



# VIRGINIA MUSEUM OF FINE ARTS

## INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS AS OF APRIL 2017

Auditor of Public Accounts  
Martha S. Mavredes, CPA

[www.apa.virginia.gov](http://www.apa.virginia.gov)

(804) 225-3350



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Martha S. Mavredes, CPA  
Auditor of Public Accounts

# Commonwealth of Virginia

*Auditor of Public Accounts*

P.O. Box 1295  
Richmond, Virginia 23218

July 19, 2017

Alex Nyerges, Director  
Virginia Museum of Fine Arts  
200 N. Boulevard  
Richmond, VA 23220

## INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS

We have reviewed the Internal Control Questionnaire, completed on March 24, 2017, for the **Virginia Museum of Fine Arts** (Museum). The purpose of this review was to evaluate if the agency has developed adequate internal controls over significant organizational areas and activities and not to express an opinion on the effectiveness of internal controls. Management of the Museum is responsible for establishing and maintaining an effective control environment.

The Auditor of Public Accounts has developed a new process for auditing agencies that are not required to have an audit every year, which we refer to as "cycled agencies." Traditionally, we audit these agencies at least once every three years. We now employ a risk-based approach to auditing the cycled agencies. Under this approach, annually we will perform a risk analysis for all of the cycled agencies considering certain criteria and divide the agencies into two pools. One pool will receive an annual audit and the other pool will be subject to review in a special project focused on one area of significance as well as a review of internal controls in the form of a questionnaire. All agencies will undergo an Internal Control Questionnaire review at least once every three years. This letter is to communicate the results of the Internal Control Questionnaire review.

### Review Process

During the review, the agency completes an Internal Control Questionnaire that covers significant organizational areas and activities including payroll and human resources; revenues and expenses; procurement and contract management; and information technology and security. The questionnaire focuses on key controls over these areas and activities.

We review the agency responses and supporting documentation to determine the nature, timing, and extent of additional procedures. The nature, timing, and extent of the procedures selected depend on our judgment in assessing the likelihood that the controls may fail to prevent and/or detect events that could prevent the achievement of the control objectives. The procedures performed target risks or business functions deemed significant and involve reviewing internal policies and procedures. Depending on the results of our initial procedures, we may perform additional procedures including reviewing evidence to ascertain that select transactions are executed in accordance with the policies and procedures and conducting inquiries with management. The “Review Procedures” section below details the procedures performed for the Museum. The results of this review will be included within our risk analysis process for the upcoming year in determining which agencies we will audit.

### **Review Procedures**

Due to the implementation of the new statewide accounting system, we reviewed system access and a selection of system and transaction reconciliations in order to gain assurance that the statewide accounting system contains accurate data.

We reviewed the Internal Control Questionnaire and supporting documentation detailing policies and procedures. As a result of our review, we performed additional procedures over the following areas; the small purchase charge card program, program budgeting, Virginia Museum of Fine Arts Foundation (Foundation) transfers to the Museum, information security and technology, and accounting record reconciliations. These procedures included validating the existence of certain transactions; observing controls to determine the controls are designed and implemented; reviewing transactions for compliance with internal as well as the Commonwealth’s policies and procedures; and conducting further review over management’s risk assessment process. As a result of these procedures, we noted areas that require management’s attention. These areas are detailed in the section below entitled “Review Results.”

### **Review Results**

We noted the following areas requiring management’s attention resulting from of our review:

- The Museum does not have up-to-date and formalized policies and procedures for all critical processes. While the Museum does have policies and procedures encompassing most significant business processes, we noted opportunities for improvement for small purchase charge cards in the Accounts Payable department; the Procurement department; and the Museum’s accounting for budgeting and funding requests from the Foundation. Further, we noted exceptions where the Museum did not maintain documentation required per internal policies and procedures for small purchase charge card transactions. The Museum’s policies and procedures for small purchase charge cards are more restrictive than the minimum requirement per the Commonwealth Accounting Policies and Procedures (CAPP) manual; however, a sound control environment relies on management’s commitment to performing the control activities as they are designed. The Museum should update and formalize the current policies and procedures to ensure there is sufficient detail to allow someone new to the agency to follow the processes. In addition, management should ensure that policies and procedures are followed consistently.

- The Museum is utilizing several American Express cards for key staff, which it pays using Foundation provided funds. The Commonwealth has its own small purchase charge card program, which is managed through the Bank of America. The Museum could not provide any evidence where they had been authorized to develop their own small purchase charge card program independent of the Commonwealth's program. Management should assess the usage of American Express cards and ensure it is in compliance with Commonwealth policies and procedures.
- The Museum does not have a sufficient process for reconciling internal records with the Commonwealth's accounting and financial reporting system as required by the CAPP manual. Currently, the Museum focuses on reconciling the sub ledgers to the general ledger. The Museum does retain and update a log of vouchers and journal entries. This log should be the source used to reconcile to the accounting system. Management should also create, document, and implement formal policies and procedures for the reconciliations and ensure the reconciliations are done timely.
- The Museum's process related to the Department of Accounts' Agency Risk Management and Internal Control Standards (ARMICS) are not in compliance with the CAPP manual. ARMICS is most effective when the assessment and analysis are updated when there are changes in the environment. If there is a change in leadership, policies, or procedures or any other significant change that affects the agency, then the Agency-level Assessment should be repeated sooner than during the certification process. Doing a survey does not mean that the agency has assessed controls or performed ARMICS. The surveys in the ARMICS manual are intended as a tool for helping an agency identify areas that should be targeted for further investigation, but they do not identify specific agency-level controls that exist at an agency. In addition, transaction level testing is required to evaluate whether or not the controls are working as designed. Management should ensure that all ARMICS processes are being performed in compliance with the CAPP manual.
- Management did not make sufficient progress to the system security recommendation issued as a result of our prior audit. Specific recommendations from the comment that were not addressed are further outlined below:
  - The Museum did not complete the required audits of sensitive systems necessary to comply with the Commonwealth's Information Security Standard, SEC 501-09 (Security Standard), Section 7.2. Management should ensure that these audits are being performed in compliance with the Security Standard.
  - Management did not provide annual Security Awareness training to all information system users as required in the Security Standard, Section 8.2. Management should ensure that all users receive the Security Awareness training timely.

We discussed these matters with management on April 27, 2017. Management's response to the findings identified in our review is included in the section titled "Agency Response." We did not validate management's response and, accordingly, cannot take a position on whether or not it adequately addresses the issues in this report.

This report is intended for the information and use of management. However, it is a public record and its distribution is not limited.

Sincerely,

Auditor of Public Accounts

JDE/clj



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

August 29, 2017

Dear Ms. Mavredes:

Thank you for the opportunity to respond to your letter dated July 19, 2017. I have summarized the VMFA responses to the findings and recommendations as outlined in your letter. The VMFA responses follow your review results in the same order as they appear in your letter.

**"Review Results**

*We noted the following areas requiring management's attention resulting from of our review:*

- The Museum does not have up to date and formalized policies and procedures for all critical processes. While the Museum does have policies and procedures encompassing most significant business processes, we noted opportunities for improvement for the Small Purchase Charge Cards in the Accounts Payable department; the Procurement department; and the foundation accounting for budgeting and funding requests on the Museum side. Further, we noted exceptions where the documentation required per internal policies and procedures for the Small Purchase Charge Card transactions was not included. The Museum policies and procedures are more restrictive than the minimum requirement per the Commonwealth Accounting Policies and Procedures (CAPP) manual; however, a sound control environment relies on management's commitment to performing the control activities as they are designed. The Museum should update and formalize the current policies and procedures to ensure there is sufficient detail to allow someone new to the agency to follow the processes. In addition, management should ensure that policies and procedures are followed consistently."*

**VMFA Response:**

The updating of the procurement policies and procedures has been a priority for this year which we indicated to you during the audit by providing you the draft copies of procurement policy and procedure updates. VMFA has revised the policy regarding the small purchase charge card (SPCC) and has begun notifying staff of the new standard requiring all SPCC cardholders to submit an email when no charges were incurred for the month.

There are certain instances that VMFA has established more stringent internal control requirements to facilitate the finance office's ability to meet the DOA requirements. These stringent requirements are solely for internal use and are not intended to substitute the state requirements. The staff in the finance office may waive the internal

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requirements as long as the necessary steps required by the state have been followed in order to expedite the process.

The foundation and Museum accounting and budgeting are effectively coordinated to ensure accuracy and timeliness of transfer and receipt of funds. Since the Museum budget depends heavily on private funds held in the foundation, the budget process for these activities are closely linked and monitored by both entities. Funds transfer activities between the Foundation and Museum are well established and documented. Each year as part of the museum and foundation budget process, the museum director of budget in working closely with the manager of fiscal operation and director of foundation finance and accounting develop a crosswalk between the restricted and unrestricted flows from the foundation. The schedule is tied to each restricted and unrestricted account/project code on the general ledgers of both institutions. The museum's accounting manual is the starting point for the monthly draws by the museum. The foundation accounting manual govern the transfer of funds to the museum. That being said, we do however concur that policies and procedures covering the flow of funds between the foundation and Museum need to be document to include the additional processes which have been put in place in recent years such as an integrated budgeting and cross-walk funds flow schedule linking the two charts of accounts

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- *The Museum is utilizing several American Express cards for key staff, which are paid for using foundation provided funds. The Commonwealth has its own small purchase charge card program, which is managed through the Bank of America. The Museum could not provide any evidence where they had been authorized to develop their own small purchase charge card program independent of the Commonwealth's program. There may be additional instances of non-compliance with state policies and procedures concerning allowable expenditures made using these cards, however, our review was limited in this area. Management should assess the usage of American Express cards and ensure it is in compliance with Commonwealth policies and procedures.”*

#### **VMFA Response:**

VMFA will discontinue use of the American Express Card SPCC program and is working to take measures to phase out the use of the American Express SPCC. However, it should be noted that VMFA applies the same standards and procedures for both the AMEX cardholders and the SPCC program cardholders as outlined in the CAPP manual. While the use of the AMEX is not the current card of choice by the state, the Museum has not exposed itself or the state to any greater risk than currently allowed by the state.

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- *The Museum does not have a sufficient process for reconciling internal records with the Commonwealth's accounting and financial reporting system as required by the CAPP manual. Currently, the Museum focuses on reconciling the sub ledgers to the general ledger. The Museum does retain and update a log of vouchers and journal entries, this log should be the source used to reconcile to Cardinal. Management should also create, document, and implement formal policies and procedures for Cardinal reconciliations and ensure the reconciliations are done timely.”*



### **VMFA Response:**

The museum performs monthly reconciliations for Accounts Payables, comparing the GL account 0225 balance to the Voucher and Expense accrual report generated by the CARDINAL system. The FAACS reconciliation is done monthly, comparing the CARDINAL Trial Balance Account 1500 General Fixed Asset Group to the FAACS reports 307AA1, FAACS 730 and FACCS 751. The museum also prepares internal monthly financial reports. Since the audit, the Fiscal Services department has added new procedures to further reconcile the log of vouchers and journal entries against the month-end Cardinal activities.

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- *The Agency Risk Management and Internal Control Standards (ARMICS) processes are not in compliance with the CAPP manual. ARMICS is most effective when the assessment and analysis are updated when there are changes in the environment. If there is a change in leadership, a change in policies, processes, or procedures or any other significant change that affects the agency, then the Agency-level Assessment should be repeated sooner than during the certification process. Doing a survey does not mean that the agency has assessed controls or performed ARMICS. The surveys in the ARMICS manual are intended as a tool for helping an agency identify areas that should be targeted for further investigation, but they do not identify specific agency-level controls that exist at an agency. In addition, transaction level testing is required to evaluate whether or not the controls are working as designed. Management should ensure that all ARMICS processes are being performed in compliance with the CAPP manual.”*

### **VMFA Response:**

Following an extensive museum-wide risk assessment using SWOT analysis of the five internal control components, a risk matrix was prepared in 2013. Each year prior to the certification due date, VMFA used a comprehensive set of questionnaires prescribed in the ARMICS standards to assess the integrity of all processes as identified in the risk matrix. The responses received from the survey were evaluated prior to filing the ARMICS certification with the State Department of Accounts. All division heads, department managers and finance/accounting staff are included in the survey. The last review was completed in September 2016 disclosing no significant deficiencies.

Starting in FY17, VMFA has incorporated a transaction based risk assessment for key internal control processes including procurement, finance, accounting, budgeting, and payroll. Specific testing methodologies have been defined along with self-audit of random sampling of transactions to ensure that the defined internal controls are indeed followed. VMFA feels that the overall risk assessment coupled with the transaction based testing will fully comply with the annual ARMICS certification process.

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- *Management did not make sufficient progress to the system security recommendation issued as a result of our prior audit. Specific recommendations from the comment that were not addressed are further outlined below:*

- *The Museum did not complete the required audits of sensitive systems necessary to comply with the Commonwealth's Information Security Standard (Security Standard), Section 7.2. Management should ensure that these audits are being performed in compliance with the Security Standard.*
- *Management did not provide annual Security Awareness training to all information system users as required in the Security Standard, Section 8.2. Management should ensure that all users receive the Security Awareness training timely."*

**VMFA Response:**

VMFA similar to many other Commonwealth agencies was unable to perform an audit of sensitive systems due to the unaffordable costs for the audits. We have been working with VITA to help fund these costs since it is a requirement of the state. We have begun auditing our sensitive systems to comply with the IT Security Audit Standards. VMFA utilizes the Commonwealth's provided Learning Center (formerly known as the Knowledge Center) to provide all training and testing services. The Learning Center has been in a reconstruction phase since the last quarter of 2016 and has been unusable. The new system has been laden with issues and has not run properly to allow our Learning Center Manager to re-enter approximately 400 employees in the system nor does it allow us to offer proper training for our staff. Recently the system has become much more reliable and we are in the process of re-entering all of the employees and will begin training immediately after they are entered into the system to become compliant.

I will be glad to review with you our responses in greater depth and provide you with additional supporting documents.

Sincerely,



Hossein Sadia  
Chief Financial Officer