VIRGINIA MUSEUM OF FINE ARTS

INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS AS OF JUNE 2018

Auditor of Public Accounts
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Commonwealth of Virginia

Auditor of Public Accounts

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P.O. Box 1295
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August 24, 2018

Alex Nyerges, Director
Virginia Museum of Fine Arts
200 N. Boulevard
Richmond, VA 23220

INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS

We have reviewed the Internal Control Questionnaire, completed on June 6, 2018, for the **Virginia Museum of Fine Arts** (Museum). The purpose of this review was to evaluate if the agency has developed adequate internal controls over significant organizational areas and activities and not to express an opinion on the effectiveness of internal controls. Management of the Museum is responsible for establishing and maintaining an effective control environment.

Review Process

Agencies will undergo an Internal Control Questionnaire review at least once every three years. During the review, the agency completes an Internal Control Questionnaire that covers significant organizational areas and activities including payroll and human resources; revenues and expenses; procurement and contract management; and information technology and security. The questionnaire focuses on key controls over these areas and activities.

We review the agency responses and supporting documentation to determine the nature, timing, and extent of additional procedures. The nature, timing, and extent of the procedures selected depend on our judgment in assessing the likelihood that the controls may fail to prevent and/or detect events that could prevent the achievement of the control objectives. The procedures performed target risks or business functions deemed significant and involve reviewing internal policies and procedures. Depending on the results of our initial procedures, we may perform additional procedures including reviewing evidence to ascertain that select transactions are executed in accordance with the policies and procedures and conducting inquiries with management. The "Review Procedures" section below details the procedures performed for the Museum. The results of this review will be included within our risk analysis process for the upcoming year in determining which agencies we will audit.

Review Procedures

Due to the implementation of the new statewide accounting system, we reviewed system access and a selection of system and transaction reconciliations in order to gain assurance that the statewide accounting system contains accurate data. The definitive source for internal control in the Commonwealth is the Agency Risk Management and Internal Control Standards (ARMICS) issued by the Department of Accounts; therefore, we also included a review of ARMICS. The level of ARMICS review performed was based on judgment and the risk assessment at each agency. At some agencies only inquiry was necessary; while others included an in-depth analysis of the quality of the Stage 1 Agency-Level Internal Control Assessment Guide, or Stage 2 Process or Transaction-Level Control Assessment ARMICS processes. For the Museum we reviewed documentation supporting Stage 1 and Stage 2.

We reviewed the Internal Control Questionnaire and supporting documentation detailing policies and procedures. As a result of our review, we performed additional procedures over the following areas: payroll and human resources; the Museum's process of drawing down money from its Foundation; capital assets and outlay; expenditures; and information technology and security. These procedures included validating the existence of certain transactions; observing controls to determine if the controls are designed and implemented; reviewing transactions for compliance with internal and Commonwealth policies and procedures; and conducting further review over management's risk assessment process.

As a result of these procedures, we noted areas that require management's attention. These areas are detailed in the "Review Results" section below.

Review Results

We noted the following areas requiring management's attention resulting from our review:

- The Museum still has not developed formalized policies and procedures for all critical processes. Further, the Museum needs to expand upon existing policies and procedures in several areas to ensure these processes are completed accurately and timely. Management should ensure documented policies and procedures exist for all critical business processes and provide sufficient detail to allow an individual new to the process to follow them. In addition, management performs a review of policies and procedures annually or as needed. However, management does not retain evidence of this review in accordance with the Museum's internal policy. Management should document the review and approval of all policies and procedures.

- The Museum continues to lack a sufficient process to reconcile internal records with the Commonwealth's accounting and financial reporting system. In addition, the Museum could not provide evidence regarding the timeliness of reconciliations. Management should ensure that the reconciliations are performed in accordance with the Commonwealth Accounting Policies and Procedures (CAPP) Manual.

- The Museum has not completed a physical count of inventory since fiscal year 2015, which is in violation of the CAPP Manual. The CAPP Manual states that a physical inventory count should be performed at least once every two years. The Museum is currently working on a physical inventory count. Management should ensure the proper safeguard of assets and maintain fiscal accountability by completing this process in accordance with the CAPP Manual.

- The Museum does not have sufficient controls in place to ensure compliance with the Affordable Care Act for part-time employees. During the period of May 1, 2016, to April 30, 2017, three part-time Museum employees worked more than the maximum 1,500 hours, which violates provisions set forth in the Affordable Care Act. Management should improve its process for monitoring part-time employee work hours to ensure compliance with the Affordable Care Act.

- The Museum is not performing a sufficient review of payroll during the payroll certification process in order to ensure that employees are paid correctly. The Museum's review of payroll during the payroll certification process did not prevent a part-time employee from being paid for hours not actually worked. Management should ensure that the Human Resources and Payroll department is properly reviewing and certifying payroll as accurate to the Payroll Services Bureau.

- The Museum did not properly identify their information systems as sensitive or non-sensitive in their Business Impact Analysis in accordance with the Section 3 of the Commonwealth's Information Security Standard, SEC 501 (Security Standard). Management should ensure that the Museum's Business Impact Analysis meets all requirements of the Security Standard. In addition, the Museum was unable to provide sufficient evidence regarding their employees completing their required annual security awareness training in accordance with Section AT-1 of the Security Standard. Management should ensure each employee is properly completing annual security awareness training and retain supporting evidence.

We discussed these matters with management on August 24, 2018. Management's response to the findings identified in our review is included in the section titled "Agency Response." We did not validate management's response and, accordingly, cannot take a position on whether or not it adequately addresses the issues in this report.

This report is intended for the information and use of management. However, it is a public record and its distribution is not limited.

Sincerely,

Auditor of Public Accounts

JDE/clj

Ms. Martha S. Mavredes, CPA
Auditor of Public Accounts
Commonwealth of Virginia

Date: September 14, 2018
Subject: VMFA Response to APA Letter Dated August 24, 2018

Dear Ms. Mavredes:

Thank you for the opportunity to respond to your letter dated August 24, 2018. I have summarized the VMFA responses to the findings and recommendations as outlined in your letter. We will be glad to review with you our responses in greater depth and provide you with additional supporting documents.

The VMFA responses follow your review results in the same order as they appear in your letter.

- The Museum has had a formalized process for developing and periodically reviewing the completeness and accuracy of policies and procedures for critical processes. The exceptions noted during the audit resulted from staff transition and are being addressed.
- The accounting department is currently reviewing and updating the policies and procedures for the monthly reconciliation of the Cardinal system with the internal museum records to ensure full compliance with the CAPP manual.
- The procurement department is in the process of completing the physical inventory count that began in FY17.
- Three exceptions noted during the audit regarding the 1500-hour limit were isolated events and were corrected by HR soon after they were discovered. The Museum has implemented several changes in monitoring the 1500-hour limit, which will ensure full compliance with the Affordable Care Act.
- The PSB certification report will be reviewed by VMFA HR after each pay period to ensure hours reported to PSB match up with what was keyed and paid out to employees by PSB. This step will aid in catching errors early on and ensure that employees are paid for actual hours worked.

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- To help make certain that all Museum employees take the required security training annually, IT has partnered with the Human Resources department to include the initial training as part of employee orientation upon hiring and repeat the training annually thereafter. As to the Museum's Business Impact Analysis, IT is in the process of completing the new VITA template, which will ensure that all sensitive systems are filed with VITA properly and are included on our audit plan and in the ProSight database. This last step in the Business Impact Analysis is scheduled for completion this fiscal year.

We appreciate the APA audit team's efforts to review the Museum's internal controls and provide thoughtful suggestions for improving our processes and controls.

Sincerely,

Hossein Sadid, Deputy Director for Finance and Administration