(3) entity organized in 1971 to fund and operate a history museum at Loch Haven Park. An agreement (Operating Agreement) was entered into between Orange County and the Historical Society in April 1998 that created a partnership to operate the History Center. In 2000, the history museum was moved to the restored historic 1927 courthouse and renamed the Orange County Regional History Center (History Center).

The Operating Agreement defines each party's responsibilities in relation to the History Center in this public/private partnership. Orange County provides and maintains the space whereas the artifacts and exhibits belong to the Historical Society. Orange County budgets approximately \$2.5 million annually provided by Orange County's Tourist Development Tax for the operation and maintenance of the History Center.

The Historical Society is governed by a Board of Directors. The Board is responsible for establishing the operating policies of the Historical Society and ensuring the History Center's assets are used for public purposes. Quarterly board meetings are held to address policy issues, set and monitor the budget, and review History Center operations. There are six program areas: Collections, Exhibits, Development, Education, Sales, and Marketing. The Historical Society funds the revenue generating portion of the History Center's operation, including 13 permanent staff positions such as the staff accountant, development/resource officers, store staff, and sales/rental staff. The remaining staff is funded by Orange County which includes 16 authorized positions and falls under the Family Services Department. Other expenses that are funded by the Historical Society include the following: exhibits, exhibit renovations, educational programming, fundraising, and special events. Several fundraisers are done throughout the year including the John Young History Maker Event.

The History Center has been accredited by the American Alliance of Museums since 2006. This is the highest honor a museum can receive and takes between 8 to 16 months to



complete the requirements. With accreditation, the History Center is eligible for more national grant funding.

Additionally, the History Center was accepted as an Affiliate of the Smithsonian Institution. In order to be accepted into this program, the History Center submitted a proposal showing that their mission paralleled the Smithsonian's and demonstrated a strong commitment to serving the community. This affiliation allows the History Center access to Smithsonian's vast collections, research, public programs and staff resources.

The History Center houses the Historical Society's two-dimensional collection, including over 12,000 historical photographs and various primary source materials about local history. These are held in the building's fifth floor library and archives, which are open to the public. The Historical Society's collections are displayed in the History Center, including four floors of permanent exhibitions. The Historical Society also displays limited-run exhibitions, allowing Orange County residents to experience a variety of collections that have national significance. Some of the recent exhibits include *Gone with the Wind: Reel to Real*, *The Art of Warner Bros. Cartoons*, *And Still We Rise: Race, and Culture and Visual Conservations Exhibit* and *Long Way to the Top: Hard Rock in Orlando, 1977-1985 Exhibition*.

### **Scope, Objectives, and Methodology**

The audit scope included a review of the Historical Society's overall operation and compliance with the Operating Agreement for the History Center. The period audited was October 1, 2011 through September 30, 2013. In addition, certain procedures in effect up to May 31, 2015 were considered. The audit objectives were to ensure the following:

- The controls over revenues, cash, purchasing, and employee management were adequate; and,

- The Historical Society complied with the insurance and loss prevention requirements of the Operating Agreement.

To achieve our objectives, we performed the following tests:

The original bank check stubs were obtained from the Historical Society for the audit period. For check stubs that had the check attached, we noted whether the check was due to a void, printer error, or other reason. We identified gaps in the check number sequence and reviewed the bank statements to find any additional checks that did not clear. The complete account of all check numbers created would be used during testing.

An electronic copy of the History Society's void list was obtained and compared to the voids identified above. All differences were researched, including reviewing bank statements to ensure the checks did not clear. The checks that did clear were researched and the cause determined.

An electronic copy of the Historical Society's check register was also obtained. The file created above was compared to the check register. Discrepancies between payees and amounts and missing check numbers were researched to ascertain the correct information and the file was corrected, if warranted.

We reviewed the checks written and selected a sample of purchases for testing. For the sample selected, we performed the following:

- Identified multiple checks written to the same vendor on the same day and reviewed for appropriateness;
- Selected a sample of checks written for speakers or for speakers' expenses and reviewed the supporting documentation for agreements and other pertinent information to determine the appropriateness;
- Reviewed the checks written by the accountant to himself for appropriateness;

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## INTRODUCTION



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- Selected a sample of checks written for services and reviewed the back-up documentation, such as contracts and detailed billings, for adequate support of invoiced amount; and,
- Selected a sample of checks written for merchandise and reviewed the backup documentation for receipts, approvals, and evidence the item was received.

We reviewed the check description to identify refunds. A sample was then selected and the documentation reviewed to ensure adequately supported.

We reviewed the temporary staffing agreement to determine whether the services provided were covered under the contract.

We performed a surprise count of the petty cash funds and reviewed the documentation supporting money spent from the fund.

We obtained a block sample of the Historical Society credit card statements and support. We reviewed the individual purchases for proper approval and documentation. In addition, we verified purchases were approved.

We reviewed the security of blank check stock for adequacy.

We reviewed the checking account agreement for individuals authorized on the account to ensure they were authorized in the Historical Society By-Laws.

We selected three consecutive months during the audit period and ensured the reconciliations were prepared timely and accurately. Further, we reviewed the bank reconciliation process to verify sufficient segregation of duties existed. Paper copies of the merchant reports and the check log were reconciled to the bank statement for this same period. We also traced the checks recorded as deposited for the three months to the check log to verify completeness.

We obtained a list of activities from the Historical Society that included facility rentals, events, and areas reserved for various reasons and verified there was a corresponding facility rental file. We then traced the Historical Society facility rental files to the list to test for completeness. We selected a sample of events and performed the following:

- For facility rentals, we reviewed a sample of files to ensure documentation such as signed contracts; tax exemption forms (if applicable); and evidence of payment were contained in each file.
- For Historical Society sponsored events, we reviewed the adequacy of support provided and accounting for the revenue received.

We traced a sample of donations and memberships recorded in the records to a deposit slip and bank statement.

We reviewed the check register and identified all payments made for insurance and reviewed the related policies to determine the coverage each policy provided. We then reviewed the Operating Agreement to determine whether the coverage complied with the requirements of the agreement.

For testing of employee management, we performed the following:

- Obtained a list of individuals paid through the employee leasing company and traced them to personnel files to ensure all employees existed and then traced all the files back to the list to verify completeness.
- Reviewed the documentation in the Historical Society files for the employee who was employed the entire audit period to determine if minimum qualification requirements were met, appraisals were performed, and the last salary increase was approved by the Historical Society Board;

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- Reviewed the documentation for employees hired by the employee leasing company during the audit period to ensure minimum job requirements were met, sufficient background and reference checks were performed, the starting salary in the offer letter agreed to the amount paid, and benefits elected were supported;
- Reviewed the documentation for terminated employees to ensure the employees were not paid after termination, system access were terminated, and recalculated leave payouts; and,
- Selected a sample of timesheets and compared them to the leasing company payroll reports to verify the accuracy of amounts paid.

Our scope did not include reviewing the investments and investment policies, museum store inventory and daily sales, and sales tax collection and payments.

## Overall Evaluation

In our opinion, the controls over revenue collection, cash, purchasing, and employee management were not adequate. In addition, based on the results of our testing, the Historical Society was not in compliance with the insurance and loss prevention requirements of the Operating Agreement.

# RECOMMENDATIONS FOR IMPROVEMENT

**1. Controls Relating to the Historical Society's Banking and Checking Accounts Should Be Improved**

The Historical Society of Central Florida, Inc. (Historical Society) maintains a checking account at a local banking institution. During our review of the checking account parameters established at the banking institution, written procedures, and general control procedures; we had the following concerns:

- A) The individuals authorized as signatories on the Historical Society's bank account (based on signed bank authorization forms) have not been kept up-to-date. The Historical Society's policy allows for specific Board and staff positions to be bank signatories. The banking documents allow a bank signatory to make changes to the bank account profile information (e.g. mailing address and authorized check signors) and make withdrawals. While reviewing the signatories, we noted the following:
- One of the authorized officer titles listed on the banking documents was the Chairman of the Board. This position is not authorized as a banking signatory according to the Historical Society policies. Additionally, the individual listed with this title has not been a Board member since 2012.
  - The individual listed in the banking documents as the President is not the current Board President. Although the person is still a member of the Board and holds another officer position, this position is not authorized in the Historical Society policy to be a bank signatory.
  - The current Board President is not recorded as a bank signatory on banking documents.

The policy does not designate a person responsible for keeping these records up-to-date. Only persons

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## RECOMMENDATIONS FOR IMPROVEMENT



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authorized by Board policy should be allowed as a bank signatory. In addition, Historical Society procedures should establish clear responsibility for ensuring that changes in any of these positions are promptly noticed to the bank. Without such, unauthorized transactions including withdrawals could occur and not be detected.

B) Bank account reconciliation procedures for the Historical Society's checking account are not adequate. Specifically, we noted the following:

- The accountant responsible for performing the monthly bank reconciliation is also responsible for maintaining the accounting records and has custody of blank check stock. There is no evidence the bank statements were reviewed by any other management employee of the Historical Society for 23 of the 24 months in the audit period.
- Credit card deposits made to the account from the merchant bank accounts are not verified or reconciled to a Merchant Billing Statement or the Historical Society sales records. In addition, some monthly statements were never opened by Historical Society staff. We identified several hundred dollars of voided transactions that were only entered into the reconciliation as an adjustment instead of a void without any review of the source documents.
- We noticed over \$1,000 of balancing entries for the audit period without any documentation to account for the adjustment amount. Some of these were noted as "bank charges" or "deposit recorded twice", yet no such fees or matching deposit amounts were found.
- The monthly bank account reconciliations were not dated when completed. Therefore, the



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## RECOMMENDATIONS FOR IMPROVEMENT



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Historical Society was unable to provide evidence the bank reconciliations were prepared timely.

- Checks recorded as outstanding were not adequately reviewed to determine if the check was outstanding or voided (we noted checks recorded as void on the list of checks outstanding).
- Merchant fees charged were not reviewed for accuracy to the agreements, and the reconciliation was not reviewed by a senior member of the Historical Society staff after it was prepared.

Bank account reconciliations should be performed within two weeks of the end of the statement period. The reconciliation should include matching the credit card transactions recorded on the statement to the merchant report, checks recorded as written to the checks cleared on the statement, and that voided checks are not listed as outstanding. Further, the person performing the bank reconciliation should not have access to make changes to financial records. Inadequate bank reconciliation procedures could result in undetected bank errors or Historical Society employee errors or irregularities.

C) The Historical Society staff maintained internal financial records of checks written, voided, not used, and outstanding during the audit period. During our review, we noted the following:

- Four checks recorded as void on a “void check list” had cleared the bank and should not have been on the list. Additionally, our testing of checks written identified 42 checks that were voided, but not recorded on the “void check list.”

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## RECOMMENDATIONS FOR IMPROVEMENT



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- When a written check is voided, the original transactions were changed to account for the void in varying ways. For example, some check numbers were deleted from the financial system showing no evidence of the original transaction, while other transactions had the original check amount changed to zero in the financial system. Although the net effect of these transactions reflected an accurate accounting of the amount paid, the audit trail is erased and difficult to decipher.
- There were numerous missing numbers in the sequential record of checks written during the audit period. Many of these instances occurred because of check printing problems. However, instead of voiding the check numbers in the financial system, check numbers were deleted. In addition, there were instances where a batch of checks printed check numbers did not match the pre-printed check numbers for the transactions. Instead of recording the actual check numbers in the financial system to match the check number on the bank statement, transactions were modified by combining multiple transactions on one check record to align the numbering recorded in the financial system to the pre-printed check number.

A complete and accurate listing of checks used or voided should be maintained. Gaps in the number sequence of checks written should not occur. If a check written is not used or recorded differently in the system, the check should be voided and a new check written. Transactions recorded in the financial system should not be modified to account for these differences. Modifying and combining transactions makes detection of irregularities difficult and could allow monies to be misappropriated without detection.

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## RECOMMENDATIONS FOR IMPROVEMENT



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**We Recommend** the Historical Society reviews and updates current procedures to ensure the following:

- A) Only authorized individuals are recorded as bank signatories.
- B) Bank account reconciliations are performed timely and accurately.
- C) The person preparing the reconciliation does not have access to change financial system records.
- D) An accurate and complete listing of all checks written including the payee and amounts is kept. All voided check numbers should also be included.

### **Management's Response:**

Concur.

- A) The fiscal policies are being updated to include the requirement that the Staff Accountant be responsible for monitoring and informing the bank of all changes in authorized signatories.
- B) Controls have been put in place to revise the bank reconciliation process and require all items to be reconciled to the source documents. The fiscal policy has been updated to require the completion of the reconciliation within two weeks of month end and the Executive Director's review and approval.
- C) We concur that the timely and thorough preparation of the bank reconciliations will increase controls over cash receipts and disbursements. Due to the limited accounting staffing it would be difficult for someone that does not have access to the financial accounting software to prepare the bank reconciliation. We have implemented additional review and approval procedures to insure the bank reconciliations are properly prepared and reviewed by the Executive Director.

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- D) The accounting software system in place during the period under audit has been replaced and upgraded to BlackBaud Financial Edge. This software provides a monthly bank register report which list all checks issued and identifies all voided checks. As part of the monthly reconciliation process all gaps in check numbers are investigated.

### **2. Controls Over Cash and Checks Received Should Be Improved**

The Historical Society does not have adequate controls over cash and checks received. During our review, we noted the following:

- Mail, that regularly contains money, is placed in an unsecured tray.
- Custody transfer receipts are not used when responsibility for revenues collected changes.
- Checks were not restrictively endorsed when received.
- Although a check log is maintained to record checks received through the mail or in person, it is not reconciled to the deposits made. Our analysis of the log entries found that all checks received are not recorded on the log and some checks were recorded multiple times.
- The key to the drop box safe in the History Center's store was kept in the open by the safe which is accessible by all staff.
- Monies collected are not deposited at the end of each day. Current Historical Society procedures do not address when to deposit collections. Additionally, we observed cash and checks in the accountant's desk during fieldwork.

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- Daily close out procedures for the History Center's store did not include balancing the daily collections submitted for deposit to the cash register printout of daily sales. Monies from the store were put into an envelope and the totals written on the outside. Only these totals were used for balancing.
- When monies are deposited, the accountant transports the cash and checks to the bank in his personal vehicle. We reviewed deposits made during January through March of 2013 and noted numerous deposits exceeded \$5,000 and one was for \$18,000.

Adequate controls of cash and checks collected require that monies are adequately secured from the time of collection to deposit. This includes restrictively endorsing checks when received, keeping monies in a secured location, verifying collections submitted for deposit equal the cash register daily sales report, using custody receipts to document responsibility for collections, and depositing monies timely when the amount collected exceeds a pre-established limit (Orange County policies require that collections be deposited each week or when total collections exceed \$200). In addition, monies should be transferred from the point of collection to the bank by an outside armored car service.

Without adequate controls over cash and checks, monies could be lost or stolen. In addition, employees transporting monies to the bank in a personal vehicle creates an unnecessary risk for the Historical Society and the employee. If the cost of daily armored service to deposit daily collections is outside of the Historical Society's available budget, consideration should be given to securing the monies on-site and having less frequent pick-ups for deposit. Although this would impact the timely deposit of monies, it reduces the risk of personally carrying deposits to the bank.

**We Recommend** the Historical Society reviews the cash handling procedures and ensures adequate controls exist from the point of collection to deposit. In addition, these procedures should be documented.

**Management's Response:**

Concur. Procedures have been put in place to insure controls over cash and checks received. They are being documented in the fiscal policies and include the following:

- All checks received are being logged, restrictively endorsed and placed in the safe and then deposited remotely by the Staff Accountant by the end of day.
- All cash on hand is maintained in the safe until deposited weekly. The Historical Society has engaged a bank concierge service to transport the funds to the bank weekly or more frequently if the estimated weekly deposit is expected to exceed \$1,500.
- Accounting personnel are now required to verify the daily cash receipts to the point of sale records and secure funds in sealed transport bags. The bags are kept in a vault until pick up by the concierge service.

**3. Cash Reimbursement Procedures Should Be Reviewed**

During our review, we noted the Historical Society accountant wrote himself and subsequently cashed 78 checks totaling approximately \$24,275 in the audit period. We had the following concerns with this practice:

- A) Thirty-four checks totaling \$12,400 were requested and processed to obtain cash to provide change for customers at events held at the History Center, which the Historical Society referred to as a "cash bank". At the conclusion of the event, the accountant would remove the cash bank amount from the total money turned in and prepare separate deposits, one for the amount of the cash bank and the remaining as revenue. The process used created an additional step which increased the risk of misappropriation of monies without detection and was not an efficient use

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of resources. A permanent cash bank should be established with an assigned custodian. The custodian would be responsible for managing documented approved requests for the transfer of funds to personnel acting as cashiers for the event. At the conclusion of the event, the cash bank should be removed from the event revenue, and returned to the custodian (with evidence of transfer).

B) Numerous checks were written for various expense items related to the Historical Society. Although based on our review of the available documentation, the expenses appeared appropriate; an independent individual should specifically approve and acknowledge the expenses as a compensating control. For example, we noted the following:

- Seven checks for a total of \$1,283 were requested and processed to pay cash for certain merchandise obtained by the History Center's store. Although such a transaction may be requested by a vendor, it should not be allowed.
- Nine checks for a total of \$2,975 were written to reimburse him for expenses. In addition, three checks totaling \$2,785 were written to provide payment for services rendered when he was employed as an independent contractor.
- Twenty-five checks for over \$4,832 were written to establish or replenish petty cash funds maintained by various individuals at the Historical Society. Checks to replenish the authorized fund amount should be made payable to and cashed by the custodian of the account.

An individual writing checks to himself, cashing the check, and then providing the cash to a third party creates an additional unnecessary risk. In addition to the risk of errors

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and irregularities, cashing checks at the bank for large dollar amounts and transporting the cash presents a safety risk. It should be noted that in September of 2013, \$1,950 was reported stolen from the employee's car after he cashed checks and was in the process of transporting it.

**We Recommend** the Historical Society reviews the cash reimbursement procedures and ensures:

- A) A change fund is utilized for events, including assigning a custodian and adequately securing and accounting for change fund cash by event;
- B) Adequate controls are implemented in the cash expense and reimbursement payment process; and,
- C) Checks are not written and cashed to pay vendors.

**Management's Response:**

Concur.

- A) The History Center has implemented new procedures which will eliminate the need to provide change during events. Events will be handled in one of the following ways:
  - Food and beverage will be included in the cost of admission; or,
  - One of the approved catering companies will provide staff to handle food and beverage sales.
- B) Procedures are being implemented to limit staff from making purchases for goods and services which require reimbursement to employees. In the future, all purchases will be made by check, credit card, petty cash advances or direct payment to vendors.



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- C) Fiscal procedures are being revised to restrict the issuance of checks to employees except when needed as an advance for approved travel.

#### **4. The Refund Process Should Require Adequate Approval and Documentation**

The Historical Society refund policy does not require sufficient supporting documentation and approvals. Relating to this, we noted the following:

- A) We identified 64 checks totaling \$5,630 with a description in the financial system containing the word refund, overpayment, or return during the audit period. We selected a sample of 13 of these refunds for cancelled rental reservations, fieldtrip overpayments, or cancelled summer camp attendances totaling \$3,135. We noted the following issues during our review of these refunds:
- Two refund calculations were not accurately calculated resulting in an overpayment of about \$70. In three additional instances, it was unclear how the refunded amount was calculated.
  - A written request from the customer was not included in the support for nine of the refunds. Although a reason for the refund was documented by the Historical Society for six of these nine, three of them did not include why the refund was requested. Requiring a written request from a customer and documenting the reason for the refund helps to establish the appropriateness of a refund.
  - There was no evidence included with the refund check to document the original payment amount and the method of payment (cash, check, or credit card). When we attempted to trace each of the refunds to an original

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payment, we found no evidence that the amount refunded was originally paid for four refunds totaling \$1,441. Three of the refunds where evidence of original payment was located were refunded in a different payment form than the original method. Payments for a refund should be in the same form as the original payment. For example, we noted one refund of an amount paid with an agency credit card was refunded with a check made payable to an employee of that agency.

- Approvals required in written procedures were not obtained for two of the refunds.

B) Although our scope did not include reviewing the History Center's store sales, we noted returns recorded in the daily cash register receipts and forwarded to accounting with the deposit information did not include any evidence of supervisory approval. One of the returns was noted as a cash return for \$425.

Refunds should include documentation of the original payment and should be refunded in the same manner as originally paid, whenever feasible. In addition, refunds should have appropriate approvals noted from a manager prior to being paid. A form containing the required data needed would be beneficial to assist in this process. Without adequate documentation and approval, inappropriate refunds could occur without detection.

**We Recommend** the Historical Society ensures adequate support and approval is obtained for refunds. In addition, refunds should be issued with the same payment method as the original payment. Further, the Historical Society should consider creating a standard refund form that has prompts to help ensure all the required information is obtained and attached.

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**Management’s Response:**

Concur. A procedure has been implemented which requires detailed information regarding the purpose of the refund, customer’s name, address, original transaction identification number, date of transaction and payment method.

**5. More Comprehensive Purchasing Policies and Procedures Should Be Developed**

The Historical Society does not have a comprehensive purchasing policy and procedures. During our review of a sample of purchases, we noted the following:

- A) Four instances where multiple checks were written on the same day to the same vendor to avoid exceeding the \$1,000 dollar limit of a check requiring dual signatures were found. The 15 checks for the four purchases were as follows:

Payee	Check No.	Amount	Total Amount Paid
Vendor 1	18759	\$ 700	
	18760	\$ 700	\$ 1,400
Vendor 2	19262	\$ 400	
	19263	\$ 866	\$ 1,266
Vendor 3	19269	\$ 702	
	19270	\$1,000	
	19271	\$1,000	
	19272	\$1,000	
	19273	\$1,000	
	19274	\$1,000	\$ 5,702
Vendor 4	19264	\$ 872	
	19265	\$1,000	
	19266	\$1,000	
	19267	\$1,000	
	19268	\$1,000	\$ 4,872

Current procedures of the Historical Society do not address the use of multiple checks for one purchase. Requiring two signatures for large checks provides an additional measure of protection against unexpected, large, or illegal withdrawals; however, this limit has

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not been reviewed since it was established in 2008. During our audit, we noted that approximately seven percent of the checks written were in excess of \$1,000. The dollar limit should be reviewed to determine whether it is appropriate or should be adjusted. Setting it at a higher limit could be a more effective and efficient control.

- B) We noted \$21,557 paid for individuals to speak at various Historical Society events. The total was comprised of \$19,500 for speaker fees, \$1,057 for expenses relating to speaker travel, and one instance of a \$1,000 cancellation fee being paid as a result of the Historical Society cancelling the event. The speaker fees ranged from \$200 to \$2,000. There were no agreements to support the fee paid for speakers or if applicable any additional costs that were to be paid. The Historical Society does not have documented guidance as to what kind of fee a speaker should be paid or who has the authority to approve the fees and expenses. Although it is not unusual for some speakers to command much higher rates, without a policy detailing how speaker fees and costs are authorized and approved, there is not sufficient justification to support why one speaker is paid a higher fee than another.
- C) Contractual arrangements that involved payments for past and future services were not formalized with contracts or agreements. We noted three payments totaling \$28,523 for a strategic planning process, approximately \$12,000 in payments for annual accounting services, and another consultant was paid \$1,000 for conducting focus groups. Although each of the payments contained an invoice from the billing consultant, there were no contracts to justify the services to be performed and amounts to be paid. In addition, the invoices did not contain a detailed breakdown of the individual performing the work, date the work was performed, time spent on each task, percentage of completion, and the hourly rates.

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- D) While reviewing the support for 24 payments for the purchase of merchandise, we noted:
- The majority of the purchases did not have documented approval before the purchase was made;
  - The support was not sufficient to evidence the items billed were received for ten of the purchases;
  - Five of the invoices were “summary invoices” and did not list the actual quantity of goods received;
  - One of the payments did not include an invoice from the vendor; and,
  - None of the invoices were marked as paid.

Typically, to approve a purchase for payment, the person receiving the service or product signs the invoice to acknowledge receipt of the item. The invoice should list the item received and the price of each item (if multiple items are received).

**We Recommend** the Historical Society develops a comprehensive purchasing policy. This policy should specifically address the following:

- A) Issuing multiple checks on the same day to pay for one invoice should not be allowed;
- B) Providing guidance on budgeting, selecting, authorizing, and contracting for speaker engagements;
- C) Requiring detailed billing to support the payments agree to the contract/agreement;

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- D) Requiring all purchases above a set dollar limit receive documented approval prior to purchasing; and,
- E) Requiring signatures from the person receiving the product or services to evidence receipt.

### **Management's Response:**

Concur.

- A) A procurement policy is being drafted which will prohibit splitting or pyramiding payments. Check runs have been changed to the 15<sup>th</sup> and 30<sup>th</sup> of each month, will result in increased approval by second level signer (Historical Society Board Treasurer or Board President).
- B) Guidelines are being developed for speakers and authors who provide programs, which addresses engagement terms, fees, travel, per diem, hotel, audio-visual equipment requirements, lecture materials, book signing, merchandising and cancellation terms.
- C) Fiscal procedures require the Staff Accountant to review and confirm all payments are for goods and services received by the Historical Society. Contracts and agreements will contain a schedule of payments based upon predetermined deliverables.
- D) The newly developed fiscal procedures have established dollar limits and levels of required authorization prior to purchasing.
- E) Fiscal procedures require the receiving staff member to sign the invoice confirming receipt of goods or services.

**6. Credit Card Usage Procedures Should Be Revised and Documented**

The Historical Society has one credit card in the Director's name for business related expenses. There were no written policies and procedures for how the card was supposed to be used and support needed for purchases made with the card. During our review of the use of the card, we had the following concerns:

- The Director is the card holder and approves all purchases made with the card. No other review of the purchases was performed prior to the payment being made.
- A review of 48 individual purchases on five monthly statements noted that two of the purchases did not have any supporting documentation included with the credit card payment.
- Other employees had access to the credit card and made purchases with the card. However, there were no prior authorizations for the individual purchases made by others using the card found in the supporting documentation.

Written policies regarding credit card use should be developed and implemented. This policy should address the type of items and services that can be purchased with the card and the approval and receipt documentation that is required. Further, this policy should require a review of transactions by persons other than the card holder prior to the payment being authorized.

**We Recommend** the Historical Society develops and implements procedures for credit card use. The procedures should detail the types of purchases that can be made, specific restrictions, and the required documentation for purchases. Additionally, the procedures should include a review of the transactions by someone other than the card holder.

**Management's Response:**

Concur. The fiscal policies are being updated to include additional controls over the use of the Historical Society credit cards. A policy has been put in place to require any use of the Executive Director's credit card by museum personnel to be authorized in advance. All charges must be approved by the appropriate department head in addition to the Executive Director. Any charges over \$1,500 initiated by the Executive Director must be approved by the Board President. The Staff Accountant reconciles the credit card statements monthly to the approved receipts and verifies that all charges were properly approved.

The Historical Society of Central Florida, Inc. has put into place procedures to safeguard the use of both corporate issued VISA cards, retail cards from Publix Supermarket, Sam's Club and BJ's Wholesale Club as well as use of house credit account at local businesses and the people who use them. Prior approval is required for all purchases. Personal use of any corporate credit is prohibited. Detailed new procedures have been added to the fiscal policy and are in actual use.

**7. Insurance Policies Should Be Reviewed By the Orange County Risk Management Division to Ensure the Correct Coverage Is Obtained**

During our review, we noted that the Operating Agreement between Orange County and the Historical Society states that the County will provided commercial general liability and risk property insurance, but the agreement requires the Historical Society to obtain Worker's Compensation, Commercial General Liability and Business Automobile Liability coverage. The agreement also requires the Historical Society to list the County as an "additional insured" and provide copies of current certificates of coverage evidencing coverage to the County. During our review of the insurance policies maintained by Historical Society, we had the following concerns:



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- The Historical Society paid for property insurance for the building, and according to senior staff of the Historical Society has from the inception of the agreement in 1998; however, as noted in the agreement, the County was responsible and has been including the building coverage through its self-funded insurance program.
- The Historical Society did not include the County as the additional insured on the Certificates of Insurance.
- The Historical Society hasn't provided a copy of the coverage certificates to the County.

The Historical Society is paying for insurance that is not necessary and in effect, double insuring the building property. Providing copies of the insurance policies to the County could have allowed these issues to be detected more timely. After discussing this during the audit, the Historical Society immediately cancelled the building property insurance, provided the County's Risk Management Division with copies of all the policies, and worked with the property insurer and recovered \$8,500 for the duplicate coverage. As a result of the policy change, the Historical Society is saving over \$19,000 in annual premiums.

**We Recommend** the Historical Society adds Orange County as the additional insured to each insurance policy and continues to provide copies of certificates of coverage to the County's Risk Management Division at the beginning of a policy period.

### **Management's Response:**

Concur. The property insurance policy has been cancelled and will not be reissued. The Historical Society has included Orange County as an additional insured on Certificates of Insurance. Orange County Risk Management Division is in receipt of insurance coverage certificates. In order to prevent future occurrences, the responsibility of providing certificates of insurance to Orange County and making certain Orange County is an additional insured are annual

performance measures of the Historical Society's Staff Accountant.

**8. A Classification and Pay Plan for Current Positions Should Be Established**

During our review, we noted the Historical Society appeared to have a significant employee turnover rate. The Historical Society currently has 13 permanent positions, some of which are part-time. During the two year audit period, 21 individuals worked in one of these 13 permanent positions. Relating to these positions, we noted the following:

- A) The Historical Society does not have a classification and pay plan for employee positions. A classification and pay plan establishes the schedule of equitable pay ranges based on job duties as well as educational and experience requirements. Without an established classification and pay plan, employees may receive inequitable pay which could negatively impact morale, retention, and productivity.
  
- B) Job descriptions and minimum qualifications were not reviewed and updated on a regular basis. Many of the job descriptions did not have dates when they were last reviewed and some job descriptions that had a date of last review were excessively long ago. For example, the accountant description hadn't been updated since 2001.

The Historical Society currently leases its employees. The main reasons for leasing employees was to avoid the increased responsibility and costs of an in-house payroll function and to provide more affordable benefits. Management of the Historical Society informed us that most of the turnover is related to low rates of pay and lack of competitive benefits which tended to be set based on their ability to afford instead of the job function.

**We Recommend** the Historical Society reviews its current employee positions. This review should include establishing

a classification and pay plan, comparing positions to market conditions, and periodically reviewing job descriptions.

**Management's Response:**

Concur. The Historical Society has secured the services of a labor relations firm to develop a classification plan. A pay plan will be developed with assistance from the Edith Bush Institute for Philanthropy at Rollins College within the next 90 days.

**9. Comprehensive Personnel Policies Should Be Developed for Employee Management**

While reviewing the supporting documentation for employee hiring and terminations, we identified the following concerns:

- Adequate documentation for new hires is not maintained. We noted instances where the records did not document the rate of pay and other benefits agreed to between the Historical Society and the new hire. As noted in Recommendation for Improvement No. 10, this made tracking leave and calculating final leave payouts difficult. It was a common practice for the Historical Society to accrue leave benefits at different amounts for different positions.
- While reviewing the files for 12 employees who ended employment during the audit period, we found three employees remained active in the employee leasing company's system for one to seven months. Employee status should be changed to inactive in the payroll system on the last day of work. Allowing a previous employee to remain in the system could allow for unauthorized payroll payments to be made.
- There was no documentation to determine when the security access was deactivated for any of the employees who ended employment. In addition, parking cards were left active for one employee for six weeks and a second employee for three months. The

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Historical Society was unable to provide evidence when parking access was terminated for four additional parking cards. Supporting documentation should be retained for verification and removal of access to Historical Society facilities and parking benefits.

There are no policies and procedures covering employee management. Many of these oversights could have been avoided had there been procedures to follow when managing employee related tasks. The procedures should address the hiring and termination of employees, including a list of forms and actions that need to be taken.

**We Recommend** the Historical Society develops and implements written policies and procedures for employee management. This should include the required documentation for hiring employees, and actions to be taken when an employee terminates.

### **Management's Response:**

Concur. The Historical Society has developed and implemented written policies and procedures for employee management. It includes the required documents for hiring and terminating employees. The policy was approved by the Historical Society's Board on September 16, 2015.

## **10. The Current Leave Accrual and Management Process Should Be Improved**

The Historical Society's current leave policy, which was revised on November 4, 2010, provides for the following:

Salaried Historical Society staff will receive two weeks paid vacation and one week sick leave annually. For the first five (5) years, ten (10) days of unused leave may be carried over to subsequent years. After five (5) years, eighteen (18) days may be carried over.

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Although the above policy does not address payment for unused leave, we were informed it is paid when employees separate from employment. During our review of the amounts paid, we noted the following concerns:

- The actual amount of leave accrued and the leave carried forward each year recorded in the internal leave tracking records kept at the Historical Society was not computed in accordance with the policy.
- Leave accrual amounts in some of the offer letters located differed from the policy although employment began after the policy effective date. Further, in some cases, leave accrual was not in accordance with either the policy or offer letter.
- The leave paid to employees by the employee leasing company did not always match the reduction of hours recorded in the internal leave tracking spreadsheet.
- The leave policy does not address the use of a floating holiday, but we noticed instances that a floating holiday was allowed and, in the case of separation from employment, paid out.
- There was no documented leave policy prior to the policy that was effective in November 2010. Five of the nine employees who ended employment during the audit period were hired before the policy's effective date.

As a result of the inconsistencies noted above, we recalculated the leave payouts for the nine employees who separated their employment and were paid a remaining leave balance during the audit period. Our recalculation found that eight of the nine employees were overpaid a total of approximately \$8,200, and the other employee was underpaid approximately \$800. It is apparent that the internal leave tracking spreadsheet used to track leave is prone to error. Therefore, during the audit, the Historical Society staff requested the employee leasing company to

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manage leave accruals. This is a service that was already included within the agreement at no extra cost.

In addition to accurately tracking leave based on policy, the Historical Society needs to address the use of providing different leave amounts in offer letters. An inconsistent leave policy leaves the Historical Society vulnerable to calculation errors and increases the difficulty for administering the leave policy.

**We Recommend** the Historical Society clarifies the application of the current leave policy and continues to use the employee leasing company to maintain leave accruals.

### **Management's Response:**

Concur. A labor relations firm has revised the Historical Society's leave policy to ensure it is uniform in determining paid time off (PTO) and applied consistently. The policy was approved by the Historical Society's Board on September 16, 2015.

## **11. The Payroll Processing Procedures Should Be Reviewed and Modified**

As noted above, the Historical Society uses an employee leasing company to provide payroll services. Information for processing the biweekly payroll, such as rate of pay, hours worked, and benefit deductions is uploaded from the Historical Society to the employee leasing company. During our review of the payroll process, we identified the following concerns:

- A) Only one Historical Society employee had access to the employee leasing company's system to process payroll. We were informed that this employee processed payroll remotely when he was out of the office on vacation.
- B) The same employee was also responsible for updating rates of pay and benefit elections (including

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his own) in the employee leasing company's system. There was no standard form or documented approval required before changes are made. Further, no other employee periodically reviews the rates of pay in the system or obtains a change report to ensure all changes were appropriate and approved.

- C) The same employee entered the hours worked into the employee leasing company's system to process payroll, including his own hours. A report from the system is summarized by individual was printed and reviewed by a different individual before the final is submitted in the system. However, no documentation to evidence that an independent person ensured hours keyed agree to the employees' timesheets is prepared. Further, after the data is reviewed, the original employee has access to modify it before it is submitted.

In small organizations where adequate segregation of incompatible duties is difficult because of the number of employees, best practices for payroll internal controls include:

- Maintaining a change tracking log and exception reports to monitor changes made to payroll data to facilitate identifying errors, unapproved changes, or irregularities;
- Cross-training other employees so duties can be performed in the event of absence of the employee responsible for processing payroll; and
- Ensuring the hours submitted for each individual agree to the hours reported on the approved timesheet. This should be performed before the hours are submitted and after the payroll is processed by a person independent of the payroll submission.

The Historical Society does not have adequate controls and procedures in place to prevent and detect unauthorized changes in the employee leasing company's system. While

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there is a small number of employees that payroll is processed for, compensating controls could be put in place to mitigate risk. Without an independent party verifying that all changes made were authorized, unauthorized changes could be made and not detected.

**We Recommend** the Historical Society reviews the current payroll process and the controls available with the employee leasing company to ensure adequate segregation of incompatible tasks exist. Further, the process should include an independent documented review to ensure hours paid agree to the hours recorded on the timesheets.

### **Management's Response:**

Concur. The Historical Society has implemented changes to increase controls over the processing of payroll through the leasing company. All employees submit timesheets that are approved by the Executive Director. The hours worked are input into the system by the Administrative Assistant who is not paid through the leasing company. The output report is compared to the timesheets by the Staff Accountant and the Executive Director approves both the initial report and the final report after the payroll is processed. A rate change authorization form is approved in advance by the Executive Director. The Staff Accountant reviews all rate changes biweekly and compares to the approved form.

## **12. The Historical Society Should Review the Classification of Independent Contractors Paid to Supervise and Teach Educational Programs**

During our review, we noted that the Historical Society paid various individuals to provide services including supervision and programs for school-age children during scheduled school breaks and actors for various programs offered by the History Center. Relating to this, we noted the following concerns:

- A) Most of the individuals (23 of the 28) that were issued an Internal Revenue Service (IRS) 1099 form as an



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independent contractor appear to meet the IRS definition of a common law employee. In addition to the employees paid over \$600 and issued 1099, we identified an additional 11 individuals who received less than \$600 that also appeared to meet the IRS definition of a common law employee. The IRS defines a common law employee by looking at the facts that provide evidence of the degree of control and independence in three categories: behavioral control, financial control, and the type of relationship of the parties. Employers of common law employees are required and liable for withholding income, social security, and Medicare taxes on wages paid. This liability can be applied retroactively in cases where the IRS determines the provisions have not been adhered to by the employer.

The 34 individuals who appeared to meet the definition of a common law employee were paid a combined amount of \$39,985 for their services during the 2012 calendar year. This would have resulted in additional tax liability of \$2,800 for the Historical Society.

- B) Eleven independent contractors not issued a 1099 earned more than \$600. The IRS requires an employer to report income earned on a 1099 and furnish a copy of the form to the individual and the IRS if more than \$600 is paid to the independent contractor.
- C) The Historical Society did not require individuals to prepare and provide a W-9 (the form required for obtaining the necessary personal information to later complete a 1099) when an individual is hired as an independent contractor, Historical Society employees must later contact the individuals and obtain the required information to prepare the 1099 if more than \$600 is earned.

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- D) The Historical Society does not prepare any contract documents to be signed by both parties to detail the duties to be performed and the pay rate.

**We Recommend** the Historical Society performs the following:

- A) Review anticipated temporary positions to ensure the position is classified accurately according to IRS rules; and,
- B) Prepare contracts for any individuals participating as an independent contractor.

### **Management's Response:**

Concur.

- A) The Historical Society will contract with a legal firm specializing in labor relations to review and determine if all full-time and part-time temporary positions are in accordance with IRS rules.
- B) New contracts for individuals serving as an independent contractor will be created by the labor relations firm within the next 90 days.

### **13. Facility Rental Policies and Procedures Should Be Enhanced**

Policies and procedures were not adequate to ensure facility rentals and events held at the History Center were correctly charged and all monies due were received and deposited. We had the following concerns relating to these rentals and events:

- A) A list of facility rentals along with the contract amounts charged, due, and paid was not maintained. The only list of rentals was provided from Scheduler (the software used by the Historical Society for events and rentals) which, for the audit period, had 1400 line

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items representing a potential facility rental. Scheduler was not an effective source for rental listings as the data also included internal events, internal meetings, scheduled maintenance or repair times for areas, etc. Additionally, we were informed that if a facility rental was cancelled, it was not always updated or removed from the Scheduler system. We traced the 215 rental files maintained in the sales department and located all but two of the files in Scheduler. However, as seen from the above, the majority of the items on the Scheduler List did not have corresponding files. Upon closer review of the items listed on the Scheduler report without a corresponding file, a significant number appeared to be related to rentals.

The Historical Society did not provide any other facility rental accounts receivable system as a compensating control. Therefore, the systems in place were insufficient to determine if all monies were collected or collected and not deposited in the Historical Society's bank account.

A complete listing of facility rentals and amounts due should be maintained to facilitate the ability to track payments and deposits and reconcile such to the financial records. Consideration should be given to including each rental as an accounts receivable amount and any changes to the rental amount updated in the receivable. Further, there should be corresponding files/documentation to support the items listed including financial information such as the contract and payments made.

- B) Approximately 3.4 percent (7 of 204) of the rental files where it appeared a fee should be charged (fees were waived for 11 of the facility rentals because the rental was for an internal or Orange County department) did not have a contract in the file. The Contract includes information such as the parties using the facility, purpose of the rental, and the amount due. Historical

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Society procedures require that a rental contract be prepared and kept in the file for each facility rental.

- C) Sixty-one percent (120 of 197) of the contracts located were not signed by both parties. The majority of the 120 files were signed by the renter; however, contracts should be signed by a representative of the Historical Society as well to ensure the contract is enforceable.
- D) Nine percent (17 of 197) of the rental files containing proof of payments received for contract amounts had documentation in the file of amounts paid that was different than the amount required in the contract. It appeared that some of these differences resulted from changes made to the contracted amounts for items such as miscellaneous services or room changes which would have resulted in a corresponding increase or decrease in the contract amount. However, the changes were not documented as amendments in the contracting documents.
- E) Twenty-five of the contract files reviewed contained the full credit card information of the contracting individual or organization in the contract file. These files were generally kept unlocked and accessible to multiple individuals. Although there is no evidence the information was reviewed by any unauthorized individuals, the practice presents an unnecessary risk for the Historical Society.
- F) Seventy-one percent (15 of 21) of the facility rental files reviewed where the renting organization was not charged sales tax, did not have a tax exempt form included in the file. State of Florida rules for granting tax exempt status for a taxable charge requires a certificate be obtained from the exempt organization and retained by the organization as evidence.

Procedures should detail steps to be followed to provide adequate assurance that all documentation is obtained to

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ensure facility rentals and events were correctly charged, paid, and deposited.

**We Recommend** the Historical Society implements procedures to record and account for all facility and event rentals. This should include reconciling facility rentals and events to ensure all required documents were prepared and monies were collected and deposited.

### **Management's Response:**

Concur. The Historical Society has sent the rental agreements template forms to legal for review and approval. Policies and procedures have been put into place to see that facility rentals and events are charged appropriately, that changes (increases/decreases) to the initial agreement are tracked in an addendum and approved by the Executive Director. The Staff Accountant is tracking all current contracts for facility rentals in order to comply with terms of the contracts regarding payments due to the Historical Society and sales tax payments due to the State of Florida. The Historical Society has implemented changes to increase controls over the processing of payroll through the leasing company. All employees submit timesheets that are approved by the Executive Director. The hours worked are input into the system.

## **14. Revenue Collection and Deposit Policies and Procedures Should Be Developed**

During our review of the Historical Society's collection and deposit procedures for donations, memberships, attendance, and Historical Society sponsored events, we noted the following:

- A) Donations received from an individual or corporation were recorded in the financial system and the related subsidiary records (currently Blackbaud Altru) for each contributor. These subsidiary accounts were used for reporting contributions made for tax purposes to each contributor. However, the

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donations recorded in the subsidiary system were not reconciled to the donation amounts deposited and recorded in the financial system. Periodically, daily or weekly, reconciling subsidiary records of contributions to the financial system and deposit amounts would help ensure monies received are deposited timely.

- B) The Historical Society sells annual memberships in varying amounts for individuals and families. Members receive the Historical Society quarterly newsletter, a 10 percent discount on publications, free admission to the History Center, and other benefits. However, memberships sold were not reconciled to the membership sales recorded and deposited. Periodically (each day or week) reconciling records of memberships sold to the financial records and deposit amounts would help ensure monies received are deposited.
- C) Individuals visiting the History Center to explore the exhibits enter the building and pass by a cashier. Each person entering the History Center is required to pay the admission price, provide a membership card, or provide other identification that allows them to enter the exhibit area without paying the daily admission price. The cashier is required to process each admission paid through the cash register and the collections for daily admissions is reconciled at the end of the day to the collections on-hand. The cashier does not record unpaid admissions in the cash register system. Further, during the audit, we observed persons displaying a membership card to the cashier but the cashier did not verify the card was active.

There is no method currently used to verify that each person who enters the exhibit area either presented a valid membership card, paid the admission cost, or was allowed to enter for free because of other membership presented. Developing an independent count of persons entering the exhibit area (e.g., a mechanical turnstile) and reconciling this count to the

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number of admissions recorded through the cash register (including free admissions due to a valid membership card or other free participant) would help ensure that all admissions were collected, included in attendance counts and deposited.

- D) Procedures relating to revenue collection for Historical Society sponsored events to promote an exhibit or the History Center (e.g., retro-game night, evening lectures and lunch-and-learns) do not provide adequate accounting of attendance and the sale of food items. Some of these events have several thousand dollars of reported revenues. During our review, we noted that the standard practice does not record the number of items sold or admissions to reconcile with the monies turned in for deposit. For example, the cash deposited from event attendance could be reconciled to an independent count of paid admissions, and cash deposited from food sales could be reconciled to an inventory sold amount.

The Historical Society should develop an event revenue collection process that allows a detailed and accurate accounting of monies collected. This should be performed in a manner that will allow an independent individual to reconcile the admission charges, food and drink sales, and other items sold to the money deposited.

Without reconciliations of amounts that should be collected to the deposit amounts, monies could be received but not deposited into the Historical Society bank account.

**We Recommend** the Historical Society improves the control procedures for donations, memberships, History Center attendance, and sponsored events to gain assurance monies received are deposited.

**Management's Response:**

Concur. The policy has been changed to remove all incoming funds (other than museum sales or admission

entry) from being processed through the museum shop. Funds received either via walk in or mail will be processed by the Fiscal Coordinator and/or the Administrative Assistant to the Executive Director. Banking changes have been made as well to review and secure receipts daily for weekly pickup.

**15. The Historical Society Should Develop Policies and Procedures for Meals and Memberships**

The Historical Society did not have policies and procedures that address the purchase of memberships and food and beverage for volunteers and staff events. For instance, during our review we noted the Historical Society purchased the following:

- A) Food for appreciation dinners for volunteers at various events.
- B) Small amounts for catering expenses related to internal meetings, and other staff events.
- C) A holiday party each year for staff members.
- D) Membership for the organization in various local and national organizations. Many of the organizations were classified as social or charitable related organizations.

A significant amount of the labor used at the Regional History Center is performed by volunteers. Further, providing meals for staff who were participating in a working lunch at the convenience of the employer within the guidelines of a written policy was generally held as an acceptable business expense. Policies and procedures for these expenditures should be developed and approved by the Historical Society Board. Having such guidelines helps ensure the expenses are necessary and related to the activities of the Historical Society.



**We Recommend** the Historical Society develops policies and procedures for volunteer and employee related meal expenses and memberships.

**Management's Response:**

Concur. The Historical Society has developed policies for meals and memberships. The meals policy will closely resemble Orange County's Administrative Regulation (7.14) related to working meals and refreshments. The draft policies will be submitted to the Historical Society's Board within the next ninety days.

The number of memberships has been greatly reduced. In addition, a policy has been developed regarding memberships of the Historical Society. Each membership requisition will require approval of the Executive Director and a statement justifying the business purpose prior to payment by the Staff Accountant.

**16. Contractual Agreements Should Be Better Tracked and Monitored**

While reviewing banking functions of the Historical Society, we noted that the prior merchant account (used to process credit cards) was not closed when the services were terminated. The Historical Society contracted with a new vendor in November 2013, but continued to be assessed a monthly charge and receive monthly statements (without any charge activity) until we brought it to their attention during the audit. A total of \$975 was paid in fees for merchant services that should have been cancelled when a new vendor was selected.

Additionally, when reviewing the monthly deposits recorded on the bank statements, we noted that amounts were being received from various on-line vendors. We noted deposits from Amazon, Google, Paypal, and a Royalties Account. When we inquired with a Historical Society manager, she confirmed the Amazon deposits were from items sold and shipped from the History Center store. However, she was

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unable to determine who within the Historical Society had set-up or authorized the accounts, the terms of the agreements, or if the amounts received were reconciled and accurate.

An accurate accounting of all contractual relationships and the terms should be maintained and periodically reviewed. This should include ensuring that all fees paid are warranted and contracts no longer in-force are cancelled. In addition, proper authorization and approvals should be obtained before bank account access is granted to outside entities. Maintaining a list of all contracts and appropriate contact persons and termination dates (if applicable) can assist in monitoring.

**We Recommend** the Historical Society ensures contractual agreements are adequately monitored and proper approvals are obtained.

### **Management's Response:**

Concur. The Historical Society has identified those contractual agreements currently in force and is monitoring them relating to the service provided as well as termination dates.

### **17. The Temporary Staffing Contract Should Be Replaced With a Contract That Better Matches Skills Needed**

Temporary staffing was needed on occasion for various positions including the cashier in the History Center store. While reviewing the contract used to obtain the needed staff, we noted that the job description for the individual hired did not meet the job description of the position being filled. There are only three job titles covered by this contract: Maintenance Person, Technician I, and Technician II. A Technician II was selected and used to fill the cashier position. The Technician II job description does not specify the skills that are generally required for a cashier position. Further, the rate of pay for the Technician II position is

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higher than the rate of pay for a cashier in other contracts used by the County and available to the Historical Society. If a contract that covered the skill set required for a cashier was selected, the Historical Society could have saved approximately \$7,400 for one fiscal year.

Additionally, the background screening level performed for these temporary employees does not meet Orange County guidelines. The contract staff working in the History Center store had access to merchandise and cash greater than \$1,000. As a guideline, County policies and procedures require a level 2 background screening instead of a level 1 for this class of employee. A level 2 background screening includes such measures as use of fingerprinting (used for criminal history checks).

**We Recommend** the Historical Society utilizes a more appropriate contract for selecting cashiers for the History Center store. In addition, employees with access to cash and sales merchandise should be required to have a level 2 background screening performed.

### **Management's Response:**

Concur. The Historical Society has terminated its contract with the staffing agency cited in the audit. The functions previously performed through the staffing agency have been shifted to a direct hire part-time position on the Historical Society's payroll. Therefore, there is a reduction in the hourly rate paid and there is no overhead fee paid to the agency. All employees with access to cash and merchandise have been processed at a Level 2 background check and are fingerprinted.

### **18. All Employees, Temporary Employees, and Volunteers Should Have the Appropriate Level Background Screening Performed Before Having Any Contact With Children**

While reviewing new hires, we noted no evidence of background screenings being performed for three of the nine

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employee files tested. The remaining files only had documentation that a Level 1 background screening was requested and performed instead of the Level 2 screening that should be required for the position having direct contact with children. A level 2 Background screening includes a criminal history check.

As noted in Recommendation for Improvement No. 12, the Historical Society hired independent contractors to supervise children for camps held during school breaks as well as performers for school tours. However, no background screenings were performed by the Historical Society for any of these people. Additionally, volunteers for various activities that could involve interacting with children were used by the Historical Society, but no background screening was performed.

Staff working with or around children should have a level 2 background screening, including a criminal background check.

The Historical Society was taking undue risk by not ensuring that individuals associated with the History Center coming into contact with children did not have a criminal record of misconduct with minors or other serious criminal violations. Additionally, Florida Statute 409.175, requires owners, operators, employees, and volunteers working in summer day camps to have appropriate level of screening, including criminal history checks.

**We Recommend** the Historical Society works with the County's Risk Management Division to ensure the level of background screening performed for all new hires, independent contractors, and volunteers are appropriate. This should include a criminal background check for any individual who could potentially interact with children.

### **Management's Response:**

Concur. Once the concerns regarding background checks were brought to the attention of the Historical Society, immediate action was taken to have employees and

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volunteers working with children meet the requirement. Since then, a detailed background check procedure process has been implemented. The current process, developed with the assistance of Orange County's Risk Management Division, requires a Level 2 screening for all employees and volunteers working with children. The screening includes fingerprinting, national and Florida sex offender checking, drug screening, civil, criminal, motor vehicle, Orange/Osceola State Attorney's Office, education verification and credit/fraud check.

The Historical Society will work with the County's Risk Management Division to determine on a case by case basis the level of screening for any presenter, contractor or vendor.