



SCIENCE MUSEUM OF VIRGINIA

INTERNAL CONTROL QUESTIONNAIRE

REVIEW RESULTS

AS OF JUNE 2024

Auditor of Public Accounts  
Staci A. Henshaw, CPA

[www.apa.virginia.gov](http://www.apa.virginia.gov)

(804) 225-3350



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# Commonwealth of Virginia

## Auditor of Public Accounts

Staci A. Henshaw, CPA  
Auditor of Public Accounts

P.O. Box 1295  
Richmond, Virginia 23218

August 14, 2024

Richard Conti  
Science Museum of Virginia  
2500 West Broad Street  
Richmond, VA 23220

### INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS

We have reviewed the Internal Control Questionnaire for the **Science Museum of Virginia** (Museum). We completed the review on June 24, 2024. 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

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; capital assets; grants management; debt; 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**

We evaluated the agency's corrective action for all prior review findings. We reviewed 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 (Accounts); therefore, we also included a review of ARMICS. The level of ARMICS review performed was based on judgment and the risk assessment for the Museum. Our review of the Museum's ARMICS program included a review of all current ARMICS documentation and a comparison to statewide guidelines established by Accounts. Further, we evaluated the Museum's process of completing and submitting attachments to Accounts.

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; revenues; expenses; capital assets; and information technology and security. These procedures included validating the existence of certain transactions; observing controls to determine if the controls are effectively 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:

- **Repeat** - The Museum has formal, documented policies and procedures over many of its significant business processes. However, during our review, we identified several critical business areas where the Museum should develop or improve policies and procedures to maintain an effective control environment. Topic 20905 and other sections of the Commonwealth Accounting Policies and Procedures (CAPP) Manual require each agency to "publish its own policies and procedures documents, approved in writing by agency management." Management should ensure detailed policies and procedures exist for all critical business areas. In addition, management should continue to develop a process to review and approve all policies and procedures either annually or as needed and maintain documentation of the process.
- **Repeat** - The Museum should improve its process for completing bank reconciliations to ensure that financial data is accurate and that there are no errors in the bank statements. We reviewed a bank reconciliation for two different bank accounts and found insufficient documentation for both. There was no evidence to support timeliness of the reconciliations as the preparer did not date the reconciliations, the scope of reconciliations did not include

reviewing the bank balances, and there was no evidence the Museum investigated reconciling items. In addition, for one of the two reconciliations, the preparer and reviewer did not sign off to provide evidence of segregation of duties. The CAPP Manual Topic 20905 requires agencies to complete bank reconciliations within one month of the receipt of the account statement and to include reconciliation of both beginning and ending bank balances to the general ledger and investigate any discrepancies identified. The Museum should improve its process for completing bank reconciliations to be in accordance with the CAPP Manual.

- **Repeat** – The Museum’s ARMICS process covers most of the minimum requirements set by Accounts; however, we identified some requirements the Museum did not meet. The Museum did not document and assess all key elements of the control environment such as workforce competence and human resource development. Further, the Museum did not identify or assess budgeting as a significant agency-level control. In addition, the Museum did not document or test payroll transaction-level controls. The Museum should document compliance with all minimum requirements of ARMICS and include all significant fiscal processes.
- The Museum did not log activity and monitor its systems as required by the Commonwealth’s Information Security Standard, SEC530 (Security Standard). The Museum should document and implement the appropriate logging and monitoring controls for its business environment to reduce the risk to data confidentiality, integrity, and availability.
- The Museum does not have a formal process in place to manage its third-party software as a service provider. In addition, the Museum did not properly identify the system as sensitive, which would require management to add additional security measures. Management should properly assess its systems to determine which ones are sensitive and implement a formal process to properly manage its third-party software providers.
- The Museum did not obtain the System and Organization Control (SOC) report for a provider that processes sensitive information. As such, the Museum did not document an evaluation of the SOC report and the complementary user entity controls described within the report. CAPP Manual Topic 10305 and the Security Standard require agencies to have an adequate level of interaction with third-party providers to give agencies an understanding of the providers’ internal control environments and any complementary controls the agency would need to implement. Agencies must also maintain oversight over the provider to gain assurance over outsourced operations. The Museum should develop policies and procedures for the review of SOC reports and obtain and comprehensively evaluate SOC reports timely.

- The Museum is not properly accounting for leases in accordance with Governmental Accounting Standards Board (GASB) Statement No. 87. The Museum does not have a process for tracking its leases and lease payments. In addition, the Museum does not have an established process for ongoing identification of leases or interest rates to use for financial recording and reporting. CAPP Manual Topic 31200, which references GASB Statement No. 87, requires agencies to properly identify leases and group leases for recording in the lease accounting system to ensure proper classification of leases as long-term and short-term; and to evaluate explicit, implicit, and incremental borrowing rates before resorting to using the prime rate for a reasonable and accurate interest rate. Management should update lease procedures and ensure it properly records and classifies leases.
- The Museum is not properly accounting for subscription-based information technology arrangements (SBITA) in accordance with GASB Statement No. 96. The Museum does not have an established process for identification of SBITAs. CAPP Manual Topic 31300, which references GASB Statement No. 96, requires agencies to determine and record the necessary accounting information in the Commonwealth's lease accounting system based on the contract to ensure proper classification of long-term and short-term SBITAs; and to evaluate explicit, implicit, and incremental borrowing rates before defaulting to the prime rate for a reasonable and accurate interest rate. Management should develop SBITA procedures that comply with GASB Statement No. 96 and properly record and classify SBITAs in accordance with this standard.
- The Museum could not provide documentation of a complete physical inventory over capital assets within the past two years as required by CAPP Manual Topic 30505. The date of the last physical inventory is unknown. The Museum should perform a physical asset inventory count at least once every two years to ensure proper safeguarding of assets and ensure the accuracy of the Commonwealth's capital asset system data.
- The Museum did not record capital asset additions timely. CAPP Manual Topic 30205 requires agencies to post all assets, except in unusual circumstances, within 30 days after receipt and acceptance of the assets. For one infrastructure asset addition reviewed, the Museum entered the asset 16 months after the acquisition date. Management should ensure that the personnel responsible record all capital assets timely.
- The Museum does not properly dispose of its assets within the Commonwealth's capital asset system in accordance with CAPP Manual Topic 30800. The Museum has not been disposing of assets within the system because the disposal options within the system do not meet its needs. The Museum should work with the Department of Accounts to evaluate its capital assets including historical assets and develop a new asset disposal process.

- The Museum is not properly tracking its ongoing construction costs. CAPP Manual Topic 30205 states that the agency should accumulate the ongoing construction costs in the Commonwealth's capital asset system as construction in progress (CIP) using a CIP schedule and track all costs using a CIP asset category. The Museum does not maintain a CIP schedule and does not track assets by asset category. The Museum should track assets in accordance with CAPP Manual requirements to properly account for construction costs.
- The Museum does not complete sufficient financial system reconciliations for all required levels in accordance with CAPP Manual Topic 20905. The current reconciliation does not include the areas of payroll, capital assets, budget, and loan accounts. In addition, the Museum's financial system reconciliations do not contain consistent evidence of review and approval by management. For both reconciliations reviewed, there was no evidence of preparer signature or date to provide evidence that the Museum performed the reconciliation timely. The Museum should maintain the appropriate level of documentation, such as signature and date, to show evidence that they performed the reconciliations timely, accurately, and to the appropriate level, as well as documentation to support supervisory review to ensure the reconciliations are accurate.
- The Museum should evaluate how it is using expenditure credits to record reimbursements from related parties or other state agencies. The Museum is using expenditure credits to record reimbursements for expenses from the Science Museum of Virginia Foundation and Virginia Tourism Authority. Accounting for these funds as an expenditure recovery could increase the Museum's appropriation giving them additional funds to spend above its original authorization and does not allow for transparency since it is difficult to determine the total amount of funds collected. Changing the accounting treatment of these funds to account for them as revenues would increase transparency and allow users of financial information to easily determine the amount of funds collected in any given year. After the proper recording process is determined, the Museum should update its policies and procedures for reimbursements from related parties or other state agencies.
- The Museum does not have documentation of employees completing annual security awareness training as required by the Commonwealth's Security Awareness Training Standard, SEC 527. The Museum should maintain documentation and ensure that all employees complete this training within 30 days of employment and on an annual basis thereafter.
- The Museum is not depositing funds timely. We reviewed two deposits and noted the Museum deposited the funds between six and ten business days after receipt. The Museum should record deposits in the Commonwealth's accounting and financial reporting system within three days of the deposit in accordance with CAPP Manual Topic 20205.

We discussed these matters with management on July 15, 2024. 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,

Staci A. Henshaw  
Auditor of Public Accounts

JDE/vks





September 4, 2024

Staci Henshaw, Director  
Auditor of Public Accounts  
P.O. Box 1295  
Richmond, VA 23218

Director Henshaw,

Thank you for the opportunity to comment on the Auditor of Public Accounts (APA) letter dated August 14, 2024, resulting from the Science Museum of Virginia's Internal Control Questionnaire Review.

This year's review was the most substantial review the agency has undergone. We welcomed the opportunity to provide more than 400 documents and responses as supporting information regarding the agency's internal controls.

While we disagree that every finding identified in the review should be considered substantial, the Science Museum acknowledges the importance of compliance. The Science Museum has made significant strides in its compliance efforts over the last few years, but we have also worked to operate as lean as possible, particularly in support functions, to allow for operating funds to be directed to mission-based activity. It is clear that adjustments will need to be made to divert some resources from that mission-based activity to compliance-related activity. The Science Museum has begun investigating options for this shift and has already made progress on some of the items identified in this review.

We look forward to working with the APA, the Department of Accounts and other agencies to help the Science Museum best determine how to achieve compliance within its singular position as an interactive science museum with unique operational needs.

Sincerely,

A handwritten signature in black ink that reads "Richard Conti".

Richard C. Conti  
Director