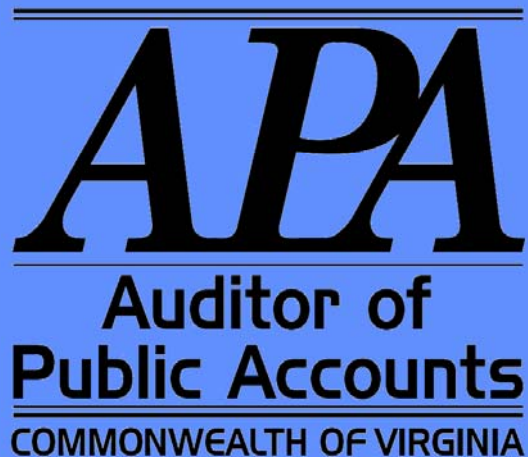


**VIRGINIA WAR MEMORIAL FOUNDATION**

**REPORT ON AUDIT**

**FOR THE PERIOD**

**JULY 1, 2007 THROUGH JUNE 30, 2008**



## **AUDIT SUMMARY**

Our audit of the Virginia War Memorial Foundation (Foundation) for the period July 1, 2007 through June 30, 2008, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- internal control matters that require management's attention and corrective action; these are located in the "Internal Control Matters" section of this report; and
- a matter of noncompliance with applicable laws and regulations or other matters that is required to be reported.

### **Projected Deficits for Fiscal Years 2009 and 2010**

Our audit has concluded that current spending patterns for both fiscal 2009 and 2010 will result in the Foundation incurring a deficit unless the Foundation takes action to correct this situation. Based on historical spending patterns, we expect the Foundation to have a deficit of about \$58,000 at June 30, 2009.

In addition to the projected deficit for June 30, 2009, we have analyzed the proposed budget for fiscal 2010 and project a deficit of about \$55,500. This analysis uses current staffing levels, authorized salaries, and a projection of other expenses based on historical spending patterns. The Foundation has some alternatives for dealing with the projected deficits.

#### **Addressing the Deficit**

The Foundation plans to take the following actions to address the deficit for fiscal 2009.

1. Request that the Department of Planning and Budget increase the Foundation spending limit by \$60,000.
2. Request the transfer of the funds remaining at the Department of General Services after meeting all contract commitments for long-term projects to the Foundation's operating appropriation.
3. Use the Foundation's privately raised funds to make up any other shortfall.

As of January 31, 2009, the Foundation has \$43,697 in its outside accounts. Since much of the action in this plan depends on the approval and actions of the Department of Planning and Budget, we are only providing this data for informational purposes; however, with approval of the plan, sufficient funds would be available to address a significant portion of the Foundation's deficit for the next two years.

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## **BACKGROUND**

The Auditor of Public Accounts was performing an audit of the Department of Veterans Services (Veterans Services) and the Virginia War Memorial Foundation (Foundation) for the fiscal year ended June 30, 2008. During this audit, Veterans Services' accounting staff informed us of concerns they had with the level of spending by the Foundation's staff in fiscal 2009. Based on this information, we extended our audit work into fiscal 2009.

### *Commonwealth Funding*

The Foundation typically receives from the Commonwealth an operating appropriation, which pays for the salaries and fringe benefits of the staff, the rent charge for maintenance and upkeep of the War Memorial by the Department of General Services (General Services), and some other miscellaneous expenses. From time to time, the Commonwealth supplements this operating appropriation by providing funding for special projects or enhancements to the War Memorial. As an example, in fiscal 2007 the Foundation received \$245,024 for the production of a documentary film and security cameras, and in fiscal 2008 received \$170,000 for improving the lighting at the War Memorial.

The Foundation's appropriation is not set out as a separate item in the Appropriation Act, but until July 1, 2008 was part of General Services' appropriation for Buildings and Grounds. Beginning July 1, 2008, the funding for long-term projects remained with General Services and the operating portion of the appropriation became part of Veterans Services' appropriation. Although the Appropriation Act does not separately identify the Foundation's funding, the Governor's Executive Budget specifically set forth the amount of funding for the Foundation's operations and for the special projects and other improvements to the War Memorial.

Historically, the difference between the planned cost and actual project expenses has been minimal and there is no direction in the Appropriation Act as to how to treat these balances. Therefore, the remaining balances after completing a project have accumulated in the Foundation's ending fund balance. However, both the operating and long-term project appropriations have been subject to budget reductions and other actions by both the Governor and the General Assembly.

The Foundation's full time employees are state employees and have all of the benefits associated with Commonwealth employment. As such, the Foundation pays nearly all of its operating expenses with the Commonwealth's operating appropriation by having either General Services or Veterans Services handle its accounting. However, the Foundation has not followed the compensation guidelines for state employees.

### *Other Funding*

The Foundation can and has solicited donations to fund both its operations and the improvement of the War Memorial. The Foundation has used this funding over time to supplement its operating expenses.

### *Budgeting Controls*

The Foundation's staff has relied on General Services and Veteran Services to monitor and control the Foundation's Commonwealth operating and long-term project appropriations. The Foundation's staff does prepare and provide the Foundation's Board of Trustees (Board) with a budget and financial report for its other funding sources. However, the staff does not prepare or provide the Board with a consolidated budget that includes all funding sources and the uses of those funds.

## **PROJECTED DEFICITS FOR FISCAL YEARS 2009 AND 2010**

Our audit has concluded that current spending patterns for both fiscal years 2009 and 2010 will result in the Foundation incurring a deficit unless the Foundation takes action to correct this situation. Below is an analysis of the of the Foundation's Commonwealth Appropriations and spending for fiscal 2009. Based on spending patterns, we expect the Foundation to have a deficit of (\$57,777) at June 30, 2009.

In addition to the projected deficit for June 30, 2009, we have analyzed the proposed budget for fiscal 2010. This analysis uses current staffing levels, authorized salaries, and a projection of other expenses based on historical spending patterns. We project a deficit of (\$55,467) for fiscal 2010, since the Commonwealth Appropriation for operating expenses is \$247,313. The Foundation has some alternatives for dealing with the deficit.

### **Comparison of Expense to Operating Appropriation for Fiscal 2009**

| <u>Expenses</u>      | <u>As of<br/>12/31/2008</u> | <u>Estimated<br/>Expenses<br/>Through<br/>6/30/2009</u> | <u>2009<br/>Budget</u> | <u>Estimated<br/>Deficit</u> |
|----------------------|-----------------------------|---------------------------------------------------------|------------------------|------------------------------|
| Payroll and benefits | \$142,368                   | \$262,390                                               |                        |                              |
| Other                | <u>37,003</u>               | <u>42,700</u>                                           |                        |                              |
| Total                | <u>\$179,371</u>            | <u>\$305,090</u>                                        | <u>\$247,313</u>       | <u>(\$57,777)</u>            |

### **Actual and Projected Expenses Fiscal Years 2007 - 2010**

| <u>Expenses</u>         | <u>2007</u>      | <u>2008</u>      | <u>2009*</u>     | <u>2010*</u>     |
|-------------------------|------------------|------------------|------------------|------------------|
| Payroll and benefits    | \$211,018        | \$256,341        | \$262,390        | \$262,390        |
| Rents and utilities     | 32,437           | 32,221           | 32,260           | 32,260           |
| Contracts               | 28,646           | 22,357           | 9,385            | 7,680            |
| Supplies and materials  | 4,555            | 3,886            | 550              | 450              |
| Equipment               | <u>373</u>       | <u>4,296</u>     | <u>505</u>       | <u>-</u>         |
| Total                   | <u>\$277,029</u> | <u>\$319,101</u> | <u>\$305,090</u> | <u>\$302,780</u> |
| Operating Appropriation | <u>\$270,614</u> | <u>\$255,662</u> | <u>\$247,313</u> | <u>\$247,313</u> |

\* Projections based upon expenses through December 31, 2008 and analysis of historical monthly expenses.

### **Addressing the Deficit**

The Foundation plans to take the following actions to address the deficit for fiscal 2009.

1. Request that the Department of Planning and Budget increase the Foundation spending limit by \$60,000.
2. Request the transfer of the funds remaining at General Services after meeting all contract commitments for long-term projects to the Foundation's operating appropriation.
3. Use the Foundation's privately raised funds to make up any other shortfall.

As of January 31, 2009, the Foundation has \$43,697 in its outside accounts. Since much of the action in this plan depends on the approval and actions of the Department of Planning and Budget, we are only providing this data for informational purposes; however, with approval of the plan, sufficient funds would be available to address a significant portion of the Foundation's deficit for the next two years.

#### *Other Alternatives Plans*

At the request of the Foundation, this Office provided several alternatives to address the deficit issues. Since the Foundation has chosen the above plan, we are not including the alternatives in this report.

### **INTERNAL CONTROL MATTERS**

As part of our audit, we have reviewed the controls surrounding the issues above, general operations, and other matters. In conjunction with this document, we have the following suggestions and findings, which we believe the Board needs to address. We also discussed some of these matters with General Services and Veterans Services.

Our prior year audit report included findings and recommendations that highlighted the potential for many of the issues discussed in this report. We strongly recommend that the Board reconsider its decision not to transfer all of the accounting and control over the Foundation's accounts to Veterans Services. Further, we recommend that the Board, independent of the Executive Director, discuss with Veterans Services' management its expectation of the controls that Veterans Services should exercise on their behalf.

The following is our reported finding from the prior audit. Following this point are some additional findings, which further support the issues in this report and new matters that the Board of Trustees should consider.

#### **Consolidate Accounting Processes and Internal Controls**

The Virginia War Memorial Foundation Board needs to re-examine its structure in order to maintain its financial position and the effect that maintaining this financial position will have on ensuring sound internal controls and accounting records. Over the last two years, we have discussed with the Executive Director the decline of funds to supplement administrative costs for operations.

Our calculation of spending indicates that without additional resources, the Foundation will exhaust its remaining discretionary funds sometime in late calendar 2008 or early 2009. Once the Foundation depletes these funds, the Foundation will need to use the General Fund from the Department of General Services and Virginia War Memorial Education Foundation donations to pay an estimated \$10,000 per year for recurring expenses.

The lack of staff makes having strong internal controls not practicable and we have relied heavily on the oversight and approval by the Board and involvement by the Department of General Services to control the majority of financial transactions. Legislation, which passed during the 2008 General Assembly Session, will transfer the administrative support for the Foundation from the Department of General Services to the Department of Veterans' Services. We believe that this change provides an ideal opportunity to make substantial changes to the financial operations of the Foundation by eliminating or consolidating bank accounts, accounting records, and other administrative duties within the Department of Veterans' Services. Transferring these functions will greatly improve internal controls and reduce the burden on the Board of providing detailed oversight rather than policy direction and assistance.

During the past year, we have observed that staff need to pay more attention to the financial operations of the Foundation. We noted overdrafts of the Foundation checking account for three checks totaling \$48,700 in October 2006. Additionally, based on check dates, we found the untimely deposit of checks received for various activities and the delays for seven of these checks extend over 30 days. The Foundation has now instituted an internal policy to date-stamp checks upon receipt to provide documented proof of timely deposits. Finally, we also found some inconsistency in the reports to the Foundation board; however, overall the reports had appropriate information.

The Board needs to assess the limited resources of the Foundation to provide sound internal controls. We encourage the Board in seriously considering the transfer of all of the financial transaction processing and reporting, including discretionary funds, to the Department of Veterans' Services.

### **Observation**

We believe this year's audit work reaffirms our prior year findings and further supports our recommendations. At the conclusion of the prior audit, we believed that the Foundation's staff would use up their discretionary funds by early calendar 2009; currently the Foundation could exhaust their discretionary accounts to offset their deficit sometime in the second quarter of calendar 2009. We continue to support moving all financial activity to Veterans Services.

### **Adopt a Formal Budget Development and Execution Process**

The Foundation's budget development and execution process does not follow a formal process and lacks sufficient detail to monitor the budget. We believe the process needs to budget for the Foundation's operations in total, and then provide detailed information on the components for Commonwealth-supported operations and capital outlay, and internally supported activities such as fundraising and operating support. Further, the budget should project not only the actual costs to date, but also the anticipated costs through the end of the budget period. This would provide the Board with timely information and allow the Board to take appropriate corrective actions.

### **The Board Should Have an Understanding with the Foundation's Service Providers**

Veterans Services replaced General Services as the provider of financial and administrative support for the Foundation. General Services still provides maintenance support for the War Memorial property. Currently, these arrangements are ad hoc and between the service-providing agencies and the Foundation's staff. Both General Services and Veterans Services inform the Foundation's staff of any concerns or issues they believe warrant the Foundation's attention, and rely on the Foundation's staff to inform the Board. The Board should establish an expectation with both General Services and Veterans Services to have relevant information communicated directly to the Board, rather than having the information relayed through the Foundation.

Should the Board transfer financial and administrative support to Veterans Services for daily operations and improved internal controls, and retain General Services for maintenance support and improvements to the Virginia War Memorial, the Board should experience an increase in direct communication from these agencies, which will provide a minimum level of information. However, even with this arrangement, the Board should meet with the management of both agencies to understand what duties they are performing and what reporting responsibilities they are willing to assume. If the Board believes it needs additional information, or information presented in a new format, it should communicate these requirements to both Veterans Services and General Services.

### Develop a Policy to Address Unused Funds from Long-Term Projects

General Services manages non-operating projects for the Foundation, such as the production of films, and the installation of security cameras and lighting. Currently, the General Assembly appropriates specific amounts to fund these projects. However, because of the relatively small size of these projects, the appropriated amounts are included in the Foundation's operating appropriation.

Our review noted that General Services completed at least one of these projects at a cost significantly lower than the appropriated amount. The Board should determine and document its policies and procedures for how to use leftover funding from non-operating projects.





# Commonwealth of Virginia

**Walter J. Kucharski, Auditor**

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

March 18 , 2009

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

The Honorable M. Kirkland Cox  
Chairman, Joint Legislative Audit  
and Review Commission  
General Assembly Building  
Richmond, Virginia

We have audited the financial records and operations of the **Virginia War Memorial Foundation** for the period July 1, 2007 through June 30, 2008. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## Audit Objectives

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

## Audit Scope and Methodology

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.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances:

Expenses  
Payroll expenses  
Appropriations  
Capital Projects

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. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and agreements, and observation of the Foundation's operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

### 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.

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 section entitled "Internal Control Matters."

The Foundation has not completed corrective action with respect to the previously reported finding "Consolidate Accounting Processes and Internal Controls." Accordingly, we have provided an update on the Foundation's progress in addressing this finding in the section entitled "Internal Control Matters."

### Exit Conference and Report Distribution

We discussed this report with management on March 25, 2009. Management's response has been 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/clj



April 1, 2009

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

Dear Sir:

This is in response to your annual audit of the financial records of the Virginia War Memorial Foundation for FY08.

This year's report refers to several recommendations made in last year's audit report but does not refer to corrective action taken by the Foundation in response to these recommendations. All items recommended or brought to the Foundation's attention last year were addressed immediately. A mathematical error in the Treasurer's Report was corrected and corrected reports were issued. It was recommended that the Foundation consolidate its bank accounts and the accounts were consolidated. The Foundation's discretionary accounts were, and still are, planned to be closed by mid-2010 as discussed with the audit team during each year's audit. You recommend that these discretionary funds be transferred to the Department of Veterans Services. The first meeting with DVS has taken place to accomplish this in the immediate future.

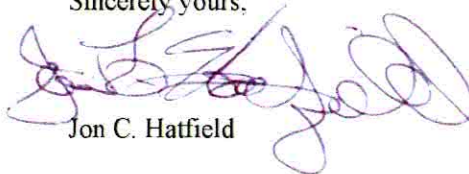
You recommend that the Board develop a formal understanding with the Foundation's Service Providers. This recommendation has been communicated to the Chairman of the Board of Trustees who will confer with the Board and make the final decision.

You recommend that the budget development and execution process be more formalized and provide more detailed information on operating budget, capital outlay projects, and fundraising. A more comprehensive Treasurer's Report to the Board that will include this information is being developed. Monthly reports on all budget items, temporary and full-time employee status, and capital outlay projects were provided by the Department of General Services but no regular reports are provided by the Department of Veterans Services. Discussions with the DVS Fiscal Officer to receive these reports are incomplete at this time. It is planned that this item be included in the formal memorandum of understanding.

The management of the Foundation's business is complicated by the fact that the Virginia War Memorial Foundation is not a state agency for some things and yet has the responsibilities of being an agency in other areas. For instance, the Audit Report frequently mentions the Commonwealth Accounting and Reporting System (CARS) and states that the Foundation "properly stated, in all material respects, the amounts recorded and reported in CARS." The Foundation has never recorded any item in CARS. Any action in CARS has been accomplished by the agency handling the Foundation's budget – not the Foundation itself.

We have taken action on all items brought to our attention in your report.

Sincerely yours,



Jon C. Hatfield

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VIRGINIA WAR MEMORIAL FOUNDATION

DEPARTMENT OFFICIAL

Jon Hatfield  
Executive Director

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