

**JAMESTOWN-YORKTOWN FOUNDATION
WILLIAMSBURG, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2003**



AUDIT SUMMARY

The Jamestown-Yorktown Foundation is responsible for preserving, interpreting, and promoting living history. Our work included an audit of the financial records and operations, a review of internal controls, and tests of compliance with laws, rules, and regulations.

We found:

- certain matters that we consider reportable conditions in internal control; however, we do not consider these matters to be material weaknesses;
- no issues of noncompliance with applicable laws and regulations tested that we are required to report; and
- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System.

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AGENCY OVERVIEW

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 sites depict the lives of English settlers and Powhatan Indians at the dawn of colonial America and the lives of continental Army soldiers and Tidewater farming families during the Revolution.

In 1996, the Board of Trustees developed a strategic plan for the Foundation, which focused on the following five critical issues:

- Maintaining the quality and appeal of educational programs and services;
- Maintaining current levels of support and increase those levels wherever feasible;
- Sustaining an average level of attendance growth of 1 percent to 3 percent per year;
- Continuing to develop and utilize data regarding trends to help project attendance and related figures on an ongoing basis; and
- Plan and coordinate Virginia's observance of the 400th anniversary of the founding of Jamestown.

The Jamestown 2007 Commemoration will include worldwide events and programs beginning in 2006, when a new replica of the ship Godspeed will sail to ports along the Atlantic seaboard, and culminate in December 2007. Due to all of the upcoming events, management anticipates that the Foundation will experience rapid growth and undergo numerous changes such as increases in attendance, volume of transactions, and managing multiple capital projects.

FINANCIAL INFORMATION

The schedules below show the financial information for the Jamestown 2007 Commemoration separately due to the anticipated increase in revenues and expenses the Foundation will incur to plan and coordinate the event. During 2003, Jamestown 2007 received over \$3 million in funding from the sale of vehicle license plates by the Department of Motor Vehicles that commemorates Jamestown. Event administrators expended approximately \$853,000, of which \$300,000 went to 2007 Commemorative Partners and the remainder to payroll and various administrative expenses.

The Jamestown Yorktown Foundation receives general fund appropriations and museum revenues that include admissions, and café and gift shop revenues. The Foundation also receives additional support from the Jamestown-Yorktown Educational Trust, Limited and the Jamestown-Yorktown Foundation, Incorporated. These affiliated organizations are independently incorporated and exist for the sole purpose of soliciting, receiving, investing, and managing private donations for the Jamestown-Yorktown Foundation. Net assets reported as of June 30, 2003 for the Jamestown-Yorktown Foundation, Incorporated were \$7,370,781 and as of December 31, 2003 for Jamestown-Yorktown Educational Trust were \$4,316,414 (unaudited).

The following tables summarize the Foundation and Jamestown 2007 budgeted operating revenues and expenses compared to actual results for fiscal year 2003 and original and adjusted budget for fiscal year 2004.

Analysis of Budgeted and Actual Revenue by Funding Source
Fiscal Year Ended June 30, 2003

<u>Funding Source</u>	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual Funding</u>
Jamestown-Yorktown Foundation:			
General fund appropriations	\$ 6,048,375	\$ 5,059,272	\$ 5,059,272
Museums revenue	<u>5,189,405</u>	<u>5,421,667</u>	<u>5,900,839*</u>
Total Resources	<u>\$ 11,237,780</u>	<u>\$ 10,480,939</u>	<u>\$ 10,960,111</u>
Jamestown 2007:			
General fund appropriations	\$ 499,340	\$ 241,460	\$ 241,460
Vehicle license plate revenue	<u>5,023,565</u>	<u>4,762,060</u>	<u>3,068,802</u>
Total Resources	<u>\$ 5,522,905</u>	<u>\$ 5,003,520</u>	<u>\$ 3,310,262</u>

**Includes \$116,900 municipal grant monies designated for capital projects*

Analysis of Budgeted and Actual Expenses by Program
Fiscal Year Ended June 30, 2003

<u>Program</u>	<u>Program Expenses</u>			<u>Funding Sources (Expenses)</u>	
	<u>Original Budget</u>	<u>Adjusted Budget</u>	<u>Actual Expenses</u>	<u>General Fund</u>	<u>Special Revenue</u>
Jamestown-Yorktown Foundation:					
Collection Management and Curatorial Services	\$ 445,312	\$ 440,136	\$ 469,071	\$ 120,932	\$ 348,139
Education and Extension Services	4,828,382	4,342,189	4,399,254	2,201,558	2,197,696
Operational and Support Services	<u>5,964,086</u>	<u>5,698,614</u>	<u>5,409,931</u>	<u>2,685,152</u>	<u>2,724,779</u>
Total Uses	<u>\$ 11,237,780</u>	<u>\$ 10,480,939</u>	<u>\$10,278,256</u>	<u>\$ 5,007,642</u>	<u>\$ 5,270,614</u>
Jamestown 2007:					
Commemorative Attraction Management	<u>\$5,522,905</u>	<u>\$5,003,520</u>	<u>\$ 1,094,340</u>	<u>\$ 241,323</u>	<u>\$ 853,017</u>
Total Uses	<u>\$ 5,522,905</u>	<u>\$ 5,003,520</u>	<u>\$ 1,094,340</u>	<u>\$ 241,323</u>	<u>\$ 853,017</u>

Source: Original Budget includes those funds as appropriated in the 2002 Acts of Assembly (Chapter 899).

Adjusted Budget includes the 2003 Acts of Assembly (Chapter 1042), as well as any changes made during FY 2003.

Analysis of Original and Adjusted Budget
Fiscal Year Ended June 30, 2004

Funding Source	Original Budget	Adjusted Budget
Jamestown Yorktown Foundation:		
General fund appropriations	\$ 5,039,578	\$ 5,327,787
Museums revenue	<u>5,456,975</u>	<u>5,463,572</u>
Total	<u>\$ 10,496,553</u>	<u>\$ 10,791,359</u>
Jamestown 2007:		
General fund appropriations	\$ 424,439	\$ 241,460
Vehicle license plate revenue	<u>5,023,565</u>	<u>5,216,781</u>
Total	<u>\$ 5,448,004</u>	<u>\$ 5,458,241</u>

Source: Original Budget includes those funds as appropriated in the 2003 Acts of Assembly (Chapter 1042). Adjusted Budget includes the 2004 Acts of Assembly (Chapter 943), as well as any changes made through June 14, 2004.

As with all state agencies, the Foundation has undergone recent budget reductions in its general fund appropriations. The Foundation has addressed these reductions by decreasing administrative expenses, increasing the levels of private sector support, and generating additional income from the gift shop and café. The actual funding and expenses for Jamestown 2007 are significantly below the appropriation due to the first year of implementation. In addition, a portion of the appropriations are for granting funds to other organizations related to the planning, promotion, and commemoration of Jamestown 2007; however, that process has not yet been developed.

CAPITAL PROJECTS

The Foundation has implemented a Capital Improvement Plan which provides detailed guidelines for anticipated future facilities growth, expansion, additions, renovations, and land use due to expanding programs and visitation for Jamestown 2007. The Foundation managed 18 projects over the past five years, two of which are complete and the 16 remaining are active as of June 30, 2003. The Foundation is relying on general fund appropriations, museum and vehicle license plate revenue, as well as bond proceeds to support these construction projects. The following schedule highlights the capital projects, their budgets, funding source, and total expenses as of June 30.

Project Number	Projects*	Total Appropriations	General Fund	Special Revenue	Bond Proceeds	Actual FY 2003 Expenses	5 Year Spending FY 1999 - FY 2003	Unexpended Capital Project Appropriation
15894	Visitor Reception and Café Building	\$ 6,180,000	\$4,885,000	\$ 880,000	\$ 415,000	\$ 136,850	\$ 5,873,927	\$ 306,073
16024	Jamestown Interim Exhibit of the Collection	2,791,153	-	2,791,153		187,893	564,074	2,227,079
16025	Park Entry for Jamestown's 2007 Celebration	694,000	5,418	-	688,582	576,224	581,642	112,358
16026	Jamestown Theater & Special/Permanent Exhibit Gallery	30,384,106	635,726	-	29,748,380	4,315,290	6,445,969	23,938,137
16027	2007 Commemorative Monument	29,200	29,200	-	-	584	7,895	21,305
16133	Jamestown Entrance Plaza, Parking Lots, and Roadways	5,373,000	682,000	300,000	4,391,000	412,971	572,606	4,800,394
16469	Jamestown Riverfront Amenities and Shipwright Bldg	1,964,920	117,920	-	1,847,000	25,754	104,488	1,860,432
16470	Yorktown Visitor Reception and Education Building	102,678	102,678	-	-	12,380	39,049	63,629
16471	Yorktown Exhibition Galleries	46,000	46,000	-	-	1,270	45,866	134
16472	Central Support Complex	7,324,312	217,231	-	7,107,081	166,712	383,943	6,940,369
16473	Jamestown Maintenance Building	795,315	33,315	-	762,000	-	33,315	762,000
16474	Jamestown Powhatan Village	1,575,950	78,950	488,000	1,009,000	-	78,943	1,497,007
16475	Jamestown Fort (Construction of Nine Buildings)	2,109,000	53,000	600,000	1,456,000	49,153	100,391	2,008,609
16476	Jamestown Ships Replacement	2,598,000	26,550	1,967,450	604,000	20,327	46,877	2,551,123
16670	Jamestown 2007 Special Exhibition	700,000	-	700,000	-	-	-	700,000
Total		<u>\$ 62,667,634</u>	<u>\$6,912,988</u>	<u>\$7,726,603</u>	<u>\$48,028,043</u>	<u>\$5,905,409</u>	<u>\$14,878,985</u>	<u>\$47,788,649</u>

**Does not include appropriation for maintenance reserve.*

Findings and Recommendations

Review and Update Internal Controls

The Foundation is rapidly growing to meet the demands of the upcoming events, which will significantly increase the volume of activity and it will continue to increase over the next several years. These new demands on the Foundation come after a period of several years of budget reductions. Like most organizations, the Foundation trimmed administrative expenses and consolidated these operations to absorb the reductions.

With a smaller management staff, focus of operations tends to concentrate on program delivery and significant upcoming events. This management focus tends to not consider and focus on the supporting functions of an operation. Many of the basics such as accounting and purchasing appear to be obstacles to operations, since they do not have staff to respond to the changing demands. Further, shortcuts used to overcome budget reductions may not provide management with the proper controls to oversee and review operations and safeguard the assets within their responsibility.

Management should review and update the Foundation's internal control system to not only reflect its current operations, but provide the safeguards for the anticipated growth of the next several years. Undertaking this review and update will require consideration of how the Foundation grows and then how it will re-adjust after 2007.

Improve Access Controls over Paciolan

The Foundation lacks adequate access controls to Paciolan, the ticketing reservation system. As a result, there are several users with unrestricted access to the system, and in many instances the auditor found where former employees still had access to the system.

We recommend that the Foundation establish system's security policies and procedures over user account management. These controls should include procedures for requesting, issuing, and closing user accounts as well as tracking users, their respective access authorizations and managing these functions on an on-going basis. The Foundation should determine the level of access necessary for each position and evaluate the risks associated with each.

As part of improving these controls, the Foundation should make sure it has adequate segregation of duties so that a single individual cannot sell tickets, receive money for them, print them, set up accounts receivable, and delete or adjust an invoice. Supervisors should have the responsibility for requesting and authorizing user ids. However, only the Information Security Officer should grant an employee access and that access should reflect the level necessary for the person to perform their duties.

In addition, user access should be set to automatically expire if an employee has not logged into the system after a certain amount of time has passed. By properly implementing a security plan, the Foundation will be able to ensure that adequate security safeguards are in place to protect them from fraud.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

June 21, 2004

The Honorable Mark R. Warner
Governor of Virginia
State Capitol
Richmond, Virginia

The Honorable Lacey E. Putney
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

INDEPENDENT AUDITOR'S REPORT

We have audited the financial records and operations of the **Jamestown-Yorktown Foundation** for the year ended June 30, 2003. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objective, Scope, and Methodology

Our audit's primary objectives were to evaluate the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System, review the adequacy of the Foundation's internal control, and test compliance with applicable laws and regulations. We also reviewed the Foundation's corrective actions of audit findings from prior year reports.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Foundation's operations. We also tested transactions and performed such other auditing procedures, as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws and regulations. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

Revenue and Cash Receipts	Capital Outlay
Expenditures	Fixed Assets

We obtained an understanding of the relevant internal control components sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. We performed audit tests to determine whether the Foundation's 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.

The Foundation'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.

Our audit was more limited than would be necessary to provide assurance on internal control or to provide an opinion on overall compliance with laws and regulations. Because of inherent limitations in internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of internal control to future periods is subject to the risk that the controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

Audit Conclusions

We found that the Foundation properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Foundation records its 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, and the Foundation's financial records.

We noted certain matters involving internal control and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Foundation's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial records. Reportable conditions entitled "Review and Update Internal Controls" and "Improve Access Controls over Paciolan" are described in the subsection titled "Recommendations and Findings." We believe that none of the reportable conditions is a material weakness.

The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

The Foundation has taken adequate corrective action with respect to audit findings reported in the prior year.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on July 9, 2004

AUDITOR OF PUBLIC ACCOUNTS

SHW:whb
whb:24



Jamestown-Yorktown Foundation

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July 14, 2004

Mr. Walter J. Kucharski
Auditor of Public Accounts
101 North 14th Street, 8th Floor
Richmond, VA 23219

Dear Mr. Kucharski:

I appreciate the opportunity to respond to the audit findings contained in the 2003 audit of the Jamestown-Yorktown Foundation. The comments and suggestions regarding the internal control structure will benefit the Foundation and are especially relevant given the expansion of operations as we prepare for 2007.

Our comments regarding the reportable conditions are as follows:

Review and Update Internal Controls

The Foundation concurs that the upcoming 2007 commemoration is placing additional demands on the agency. Furthermore, prior year budget reductions have made it more difficult to identify required resources articulated in the agency's Strategic Long-Range Plan to address increased volumes of activity.

The Agency-approved Strategic Long-Range Plan consistently identified essential support needs to be funded from V400 and/or other funds. Critical funding needs for positions and systems have been specified that should allow for sufficient safeguards for assets and provide management with proper controls. This includes critical support needed to complete capital projects, to upgrade the ticketing/reservation software, for increased security and for additional staff for Human Resources and Accounting. Temporary hiring and use of restricted positions has been considered so that adequately skilled staff is available to meet peak workload levels. Providing additional support to these areas should strengthen existing internal controls.

The Agency-approved Strategic Long-Range Plan has not previously identified resources to undertake an agency-wide comprehensive internal control review that encompasses the anticipated growth and considers re-adjustment after 2007. Due to the scope of the review and existing staff workloads, this review would need to be conducted by an external resource. The review and update of the internal control structure will strengthen our understanding of the required support costs during the short-term expansion while meeting proper controls and operational review requirements. It will also provide

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Mr. Walter J. Kucharski
July 14, 2004
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additional guidance for identifying critical positions and resources needed to respond to increased operational demands.

Improve Access Controls over Paciolan

The Foundation's existing process for requesting access to the Paciolan ticketing reservation system is for an employee's supervisor to request access via the helpdesk. Information Technology (IT) staff establish access to the system based on the request. The employee termination process requires that IT staff sign a termination sheet indicating that they have been alerted to terminate all network and security access.

Due to vacancies in the IT department, it is clear that a breakdown in the process occurred. Between 2000 and 2003, there were two instances when the Foundation had no IT staff and was reliant on outside sources. In addition, the IT technician position was vacant three times. The lack of in-house knowledge, ability to learn from experienced employees and lack of training on the systems contributed to the breakdown of the process and lack of documentation. Evidence of this breakdown is that several of the staff not removed from the system were prior IT technicians who were responsible for system administration.

The Foundation agrees that a documented process and procedures for user account management are needed to control access and provide for segregation of duties to limit opportunities for fraud. In addition, the Foundation recognizes the importance of system administration training for IT staff in order to maintain system integrity.

The Foundation will document a security policy and procedure for user management incorporating the recommendations from the Auditor of Public Accounts including the following points:

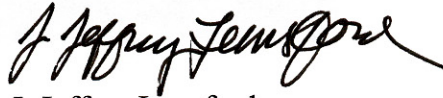
- User types will be identified and standardized so that access is limited and segregated by user responsibilities.
- A process for requesting and terminating access will be re-established as well as a review process.
- Authorization for user requests will be re-established.
- Information Technology staff will investigate the feasibility of automatic expirations for non-usage.

The Foundation is developing a time line for implementation of the recommendations and will keep your office informed of progress of incorporating needed changes.

Mr. Walter J. Kucharski
July 14, 2004
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The Finance staff appreciated the professional manner and efforts of your staff in conducting the audit. Please feel free to contact me if you have any questions or comments related to our response.

Sincerely,

A handwritten signature in black ink, appearing to read "J. Jeffrey Lunsford", with a stylized, flowing script.

J. Jeffrey Lunsford
Deputy Executive Director of Administration

JJL/JLP/lmo

cc: The Honorable Belle S. Wheelan, Ph.D.
Mr. Philip G. Emerson
Ms. Jean L. Puckett

JAMESTOWN-YORKTOWN FOUNDATION
Williamsburg, Virginia

Phillip G. Emerson, Executive Director

William W. Cone, Chief Operating Officer

J. Jeffery Lunsford, Deputy Executive Director of Administration