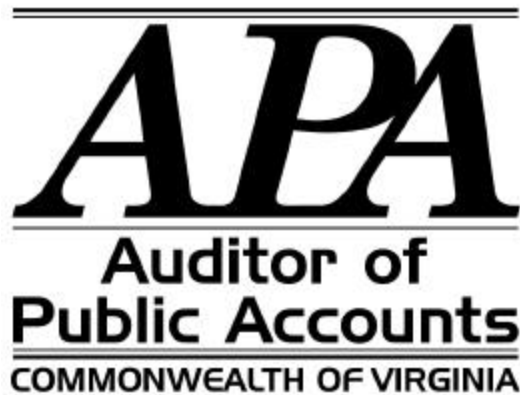


**SPECIAL REVIEW OF
VIRGINIA MUSEUM OF NATURAL HISTORY**

NOVEMBER 20, 2002



November 20, 2002

The Honorable Mark R. Warner
Governor of Virginia

The Honorable Kevin G. Miller
Chairman, Joint Legislative Audit
and Review Commission

Board of Trustees
Virginia Museum of Natural History

We have conducted a special review of internal controls over the operations of the **Virginia Museum of Natural History**. The review was a result of a request from the Chairman of the Board of Trustees of the Museum.

This report makes certain recommendations on improving internal control and changing certain policies and procedures. We recognize that the Museum has lost five positions and had 14 layoffs due to State budget reductions. Even before the budget reductions, the Museum did not have a large administrative staff, and therefore, maintaining adequate internal control was difficult.

Internal controls rely primarily on two fundamental considerations: separation of duties and supervisory review. These considerations exist both within a single or similar business process, and also require an organizational structure to maintain adequate controls. When key managers and employees take on performance of business processes, they no longer can provide the supervisory oversight within their particular area, and may also compromise broad internal controls.

As an example, if the chief financial officer reviews requests for purchases, and then begins making purchases directly, and then also reviews and approves payments, the separation of internal control ceases. Similarly, if the chief financial officer does personnel work and maintains the accounting records, even if the individual does not do direct payroll work, the organizational oversight of the officer is lost.

As the Board of Trustees and management consider the findings and recommendations in this report, all parties will need to recognize the reality of Museum's staffing limitations. It is likely that the Museum will not have the staff to implement the necessary controls. Both the Board of Trustees and management will need to consider the level of risk they are willing to accept or they may need to consider alternative strategies to implement adequate controls.

Some risks exist even in the best internal control systems. If individuals fail to do their jobs or the system does not conform to a changing environment, the risk of control failure will increase. However, the lack of resources may create an environment in which the level of risk of loss or errors is totally unacceptable. In these circumstances, the Board of Trustees and management should also consider other alternatives. Sharing administrative functions with other Museums, other state agencies, or institutions in the area is one possibility. The other alternative is the use of a contractor or local political subdivision to provide administrative services.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on November 22, 2002.

AUDITOR OF PUBLIC ACCOUNTS

WJK:aom
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SPECIAL REVIEW OF INTERNAL CONTROLS OVER OPERATIONS

On September 24, 2002, we received a request from the Chairman of the Virginia Museum of Natural History Board of Trustees for a review of processes related to cash management and reporting within the Museum to ensure that it is operating under sound practices. The Chairman further requested that we review controls over management of receivables, reporting of expenses, telephone long distance charges, and merchandise inventory management.

Background

The Virginia Museum of Natural History preserves, studies, and interprets the Commonwealth's natural heritage through a statewide system of museum facilities, research sites, traveling exhibits, and educational programs. The Museum, located in Martinsville, accomplishes these objectives by providing opportunities for informal, hands-on teaching and learning experiences, and by providing various educational outreach programs. The Museum operates branch museums at Virginia Polytechnic Institute and State University and the University of Virginia. The Museum currently has 25 full-time and four part-time employees.

A Board of Trustees governs the Museum and consists of 25 members appointed by the Governor. The Virginia Museum of Natural History Foundation (Foundation) is an affiliated organization that provides support and funding for the various programs and projects of the Museum.

Scope of Our Review

Our review encompassed controls over the following significant cycles, processes, and classes of transactions:

- Cash receipting and depositing
- Receivables for book sales
- Payroll
- Purchasing
- Accounts payable and expenditures
- Travel advances and reimbursements
- Petty cash
- Fixed assets
- Safeguarding of collections
- Usage of state vehicles
- Monitoring of personal long distance phone calls
- Relationship of the Museum with the Virginia Museum of Natural History Foundation

INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

Consider Alternative Delivery of Administrative Functions for the Museum

On October 15, 2002, the Museum received notification of a 15 percent budget reduction, including the loss of five positions and 14 layoffs, in the Governor's plan to meet the State's revenue shortfall. The Governor also indicated that additional budget reductions would likely occur in the next legislative session.

With the loss of funding and staff, it is becoming increasingly difficult for the Museum to maintain appropriate internal controls and segregation of duties in its operations.

The Board of Trustees and management should consider two alternatives for providing administrative functions to the Museum. One alternative is sharing administrative functions with either other Museums or other state agencies or institutions in the area. The second alternative is the use of a contractor or local political subdivision to provide administrative services. Several State agencies use shared accounting, human resources, payroll, and purchasing personnel. The Internet, e-mail, fax, and other forms of communication eliminate many of the distance and timing problems of such arrangements. Using a local resource such as a contractor or a local political subdivision is a typical approach of many small businesses, which do not have the expertise or staff to handle such functions. We believe that sharing staff is a sound approach for small agencies.

Re-examine the Museum's Relationship with its Foundation

In recent years, Museum management made financial arrangements with the Foundation not covered by the 1990 written agreement between the parties. Making arrangements not covered by a written agreement can lead to misunderstandings about facilities provided, services rendered, and other procedures. In addition, we question the propriety of certain provisions of these arrangements as discussed below:

- The Education Department began depositing receipts for its activities with the Foundation. Because these are Museum employees using Museum materials, the Department should deposit these receipts with the Museum rather than the Foundation.
- A few years ago, the Foundation assumed the responsibility for administering and holding all federal grants for the Museum. We question this decision as the Federal Government may hold the Museum responsible for any noncompliance by the Foundation.
- The Foundation has one employee who works 20 hours per week. This employee's salary is funded 80 percent by the Museum and 20 percent by the Foundation. From reviewing the employee's job duties, it appears the employee spends a large majority of time performing work for the Foundation. The Museum should re-examine the funding allocation for this employee to more accurately reflect the duties performed.
- The Foundation employee does not properly calculate the allocation of membership fees between the Museum and the Foundation. The membership application states that the Museum will receive 65 percent of the first \$35 of each membership with the remainder going to the Foundation. The Foundation employee allocates 65 percent of all membership fees received instead of 65 percent of the first \$35 of each membership as the application states. The Museum should inform the Foundation that the employee does not allocate memberships according to the application specifications.

The Museum should develop a policy that prohibits making supplementary financial arrangements with the Foundation without amending or modifying the written agreement.

Segregate Accounts Receivable Functions

The same employee prepares the invoice, records the receivable, receipts and records the payment, and follows-up on delinquent receivables. This is not an acceptable segregation of duties. Failure to

segregate these duties could lead to errors or irregularities going undetected. The Museum should assign another employee to receipt the payments for these receivables and forward a copy of the receipt to the receivables employee for posting.

Segregate Cash Receipting and Deposit Functions

The admissions cashier sends the revenue transmittal form, cash register tape, and the daily collections to the fiscal technician senior. The fiscal technician senior recounts the daily collections, prepares the deposit, and takes the deposit to the bank. This is not an acceptable segregation of duties as the fiscal technician senior has complete control of the daily collections and revenue transmittal forms without independent verification. The admissions cashier should send the original revenue transmittal form to an employee independent of the cash depositing function. This employee should compare the validated deposit slip with the revenue transmittal form to ensure the proper deposit of funds.

Restrictively Endorse Checks Upon Receipt

Departments do not restrictively endorse checks “for deposit only” upon receipt. The fiscal technician senior prepares the bank deposit and restrictively endorses the checks. The Museum should require all departments who receive cash to restrictively endorse checks immediately upon receipt.

Receipt All Admission Fees

While the Museum uses a cash register to record admissions, it is the Museum’s policy for the admissions cashier to provide patrons a receipt only upon request. This policy could provide the cashier the opportunity to not receipt all funds collected. Due to budget reductions, the cashier works 20 hours per week. Volunteers, who are not State employees, periodically serve as the cashier. The State’s surety bond does not cover volunteers, therefore increasing the Museum’s risk that a loss or misappropriation of funds could occur without a chance of recovery.

The Museum should change its policy to require that the cashier provide a receipt to all patrons. In addition, the Museum should re-examine the level of risk it is willing to accept by using non-State employees to collect funds.

Strengthen Controls over Usage of State Vehicles

The Building and Grounds Supervisor does not consistently require employees to complete a vehicle request form as required by Museum policy. We also observed that the Building and Grounds Supervisor does not properly secure vehicle keys. The Building and Grounds Supervisor should comply with established policy and require all employees to complete a vehicle request form before authorizing use of the vehicle and secure vehicle keys to prevent unauthorized usage.

Review Personal Long Distance Telephone Call Usage

The Museum does not review the long distance telephone listing for personal usage. The listing the Museum receives details calls by trunk line, but the listing does not distinguish calls by extension. Consequently, it is very difficult and cumbersome to identify personal calls. The Museum should contact their telephone service providers to determine the feasibility of obtaining a listing of long distance calls by extension.

Safeguard Museum Specimens and Artifacts

The Museum does not have a complete listing of its individual specimens and artifacts. In addition, employees independent of the custody of the specimens and artifacts do not perform periodic inventories. Due to staff reductions, the Museum has fallen behind in testing the alcohol levels in its aquatic specimens. Failure to test these specimens could lead to premature deterioration of the specimens. The Museum should evaluate the impact of budget reductions on its ability to preserve its specimens and artifacts and explore alternative strategies to safeguard these assets.