

**VIRGINIA'S MUSEUMS**

**REPORT ON AUDIT  
FOR THE YEARS ENDED  
JUNE 30, 2006 AND JUNE 30, 2007**

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**Auditor of  
Public Accounts**

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**COMMONWEALTH OF VIRGINIA**

# Virginia's Museums Statewide Overview And Issue Alert

This report contains the results of our combined audit of the following museums\* for the fiscal year ending June 30, 2007:

Science Museum of Virginia	Frontier Culture Museum of Virginia
Virginia Museum of Natural History	Jamestown-Yorktown Foundation
Virginia Museum of Fine Arts	Gunston Hall

\* We also refer to these agencies collectively throughout the report as Virginia's Museums.

## ***Brief Overview of Fiscal year 2008***

During the period of this audit and through fiscal year 2008, the Virginia Museums have experienced some significant operating challenges. Jamestown-Yorktown Foundation along with Jamestown 2007 celebrated the Commonwealth's 400<sup>th</sup> Anniversary with numerous special events and exhibits. Both the Virginia Museum of the Fine Arts and the Virginia Museum of Natural History have had substantial capital projects.

Fiscal year 2008 represents a partial year of more normal operations for the Jamestown-Yorktown Foundation and the first full fiscal year of operation by the Virginia Museum of Natural History in its new facility. The Virginia Museum of the Fine Arts continued its extensive capital projects. Also, the funding for Jamestown 2007 ceases after fiscal year 2008.

Any analysis of fiscal results during fiscal years 2006 and 2007 must consider the activities noted above and also recognize that some of these events also effected the operations of the other museums. Therefore, we are using fiscal year 2007 to make some comparisons with the past and the future. We believe that some type of the analysis is necessary in at least three areas: the museums commitment to obtain 30 percent of their funding from admissions and other sources, the potential affect that not meeting the 30 percent may have, and administrative staffing levels.

## ***Meeting the 30 Percent Commitment***

Only the two museums below did not achieve the goal of generating 30 percent percentage of their overall funding from admissions and other sources. Since funding for Jamestown 2007 ceases after fiscal year 2008, we have excluded it from the analysis. Historically, only the Virginia Museum of Fine Arts and the Jamestown-Yorktown Foundation have met or exceeded this goal in each of the past six years.

Table 1

	<u>Special Revenue Collections</u>			
	<u>Special Revenue Estimates</u>	<u>Special Revenue Collected</u>	<u>Difference Over/(Under)</u>	<u>Percentage Over/(Under) Estimate</u>
Gunston Hall	\$ 225,000	\$ 99,920	\$(125,080)	(56%)
Virginia Museum of Natural History	3,004,945	2,435,304	(569,641)	(19%)

As shown in the table below, General Fund Appropriations normally only cover payroll expenses, that includes direct salaries and wages and fringe benefit costs. Therefore, almost all of the other operating costs of the museums must come from the additional funding generated by admissions and other sources. These other collections are therefore critical to the long-term operations of the museums. Failure to meet or exceed these collections could have long term operating implications to a museum.

The non-payroll costs covered by the admissions and other funding sources include utilities, exhibits, insurance and all of the other expenses of running a business. Also, included in these costs is paying for both the operating and long-term maintenance costs of museum buildings and grounds. While management may overcome not meeting these revenue projections in the short term by delaying optional costs, the long term health of the museum and the facilities is dependant on constantly making the projections, which shows the true ability of the organization to generate funding for on-going operations.

While we understand that some questions have arisen in the past about the methodologies used to generate these estimates, we understand that most of the museums have resolved these issues with the Department of Planning and Budget. As we stated earlier, the Virginia Museum of Fine Arts and the Jamestown-Yorktown have consistently met this goal of 30 percent and we believe the Science Museum and Frontier Culture Museum may be able to meet this goal in the future.

Table 2

Payroll Expenses

	<u>Payroll Expenses</u>	<u>Percentage of Payroll Expenses Supported by General Fund Appropriations</u>	<u>Payroll as a Percentage of Total Operating</u>	<u>Authorized Man Power</u>	<u>Full-time Equivalent Administrative Staff</u>	<u>Administrative Staff Vacant Positions</u>
Science Museum of Virginia	\$ 5,369,394	99%	58%	102	12	1
Virginia Museum of Natural History	2,401,455	125%	70%	52.5	5	-
Virginia Museum of Fine Arts	8,743,450	95%	61%	179.5	22	1
Frontier Culture Museum of Virginia	1,467,334	119%	65%	40.5	5	1
Jamestown-Yorktown Foundation	11,828,742	99%	61%	199	21	1
Gunston Hall	432,702	99%	61%	11	1	-

***Funding of Payroll Expenses***

As shown above, payroll expenses are a significant cost factor in operating the museums and constitute generally 60 percent of all operating costs. Further, the General Fund appropriation covers most of these costs. A few vacancies allows the General Fund support to exceed 100 percent as noted in the Virginia Museum of Natural History and Frontier Culture Museum of Virginia. Conversely, any cuts in General Funding support would either lead to lay-offs or place additional pressures on raising even more funding from admissions and other sources.

Since most of the museums maintain minimum staffing levels, the loss of funding does have a direct impact on operations. All of the museums, except the Virginia Museum of Fine Arts and Jamestown-Yorktown Foundation have staff who performs more than one function for administrative support. As the

museums face General Fund reductions in fiscal years 2008 and 2009, they have had to increase funding from outside sources and reduce optional non-payroll costs. As we will discuss in the next section they have also left administrative vacancies unfilled.

Most of the museums do not have significant other resources to overcome a significant reduction in General Fund resources, and have been reluctant to examine other alternative staffing or resource sharing alternatives. We believe the current General Fund reduction in fiscal years 2008 and 2009 will have an effect on operations.

### ***Administrative Resources and Vulnerabilities***

As the museums face General Fund reductions in fiscal years 2008 and 2009, they will need to maintain a proper balance of staff to maintain internal controls and accountability. In addition to the reductions, the job market has been tightening and finding qualified candidates to fill fiscal positions is difficult. Loss of key personnel in some of the museums will also affect the administrative functions ability to operate.

Our analysis above included all administrative positions except the director, deputy director and the building and maintenance personnel. In a number of cases, we could not assign an accurate full time equivalent amount to certain wage employees at both the Virginia Museum of Fine Arts and Jamestown-Yorktown Foundation, which could lower these positions by one or two FTEs.

With the exception of Gunston Hall, all of the museums on paper have sufficient administrative staff to have the minimum level of effective internal control. Only the Virginia Museum of Fine Arts and Jamestown-Yorktown Foundation have sufficient staff to go beyond the minimum levels. However, we would caution the reader that neither of these operations have any depth of Information Technology support and data security support to fully meet the Commonwealth's current mandates and expectations.

Considering that we have included personnel, payroll, purchasing, budgeting, accounting, cashiering, data processing, and financial reporting functions, all of these operations have some or all individuals performing multiple functions, duties, and roles. This environment makes maintaining the minimum levels of internal control at best difficult and the loss of personnel, or an employee who does not perform, can and does strain the process.

### ***Comments on Assessing Risks and Costs***

We have made a number of recommendations over the years that have included outsourcing, sharing resources, or other alternatives to address the potential risk of this level of staffing and the risk it causes associated with weakening internal control and potential accountability. Since the museums must all participate in the Department of Accounts' ARMICS program, which evaluates an entity's risks and internal controls and their effect on accountability, we believe that the governing bodies of the museum should use their finance or budget committees to review these documents and determine if they concur with the risks that management may be assuming.

As supervisory boards, the museums' Boards of Directors should understand the impact that budget reductions and not meeting admission and other funding sources can have on not only operations, but the administration of the museums. We offer these comments since the Boards and management continue to operate in this environment.

## **Audit Conclusions**

Our audit of Virginia's Museums found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- matters involving internal control and its operations necessary to bring to management's attention; and
- instances of noncompliance with applicable laws and regulations or other matters that are required to be reported.

-TABLE OF CONTENTS-

	<u>Pages</u>
VIRGINIA'S MUSEUMS STATEWIDE OVERVIEW AND ISSUE ALERT	i-iii
AUDIT CONCLUSIONS	iv
VIRGINIA'S MUSEUMS HIGHLIGHTS AND FINANCIAL INFORMATION:	
Frontier Culture Museum of Virginia	1-2
Gunston Hall	2-3
Jamestown-Yorktown Foundation	3-5
Jamestown 2007	5-7
Science Museum of Virginia	7-9
Virginia Museum of Fine Arts	10-11
Virginia Museum of Natural History	12-14
INDEPENDENT AUDITOR'S REPORT	15-16
AGENCY RESPONSES:	
Frontier Culture Museum of Virginia	17
Gunston Hall	18-19
Jamestown-Yorktown Foundation	20-22
Science Museum of Virginia	23
Virginia Museum of Fine Arts	24
Virginia Museum of Natural History	25-27
APPENDIX A-SCHEDULE OF CAPITAL PROJECTS AS OF JUNE 30, 2007	28-29
MUSEUM OFFICIALS	30-34

# VIRGINIA'S MUSEUMS HIGHLIGHTS AND FINANCIAL INFORMATION

## Frontier Culture Museum of Virginia

The Frontier Culture Museum of Virginia, located in Staunton, commemorates and educates visitors about the influence of pioneer culture on the creation and development of the United States. The 220-acre site offers visitors the experience of 17<sup>th</sup>, 18<sup>th</sup> and 19<sup>th</sup> century European and American customs. The site features period furnishings, crops, animals, foods, and costumed interpreters that help create a living illustration of life in Europe before immigration to America and the culture the immigrants built on one of America's first frontiers.

Frontier Culture has an affiliation with the American Frontier Culture Foundation, an independently incorporated entity that exists for the sole purpose of soliciting, receiving, investing, and managing private donations for Frontier Culture.

### Financial Highlights

General Fund appropriations account for approximately 76 percent of the \$2.9 million in funding that Frontier Culture received for fiscal year 2007. Special revenues constitute 24 percent of the total funding and represent the collection of admission and other miscellaneous revenues including rental income from land leased to a gas station.

The following table illustrates Frontier Culture's original budget, final budget, and actual expenses for all of its funds.

Analysis of Budgeted and Actual Funding

	2006			2007		
	Original Budget	Final Budget	Expenses	Original Budget	Final Budget	Expenses
General fund	\$1,342,800	\$1,650,961	\$1,578,065	\$2,002,196	\$2,231,561	\$1,742,254
Special revenue	668,918	686,241	449,362	418,580	431,250	510,035
Total	<u>\$2,011,718</u>	<u>\$2,337,202</u>	<u>\$2,027,427</u>	<u>\$2,420,776</u>	<u>\$2,662,811</u>	<u>\$2,252,289</u>

Total operating costs are approximately \$2 million with the personal services cost constituting 70 percent and contractual services (primarily for custodial, maintenance, and research services) being 23 percent. The remaining seven percent is for supplies and materials, continuous charges, and other various expenses.

The Frontier Culture Museum has two capital outlay projects, one to renovate a barn to use as a maintenance building and the other to renovate the Wetlands Mill Site. Frontier Culture spent \$535,196 on these projects during 2007 and \$153,712 on maintenance reserves.

### Status of Prior Internal Control Findings and Recommendations

#### *Information Security Program Progress*

The Frontier Culture Museum of Virginia has made significant progress toward the development of an adequate information security program since our last review. In our follow-up to the statewide information

security report issued in December 2006, we examined the Frontier Culture Museum’s progress toward the development of information security policies and procedures that provide a reasonable level of assurance over data confidentiality, integrity, and availability.

We used the same rating criteria for the follow-up review as we used for the December 2006 review. Based on these criteria, the Frontier Culture Museum’s information security policies and procedures now have an adequate rating.

### **Gunston Hall**

Gunston Hall, located in Lorton, Virginia, is a 550-acre national historic landmark and the former home of George Mason. Gunston Hall promotes and educates the public about 18<sup>th</sup> century life, as well as the historical significance and contributions of its owner.

Gunston Hall has affiliations with the Gunston Hall Regents Fund and the Gunston Hall Foundation, two independently incorporated entities that exists for the sole purpose of soliciting, receiving, investing, and managing private donations for Gunston Hall. Gunston Hall also has an off-CARS Commonwealth account which is held solely for the purpose of acquiring objects for the collection.

#### Financial Highlights

General Fund appropriations account for 87 percent and special revenue funds constitute 13 percent of the final operating budget in fiscal year 2007. Gunston Hall receives special revenue from admission receipts and funds provided by Gunston Hall’s private foundation for supplies and personnel expenses. The difference between budgeted special revenue and actual expenses reflects a failure to meet their special revenue estimate.

The following table illustrates Gunston Hall’s original budget, adjusted budget and actual expenses for all their funds.

#### Analysis of Budgeted and Actual Expenses

	<u>2007</u>			<u>2006</u>		
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Expenses</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Expenses</u>
General fund appropriations	\$636,438	\$645,966	\$641,479	\$525,941	\$550,142	\$549,276
Special revenue fund	<u>349,589</u>	<u>349,589</u>	<u>64,911</u>	<u>337,638</u>	<u>342,158</u>	<u>149,941</u>
Total	<u>\$986,027</u>	<u>\$995,555</u>	<u>\$706,390</u>	<u>\$863,579</u>	<u>\$892,300</u>	<u>\$699,217</u>

Total operating costs were \$706,390 in fiscal year 2007, with personal services costs constituting 61 percent, contractual services constituting 16 percent, and continuous charges (primarily for mechanical and plant maintenance services) being 13 percent. The remaining ten percent includes expenses for supplies and materials, equipment, and other miscellaneous expenses.

## Internal Control Findings and Recommendations

### *Strengthen Controls over Information Systems Security*

Gunston Hall does not comply with the requirements in the Commonwealth's Security Standard ITRM SEC 501-01 to develop and implement an information security program that provides assurance over data confidentiality, integrity and availability. In our review, we found that Gunston Hall is still missing the key components of an adequate IT Security Program relevant to IT Security Awareness Training, Risk Management, Contingency and Disaster Recovery Planning, Account Management, Data Protection, and Facilities Security. Additionally, Gunston Hall needs to assign an Information Security Officer (ISO) to manage and maintain their IT Security Program.

As a small agency, Gunston Hall has limited staff and expertise available to develop an adequate information security program. The Department of Accounts (DOA) has recently established two staff positions to assist small agencies with the development of their information security programs. Gunston Hall's management should consider collaborating with DOA to determine the availability of these new staff resources to provide assistance in developing an information security program that is in compliance the Commonwealth's security standard.

Inadequate IT security policies place Gunston Hall and its IT systems and data at risk for loss of confidentiality, integrity, and availability. We recommend that management identify and dedicate the resources necessary to support the development and implementation of an information security program that will provide a reasonable level of assurance that the museum's IT systems are secure commensurate to the level of sensitivity of the data being stored within those systems.

### *Properly Complete Employment Eligibility Verification Forms*

Gunston Hall is not properly completing Employment Eligibility Verification Forms (I-9) in accordance with guidance issued by the US Citizenship and Immigration Services of the US Department of Homeland Security. The guidance requires the employee to complete, sign, and date Section 1 of the I-9 form on or before the first day of employment. Additionally, the employer or designated representative must complete, sign, and date Section 2 of the I-9 form within three business days of employment. During our review of six employees, we found the following exceptions.

- One instance where the employee did not complete, sign and date the I-9 form on or before the first day of employment (Section 1).
- Three instances where the employer did not either properly complete, sign, or date the I-9 form within three business days of the employee's first day of employment (Section 2).

All exceptions are unacceptable according to the US Citizenship and Immigration Services of the US Department of Homeland Security's Handbook for Employers (M-274). We recommend that Gunston Hall offer training to human resource employees on the requirements of completing I-9 forms.

## **Jamestown-Yorktown Foundation**

The Jamestown-Yorktown Foundation serves to educate and promote understanding and awareness of Virginia's role in the creation of the United States of America. The Foundation administers two living history museums: the Jamestown Settlement located in Williamsburg and the Yorktown Victory Center located in Yorktown. The Jamestown Settlement interprets the cultures of 17th-century colonial Jamestown, America's

first permanent English settlement, and the Powhatan Indians. The Yorktown Victory Center interprets the impact of the American Revolution on the people of America and the development of the new nation.

The Foundation actively worked on seventeen projects for the Jamestown 2007 Commemoration during fiscal year 2007. The Foundation completed the Jamestown Central Support Complex, Visitor Reception and Café, Jamestown Interim Exhibit of the Collection, and Jamestown Maintenance Building projects by the end of the fiscal year. The Foundation has a debt appropriation totaling \$43.8 million for projects in progress as of June 30, 2007. The schedule in Appendix A presents the capital projects, budgets, funding sources, and total project expenses as of June 30, 2007.

The Foundation has affiliations with the following organizations, which are independently incorporated entities that exist for the sole purpose of soliciting, receiving, investing, and managing private donations for the Foundation. The net assets reported as of June 30, 2007, were as follows.

Jamestown-Yorktown Foundation, Inc.	\$11,295,165
Jamestown-Yorktown Educational Trust, Limited	4,749,558*
*as of December 31, 2006	

### Financial Highlights

The financial information below presents the Jamestown-Yorktown Foundation separately from its sub-agency, Jamestown 2007, due to the increase in revenues and expenses the Foundation incurred to plan and coordinate the commemoration.

General Fund appropriations account for approximately 58 percent of the \$20.2 million in operating funding that the Foundation received for fiscal year 2007. Special revenues, constituting 42 percent, are from the collection of admission and other miscellaneous revenues.

The Foundation received \$11.2 million in actual revenue for fiscal year 2007. About 60 percent of this revenue represents an increase in admissions for the Jamestown Settlement and Yorktown Victory Center. The remaining 20 percent is due to an increase in gifts and grants related to the 2007 commemoration.

The following table illustrates the Foundation's original budget, final budget, and actual expenses for all of its funds.

#### Analysis of Budgeted and Actual Funding

	<u>2007</u>			<u>2006</u>		
	<u>Original Budget Chapter 3</u>	<u>Final Budget</u>	<u>Expenses</u>	<u>Original Budget Chapter 951</u>	<u>Final Budget</u>	<u>Expenses</u>
General fund appropriations	\$11,013,295	\$11,684,901	\$10,966,383	\$ 8,876,696	\$ 9,372,913	\$ 9,372,913
Special revenue fund	<u>7,364,203</u>	<u>8,495,061</u>	<u>8,494,713</u>	<u>6,305,526</u>	<u>6,434,424</u>	<u>5,698,022</u>
Total	<u>\$18,377,498</u>	<u>\$20,179,962</u>	<u>\$19,461,096</u>	<u>\$15,182,222</u>	<u>\$15,807,337</u>	<u>\$15,070,935</u>

Total operating costs of the Jamestown-Yorktown Foundation were approximately \$19 million with personal service cost constituting 60 percent; 25 percent for contractual services for custodial, research, Virginia Information Technologies Agency Assistance Services, and other miscellaneous expenses; and 15 percent for supplies and materials for the commemoration, equipment, transfer payments, and continuous charges.

### Jamestown 2007

Jamestown 2007 planned and produced events to commemorate the 400th anniversary of the founding of Jamestown, the first permanent English settlement in the Americas. All funds collected by Jamestown 2007 benefited the Jamestown-Yorktown Foundation's effort towards preparing for the 2007 commemoration. Jamestown 2007 received \$6.1 million in actual revenue for fiscal year 2007. About 64 percent of this revenue represents motor vehicle license fees shown as dedicated special revenue funds and 34 percent for Jamestown 2007, Inc's repayment of a loan for cash flow assistance. The remaining two percent primarily represents miscellaneous revenues.

The following table illustrates Jamestown 2007's original budget, final budget, and actual expenses for all of its funds.

#### Analysis of Budgeted and Actual Funding

	<u>2007</u>			<u>2006</u>		
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Expenses</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Expenses</u>
General fund appropriations	\$2,104,278	\$ 4,320,534	\$ 4,319,850	\$ 241,460	\$ 262,100	\$ 262,100
Special revenue fund	280,565	280,565	143,861	280,565	284,586	130,274
Dedicated special revenue	<u>6,046,676</u>	<u>11,046,676</u>	<u>7,444,568</u>	<u>6,000,000</u>	<u>6,734,444</u>	<u>6,346,580</u>
Total	<u>\$8,431,519</u>	<u>\$15,647,775</u>	<u>\$11,908,279</u>	<u>\$6,522,025</u>	<u>\$7,281,130</u>	<u>\$6,738,954</u>

Jamestown 2007 spent approximately \$12 million during fiscal year 2007. About 80 percent of these expenses represent transfer payments to Jamestown-Yorktown Foundation as well as Jamestown 2007, Inc to cover 2007 commemoration events and for a loan to Jamestown 2007, Inc for cash flow assistance, ten percent for payroll services costs of Jamestown-Yorktown Foundation employees, and ten percent for contractual services.

Jamestown 2007 has an affiliation with Jamestown 2007, Inc. Jamestown 2007, Inc., is an independently incorporated entity that exists for the sole purpose of promoting the objectives and programs of Jamestown 2007 and soliciting private support for the commemoration. Net assets as of June 30, 2007, were a deficit of \$153,875.

#### Internal Control Findings and Recommendations

##### *Strengthen Controls over Information Systems Security*

Jamestown-Yorktown Foundation does not have a documented Disaster Recovery Plan. The recovery plan is critical in the event that a disaster would occur and have a significant impact on the agency's core business operations. Without a documented recovery plan, the agency cannot assess and

rebuild critical and essential business functions within a timely manner. Jamestown-Yorktown Foundation should perform and document a Disaster Recovery Plan to identify major and sensitive IT systems, as well as steps needed to rebuild those areas for full functionality.

Jamestown-Yorktown Foundation must identify specific information required by the Commonwealth of Virginia standards relating to the development of the Disaster Recovery Plan. This plan should include the following components.

- Outline the steps necessary to restore essential business functions supporting mission requirements.
- Conduct an annual test-run of the Disaster Recovery Plan.
- Maintain a listing of recovery team members, and have all members trained as to their part of the agency's IT security training program.
- Have a secured off-site location for storing backup media.
- Review of backup logs to determine that backup jobs are successfully completed.
- Document how the Foundation staff will store backup media off-site.

Jamestown-Yorktown Foundation should develop, implement, and maintain sufficient policies and procedures regarding a Disaster Recovery Plan. We recommend that Management dedicate the necessary resources to improving this area of the Foundation's information system program.

#### *Properly Complete Employment Eligibility Verification Forms*

Jamestown-Yorktown Foundation is not properly completing Employment Eligibility Verification forms (I-9) in accordance with guidance issued by the US Citizenship and Immigration Services of the US Department of Homeland Security.

In a sample of 25 I-9 forms completed during fiscal year 2007, we found the following errors:

- 14 of 25 (56 percent) of the forms did not have Section 1 completed, signed, and dated by the employee on or before the first day of employment.
- 7 of 25 (28 percent) of the forms did not have Section 2 completed, signed, and dated by the employer or designated representative within three days of the employee's employment.

All exceptions are unacceptable according to the US Citizenship and Immigration Services of the US Department of Homeland Security's Handbook for Employers (M-274). We recommend that Human Resource staff review the instructions included with the I-9 form located on the internet, train employees on the requirements of completing these forms, and develop a process to continuously review all or a sample of forms for compliance with federal regulations.

#### *Properly Code Revenue Deposits*

Jamestown-Yorktown Foundation is not properly coding revenue nor are they properly processing revenue refunds in the Commonwealth's Accounting and Reporting System (CARS). Our sample of 12 deposits found three coding errors.

Improper coding of revenue could result in the inaccurate recording and accounting for revenue in CARS. Management should ensure the proper review and coding of all deposits to the correct revenue source code and transaction code as required by the Commonwealth's Accounting Policies and Procedures Manual.

*Comply with the Code of Virginia*

Jamestown-Yorktown Foundation failed to comply with Code of Virginia Section 30-138 when notified of possible fraudulent activities relating to the sale of admission tickets.

The Code of Virginia Section 30-138 states that state agencies shall promptly report the discovery of circumstances suggesting the possibility that a fraudulent transaction has occurred involving funds or property under the control of any state department to the Auditor and State Police. The willful failure to make the report as required by this section constitutes a Class 3 misdemeanor.

Jamestown-Yorktown Foundation should immediately notify the Auditor of Public Accounts and the Virginia Department of State Police of this alleged fraud in writing. In the future, Jamestown-Yorktown Foundation should ensure that they report all allegations of fraud to the Auditor and State Police upon discovery of the circumstances.

**Science Museum of Virginia**

The Science Museum of Virginia, headquartered in Richmond, raises public understanding of science and technology throughout the Commonwealth. It accomplishes this through informal hands-on teaching, learning experiences, and various educational outreach programs.

In addition to the Broad Street Station, the Science Museum operates the Virginia Aviation Museum. The Virginia Aviation Museum's collection features a wide variety of airworthy vintage aircraft, aviation artifacts, and memorabilia donated by others or on loan from the Smithsonian's Air & Space Museum, and descriptive exhibits on the history of aviation in Virginia.

The Science Museum also operates the Danville Science Center and has plans for three new hands-on interactive science centers in Northern Virginia, Bristol, and Harrisonburg. The Northern Virginia Science Center at Belmont Bay (SciencePort) will be located in Prince William County with a planned opening in 2010.

**Financial Highlights**

General Fund appropriations account for approximately 50 percent of the \$10.7 million final operating budget for the Science Museum for fiscal year 2007. Special revenues from the collection of admission and membership dues, merchandise and food sales, and facility rentals and support from the Science Museum of Virginia Foundation constitute another 44 percent.

The following table illustrates the Science Museum’s original budget, final budget, and actual expenses for all of its funds.

Analysis of Budgeted and Actual Expenses

	<u>2007</u>			<u>2006</u>		
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Expenses</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Expenses</u>
General Fund						
appropriations	\$ 5,357,962	\$ 5,305,374	\$5,295,173	\$4,604,444	\$4,963,022	\$4,940,239
Special revenue						
fund	4,708,357	4,708,357	3,567,824	4,466,885	4,496,885	3,673,502
Trust and agency	300,000	300,000	-	300,000	300,000	229,739
Federal	-	366,000	326,918	-	230,921	229,852
<b>Total</b>	<u>\$10,366,319</u>	<u>\$10,679,731</u>	<u>\$9,189,915</u>	<u>\$9,371,329</u>	<u>\$9,990,828</u>	<u>\$9,073,332</u>

Total operating costs were approximately \$9.1 million with personal services costs constituting 58 percent, contractual services constituting 18 percent, and continuous charges (primarily for equipment rental, heating, lighting, and insurance) being 16 percent. The remaining eight percent includes expenses for supplies and materials, plant and improvements, and other miscellaneous expenses.

Since 2002, the Science Museum has received approximately \$14 million in general obligation bond proceeds for SciencePort, the Danville Science Center, and museum renovations. As of 2007, the museum has expended approximately \$6.4 million with the remaining amounts available for the SciencePort (\$5 million), IMAX Dome renovations (\$1.5 million) and East/West Terrace renovations (\$900,000).

Internal Control Findings and Recommendations

*Properly Complete Employment Eligibility Verification Forms*

The Science Museum is not properly completing Employment Eligibility Verification Forms (I-9) in accordance with guidance issued by the US Citizenship and Immigration Services of the US Department of Homeland Security. The guidance requires the employee to complete, sign and date Section 1 of the I-9 form on or before the first day of employment. Additionally, the employer or designated representative must complete, sign, and date Section 2 of the I-9 form within three business days of employment. During our review of nine employees, we found the following exceptions:

- Five instances where the employees did not either properly complete, sign, or date the I-9 form on or before the first day of employment (Section 1); and
- Five instances where the employer did not either properly complete, sign, or date the I-9 form within three business days of the employee’s first day of employment (Section 2).

All exceptions are unacceptable according to the US Citizenship and Immigration Services of the US Department of Homeland Security’s Handbook for Employers (M-274). We recommend that the Science Museum offer training to human resource employees on the requirements of completing I-9 forms.

*Strengthen Controls over Information System Security*

The Science Museum is not in compliance with the Commonwealth’s Security Standard (SEC501-01). This places the Science Museum and its critical information technology systems and data at risk for loss of availability, integrity, and confidentiality. As part of our review, we identified the following issues:

- Establish and document a security awareness training program. A proper security awareness training program will provide the IT system managers, administrators, and users with awareness of system security requirements and of their responsibilities to protect IT systems and data.
- Update the business impact analysis. The Commonwealth's Security Standard requires a review and revision of the business impact analysis at least once every three years.
- Update the information technology security policies and procedures to ensure that a physical security policy exists to protect against unauthorized access of critical and sensitive assets, document the approval process, and continue to monitor policy for all of the Science Museum's systems.

We recommend that management establish the above policies and procedures and allocate the necessary time and resources to support the improvement and implementation of their information technology systems security policies.

#### *Improve Controls over Capital Assets and Construction in Progress*

The Science Museum does not have adequate controls over accounting for capital projects, estimating and re-evaluating capital assets useful lives, and performing a physical inventory of capital assets. The Science Museum needs to develop and implement proper policies and procedures to ensure compliance with all capital outlay management requirements and proper recording of capital assets. We found the following issues during our review.

- The Science Museum does not have agency specific policies and procedures for assigning and re-evaluating useful lives of depreciable capital assets (buildings, equipment, exhibits, and infrastructure). Governmental accounting standards require presentation of accumulated depreciation and depreciation expense in the Commonwealth's financial statements. Accordingly, all agencies must assign reasonable useful lives to depreciable capital assets based upon the agencies' own experience and plans for the assets. In addition, agencies should perform a periodic review of estimated useful lives to reflect properly the assets' remaining lives.
- The Science Museum does not have a specific process to differentiate between capitalized and expensed items during the duration of a capital construction project. The Science Museum uses information from the accounting system to record all project expenses incurred throughout the year into the fixed asset system; upon completion of the project, the accountant capitalizes the total amount without consideration for the portion previously capitalized.
- The Science Museum performed an inventory of capital assets in 2006. However, they could not provide evidence to support the completeness or accuracy of the inventory process. Commonwealth policies require agencies to complete an inventory every two years.

The Science Museum should develop, document, and implement policies and procedures for the accounting and management of capital projects; performing periodic physical inventory of capital assets; and re-evaluating capital asset useful lives. The Science Museum should properly train and ensure that their employees have a full understanding of the year-end reporting requirements to the Department of Accounts. The Science Museum should also perform and maintain documentation of capital asset physical inventories as required by Commonwealth's policies.

## Virginia Museum of Fine Arts

The Virginia Museum of Fine Arts, located in Richmond, serves to collect, preserve, exhibit, and interpret art and to encourage the study of the arts. Fine Arts features permanent collections and original masterworks of art spanning more than 5,000 years from six continents. Special temporary exhibits also present views of art from all over the world. The performances featured by Fine Arts provide a full range of concerts, films, theater, and dance from classical to contemporary.

### Financial Highlights

Special revenues, constituting 50 percent of the \$16.8 million final operating budget for fiscal year 2007, come from Virginia Museum of Fine Arts Foundation support, membership dues, and the collection of admission for special exhibits. The remaining 50 percent comes from General Fund appropriations.

The following table illustrates Fine Arts' original budget, final budget, and actual expenses for all of its funds.

#### Analysis of Budgeted and Actual Expenses

	2007			2006		
	Original Budget	Final Budget	Expenses	Original Budget	Final Budget	Expenses
General Fund appropriations	\$ 8,174,477	\$ 8,286,064	\$ 8,149,013	\$ 7,150,419	\$ 7,681,320	\$ 7,681,320
Special revenue fund	1,523,500	1,523,500	785,606	1,500,000	1,504,184	884,402
Dedicated special revenue	6,584,209	6,969,209	5,435,635	6,357,334	6,478,347	5,465,880
Federal	<u>100,000</u>	<u>100,000</u>	-	<u>100,000</u>	<u>100,000</u>	<u>45,000</u>
Total	<u>\$16,382,186</u>	<u>\$16,878,773</u>	<u>\$14,370,254</u>	<u>\$15,107,753</u>	<u>\$15,763,851</u>	<u>\$14,076,602</u>

Total operating costs were approximately \$14.3 million in fiscal year 2007, with personal costs constituting 61 percent, contractual services accounting for 23 percent, and continuous charges (primarily electrical and insurance costs) being six percent. The remaining ten percent includes expenses for supplies and materials, equipment, and other miscellaneous expenses.

Since 2002 Fine Arts has received approximately \$45.7 million in general obligation bond proceeds to expand the museum including a sculpture garden, parking deck and various building system upgrades. As of 2007, the museum has expended approximately \$24.3 million with the remaining amounts available for the museum expansion (\$16.2 million), fire suppression system (\$2.5 million) and security system upgrades (\$1.7 million).

## Internal Control Findings and Recommendations and Status of Prior Findings

### *Properly Complete Employment Eligibility Verification Forms*

The Virginia Museum of Fine Arts is not properly completing Employment Eligibility Verification Forms (I-9) in accordance with guidance issued by the US Citizenship and Immigration Services of the US Department of Homeland Security. The guidance requires the employee to complete, sign, and date Section 1 of the I-9 form on or before the first day of employment. Additionally, the employer or designated representative must complete, sign, and date Section 2 of the I-9 form within three business days of employment. During our review of seven employees, we found the following exceptions:

- Three instances of the employees did not either properly complete, sign, or date the I-9 form on or before the first day of employment (Section 1); and
- Six instances where the employer did not either properly complete, sign, or date the I-9 form within three business days of the employee's first day of employment (Section 2).

All exceptions are unacceptable according to the US Citizenship and Immigration Services of the US Department of Homeland Security's Handbook for Employers (M-274). We recommend that Fine Arts offer training to human resource employees on the requirements of completing I-9 forms.

### *Strengthen Controls over Access to the Commonwealth Accounting and Reporting System*

The Virginia Museum of Fine Arts is responsible for establishing internal controls that include segregation of duties. Fine Arts has three individuals with level 8 access to the Commonwealth Accounting and Reporting System. Level 8 access provides a user with update and approval capabilities.

Management should be cognizant that the design of level 8 access is not for transaction efficiency purposes. Its use should be limited to control environments with very sparse staff resources. In addition, to ensure proper recording of transactions in those environments management must implement compensating controls. As a result of maintaining multiple level 8 accesses, Fine Arts management is creating operational risk by allowing the opportunity for individuals to circumvent segregation of duties. It also increases the risk of inaccurate and/or unreliable financial data and the possibility of fraud.

Fine Arts should review their internal controls over access to the Commonwealth Accounting and Reporting System and reduce the number of individuals that currently have level 8 access.

### *Information Security Program Progress*

The Virginia Museum of Fine Arts has improved its information security program since our last review. In our follow-up to the statewide information security report issued in December 2006, we examined the Museum's progress in developing information security policies and procedures to maintain a reasonable level of assurance over data confidentiality, integrity and availability.

We used the same rating criteria for the follow-up review as we used for the December 2006 review. Based on these criteria, the Museum's information security policies and procedures now have an adequate rating.

## Virginia Museum of Natural History

The Virginia Museum of Natural History, located in Martinsville, serves to preserve, study, and interpret the Commonwealth's natural heritage by providing research sites, exhibits, and programs for the public. A new facility opened to the public on March 31, 2007.

Natural History has an affiliation with the Virginia Museum of Natural History Foundation, an independently incorporated entity that exists for the sole purpose of soliciting, receiving, investing, and managing private donations for the Museum. The net assets of the Virginia Museum of Natural History Foundation reported as of June 30, 2007, were \$377,424.

### Financial Highlights

General Fund appropriations account for 87 percent of the approximately \$3.5 million in actual funding that Natural History received for fiscal year 2007. Special revenues, constituting 12 percent are from the collection of admissions and other miscellaneous revenues.

The following table illustrates the Virginia Museum of Natural History's original budget, final budget, and actual expenses for all of its funds.

#### Analysis of Budgeted and Actual Funding

	2007			2006		
	Original Budget	Final Budget	Expenses	Original Budget	Final Budget	Expenses
General fund appropriations	\$2,797,481	\$3,044,244	\$2,994,244	\$2,104,386	\$2,281,534	\$2,281,534
Special revenue fund	431,054	431,054	404,596	419,874	427,096	387,877
Federal	<u>30,000</u>	<u>30,000</u>	<u>20,883</u>	<u>30,000</u>	<u>34,651</u>	<u>33,632</u>
Total	<u>\$3,258,535</u>	<u>\$3,505,298</u>	<u>\$3,419,723</u>	<u>\$2,554,260</u>	<u>\$2,743,281</u>	<u>\$2,703,043</u>

Total operating costs were approximately \$3.4 million with personal services costs constituting 70 percent, contractual services constituting 18 percent, supplies and materials constituting six percent and continuing charges (primarily heating, lighting and other operating costs) being four percent.

### Internal Control Findings and Recommendations

#### *Strengthen Controls over Information Systems Security*

The Virginia Museum of Natural History has made progress in the development and implementation of an Information Security Program that is compliant with the requirements in the Commonwealth's Security Standard ITRM SEC 501-01; however, Natural History is missing a security awareness program, which is a key component of an information security program. The Commonwealth's information security standards require periodic security awareness training for both new and existing employees and contractors.

Natural History has limited staff and resources available to develop an IT Security Awareness Training Program. The Department of Accounts (DOA) has recently established two staff positions to assist the small agencies with the development of their information technology security programs. Natural History's management should consider collaborating with DOA to determine the availability of these new

staff resources to provide assistance with bringing their IT Security Program into compliance with the Commonwealth's Security Standard.

A comprehensive IT security awareness training program conducted on a regular basis can promote the importance of maintaining the confidentiality, integrity, and availability of the Commonwealth's data and IT systems. We recommend that management further develop and improve their IT Security Program by identifying and dedicating the resources necessary to ensure that new and existing employees receive IT Security Awareness Training.

#### *Properly Track and Record Fixed Assets*

Natural History does not adequately track and record their fixed assets in the Fixed Asset Accounting and Control System (FAACS) as required by the Commonwealth's Accounting Policies and Procedures (CAPP) Manual. Natural History has not updated the information in FAACS for fixed assets since February 2005.

During our review, we determined that the new museum building was substantially complete in March 2007; however, no one had recorded either the land, building, or equipment in FAACS. Natural History has not entered these assets in FAACS because a new fiscal technician took over the FAACS responsibilities in March 2007 and has not had FAACS training on how to enter assets into the system. The last time the Department of Accounts offered this training was February 2007. However, the former fiscal technician is still employed at Natural History and should help the new fiscal technician with entering assets in the system.

We recommend that the current fiscal technician responsible for entering assets into FAACS get training from her successor as soon as possible. In addition, we recommend Natural History enter all assets purchased since March 2007 over \$5,000 into FAACS no later than June 30, 2008.

#### *Properly Complete Employment Eligibility Verification Forms*

Natural History is not properly completing Employment Eligibility Verification forms (I-9) in accordance with guidance issued by the US Citizenship and Immigration Services of the US Department of Homeland Security. The guidance requires the employee to complete, sign and date the form on or before the first day of employment. Additionally, the employer or designated representative must complete, sign and date the form within three business days of employment. Furthermore, the form contains space for the employer to list the documents proving citizenship that they verified. Employers must retain completed I-9 forms for three years after the date of hire or one year after the date of employment ends, whichever is later.

In our sample of ten I-9 forms completed during fiscal year 2006 and 2007, we noted the following non-compliance.

- 2 of 10 (20 percent) of the forms were destroyed after employee separation, prior to the allowed time period.
- 1 of 10 (ten percent) of the forms did not have Section 1 completed, signed, and dated by the employee on or before the first day of employment.
- 1 of 10 (ten percent) of the forms did not have Section 2 completed, signed, and dated by the employer or designated representative within three days of the employee's employment.

All exceptions are unacceptable according to the US Citizenship and Immigration Services of the US Department of Homeland Security's Handbook for Employers (M-274). We recommend that Human Resource staff review the instructions included with the I-9 form located on the internet, train employees on the requirements of completing these forms, and develop a process to continuously review all or a sample of forms for compliance with federal regulations. Natural History should ensure that it retains all completed I-9 forms are retained for three years after the date of hire or one year after the date of employment ends, whichever is later.

*Maintain Evidence of Review of Pre- and Post- Payroll Certification Activities*

Natural History does not have evidence of pre- and post-certification reviews. In addition, Natural History does not have desk procedures or a checklist showing the review process for pre-and post-certification activities.

During test work, we reviewed documents for two pay periods and noted that there was no evidence of pre- and post-certification review. In addition, we found one employee overpaid for calendar year 2006. The employee's salary doubled for six pay periods and went undetected until a quarterly reconciliation. Staff should have detected overpayment during the monthly pre-certification and post-certification activities.

Natural History should document comprehensive internal procedures, which should incorporate and document the review of key report requirements for both monthly pre-and post-certification activities. These procedures should also include a process for reviewing all amounts affecting the calculation of an individual's salary. Natural History should ensure that staff performing pre-certification and post-certification activities review the guidance outlined in the CAPP Manual and incorporate as necessary.



# Commonwealth of Virginia

**Walter J. Kucharski, Auditor**

**Auditor of Public Accounts  
P.O. Box 1295  
Richmond, Virginia 23218**

August 1, 2008

The Honorable Timothy M. Kaine  
Governor of Virginia  
State Capital  
Richmond, Virginia

The Honorable M. Kirkland Cox  
Chairman, Joint Legislative Audit  
and Review Commission  
General Assembly Building  
Richmond, Virginia

We have audited the financial records and operations of **Virginia's Museums** for the years ended June 30, 2007 and 2006. We conducted this performance 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.

## Audit Objectives

Our audit's primary objectives were to evaluate the accuracy of recorded financial transactions on the Commonwealth Accounting and Reporting System, review the adequacy of Virginia's Museums' internal controls, test compliance with applicable laws and regulations, and review corrective actions of audit findings from prior year reports.

## Audit Scope and Methodology

Virginia's Museums' management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

Payroll expenditures  
Small purchase charge card  
Appropriations  
Cash receipting  
Capital assets  
Network security

We performed audit tests to determine whether Virginia's Museums' controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of the museums' operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

### Conclusions

We found that Virginia's Museums properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting. Virginia's Museums record their financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted certain matters involving internal control and its operation and compliance with applicable laws and regulations that require management's attention and corrective action. These matters are described for each individual museum in the subsections entitled "Internal Control Findings and Recommendations."

The Museums' have taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this report.

### Exit Conference and Report Distribution

We discussed this report with management of Virginia's Museums at various exit conferences held during the weeks of July 28 and August 8, 2008. Management's responses have been included at the end of this report.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS



# COMMONWEALTH of VIRGINIA

## *Frontier Culture Museum of Virginia*

P. O. BOX 810  
STAUNTON, VIRGINIA 24402-0810  
Telephone: (540) 332-7850  
FAX: (540) 332-9989

Mr. Walter J. Kucharski  
Auditor of Public Accounts  
James Monroe Building  
101 North 14<sup>th</sup> Street 8<sup>th</sup> Floor  
Richmond, VA 23219  
August 7, 2008

Dear Mr. Kucharski,

I am writing in response to the recent report on Virginia's Museum's Statewide Overview. The report was thorough and it was gratifying to note that you have described accurately the operating challenges faced by the Frontier Culture Museum and other state museums. I concur with your assessment that while the state covers most funds for personnel and benefits, museums often must cover all operating expenses as well as funding for new exhibits and educational programs from funds generated by admissions or raised from outside sources.

I have been concerned for several years that we are operating at minimal coverage for a variety of administrative positions, and while currently such operations are efficient and being managed well, the Frontier Culture Museum is a seven-day a week operation and further cuts to General Funds would have severe impact. The Frontier Culture Museum has not rehired many positions and has not recovered from the layoffs and budget cuts of several years ago.

I am also pleased to note that the Frontier Culture Museum has, since 2006, made enough progress to be considered adequate in its information technology systems controls and security. We have worked hard to achieve this and are relieved to have been successful in your assessment.

I will look forward to speaking with you at your convenience should you have questions or need more information.

Sincerely,

  
G. John Avoli  
Executive Director

AUG 12 '08 PM 12:00

17  
"Experience Living History"

[www.frontiermuseum.org](http://www.frontiermuseum.org)

**GUNSTON HALL**

**Home of George Mason**  
Mason Neck, Virginia 22079-3901

David L. Reese  
*Director*

Office (703) 550-9220  
Fax (703) 550-9480  
dreese@gunstonhall.org

August 12, 2008

Mr. Walter J. Kucharski  
Auditor of Public Accounts  
101 N. 14<sup>th</sup> Street, 8<sup>th</sup> Floor  
Richmond, VA 23219

Dear Mr. Kucharski:

Our response to the APA's Draft Audit Report follows. Please do not hesitate to contact me if you have any questions or require additional information.

*Non-General Revenue Projection*

Gunston Hall continues to work with its budget analyst to update revenue estimates. The Six-Year Non-General Fund Estimate submitted in November 2007 for the current fiscal year is \$150,000. This estimate includes income from admissions and anticipated transfers from private funds for specific projects. In future years we have included an anticipated 5% increase in revenues. We feel this is a realistic goal for Gunston Hall. This fall and each year following the close of the fiscal year estimates will be reassessed based on actual income and adjusted if necessary.

We have contacted DPB to determine the next step necessary to incorporate current projections into the Commonwealth's budget. A technical adjustment will be submitted in fall 2008 to update the budget. Gunston Hall will continue to submit technical adjustments on a yearly basis when necessary to reflect an accurate projection of income.

*Administrative Resources and Vulnerabilities*

Because of the small size of Gunston Hall's staff, all administrative personnel, including the Director, are involved in the daily processing of financial and administrative transactions, providing a type of security and review not possible in a larger agency. Wage employees perform the functions of

Mr. Walter J. Kucharski  
Page Two  
August 11, 2008

receptionist/cashier including the reconciliation and recording of daily receipts. This level of review ensures there is little possibility of activity of which the principal administrators are unaware.

*Strengthen Controls Over Information Systems Security*

Gunston Hall has assigned an Information Security Officer who is assisting the Agency Information Technology Resource Officer in managing and maintaining the agency's information technology security program. Information technology security needs have been prioritized with the assistance of VITA staff.

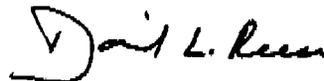
*Properly Complete Employment Eligibility Verification Forms*

When the I-9 regulation was updated Gunston Hall obtained copies of the new form and copies of DOA's updated policies. We have also obtained and reviewed copies of the updated Federal regulations and have drafted an in-house policy complying with both state and Federal guidelines.

All new employees will be providing completed forms with documentation to the Human Resources Officer only to ensure that the guidelines are applied consistently to all employees and there is no possibility of either discrimination or harassment. This policy has already been instituted.

The Department of Accounts regularly alerts state agencies to changes in applicable state and Federal policies and procedures. In addition to relying on these alerts, Gunston Hall reviews both state and Federal websites on a regular basis for any changes in regulations.

Sincerely,



David L. Reese  
Director



An Agency of the Commonwealth of Virginia

Accredited by the American Association of Museums

Vincent F. Callahan, Jr. Co-Chairman

Thomas K. Norment, Jr. Co-Chairman

H. Benson Dendy III Vice Chairman

Suzanne O. Flippo Secretary

M. Kirkland Cox Treasurer

Philip G. Emerson Executive Director

An Equal Opportunity Employer/ Affirmative Action Organization



www.americas400thanniversary.com

# Jamestown-Yorktown Foundation

P.O. Box 1607, Williamsburg, Virginia 23187-1607  
(757) 253-4838 (757) 253-5299 Fax (757) 253-5110 TDD [www.historyisfun.org](http://www.historyisfun.org)

August 4, 2008

Mr. Walter J. Kucharski  
Auditor of Public Accounts  
Commonwealth of Virginia  
James Monroe Building  
101 North 14<sup>th</sup> Street, 8<sup>th</sup> Floor  
Richmond, VA 23219

Dear Mr. Kucharski:

I appreciate the opportunity to comment on the portions of the Auditor of Public Accounts Virginia's Museums 2007 report that are applicable to the Jamestown-Yorktown Foundation and Jamestown 2007.

## Virginia's Museums Statewide Overview

We appreciate the recognition that JYF successfully strives to generate significant amounts of non-general fund revenue to support its operations. While we consistently exceed 40% non-general fund revenue, and on occasion exceed 50%, we would appreciate receiving documentation of the 30% goal for our files. I would simply add that JYF carefully monitors its NGF revenue collection and takes the same care to adjust operating budgets no matter what the source of the revenue shortfall to ensure that no deficits occur. We agree that additional budget reductions in FY2009 will impact our abilities to serve our visitors and students; but we are committed to minimizing that impact while ensuring that our finances are conservatively managed.

JYF shares your concern about available administrative resources and vulnerabilities as the number and magnitude of state compliance requirements increases. Resolution of potential compliance issues remains a high priority in our strategic plan and is discussed with our Board of Trustees. We would note that timeliness, accuracy and responsiveness are also key factors/potential risks in evaluating the methodology for delivery of administrative services for Virginia's museums, which are separated by considerable distance and each operates unique programs and facilities. The assumption that JYF would benefit from economies of scale resulting from statewide centralization of administrative services is problematic, was studied at great length, and rejected several years ago.

Mr. Walter J. Kucharski  
August 4, 2008  
Page 2 of 3

However, we strongly believe that the Commonwealth's financial application software available to us today is inadequate and one of our continuing hopes is that initiatives such as the Virginia Enterprise Applications Program will provide state-of-the-art financial accounting and reporting benefits, bringing greater administrative operational efficiencies to all state agencies. We also remain committed to participating in dialogue that pertains to exploring new efficiencies with not only the other state-owned museums but also with other state agencies.

#### Internal Control Findings and Recommendations

During FY2007, JYF did not have a stand-alone disaster recovery plan (DRP) due to staffing limitations, implementation of the new ticketing system, and preparation for the 2007 commemoration. However, we believe the risk was mitigated because the Continuity of Operations Plan (COOP) and internal IT policies addressed the components required in the DRP, including the restoration of essential business functions, the participation in an annual test run of COOP, the list of recovery team members, the secured off-site storage location of backup media, and review of backup logs. A stand-alone IT DRP document currently is being finalized, supported by additional non-general funded IT resources.

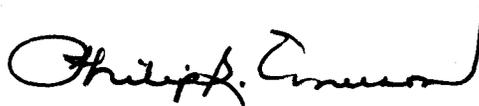
Corrective measures were taken promptly on identified internal control weaknesses. Human Resources staff revised its procedures to ensure that federal regulations on employment eligibility are met. Accounting staff altered procedures to ensure that revenue credits are posted correctly to the proper revenue code and that coding is reviewed.

The potentially fraudulent admission ticket incident that we reported to your staff during the fieldwork had been investigated internally and procedures were strengthened to prevent the questionable transaction from happening again. However, our failure to report that incident earlier was not a willful failure, but resulted both from a lack of sufficient evidence and lack of staff awareness of the requirement. Staff has been directed to immediately report any future potential fraudulent activities to our Human Resources Office and procedures have been put in place so that written notification is promptly made to the Auditor of Public Accounts and the State Police per the Code of Virginia.

Mr. Walter J. Kucharski  
August 4, 2008  
Page 3 of 3

The audit findings and your comments regarding areas of internal control weaknesses are highly valued, and I will be reviewing this information with our Board of Trustees. I would also like to commend your staff for the professional manner in which the audit was conducted.

Sincerely,



Philip G. Emerson

PGE/jlp

cc: The Honorable Vincent F. Callahan, Jr.  
The Honorable Thomas K. Norment, Jr.  
The Honorable M. Kirkland Cox  
Mr. J. Jeffrey Lunsford  
Ms. Jean L. Puckett



August 1, 2008

Commonwealth of Virginia  
Mr. Walter J. Kurcharski  
Auditor of Public Accounts  
P.O. Box 1295  
Richmond, Virginia 23218-1295

Dear Mr. Kurcharski:

The Science Museum of Virginia agrees with the auditor's comments and assessments. Notably the scope of this report is through June 30, 2007 and as of midyear 2008 a new management team is in place at the Science Museum.

Efforts are underway to fully comply with the three areas addressed in your report.

- Proper completion of I-9 Employment eligibility verification forms
- Strengthening Museum controls over Information System Security and
- Improving controls over capital assets and construction.

Museum management as well as our dedicated trustees recognize the necessity of fulfilling our educational science literacy mission to all Virginians while maintaining internal controls and accountability amidst challenging economic times. We stand fully committed to and currently are diligently working toward meeting our educational mission as well as our financial stewardship to the citizens of the Commonwealth.

Respectfully yours,

Richard C. Conti  
Director/CEO

AUG 5 '08 AM 10:55 SCIENCE MUSEUM OF VIRGINIA

RICHARD C. CONTI, DIRECTOR/CEO

2500 WEST BROAD STREET, RICHMOND, VIRGINIA 23220-2057 • VOICE 804-864-1400 • FAX 804-864-1488 • www.smv.org

# VMFA

August 13, 2008

The Auditor of Public Accounts  
P. O. Box 1295  
Richmond, Virginia 23218

Dear Sir:

Thank you for the opportunity to respond to Management Letter Comment Findings.

(MP#1) dated June 3, 2008.

Prior to your audit, VMFA's Human Resource Manager recognized the need for training related to compliance with the various regulations related to US Forms I-9 required by the US Department of Homeland Security. The museum requested that the Virginia Department of Human Resource Management conduct a program for our staff. VMFA concurs with this management point and has taken action to implement your recommendation. Our staff successfully completed the DHRM training on May 18, 2008. VMFA's Human Resource Manager will continue to monitor the museum's performance to assure full compliance with all of the applicable requirements.

(MP#2) dated June 3, 2008.

In keeping with your recommendation, the museum has changed the number of employees having level 8 access to the Commonwealth Accounting and Reporting System. The museum changed one of the employees to a level 7 (release only) and the other employee to level 6 (update only). We agree that making this change strengthens the museum's internal controls. We will continue to monitor what impact, if any, the changes have in the museum's ability to assure proper back-up to release batches when authorized staff are not available.

We appreciate having the opportunity to work with your staff and appreciate your efforts to assure the integrity of our performance as well as improve our operations.

Sincerely,



Carol Amato  
Chief Operating Officer



Virginia Museum of  
**NATURAL HISTORY**

IN ASSOCIATION WITH THE SMITHSONIAN INSTITUTION

July 28, 2008

Mr. Walter J. Kucharski  
Auditor of Public Accounts  
P. O. Box 1295  
Richmond, VA 23218

Dear Mr. Kucharski:

We have reviewed the audit report for Virginia Museum of Natural History and appreciate the opportunity to respond to the comments and recommendations applicable to the museum for fiscal year 2007. We value the APA's comments and recommendations and have already implemented the recommended changes. We have not had the normal exit review which allows discussion of issues found in the audit. Therefore, please see our comments on the issues below.

**Payroll Expense as a percentage of GF Appropriations**

Our payroll was 79% of general fund appropriations for FY2007. The report shows 125%. Payroll as a percentage of total operating should be 65%.

**Meeting the 30 Percent Commitment**

Virginia Museum of Natural History's estimate for special revenues for 2007 was \$3,004,945. This amount included \$2,500,000 from the capital campaign for our new building construction project. \$2,000,000 was transferred from the Foundation during the 2007 fiscal year. However, the remaining \$500,000 was not transferred in time to get into CARS for FY2007. This \$500,000 was transferred in July 2007 and would have brought the collected revenues within 3% of estimate.

**Strengthen controls over information systems security**

With the assistance of VITA, we feel we have made strides toward improving security awareness and policy development. We would welcome the assistance of DOA staff in improving our IT security program and bringing the museum into compliance with the Commonwealth's Security Standard.

## **Properly Track and Record Fixed Assets**

Virginia Museum of Natural History wishes to follow all rules and regulations related to tracking and recording fixed assets in FAACS as required by the Commonwealth's Accounting Policies and Procedures Manual. We feel that we have complied with the CAPP Manual in handling our assets with some delays in entries due to the move to a new facility. However, after reviewing the CAPP Manual we found that there are still several discrepancies in the topics related to CIP and handling of construction projects which accounted for our handling of CIP. Examples are: CAPP 30210 states that "Amounts should be recorded in Construction-in-Progress at least quarterly until the project is complete. Upon completion the total cost should be transferred to the appropriate fixed asset account." CAPP topic 30310 states that CIP should be recorded at year-end. Topic 30905 states that "when projects are complete, be sure to remove them from CIP with a summary entry." Though our project is still not complete, we have moved CIP to fixed asset accounts as recommended by the auditors.

Also, after speaking with the Fiscal Tech who handled FAACS before our new FAACS Coordinator, we found that she had continued to update the FAACS system after she transferred to a new position. She entered the building costs, AE costs and other related costs for the building into CIP on a timely basis. She continuously verified her entries with DOA FAACS Department.

The report states that we have not updated FAACS for fixed assets since February 2005. However, we did not have any asset purchases of equipment over \$5,000 and required to be entered in FAACS between 2005 and 2007. All purchases during this time were related to the building project and entered in CIP according to the requirements of the CAPP manual.

Our current FAACS coordinator attended the training that was recently offered by DOA. All assets purchased since March 2007 over \$5,000 have been entered in FAACS. The FAACS System is currently up-to-date.

## **Properly Complete Employment Eligibility Verification Forms**

A sample of 10 I-9 forms revealed two (2) forms destroyed prior to the allowed time period, and two (2) forms not properly completed. We have discussed this with our HR Manager and she will verify signatures, review the requirements, and make every effort to comply with the rules and regulations related to I-9s in the future.

## **Maintain Evidence of Review of Pre- and Post- Payroll Certification Activities**

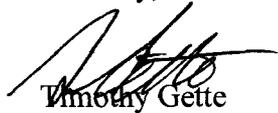
For pre-certification, the payroll officer's procedures included printing the edit forms and reviewing and checking them against source documents on Payline. However, she did not keep a checklist. The CAPP Manual does not require a checklist, but requires review

of the source documents. The post-certification is done by our Fiscal Tech who prints and checks the reports, but did not use a checklist. We do not feel that this is a compliance issue, but have changed our procedures to incorporate the audit recommendations to document the review of key pre- and post-certification reports.

The report states that one employee was overpaid in FY2006. Even though we realize that we are responsible for detecting errors, the agency payroll officer was not responsible for this overpayment. This occurred when DOA keyed the pay increases in December 2006. When our payroll officer received the reports showing the various increases, the bi-weekly pay was correct, however the employee's paycheck was incorrect. The employee, who is no longer in the position, did not report the overpayment, nor turn in the check. We detected this overpayment and reported all of the information related to it to DOA in February 2007. It did not go undetected until a quarterly reconciliation. It would be hard to detect this by the required reconciliations. However, we have expanded our procedures to review individual salaries each pay period to detect any incorrect changes to pay.

Again, thank you for allowing us to comment. We value your recommendations.

Sincerely,



Timothy Gette  
Executive Director

Cc: Gloria Niblett, Fiscal Officer

SCHEDULE OF CAPITAL PROJECTS AS OF JUNE 30, 2007

Project Number	Projects	Total Appropriations	General Fund
<u>Gunston Hall</u>			
16305	Additions to the Ann Mason Building	\$ 2,360,950	\$ 331,950
<u>Jamestown-Yorktown Foundation</u>			
15894	Visitor Reception and Café	6,180,000	4,885,000
16024	Jamestown Interim Exhibit of the Collection	2,816,153	-
16025	Park Entry for Jamestown's 2007 Celebration	694,000	5,418
16026	Jamestown Theater and Exhibit Gallery	31,884,106	635,726
16027	2007 Commemorative Monument	462,200	29,200
16133	Jamestown Entrance Plaza, Parking Lots and Roadways	5,443,001	159,635
16469	Jamestown Riverfront Amenities and Shipwright	1,964,920	117,920
16472	Central Support Complex	7,492,940	217,231
16473	Jamestown Maintenance Building	841,315	33,315
16474	Jamestown Powhatan Village	1,911,371	78,950
16475	Jamestown Fort (Construction of 9 Buildings)	2,109,000	53,000
16476	Jamestown Ships	4,094,420	26,550
16670	Jamestown 2007 Special Exhibition	5,325,000	-
16977	Replace JCSA Sewer Pump Station	598,000	221,000
16978	Renovate Yorktown Exhibits	1,395,000	-
17122	Improvements: Mathews Gallery Lighting	585,000	-
17455	Parking, Infrastructure, and Site Improvements	2,025,164	2,025,164
<u>The Science Museum of Virginia</u>			
16254	Adaptive Reuse of Transportation-Railroad Siding	900,000	-
16537	Belmont Bay Life Science Center (Science Port)	10,000,457	457
16538	Addition to the Danville Science Center	5,027,897	18,897
16737	Renovation of East/West Terrace	3,473,871	-
16783	IMAX Dome Infrastructure Renovations	2,000,000	-
<u>Virginia Museum of Fine Arts</u>			
16011	Upgrade Fire Suppression System	7,600,000	4,900,000
16439	Parking Deck	14,121,001	1,124,001
16495	Museum Expansion and Sculpture Garden	103,948,435	6,911,515
17043	Replace Cooling Tower	827,000	-
17125	Upgrade Security Systems	1,792,000	-
17170	Replace Deteriorating Plywood	1,059,000	825,000
17353	Replace Exterior Stairways	625,000	625,000
<u>Virginia Museum of Natural History</u>			
16154	New Museum Facility	25,567,363	3,103,363
17126	Improvements: Exhibits for the New Museum Building	4,000,000	-

## Appendix A

Special Revenue	Bond Proceeds	Other	FY 2007 Expenditures	Prior Year Expenditures	Project Balance June 30, 2007
\$ -	\$ 2,029,000	\$ -	\$ 79,000	\$ 2,281,950	\$ -
880,000	415,000	-	108,079	6,057,822	14,099
25,000	2,791,153	-	96,102	2,223,342	496,709
-	688,582	-	-	582,898	111,102
1,500,000	29,748,380	-	4,263,780	25,732,291	1,888,035
433,000	-	-	337,148	29,201	95,851
300,000	4,913,366	70,000	102,013	5,128,150	212,838
1,847,000	-	-	916,071	980,360	68,489
8,966	7,238,770	27,973	14,733	7,229,835	248,372
-	808,000	-	52,004	708,090	81,221
488,000	1,274,000	70,421	139,491	1,309,750	462,130
600,000	1,456,000	-	304,089	674,617	1,130,294
1,823,000	1,527,450	717,420	1,779,873	2,604,150	-289,603
5,325,000	-	-	2,845,205	1,559,696	920,099
-	377,000	-	480,190	14,502	103,308
-	1,395,000	-	576,729	690,080	128,191
-	585,000	-	289,609	193,586	101,805
-	-	-	970,701	-	1,054,463
900,000	-	-	12,025	547,464	340,511
5,000,000	-	5,000,000	-	456	10,000,001
630,000	3,679,000	700,000	10,265	3,568,013	1,449,619
-	3,473,871	-	105,913	2,445,206	922,752
-	2,000,000	-	14,456	459,466	1,526,078
-	2,700,000	-	18,162	315,222	7,266,616
4,609,000	8,388,000	-	7,974,962	5,456,859	689,680
64,888,420	32,000,000	148,500	12,214,898	16,168,558	75,564,979
-	827,000	-	90,006	39,174	697,820
-	1,792,000	-	2,861	26,397	1,762,742
234,000	-	-	17,648	-	1,041,352
-	-	-	-	-	625,000
3,445,000	19,019,000	-	8,081,224	14,087,714	3,398,425
2,000,000	2,000,000	-	3,945,586	-	54,414

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Gunston Hall	David L. Reese, Director
Jamestown-Yorktown Foundation	Philip G. Emerson, Executive Director
The Science Museum of Virginia	Richard C. Conti, Director
Virginia Museum of Fine Arts	Alex Nyerges, Director
Virginia Museum of Natural History	Timothy Gette, Executive Director

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