
In-Kind Gifts

The Scenario

A Department of Defense (DoD) auditor was assigned to conduct an unannounced inventory review at a newly renovated DoD military museum. The museum's holdings included paintings, prints, flags, uniforms, swords, firearms, medals, sculptures, manuscripts, rare books, photographs, and a wide variety of personal memorabilia gifted by private citizens and civic organizations. The museum's holdings were considered in-kind gifts or heritage assets as defined by Statements of Federal Financial Accounting Standard, Number 29, "Heritage Assets and Stewardship Land," as property, plant, and equipment unique for one or more of the following reasons: cultural, educational, historical, or natural significance.

During planning, the auditor noted that a previous inventory report stated that adequate controls did not exist to account for, and control, all historical property at the museum. At that time, museum staff were instructed to conduct a complete inventory to ensure that information reported in its financial statements was accurate. A follow-up review of the audit organization's open recommendation list disclosed that prior recommendations were still classified as open.

The auditor requested a tour of the exhibit areas and storage locations before beginning the inventory review. When entering a storage facility, the auditor noted that many donated items were still in boxes and on storage shelves. The auditor's count disclosed over 5,000 items that were never entered into the inventory database. The auditor became concerned because many of the vintage uniforms, photographs, and prints appeared to be deteriorating due to improper storage practices. An opened storage box donation letter stated that the contents included crystal vases, service medals, and pendant necklaces. The auditor examined the box and could not locate the vases or necklaces. During a meeting with the museum director, the auditor asked the director whether he/she knew the location of the missing pendants or vases. The director stated that the museum staff borrowed the items for the annual summer party and were never returned.

Next, the auditor reviewed the in-kind gift inventory database and noted the following irregularities:

- Over 10,000 inventory items were not assigned an identification number or the identification number was not complete. An identification number is necessary to locate in-kind gifts held by the museum. This number identifies the year the gift was received, the gift number, and the subunit or unit number for categorizing the items.
- The museum director did not develop controls to prevent unauthorized modification or deletion of in-kind gift data in the inventory system. For example, staff and volunteers had the capability to modify and delete records.

Review of the deleted records showed that over 1,000 records were deleted from the database within the past year by a part-time volunteer.

- The lack of security controls occurred because staff did not know how to set access controls.

The auditor requested an interview with the part-time volunteer responsible for deleting the large amount of inventory records. During the interview, the volunteer admitted to removing the items from storage and selling them at an on-line site. This fraud netted the volunteer over \$30,000 in cash.

General Comments / Lessons Learned.

DoD organizations are required to develop policies, procedures, and controls to ensure that in-kind gifts are adequately safeguarded. As discussed in the scenario, inadequate inventory controls resulted in losses and theft that could be prevented. An organization's volunteer staff should not have the ability to delete or modify inventory records.

FRAUD INDICATORS

- **Prior audit work identifies inventory control weaknesses that have not been corrected.**
- **Inventory items are not assigned an identification number and/or identification numbers are incomplete. Therefore, it is not possible to determine the year the gift was received, gift number, or subunit necessary to classify the item.**
- **Absence of controls to prevent unauthorized modification or deletion of in-kind gift data in the inventory system.**
- **Volunteer staff have the authority and ability to delete or modify inventory records.**