



Compliance, Audit, Risk Management and Legal Affairs (CARL) Committee
March 14, 2023
10:15 a.m.

Discussion Item

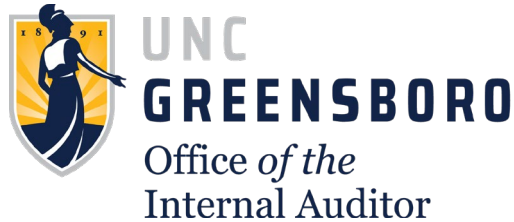
CARL-2 Internal Audit Report

Background Information

Katherine Skinner, Director of Internal Audit, will provide a summary of recent audits performed.

Attachment

2.1 Summary of Internal Audit Performed – Weatherspoon Arts Foundation Audit Report



Compliance, Audit, Risk Management, and Legal Affairs Committee
March 14, 2023
10:15 AM

CARL 2.1 Summary of Internal Audits Performed

Report Date: November 17, 2022

Report To: Dr. Franklin D. Gilliam, Jr., Chancellor

Subject: Weatherspoon Arts Foundation

Type of Audit: Internal Controls Audit

Objective: The objective of the internal audit was to determine whether the Weatherspoon Art Museum's (Museum) Inventory Management System is sufficiently reliable to support the accuracy of reported art collection inventory that is owned by the Weatherspoon Arts Foundation (Foundation).

Scope: The scope of the internal audit was inventory accessions July 1, 2021, through June 30, 2022, and the art collection items in the inventory record through June 30, 2022.

Findings: The recorded inventory is reasonably accurate.

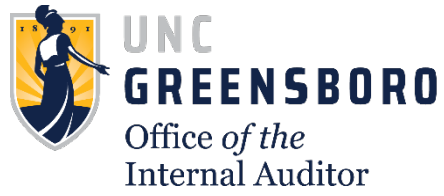
The legal dates entered into art collection inventory records for new accessions is inconsistent.

Recommendations: To ensure the inventory records are accurate and consistent, Museum management should ensure that policies and procedures are documented and current.

To ensure that inventory management policies and procedures are followed, Museum management should design and implement monitoring procedures.

Next Steps Corrective action will be verified during the next annual audit.

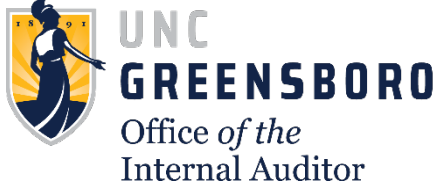
Attachment: 2.1 Weatherspoon Arts Foundation Audit Report



INVENTORY MANAGEMENT - INTERNAL AUDIT

WEATHERSPOON ARTS FOUNDATION

NOVEMBER 2022



MEMORANDUM

To: Dr. Franklin D. Gilliam, Jr., Chancellor
From: Katherine Skinner, Director of Internal Audit
Date: November 17, 2022
RE: Weatherspoon Arts Foundation Internal Audit Report

The Weatherspoon Arts Foundation Inventory Internal Audit was completed by the Office of the Internal Auditor in accordance with the Internal Audit Work Plan for fiscal year 2023. Provided within this communication is an Executive Summary and the Final Report of the Internal Audit activity.

Juliette Bianco, Weatherspoon Art Museum Director, reviewed a draft copy of this report. Her written comments are included starting on page 12.

We appreciate the courtesy and cooperation received from management and the employees of Weatherspoon Art Museum and Foundation Finance during our audit.

Executive Summary

PURPOSE

The objective of the internal audit is to determine whether the Weatherspoon Art Museum's (Museum) Inventory Management System is sufficiently reliable to support the accuracy of reported art collection inventory that is owned by the Weatherspoon Arts Foundation (Foundation).

The scope of the internal audit is inventory accessions July 1, 2021, through June 30, 2022, and the art collection items in the inventory record through June 30, 2022.¹

This audit has been conducted pursuant to the University of North Carolina System Office Policy 600.2.5.2[R]² which requires the Foundation to have annual audit.

BACKGROUND

The Foundation was established as a private non-profit organization to hold title to the permanent collection of the Museum. The collection is maintained for teaching, research, and public service purposes exclusively for the use and benefit of the University of North Carolina at Greensboro (University).

By an operating agreement, the Foundation delegates full management responsibility for the collection to the Museum, which is owned and operated by the University. The art collection inventory included 6,262 items as of June 30, 2022, with a collective book value of approximately \$24.4 million.

KEY FINDINGS

- The recorded inventory is reasonably accurate.
- The legal dates entered into art collection inventory records for new accessions is inconsistent.

KEY RECOMMENDATIONS

- To ensure the inventory records are accurate and consistent, Museum management should ensure that policies and procedures are documented and current.
- To ensure that inventory management policies and procedures are followed, Museum management should design and implement monitoring procedures.

¹ Inventory on record as of June 30, 2022, includes all items with a recorded "legal date" of June 30, 2022 or earlier.

² The UNC Policy Manual, 600.2.5.2[R], Regulation on Required Elements of University-Associated Entity Relationship, Section V states, "A Minor Associated Entity must have an annual audit conducted either by the Approving Institution's internal auditor, another University internal auditor, or an independent CPA firm."

Table of Contents

BACKGROUND.....	5
OBJECTIVE, SCOPE, AND METHODOLOGY	6
FINDINGS AND RECOMMENDATIONS	8
RESPONSE FROM WEATHERSPOON ART MUSEUM	12

Background

The Weatherspoon Art Museum (Museum), which is owned and operated by the University of North Carolina at Greensboro (University), maintains and manages the art collection that is owned by the Weatherspoon Arts Foundation (Foundation).

WEATHERSPOON ART MUSEUM

The Museum serves the University, community, state, and national audiences by collecting, preserving, presenting, and interpreting the work of nationally recognized American artists from the turn of the twentieth century onward. To encourage aesthetic and critical awareness within its audiences, the Museum engages in research, scholarship, and community outreach, and develops publications, exhibitions, and education programs.

During FY2022, the Museum managed 6,262 items with a collective book value of approximately \$24.4 million including 42 accessions valued at approximately \$150 thousand.

WEATHERSPOON ARTS FOUNDATION

The Foundation was established in 1990 as a private, non-profit organization to hold title to the permanent collection of the Museum. By an operating agreement, the Foundation delegates full management responsibility for the collection to the University. The collection is maintained for teaching, research, and public service purposes exclusively for the use and benefit of the University.

The Foundation is governed by a Board of Directors, nominated by the Foundation, and approved by the University Board of Trustees. The Foundation approves the acceptance of gifts and authorizes purchases for the collection and must approve all works recommended for deaccession. During fiscal year 2022 (FY2022), there were 42 accessions and no deaccessions.

WEATHERSPOON ART MUSEUM ADVISORY BOARD & WEATHERSPOON ART MUSEUM COUNCIL

The Weatherspoon Art Museum Advisory (WAMA) Board was part of the UNCG Excellence Foundation, a certified non-profit organization. The WAMA Board provided guidance, funding, and volunteer time to the Museum. Through membership, individual giving, and special fundraising events, the WAMA Board supported acquisitions, exhibitions, marketing initiatives, public receptions, and other museum projects.

However, in the Fall of 2022, the WAMA Board and the Foundation³ merged into the **Weatherspoon Art Museum Council (WAM Council)**. The WAM Council retains private, non-profit status and title to the permanent collection of the Museum and continues to delegate full management responsibility for the collection to the University.

³ Because the Weatherspoon Arts Foundation (Foundation) was still in place for the majority of the audit scope period, the Foundation will be referenced where applicable in this report, rather than the WAM Council.

Objective, Scope, and Methodology

OBJECTIVE:

The audit objective was to determine whether the Weatherspoon Art Museum's (Museum) Inventory Management System is sufficiently reliable to support the accuracy of reported art collection inventory that is owned by the Weatherspoon Arts Foundation (Foundation).

SCOPE:

The scope of the internal audit is inventory accessions July 1, 2021, through June 30, 2022, and the art collection items in the inventory record through June 30, 2022.

METHODOLOGY:

To determine whether the reported inventory is reasonably accurate, auditors performed the following procedures:

- Interviewed Museum staff, reviewed policies and procedures, and physically observed Museum grounds and security procedures.
- Compared prior year inventory reports to current year inventory reports and reconciled differences to the report of accessions (there were no deaccessions during the period).
- Compared inventory reports from the University's financial records to the Museum's inventory records.
- Physically observed a statistical sample, using stratification to test significant items, of the art collection inventory as follows:
 - 100% of items acquired during the fiscal year 2022
 - 100% of items with a value of at least \$75,000
 - A random statistical sample of 149 items from the remaining population

A random statistical sample was selected so auditors could project the results of the test to the population. Auditors used authoritative sampling guidance published in 2014 by the American Institute of Certified Public Accountants (AICPA) in Audit Sampling, Audit Guide.

Auditors used a confidence level of 95% with an expected error rate of zero to determine the sample size. Auditors then used software to select a random sample.

- Reviewed supporting documentation for all fiscal year 2022 accessions and compared relevant details to inventory records (e.g., item number, artist, title, method (gift/purchase), value, legal date, description, and type).

Note that auditors are not art experts or qualified appraisers and thus cannot opine on item values or whether items are legitimate or forgeries. Accordingly, tests were limited to verifying that items

appear to exist as indicated in the inventory records and in accordance with supporting documentation for new items.

Because of the test nature and other inherent limitations of an audit, together with limitations of any system of internal and management controls, this audit would not necessarily disclose all performance weaknesses or lack of compliance.

As a basis for evaluating internal control, auditors applied the internal control guidance contained in professional auditing standards. However, our audit does not provide a basis for rendering an opinion on internal control, and consequently, we have not issued such an opinion.

Findings and Recommendations

INVENTORY MANAGEMENT SYSTEM IS SUFFICIENTLY RELIABLE BUT COULD BE IMPROVED

The Weatherspoon Art Museum’s (Museum) Inventory Management System is sufficiently reliable to support the accuracy of reported art collection inventory that is owned by the Weatherspoon Arts Foundation (Foundation).

The Museum was responsible for managing 6,262 art collection items with a book value of approximately \$24 million during fiscal year 2022⁴ (FY2022). During FY2022, the Museum added 42 items to the art collection through 26 gifts and 16 purchases, collectively valued at approximately \$150 thousand. See Table 1, below.

Table 1. Art Collection Value, FY2022

	Price	Quantity
Book value of art collection as of June 30, 2021	\$ 24,243,660	6,220
Acquisitions of art	133,523	16
Gifts of art	16,668	26
Book value of art collection as of June 30, 2022	\$ 24,393,851	6,262

However, the legal dates entered into inventory records was inconsistent for 52% of new items. Although inventory records are reasonably accurate this fiscal year, future fiscal periods could include errors in inventory reporting caused by inconsistencies in recorded legal dates for new items. The legal date recorded for new accessions was inconsistent because Foundation Finance⁵ did not follow policies or another systematic process when entering dates into inventory records. The Museum’s Inventory Collection Policies state that acquisition date should be entered as the legal date for new items.

INVENTORY IS REASONABLY ACCURATE

The recorded inventory is reasonably accurate. The art collection inventory included 6,262 items as of June 30, 2022, with a collective book value of approximately \$24.4 million, including 42 accessions valued at approximately \$150 thousand.

Auditors physically observed a statistical sample, using stratification to test significant items, of the art collection inventory and auditors did not identify any reportable discrepancies between the recorded inventory items and the inventory stored on the premises as described. For example, art collection items were stored in locations in accordance with the inventory records, had physical aspects⁶ matching inventory records, and were labeled with accession numbers matching inventory records.

⁴ July 1, 2021, through June 30, 2022.

⁵ Foundation Finance is a functional unit within the University’s Department of Finance and Administration.

⁶ Physical aspects of items could include any of the following: painting, sculpture, portrait, poster, size, descriptors such as “men praying” or “landscape,” dates, or other details. This is not an exhaustive list, but rather some examples of physical observations made by auditors to match items to inventory records.

Additionally, auditors noted that Museum staff were consistent in their handling of items, using care to gently remove items from storage locations, when applicable, and that staff easily located items.

Auditors also noted that items were stored in accordance with documented policies to preserve and protect items. For example, some large paintings, drawings, and other "paper" art collection items were stored flat in file drawers in temperature-controlled rooms. Small, potentially highly valued items, such as jade figurines, were stored in a locked cage inside the already secure Museum vault.

ROOM FOR IMPROVEMENT WHEN ACCESSIONING NEW ITEMS

The reported inventory amounts for new accessions appear to be reasonably accurate. Auditors reviewed documentation for new items to verify that Museum staff consistently follow policies and procedures and that new items are correctly reflected in the inventory records. Auditors did not identify any reportable discrepancies with the inventory values.

However, the legal dates entered for new accessions is inconsistent with policies and inconsistent in general. For example, of 42 items acquired in fiscal year 2022 (FY2022), 22 (52%) had legal dates that were not the acquisition dates as required by policies. Additionally, the legal dates were not consistent with another specific date such as invoice date, Director acceptance date, or donation date. See Table 2, below.

Table 2. Legal Date Errors

Error	Gifts	Purchases	Total
Yes	16	6	22
No	10	10	20

Nine of the 16 items acquired by gift had legal dates that appear consistent with the donation acceptance date, but seven of the gifted items had legal dates that were not consistent with any other date in the inventory records. Additionally, none of the purchased items with legal date errors had legal dates that were consistent with other dates in the inventory records.

LEGAL DATE ERRORS COULD RESULT IN OVER/UNDER-STATING INVENTORY

There is no impact or effect on the inventory records for FY2022. As noted above, the inventory records are reasonably accurate and new accessions were only 0.7% of the total collection’s combined value. See Table 3, below.

Table 3. New Accessions – Percent of Collection

New in FY 2022	Bequest	Gift	Purchase	Transfer	Grand Total	%
No	1,658,212	12,274,232	10,305,007	6,209	24,243,660	99.3%
Yes	0	16,668	133,523	0	150,191	0.7%
Grand Total	1,658,212	12,290,900	10,438,530	6,209	24,393,851	100%

However, if inconsistencies with recorded legal dates for future accessions is not corrected, it could result in inaccurate inventory reported in the University's financial reporting. The impact could be significant if items of significant value are acquired and the recorded legal date⁷ results in items being reflected in inventory reports for the wrong fiscal year.

INVENTORY MANAGEMENT SYSTEM IS STRONG BUT HAS ROOM FOR IMPROVEMENT

Inventory records are reasonably accurate because the Museum management team has implemented policies and procedures to ensure that (1) all items are recorded in EmbARK⁸ and Banner⁹ in a systematic manner and (2) all art collection items in inventory are protected from loss such as theft, damage, or misplacement.

However, minor discrepancies with legal dates recorded for new accessions were caused by Foundation Finance's inconsistencies when recording the legal dates and Museum management's lack of detection. According to inventory management policies, when entering legal dates into EmbARK, the "Legal Date" entered should be the acquisition date.

Museum staff do not enter legal dates or values into electronic inventory records; legal dates and values are entered by Foundation Finance. However, the Registrar did not verify that legal dates and values entered into EmbARK by Foundation Finance are consistent with policies and procedures or source documents.

OPERATING AGREEMENTS, POLICIES, AND INTERNAL CONTROL STANDARDS REQUIRE ACCURATE RECORDS

Museum management should design and implement policies and procedures to ensure inventory records are accurate and consistent because operating agreements, policies, and internal control standards require it.

OPERATING AGREEMENTS AND POLICIES REQUIRE MANAGEMENT OF INVENTORY AND RECORDS

By an operating agreement with the Foundation, the Museum staff are responsible for managing all art collection inventory and related records.

For example, the **Director** of the Museum is responsible for managing the Collection and for providing appropriate information and bringing relevant issues to the Chancellor and the Foundation on a regular basis. The Director also recommends all acquisitions to the Foundation.

⁷ Legal dates are used, in part, to determine what inventory items show up in an inventory report as of a specific date. For example, inventory items with legal dates before this report but after June 30, 2022, are not included in this audit.

⁸ EmbARK is the Museum's inventory management system.

⁹ Banner is the University's financial accounting system.

The **Curator of Collections, Registrars, and Preparatory staff** are responsible at all times for documenting, preserving, and protecting the objects entrusted to the Museum's keeping, in accordance with documented practices and procedures for the documentation and care of the Collection.

The **Registrar** is responsible for the expeditious accessioning of all new acquisitions. The Registrar enters accession number, artist, title, description, type, and method of accession (gift, purchase, etc.) into the art collection inventory system, EmbARK.

However, **Foundation Finance** is responsible for entering the legal date and the value for each item. According to inventory management policies, when entering legal dates into EmbARK, the "Legal Date" entered should be the acquisition date.

INTERNAL CONTROL STANDARDS REQUIRE MANAGEMENT TO DESIGN CONTROL ACTIVITIES

Internal Control Standards state, "management designs control activities so that all transactions are completely and accurately recorded" *[emphasis added]*.

RECOMMENDATIONS

To ensure the inventory records are accurate and consistent, Museum management should ensure that policies and procedures are documented and current.

To ensure that inventory management policies and procedures are followed, Museum management should design and implement monitoring procedures.

Response From Weatherspoon Art Museum

AUDITEE RESPONSE

Dear Katherine,

Thank you for your thorough attention and diligence in conducting FY 2021-22's audit of the Weatherspoon Art Museum's collection. I agree with your findings and have instructed both the Head of Collections and the Registrar to reach out to UNCG's Foundation Finance to address the findings in your report.

We will also update the museum's Collections Management Policy to clearly state the date to use as the legal date entered for new acquisitions.

Lastly, we will devise ways for the Registrar to verify that the data entered into the system by Foundation Finance is consistent with museum policies and procedures and communicate any discrepancies to them.

Sincerely,

Juliette

--

Juliette Bianco

Anne and Ben Cone Memorial Endowed Director, Weatherspoon Art Museum

Acting Director, Jeanne Tannenbaum Center for Creative Practice

UNC Greensboro