

**VIRGINIA WAR MEMORIAL FOUNDATION
RICHMOND, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2001**



AUDIT SUMMARY

Our audit of the Virginia War Memorial Foundation for the year ended June 30, 2001, found:

- proper recording and reporting of transactions, in all material respects, in the Foundation's accounting records;
- no material weaknesses in internal controls; and
- no instances of noncompliance that are required to be reported.

September 14, 2001

The Honorable James S. Gilmore, III
Governor of Virginia

The Honorable Vincent F. Callahan, Jr.
Chairman, Joint Legislative Audit
and Review Commission

Board of Trustees
Virginia War Memorial Foundation

AGENCY HIGHLIGHTS

The Virginia War Memorial Foundation's (the Foundation) Board of Trustees (the Trustees) determines how to honor Virginians for faithful service in time of war and oversees all Foundation activities. The Trustees also verify that the War Memorial includes the names of all Virginians listed as "Missing in Action" from the Vietnam War or killed in the Persian Gulf Conflict.

In 1998 the Trustees developed a strategic plan for the Memorial, which focuses on the renovation and expansion of the Memorial to include educational facilities, as well as the development of educational programs. To further support its mission and provide a greater incentive for donations, the Trustees established the Virginia War Memorial, Inc. (the Corporation), to act as an administrative fund raising arm of the Foundation as a "tax-exempt" organization under Section 501(c)(3) of the Internal Revenue Code.

The Corporation received an advance ruling determination letter on October 12, 2000. During the determination period ending on December 31, 2003, the Corporation is a publicly supported organization and grantors and contributors may rely on the organization's publicly supported status to make tax-exempt donation to the Corporation.

Therefore, all future fundraising efforts for donations will be directed by and flow through the Corporation to ensure the tax-exempt status of donations received until this period ends and a final determination of the organizations "tax-exempt" status is made. In support of the Corporation, the Foundation has transferred its outstanding balance of public donations received since its inception in 1992 of \$75,980 to the Corporation.

The schedule on the following page reflects the financial activity, on a cash basis of accounting, for both the Foundation and the Corporation during fiscal year 2001.

	Virginia War Memorial Foundation	Virginia War Memorial Corporation
Revenues:		
Appropriations - carryforward	\$ 39,000	\$ -
Appropriations	539,852	-
Donations	-	48,989
Interest earned	55,852	3,187
Other	<u>-</u>	<u>1,304</u>
Total revenues	<u>634,704</u>	<u>53,480</u>
Expenses:		
Personnel	129,702	-
Contractual services	76,141	100,052
Supplies and materials	23,373	-
Transfer payments	-	-
Continuous charges	21,477	-
Property and improvements	9,963	-
Equipment	8,119	-
Plant and improvements	<u>351,713</u>	<u>-</u>
Total expenses	<u>620,488</u>	<u>100,052</u>
Net income (loss) before transfers	14,216	(46,571)
Transfers:		
Transfer in	-	75,980
Transfer out	<u>(75,980)</u>	<u>-</u>
Total transfers	<u>(75,980)</u>	<u>75,980</u>
Net income (loss)	(61,764)	29,408
Beginning balance, July 1, 2000	<u>814,054</u>	<u>9,399</u>
Ending balance, June 30, 2001	<u>\$ 752,291</u>	<u>\$ 38,808</u>

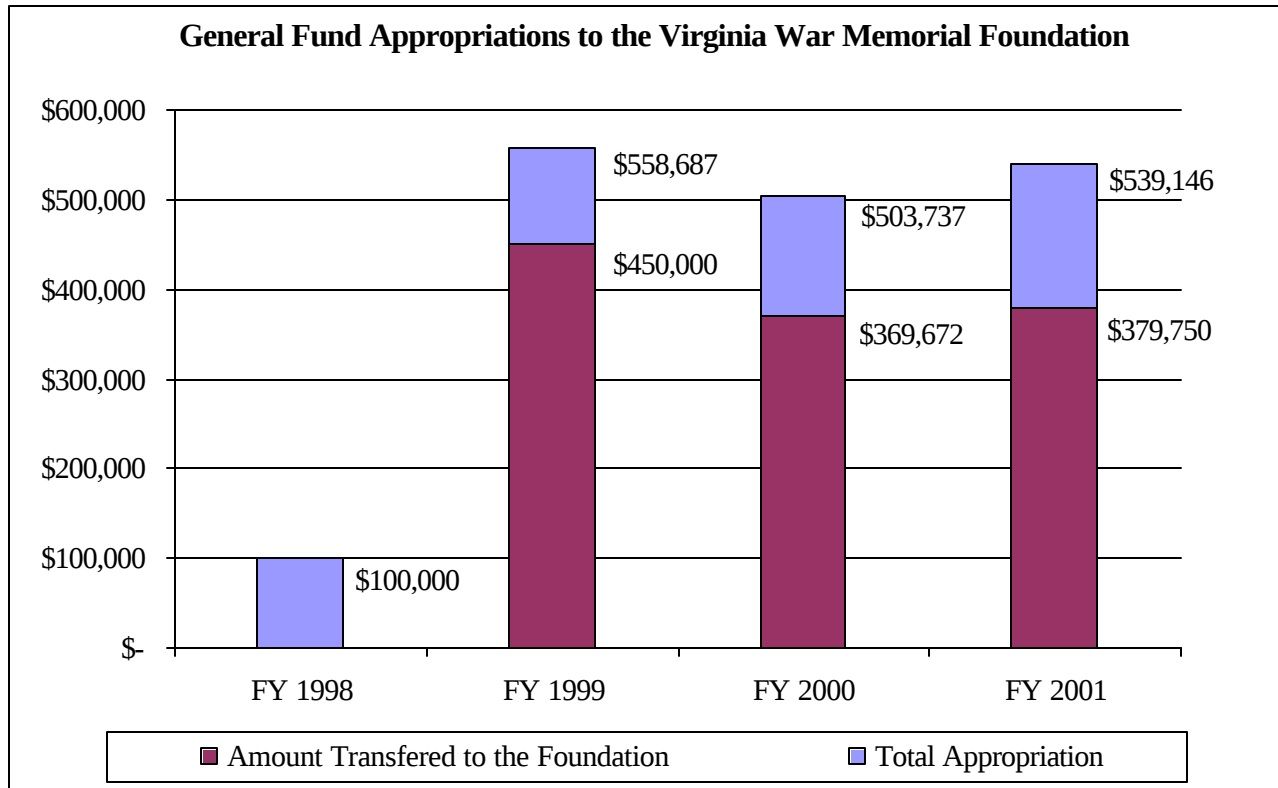
Administrative Highlights

The Foundation has two employees responsible for supporting the Trustees and their mission. These responsibilities include:

- management of the daily operations of the Memorial,
- coordination of board meetings and communications,
- development and implementation of educational programs,
- oversight over renovation of the Memorial facilities and grounds,
- coordination of fund-raising activities, and
- maintenance of the Foundation's off Commonwealth Accounting and Reporting System accounting records.

The Department of General Services provides other administrative support including cash receipt, payroll accounting, procurement, contract management, and building and maintenance activities. Both the Foundation's employees and the Department of General Services provide similar support services for the Corporation.

The Foundation has received general fund appropriations through the Department of General Services to aid in its administrative activities and renovation efforts since fiscal year 1998. Beginning in fiscal year 2001, the Foundation now relies solely on general fund appropriations to fulfill its responsibilities. The following chart reflects general fund appropriations dedicated to the Foundation since 1998.



The majority of these appropriations will help fund the repair of the War Memorial as well as its planned expansion over the next several years. The Department of General Services retains a portion of the appropriations to cover the cost of the salaries and related benefits of the Foundation's two staff as well as routine maintenance of the Memorial provided by the Bureau of Facilities Management. After making the deduction for operating costs, the Department of General Services transfers the remaining appropriation amount to the Foundation, who invests the funds pending the start of construction.

Strategic Plan Highlights

Construction

The strategic plan addressed multiple issues concerning the renovation and expansion of the War Memorial. The Board divided the majority of these issues into three phases with the first two phases focusing on renovation and the third phase focusing on expansion. The Foundation is relying primarily upon General fund appropriations to support these construction projects. The following schedule highlights the three

phases, their budgets, funding source, total expenses at June 30th and outstanding commitments. A brief description of each phase follows the schedule.

	<u>Phase 1</u>	<u>Phase 2</u>	<u>Phase 3</u>
Budget	<u>\$500,000</u>	<u>\$400,000</u>	<u>\$2,393,000</u>
Funding:			
Appropriations	\$500,000	\$362,500	\$ -
Interest from investments	<u>-</u>	<u>37,500</u>	<u>-</u>
Total funding provided	500,000	400,000	-
Less:			
Total expenses at June 30, 2001	(403,500)	-	-
Outstanding commitments	<u>(96,000)</u>	<u>-</u>	<u>-</u>
Total expenses and commitments	<u>(499,500)</u>	<u>-</u>	<u>-</u>
Variance: favorable (unfavorable)	<u>\$ 500</u>	<u>\$400,000</u>	<u>\$ -</u>

During 2001, the Board began the first phase of the renovation of the Virginia War Memorial. Work in this phase includes replacing and upgrading electrical service; and repair of retaining walls, sidewalks, hand rails, and conversion of a planter into a stage area. The Foundation has spent \$403,500 on this phase to date with approximately \$96,000 to complete.

The second phase of renovation will concentrate on improving the lighting, sound equipment, and signage at the Memorial and upgrading the accessibility, insulation, sound equipment, and décor of the auditorium to enhance educational programs. This phase should begin in January 2002 with a budget of approximately \$400,000. The Foundation has appropriations totaling \$362,500 dedicated to this project and anticipates using interest earned on its investments to fund the remaining needs.

The third phase will provide for the addition of an educational wing to the War Memorial. The Foundation expects this phase to cost \$2,393,000. The Board has made a formal request to the Governor to include this funding in his budget for the next biennium.

Other Construction Projects

The strategic plan identified several other projects, which the Board delayed pending the completion of the renovation and expansion projects discussed above. They include: 1) placing the seal of Virginia on the Shrine, 2) restoration of artifacts donated to the War Memorial, 3) creation of a bronze relief map and audio presentation of the various wars recognized at the War Memorial, and 4) repair of the sidewalk and parking lots. Due to their delay, the staff has not developed budget information for their completion.

Educational Programs

The strategic plan also specifically identified three educational projects: "Salute to Virginia Veterans," "Into Battle," and "Virginians at War: Historic Interviews." Each of these projects is at various states of completion, but the Board expects to pay for all of these projects primarily through private

donations. Therefore, beginning in fiscal year 2001, the Corporation is leading the fundraising efforts and managing the projects.

“Salute to Virginia Veterans” includes a database of veterans service records, memorable experiences, and pictures for the Foundation’s website. This was the first educational project focused on by the Foundation, beginning in 1998. At June 30, 2001 the Foundation and the Corporation had spent approximately \$70,000 on the project and expects to incur an additional \$13,000 to complete it. The Corporation expects the web site to be running by January 2002.

“Into Battle” is a thirty-minute virtual reality movie placing the viewer in the middle of the battlefield, divided into four segments representing WWII, Korea, Vietnam, and the Persian Gulf. The strategic plan budgeted this project at \$300,000. The “Virginians at War: Historic Interviews” project will combine interviews of Virginia veterans with period films, pictures, and other documents to teach the history of war and encourage patriotism. The Board plans to place the edited sections on major battles and events on searchable CD’s and distribute the CD to schools in the Commonwealth along with a teacher’s guide that correlates the film units to the Standards of Learning. The strategic plan budgeted this project at \$1,250,000.

The Board deposits all donations to the Corporation in the Heritage Fund, which is specifically dedicated to education programs sponsored by the Corporation. At June 30, 2001, donations and transfers to the Corporation totaled \$129,460. These funds will support all three educational programs discussed above.

INDEPENDENT AUDITOR’S REPORT

We have audited the financial records and operations of the Virginia War Memorial Foundation (the Foundation) for the year ended June 30, 2001. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

Audit Objectives, Scope, and Methodology

Our audit’s primary objectives were to evaluate the accuracy of recording financial transactions on the Foundation’s accounting records, review the adequacy of the Foundation’s internal control, and test compliance with applicable laws and regulations.

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:

Expenditures
Revenues

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 its accounting records. The Foundation records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. The financial information presented in this report came directly from the Foundation's accounting records.

We noted no matters involving internal control and its operation that we consider to be material weaknesses. Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to financial operations may occur and not be detected promptly by employees in the normal course of performing their duties.

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.

This report is intended for the information of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

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aom:30

VIRGINIA WAR MEMORIAL FOUNDATION
Richmond, Virginia

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