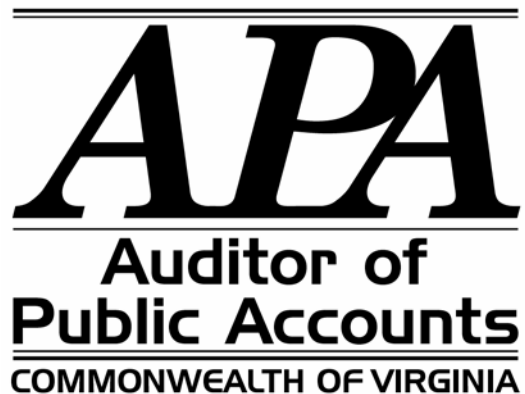


SCIENCE MUSEUM OF VIRGINIA

**REPORT ON AUDIT FOR
PERIOD ENDED JUNE 30, 2006**



AUDIT SUMMARY

At the request of the Board of Trustees and the Director of the Science Museum, we agreed to conduct a special review of the policies and procedures that management and staff implemented in response to our Special Report issued in August 2006. In conducting this review, we identified the primary transaction and accounting processes and conducted a series of interviews, walk-throughs, analytical reviews, and limited tests.

Our review found that management has begun to address issues noted in the special report. We identified the following areas that management and the Board needs to address:

- Clarify the status of gift shop operations;
- Enforce small purchase charge card procedures;
- Document departures from state practice;
- Review and establish cash depositing practices; and
- Examine data system security and other computer considerations.

In reviewing and considering our comments, the Science Museum's Board of Trustees, management, and the report reader need to consider the limitations inherent within the Science Museum's internal control structure. While all systems of internal controls are susceptible to risks of changes in processes, personnel, external factors, and failure of personnel to follow established procedures, certain factors can have a more significant effect on systems of internal controls.

These more significant factors are establishing a system of internal controls that depend on minimal controls due to limited resources, personnel, or system support. While these internal control systems can function effectively, they are subject to critical changes, which can occur with only slight disruption of resources, personnel, or system support. These environments create a system of internal controls that requires diligent oversight and review by management to react to changes in these components.

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BACKGROUND

At the request of the Board of Trustees and the Director of the Science Museum, we agreed to conduct a special review of the policies and procedures that management and staff had implemented in response to our Special Report issued in August 2006. In conducting this review, we identified the primary transaction and accounting processes and conducted a series of interviews, walk-throughs, analytical reviews, and limited tests.

We conducted our review in late January 2007, and the review encompassed the following areas.

Financial reporting
Accounting
Revenues
Purchasing
Credit cards

Budgeting
Reconciliations
Payroll
Cash disbursements
General computer security

Generally we found that management and staff has begun addressing the issues in our special report. During this review, we noted some areas where additional enhancements to the processes can occur, and we discuss these matters later in this report.

LIMITATION ON INTERNAL CONTROL SYSTEMS

In reviewing and considering our comments, the Science Museum's Board of Trustees, management, and the report reader need to consider the limitations inherent within the Science Museum's (the Museum) internal control structure. While all systems of internal controls are susceptible to risks of changes in processes, personnel, external factors, and failure of personnel to follow established procedures, certain factors can have a more significant effect on systems of internal controls.

These more significant factors are establishing a system of internal controls that depend on minimal controls due to limited resources, personnel, or system support. While these internal control systems can function effectively, they are subject to critical changes, which can occur with only slight disruption of resources, personnel, or system support. These environments create a system of internal controls that requires diligent oversight and review by management to react to changes in these components.

Designing a system of internal controls which depends on limited resources and diligent oversight also requires that all members of the governing body exercise their oversight responsibilities. Systems of internal control with limited resources and personnel can easily be subject to undue influence by only one or two key individuals. Sometimes personnel will react to perceived orders or actions by managers and oversight groups, which can also cause the system of internal control not to function.

In order to have an effective and cost efficient system of internal controls, the Museum heavily depends on adopting and following many of the policies and procedures which the State Comptroller and the Departments of General Services, Human Resources Management, and Planning and Budget set as base line requirements. We agree that this is the best use of the Museum's limited resources.

In reviewing these policies and procedures, we tried to ensure that the system of internal control reflects the Commonwealth's policies and procedures. Where these items do not conform, management should document the reason and the policies and procedures adopted by the Museum. Generally, we found very few variations from the state's existing procedures; but management needs to periodically review the reasons for variations from these norms.

Finally, in a small organization that focuses on its core mission, often internal controls become a secondary consideration to accomplishing that core mission. Individuals understand their duties and responsibilities, but the need to deliver a service or the completion of a project becomes more important than following and complying with the internal controls. Additionally, staff and management can and often do place accomplishing the core mission ahead of internal controls. Periodically both the Board and management need to reinforce the need to follow and comply with internal controls while fulfilling the mission. Periodic positive reinforcement is an essential element of internal controls.

RESULTS OF REVIEW

Generally, we found that management and staff are addressing the findings in our August 2006 report. Following are several issues that came up during our review, which we believe the Board and management need to address.

Clarify the Status of the Gift Shop Operations

During this review, we attempted to clarify the relationship of the gift shop operations within the overall operations of the Museum and ensure that proper oversight of the gift shop exists. The Museum does not include any of the gift shop's operation on the Commonwealth's accounting systems. There is at least an independent bank account, and the revenue and expenses are not formally a part of the Board's budget oversight function. A Board committee does work with the management and staff of the gift shop; however, this committee has primarily an operational perspective.

We recommend that the finance committee exercise its financial oversight of the gift shop and that the Museum's budget includes both the income and expenses of the gift shop, in addition to the distribution of any profits or accumulated reserves. Further, while it is not unusual for educational institutions to have operations which are not part of the Commonwealth's accounting functions, we believe that the Board needs to review this situation and determine if this approach is the most appropriate for the Museum.

The Commonwealth offers several cash investment options to educational institutions and local governments to maximize their short-term interest earnings. We would recommend that the staff investigate these alternatives and consider the cash flow needs of the gift shop and Museum.

Enforce Small Purchase Charge Card Procedures

During this review, we noted the need to improve the use of small purchase charge cards and comply with the state's policies and procedures. At first, we believed the problem was a lack of training. However, we believe the training is appropriate and--except for making the annual review of the process a little more formal--all staff receive adequate training.

The issue of staff not following the process is due to a lack of enforcement of penalties for failing to comply with the process. There are no set consequences for not complying with requirements; rather the accounts payable accountant notifies the fiscal director who notifies senior management, who determines if remedial action is necessary. We found that cardholders incorrectly completed purchasing logs and did not submit information timely.

Individuals who create these errors, or bypass the system of internal control, have no actions taken to hold them accountable and to encourage a change in their behavior. We believe that lack of on-going enforcement by the appropriate level of management contributes to several issues, which we observed during this review. While some individuals may actually lack the training to do their administrative duties properly, we believe that there is no incentive to follow and comply with management's internal control directives.

Management needs to make following and complying with internal controls a performance issue so that individuals understand the need to adhere to these controls. In order to have the information necessary to evaluate performance, management needs to create a mechanism to receive this information and evaluate it.

Document Departures from State Practice

While we concur with the Museum's management in adopting state processes, this approach does require management to document the departures from state processes. During our review, we encountered several situations where it was unclear as to what the official process was that the Museum personnel should follow. Management should require personnel responsible for internal control to only document the exception to the state's standard practice.

As with the point above, we also believe that not following state practice or internal practices should be part of the performance review. This approach would encourage and enforce compliance.

Review and Establish Cash Depositing Practices

We generally found sound practices over the actual collection of cash and other receipts. However, there were some receipts where we could not determine the amount of time that lapsed between collection and actual deposit into the bank. The state's procedures for collection and deposit are centrally developed process, since each state entity has unique needs. Generally the sole criteria is that deposits of all collections over \$200 occur the next business day. This is one area where the Museum needs to develop and implement its own process, and must consider each of its various collection points.

Examine Data System Security and Other Computer Considerations

As part of this review and a special statewide review of data system security, we noted some technology issues. The Museum has not formally established computer system and data disaster recovery plans to include alternative procedures to follow pending restoration of the systems.

While the Museum has some procedures, the cost of testing, maintaining, and updating these processes in the long-term may be prohibitive to the Museum alone. This is an area where the Museum and other smaller agencies and institutions should work with the Secretary of Technology to develop a cooperative and mutually useful alternative to individual development and maintenance.



Commonwealth of Virginia

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

Walter J. Kucharski, Auditor

January 31, 2007

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

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

REPORT

At the request of the Board of Trustees and the Director of the Science Museum, we have conducted a special review of the internal control policies and procedures implemented by the Science Museum of Virginia (the Museum) after our Special Report issued in August 2006.

Review Objectives

Our primary objective was to determine whether the Museum has taken adequate corrective action for the areas we made recommendations to improve on in our Special Report issued in August 2006. We also obtained an understanding of the internal control areas in place as of January 31, 2007, listed below.

Review Scope and Methodology

The Museum's 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. We limited our work to a series of interviews, walk-throughs, analytical reviews, and limited tests. Our review encompassed controls over the following areas.

Financial Reporting
Accounting
Revenues
Purchasing
Credit Cards

Budgeting
Reconciliations
Payroll
Cash Disbursements
General Computer Security

Conclusions

We noted the Museum had begun taking adequate corrective action with respect to audit findings reported in our Special Report issued in August 2006. Additionally during our review, 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 in the sections entitled Limitation on Internal Control System and Results of Review.

Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal control over financial reporting to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The scope of our work was insufficient to provide a reasonable basis for forming an opinion on the Museum's system of internal control; therefore, we do not express an opinion on the adequacy of the system of internal controls.

EXIT CONFERENCE AND REPORT DISTRIBUTION

We discussed this report with management on March 13, 2007. Management's response is 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

WJK:jab
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March 13, 2007

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

Dear Mr. Kucharski,

I want to thank you and your staff for your special review of the policies and procedures that the Science Museum's management and staff have implemented in response to your Special Report, issued in August 2006. We appreciate the insights you shared during our meeting today and concur with your recommendations.

As the Museum's management and staff enhance operational performance and strengthen management accountability, we appreciate your thoughtful focus on issues of interest to our Board of Trustees. The Museum already has activities in progress to address your report's findings and looks forward to bringing them to fruition with our Board's guidance.

With warmest regards,

c: David S. Cohn, Esq., Chairman, Board of Trustees
Roger L. Boeve, Chairman, Joint Finance Committee of the Board of Trustees

SCIENCE MUSEUM OF VIRGINIA

WALTER R.T. WITSCHHEY, PH.D., DIRECTOR

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