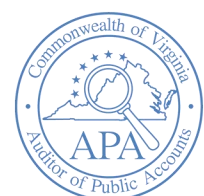




VIRGINIA MUSEUM OF FINE ARTS

REPORT ON AUDIT FOR THE YEARS ENDED JUNE 30, 2012 AND JUNE 30, 2013

Auditor of Public Accounts
Martha S. Mavredes, CPA
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AUDIT SUMMARY

Our audit of the Virginia Museum of Fine Arts for the fiscal years ended June 30, 2012, and 2013, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- matters involving internal control and its operation necessary to bring to management's attention; and
- instances of noncompliance with applicable laws and regulations or other matters that are required to be reported.

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AUDIT FINDINGS AND RECOMMENDATIONS

Properly Manage the Change Fund**

The Virginia Museum of Fine Arts (Fine Arts) uses its change fund as a petty cash fund and some of the items reimbursed through the fund are not allowable under Commonwealth policies.

Beyond ensuring the appropriate denominations are available for services, Fine Arts uses the change fund for activity that is more consistent with how a petty cash fund should be used. Fine Arts cashes checks and reimburses items through the change fund and then replenishes the fund monthly or as needed. Commonwealth policies state that agencies should use change funds strictly to make change for services, and the fund should not need replenishment; while agencies should use petty cash funds to make immediate payments to employees and the fund will require replenishment. Fine Arts has used one fund to support both the change and petty cash functions, which increases its risk for inappropriate use of funds.

Fine Arts acknowledged that payments made through the change fund typically fall into two areas:

- the cashing of per diem checks issued to visiting curators or art installers who are onsite to set-up and break-down exhibitions on loan to Fine Arts, and
- the reimbursement of out-of-pocket travel and miscellaneous expenses for museum employees accrued during official museum business or training.

Commonwealth policies expressly state that agencies must not use petty cash funds to circumvent the State purchasing requirements or as a substitute for the normal processing of vendor payments, and the policies outline allowable uses. Petty cash may be used to reimburse occasional travel expenses under \$100; however, these expenses must be allowed under Commonwealth policies and supported by travel voucher. Depending on the nature of the travel expenses, the petty cash fund may not be the appropriate place from which to reimburse the employee, especially if it places Fine Arts at risk of non-compliance with Commonwealth policies. Cashing per diem checks is not allowed to occur through a petty cash account without a Department of Accounts approved exception. Fine Arts has no such authorization.

Fine Arts should separate the petty cash activities from the change fund by establishing a separate petty cash fund. Fine Arts should work with the Department of Accounts to ensure proper authorization of both funds and receipt of any necessary exemptions to the use of the funds based on Fine Arts' operations. Further, Fine Arts should develop agency-specific policies and procedures to address the management of both funds and ensure its compliance with Commonwealth policies while managing the risks that having those types of funds can create.

Properly Manage Local Funds**

Fine Arts does not follow Commonwealth policies and procedures when spending its local funds; therefore, some of the expenses made from these funds are not allowable under

Commonwealth policies. Local funds, while held outside of the State Treasury and not necessarily recorded on the Commonwealth's accounting system, are still considered public funds as they are reported in the Commonwealth's Comprehensive Annual Financial Report and are, therefore, subject to the rules, regulations, and limitations regarding how the funds may be spent. Fine Arts' local funds are comprised of various gifts made to Fine Arts, which may have some restrictions on how the funds may be spent, and donations to Fine Arts from its Foundation for operational support.

Fine Arts made reimbursements for food and beverages, which exceeded Commonwealth per diem rates, and alcohol, which is unallowable, using local funds. Additionally, Fine Arts has several American Express cards, for use by key staff, which it pays using these local funds. These cards do not fall under the Commonwealth's small purchase charge card program through the Bank of America. Fine Arts could not provide evidence where the Department of Accounts authorized them to develop its own small purchase charge card program independent of the Commonwealth's program.

Not maintaining a clear delineation between public funds and Foundation funds caused the activities and instances of non-compliance cited above. Currently, when the Foundation provides support to Fine Arts, Fine Arts treats these funds as though they are still Foundation funds, and therefore, are not subject to Commonwealth rules, regulations, and limitations. However, once Fine Arts receives these funds and deposits them into the local fund for Fine Arts' use, they are public funds and subject to Commonwealth rules, regulations, and limitations.

The nature of the activities that Fine Arts is supporting with the local funds is normal for a privately managed museum. However, due to Fine Arts unique status as a state agency, Fine Arts must perform additional due diligence to ensure it remains in compliance with Commonwealth rules, regulations, and limitations. Fine Arts should work with its Foundation to better separate expenses for which the Foundation can pay for as a non-state entity from those expenses that Fine Arts is allowed to pay for as a state agency. The Foundation should pay for those unallowable, but necessary for operations, expenses directly.

In addition, Fine Arts should assess the usage of the American Express cards and work with the Department of Accounts and its Foundation to ensure it is in compliance with Commonwealth policies and procedures. Fine Arts may need to cancel these cards or the Foundation may need to take over management of the cards so that the Foundation can pay for the unallowable, but necessary expenses directly. By more clearly delineating between public funds and Foundation funds, Fine Arts will help minimize its risk of non-compliance.

Update Fine Arts Policies and Procedures*

Fine Arts has several policies and procedures that are outdated or do not reflect current operational practices. In several instances, these policies are not readily available to the employees that they impact. Best practices indicate that all policies and procedures should be reviewed and updated regularly to ensure they are clear, concise, and adequately address the operational risks identified by the organization. Further, for employees to implement policies as designed, the policies need to be readily available to the individuals who will execute them. By not having policies easily accessible, Fine Arts risks employees not following the intended controls and increasing the

opportunity for unauthorized and inappropriate activities and expenses as well as the misappropriation of assets. Specific areas of concern with Fine Arts policies include:

Cash Collections: Several employees involved with cash collections indicated they did not have access to the current Cash Collections Policies and Procedures. Many of those individuals work in areas with high turnover rates, both within staff and management, and are at greater risk for not following organizational policy without access to proper guidance.

Small Purchase Charge Card Program: The Small Purchase Charge Card Policies and Procedures do not always reflect the current practices of Fine Arts and are more restrictive than Commonwealth policies. As outlined in the finding “Improve Internal Control over and Compliance with the Small Purchase Charge Card Program,” this has resulted in instances of non-compliance not only with Fine Arts policy but also with Commonwealth policies.

Payroll and Human Resources: Fine Arts does not have any written internal payroll policies and procedures in place to reflect how it ensures compliance with Commonwealth payroll policies. Adding to the complexity of its operations, Fine Arts uses the Payroll Service Bureau (PSB) to process payroll. While the Commonwealth Accounting Policies and Procedures (CAPP) manual sets out the minimum requirements for all agencies in a broad range of control areas and the PSB procedural manual clearly delineates the responsibilities and procedures for processing payroll, it specifically requires that each agency develop its own internal policies and procedures to reflect its organization and its unique operational structure. We also noted that Fine Arts does not have standard procedures in place for the termination and separation of employees from employment. The ramifications of this are discussed further in the finding “Improve Internal Controls over Terminated Employees’ User Access.”

The current state of Fine Arts’ policies and procedures may be due to significant changes to the operations and structure of the organization over the past several years, as well as absences within key managerial roles, which would normally facilitate update and dissemination. Based on the examples cited above, Fine Arts should review and update all policies and procedures to reflect the intended practices for Fine Arts’ operations. The policies should be clear, concise, enforced, and readily available to all employees to ensure continuity.

Improve Internal Control over and Compliance with the Small Purchase Charge Card Program^{##}

Fine Arts small purchase charge card (SPCC) policies and procedures are more restrictive than Commonwealth policies. Further, management is not always holding cardholders to these policies and procedures. Specifically, our review identified the following issues within Fine Arts’ SPCC program.

- Ninety-three percent of the monthly purchase log reconciliations reviewed (25 out of 27 tested) were not completed, authorized by the supervisor, and submitted to

the fiscal department within Fine Arts' mandated three day window from receipt of the SPCC statement. Rather cardholders submitted the reconciliations between four and 27 days after this date. While Fine Arts' policy exceeds the expectations defined in Commonwealth policies, which gives cardholders 30 days to complete and submit their purchase log reconciliation, this weakness reflects a disconnect between Fine Arts' policies and its actual practices.

- Sixteen percent of cardholder purchase logs reviewed were not supported by receipts or other required supporting documentation. Both Fine Arts and the Commonwealth require that receipts be retained and maintained with the monthly purchase log.
- For 11 percent of the monthly purchase log reconciliations selected for review, Fine Arts did not retain documentation of the monthly purchase log reconciliation, and therefore, had no evidence of review or approval, all of which are required by both Fine Arts and Commonwealth policies. While the cardholders had no SPCC activity for the months in question, both Fine Arts and Commonwealth policies provide guidance on what should be done when no activity occurs for the month. Fine Arts' policy exceeds the requirements of the Commonwealth, requiring a purchase log reconciliation to be completed and submitted, even when no activity occurred for the month. Commonwealth policies only require an email communication to the SPCC Manager.
- One cardholder used their card to pay for three past due invoices, which is specifically prohibited by Commonwealth policies without prior approval from the Department of Account's Charge Card Administration Team.
- One cardholder did not formally document authorized exceptions to account coding for purchases made. Fine Arts policy requires that for purchases charged to a cost code, sub-object code, or project code other than the cardholder's department, the cardholder must secure the written permission of the cost code manager before the purchase is made. The cardholder did not retain written permission with the purchase log where this activity occurred.
- Finally, 35 of the 42 current cardholders monthly purchasing limits significantly exceeded their actual purchasing needs. Specifically for fiscal year 2013, these cardholders used less than 30 percent of their purchasing authority for the months in which they made purchases. In the majority of instances, the cardholders averaged ten percent or less usage, with 15 of the cardholders using five percent or less. Both Fine Arts and Commonwealth policies require cardholder usage to be evaluated annually and adjusted accordingly where cardholder usage is considerably less than their established card limits. While Fine Arts has reduced the number of cardholders overall since the previous audit, Fine Arts could not provide documentation of its periodic review of cardholders limits or how it confirms the setting of appropriate transaction and credit limits on each card.

Commonwealth policies (CAPP Manual section 20355) identify certain requirements for the agency SPCC program. These requirements include having an agency specific SPCC policy; maintaining support for SPCC transactions; preparing, reviewing, and approving purchase logs timely; limiting purchases to those allowed through the SPCC program; and monitoring cardholder limits.

While Fine Arts has a well-documented internal policy, that in many instances exceeds the requirements of the Commonwealth, it does not mirror actual practice by Fine Arts cardholders, supervisors, and cardholder administrators. Fine Arts should review its SPCC policies, in conjunction with the Commonwealth's, and reassess and update the nature, type, and extent of controls it believes are necessary to manage its SPCC program. These revised policies should at minimum address the Commonwealth's requirements, but may be expanded as Fine Arts deems appropriate. Once updated, upper management should ensure that cardholders, supervisors, and administrators follow the policy as written through training and ongoing monitoring activities.

Update the Information Security Program and Ensure Compliance with the Security Standard**

Fine Arts' Information Security Program is out of date and, in some instances, not in compliance with the Commonwealth's Information Security Standard, SEC 501-08 (Security Standard). Specifically, we determined the following:

- Fine Arts has not updated key documents supporting its information security program since 2009, including the business impact analysis and risk assessment. The Security Standard requires Fine Arts to review each of these annually and update them at least every three years to ensure Fine Arts can adequately address potential threats to its mission critical systems and sensitive data.
- Fine Arts did not retain documentation supporting the annual review of user access, its assessment of software license agreements, or information technology security audits, all of which are required to be maintained by the Security Standard. Documentation in each of these areas ensures the continuity of the information security program and allows for modification to the program where instances of non-compliance emerge.
- Finally, Fine Arts did not require all system users to attend annual security awareness training as mandated by the Security Standard. Individuals are the weakest link within any security program. Therefore, a strong awareness and training program is vital to ensuring that users understand their information technology security responsibilities and organizational policies. Due to the lack of security awareness training, we found an instance where a user shared their system access information with another employee. In doing this, the user impaired Fine Arts' ability to log and track activity within a sensitive system.

Fine Arts has internally identified that it does not have sufficient resources to support its information security program and has repeatedly requested authorization for an additional resource.

Fine Arts should continue to pursue the addition of resources it deems necessary to support its operations. In the interim, Fine Arts should use the resources it has available to bring the most critical pieces of its security program up to date and into compliance with the Security Standard.

Improve Internal Controls over Terminated Employees' User Access*#

Fine Arts does not have a documented termination policy and procedure that it consistently applies across all departments. As a result, Fine Arts did not delete user access to Commonwealth systems timely for terminated employees; and in one instance, Fine Arts could not demonstrate that the request for access deletion was timely. Specifically, Fine Arts deleted access to the Commonwealth Integrated Payroll and Personnel System (CIPPS) and the Personnel Management Information System (PMIS) for two terminated employees 83 and 246 days after termination, respectively. Further, Fine Arts was unable to provide termination request documentation for one employee who terminated in July 2012. However, Fine Arts did delete the employee's access within two months of termination. The risk of improper access is somewhat mitigated by Fine Arts' current practice of terminating the employee's logon access at Fine Arts' portal. Therefore, unless the former employee gains access through the state firewall, access to CIPPS and PMIS would not be available to the employee.

Management leaves termination procedures up to the discretion of departmental managers, who in some instances keep employee access for up to three months after termination due to the possibility that the individual may return to work. These findings are consistent with Fine Arts' internal risk assessment performed for the Department of Accounts' Agency Risk Management and Internal Control Standards (ARMICS) that noted system access, as well as the recouping of museum property (parking passes, badges, and uniforms), as an ongoing concern for several years.

The Security Standard requires the prompt removal of system access for terminated or transferred employees. Delays in the removal of system access for terminated employees increase the risk of unauthorized access to systems, which could affect the integrity of the affected systems.

Management should assess its existing termination process and update and document the policies to ensure the prompt removal of system access, return of museum property, and retention of access management records. Management should train employees regarding the revised procedures and communicate the expectation for uniform compliance.

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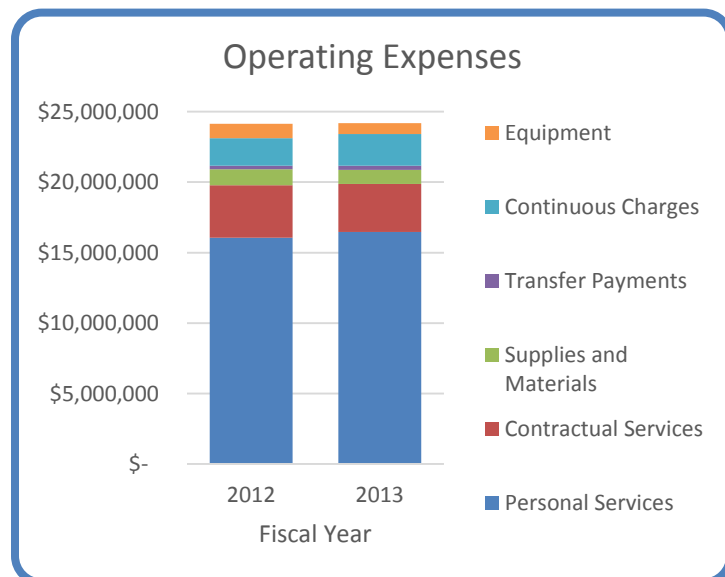
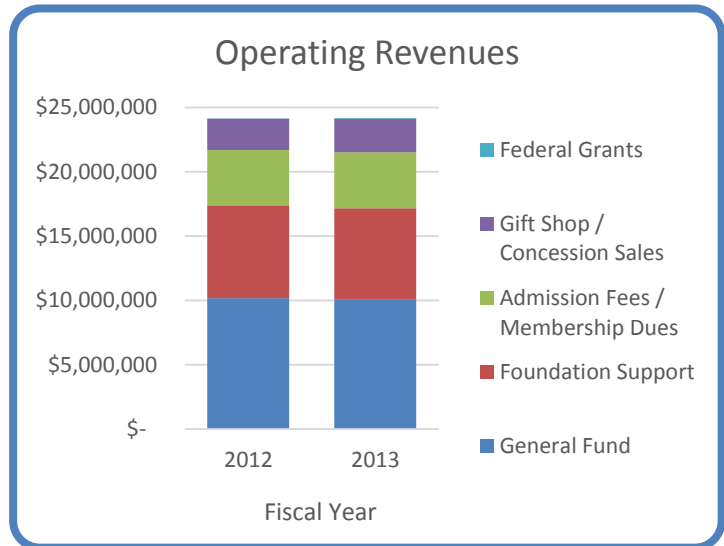
- * - designates internal control findings
- # - designates compliance finding

AGENCY HIGHLIGHTS

The Virginia Museum of Fine Arts, located in Richmond, serves to collect, preserve, exhibit, and interpret art, as well as encourages the study of the arts. Fine Arts has a permanent collection of over 33,000 works of art spanning more than 5,000 years and six continents. Special temporary exhibits also present views of art from all over the world. Featured performances in Fine Arts' theater provide a full range of concerts, films, theater, and dance from classical to contemporary.

The Virginia Museum of Fine Arts Foundation (Foundation) serves as the fund-raising component of Fine Arts. In fiscal years 2012 and 2013, the Foundation provided over \$7.2 million and \$7.0 million, respectively, to support Fine Arts' operating expenses.

The majority of Fine Arts' funding comes from non-general fund revenues, including monies from the Foundation, admission fees, membership dues, gift shop and food service sales, and federal grants. The remainder comes through general fund appropriations.



Fine Arts spent approximately \$24.1 million on operating expenses in each of fiscal years 2012 and 2013. Personal services, including fringe benefits, represent the majority of those expenses, totaling over \$16 million each year. The remaining expenses are normal operating expenses for a museum, such as utilities, maintenance, printing, shipping, insurance, rentals, and equipment.



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

April 28, 2015

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable John C. Watkins
Chairman, Joint Legislative Audit
and Review Commission

We have audited the financial records and operations of the **Virginia Museum of Fine Arts** for the years ended June 30, 2012, and 2013. 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 Fine Arts' internal controls, and test compliance with applicable laws, regulations, contracts, and grant agreements.

Audit Scope and Methodology

Fine Arts' 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, regulations, contracts, and grant agreements.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered significance and 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.

Cash receipting and revenues
Payroll and other expenses
Small purchase charge card
Contract procurement and management
Information system security

We performed audit tests to determine whether Fine Arts' controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws, regulations, contracts, and grant agreements. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of Fine Arts' operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

Conclusions

We found that Fine Arts properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System or other agency financial system. Fine Arts 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, regulations, contracts, and grant agreements that require management's attention and corrective action. These matters are described in the section entitled "Audit Findings and Recommendations."

Exit Conference and Report Distribution

We discussed this report with management on May 7, 2015. Management's response to the findings identified in our audit is included in the section titled "Agency Response." We did not audit management's response and, accordingly, we express no opinion on it.

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

DBC/alh



May 15, 2015

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

Dear Ms. Mavredes:

The Virginia Museum of Fine Arts has provided the following responses to the deficiencies noted in the Audit:

Properly Manage the Change Fund

The Museum has contacted the Department of Accounts for guidance on cashing of per diem checks for staff involved in exhibitions. Industry practice is to provide, through the contract, cash readily available for vendors upon arrival. The Museum will welcome any recommendation and or exemption letter that the Department of Accounts can provide. Meanwhile, the Museum has discontinued the use of change fund as a petty cash fund.

Properly Manage Local Funds

The Museum practice concerning local funds has remained unchanged over a decade. These funds are privately funded accounts and are treated as such. The Museum plans to seek an exemption from the Department of Accounts for the use of an alternative credit card for local funds. The Museum is also considering to discontinue the use of local funds for Museum activities and process local fund type transactions through the Museum Foundation.

Update Fine Arts Policies and Procedures

In an effort to improve Museum-wide communication among departments and staff, and to implement sound business practices and internal controls, the Office of Finance and Administration recently began creating a central repository of Museum policies and procedures. This initiative will be in three phases over the next several months to lessen the impact of additional work which will be created on staff whose participation will be critical for the success of the project. Updated procedures will cover not only the areas noted in the audit but the entire Museum operations.

Improve Internal Control over and Compliance with the Small Purchase Charge Card Program

As noted in the audit, the Museum has a well-documented internal policy that in many instances exceeds the requirements of the Commonwealth. If the Museum had adopted the Commonwealth requirements in its internal SPCC policy and procedures, the exceptions noted in the audit would not have been found and it would have been in compliance with the Commonwealth requirements.

VIRGINIA MUSEUM OF FINE ARTS

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The Museum will review its SPCC policies, in conjunction with the Commonwealth's, and reassess and update the nature, type, and extent of controls it believes are necessary to manage its SPCC program. Once updated, the Museum will ensure that cardholders, supervisors, and administrators follow the policy as written through training and ongoing monitoring activities.

Update the Information Security Program and Ensure Compliance with the Security Standard

The Museum's Information Security Program is now up to date and is in compliance with the Commonwealth's Information Security Standard SEC 501-08 (Security Standard). Specific deficiencies noted in the audit have been addressed.

Improve Internal Controls over Terminated Employees User Access

The risk noted is somewhat mitigated by the Museum's current practice of terminating the employees logon access at the Museum portal. Therefore, unless the former employee gains access through the state firewall, which is unlikely, access to CIPPS and PMIS would not be available to the employee. Nevertheless, in response to the audit finding, a systematic notification process for separating employees has been implemented. In addition, checklists for the issuance and removal of access and property are being sent to department managers. A policy has also been drafted and will be finalized by June 30, 2015.

Sincerely,



Hossein Sadid
Chief Financial Officer

VIRGINIA MUSEUM OF FINE ARTS

Alex Nyerges, Director and Chief Executive Officer

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