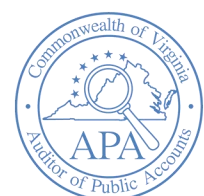




FRONTIER CULTURE MUSEUM
OF VIRGINIA

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

Auditor of Public Accounts
Martha S. Mavredes, CPA
www.apa.virginia.gov
(804) 225-3350



AUDIT SUMMARY

Our audit of the Frontier Culture Museum of Virginia for the fiscal years ended June 30, 2012, and June 30, 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

Strengthen Internal Controls over Fiscal Operations

The Frontier Culture Museum of Virginia (Frontier Culture) has not maintained fiscal operations' staff at an appropriate level in order to implement and maintain adequate internal controls over fiscal operations and ensure proper compliance with Commonwealth policies.

Due to operational challenges incurred from general fund reductions to the original budget in fiscal years 2010 and 2011, Frontier Culture implemented cost saving measures, which included reductions in fiscal staff. As a result, Frontier Culture has not maintained adequate internal controls, such as proper management oversight, segregation of duties, and clearly documented and updated internal policies and procedures.

During the fiscal year 2013, Frontier Culture encountered a significant fraud in the area of small purchase charge cards (SPCC), resulting in a loss of over \$34,000 of the museum's funds. In addition, Frontier Culture had other control issues and noncompliance with Commonwealth policy related to SPCC reconciliations, system access, and cash revenue deposits. Specifically, our review identified the following issues:

- For 17 percent (two out of 12) of the monthly SPCC reconciliations during the 2013 period selected for review, Frontier Culture did not always follow Commonwealth policy for the agency SPCC program. For one monthly reconciliation, Frontier Culture did not make a payment timely due to a cardholder not properly submitting a purchase log and thus causing delays in supervisory approval of the cardholder's purchases. Additionally, another monthly purchase log reconciliation was not supported by required receipt documentation; however, the purchase log still showed evidence of supervisory approval. Commonwealth policy identifies certain requirements for SPCC, to include making the monthly payment to the credit card merchant by the seventh of each month and retaining and maintaining receipts with the monthly purchase log.
- Frontier Culture did not timely delete user access to the Commonwealth's Accounting and Reporting System (CARS) for a terminated employee that had an access level allowing data entry to the system. Specifically, the employee left in January 2013, but Frontier Culture did not delete user access until 92 days after termination. The Commonwealth's Information Security Standard, SEC 501-08, requires the prompt removal of system access for terminated or transferred employees.
- For 63 percent of cash revenue deposits selected for review (five out of eight cash deposits tested), Frontier Culture did not timely deposit the daily cash receipts either on the day revenue was received or by the next business day. Specifically, three out of the five untimely deposits were deposited seven to 10 days after the revenue was collected. We acknowledge that untimely deposits of cash revenue

receipts were in part due to management's attempt to ensure proper segregation of duties. However, Commonwealth policy requires the processing of cash deposits to be completed by no later than the next banking day after receipt. Commonwealth policy does allow an agency to obtain a documented exception from the Department of the Treasury, which generally is justified based on the small amount collected and the availability of adequate safekeeping facilities. However, at the time of our review, Frontier Culture had not requested an exception.

- Frontier Culture's key fiscal policies and procedures were outdated or still undergoing an update at the time of our review, and overall they were not clearly documented and lacked an internal focus over the museum's operations. These key policies and procedures include, but are not limited to, the areas of small purchase charge card, accounts payable, accounts receivable, procurement, fixed assets, revenue deposits, and petty cash. Best practices indicate that all policies and procedures should be documented, reviewed, and updated regularly to ensure they are clear, concise, and adequately address the operational risks identified by the organization. At the time of our review, the state of Frontier Culture's policies and procedures may have resulted from organizational changes that occurred in the fiscal department, as well as not maintaining appropriate fiscal staff levels.

By not maintaining adequate internal controls, Frontier Culture exposes itself to a higher risk of error, increased opportunity for inappropriate or fraudulent activities and expenses, unauthorized access affecting the integrity of systems, and risk for misappropriation of funds. In addition, lack of clearly documented and up-to-date internal policies and procedures can contribute to inadequate internal control practices and noncompliance with Commonwealth policies.

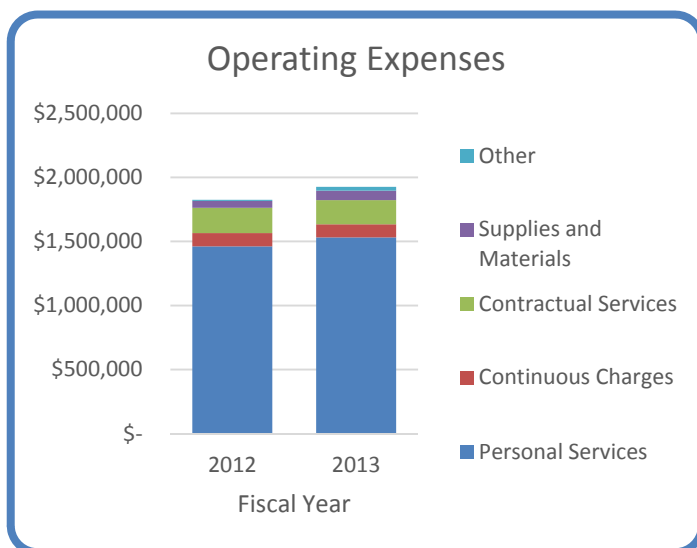
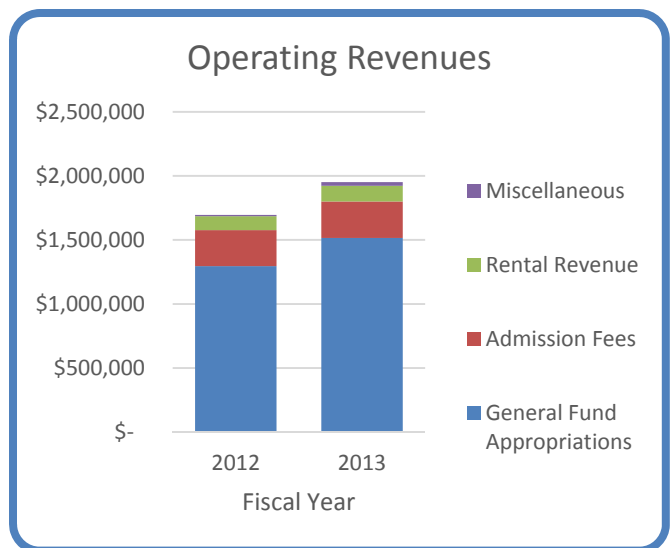
Based on the various issues noted above, Frontier Culture should first prioritize the update and documentation of clear, concise, and internally focused policies and procedures to address all fiscal areas and operations of the museum. Executive management should approve the documented policies and procedures, and management should continually perform review and updates when changes in processes, systems, or Commonwealth policies occur. Additionally, Executive management should evaluate staffing levels for key fiscal positions to ensure that integral controls, including proper segregation of duties, management oversight, and documented policies and procedures, are implemented and maintained. While an increase in staffing for additional fiscal positions may not be economically feasible, management should evaluate other avenues that will ensure the existence of sound internal controls throughout all fiscal operations.

AGENCY HIGHLIGHTS

The Frontier Culture Museum of Virginia, located in Staunton, Virginia, commemorates and educates visitors about the influence of pioneer culture on the creation and development of the United States. The 220-acre site offers visitors the experience of 17th, 18th, and 19th century European, African, and American customs. The site features period dwellings with furnishings, crops, animals, foods, and artisanship created by costumed interpreters that tell the story of the thousands of people who migrated to colonial America, and of the life they created here for themselves and their descendants. Frontier Culture creates a living illustration of life in Europe and Africa before immigration to America and the culture the immigrants built on America's first frontiers.

The American Frontier Culture Foundation (Foundation) exists for the sole purpose of soliciting, receiving, investing, and managing private donations and grants on behalf of Frontier Culture. The Foundation provides support for museum exhibits, programs, and operations that are not funded by the General Assembly, with the most critical being the purchase of exhibit items. In addition, the Foundation leases and operates Frontier Culture's museum store and two rental facilities.

The majority of Frontier Culture's funding, about 77 percent, comes from general fund appropriations. The remainder is made up of non-general fund revenues, primarily consisting of museum admission fees and rental revenues.



Frontier Culture spent approximately \$3.7 million in total on operating expenses over fiscal years 2012 and 2013. Personal services including fringe benefits represent the majority of those expenses, totaling over \$1.46 million in 2012 and \$1.53 million in 2013. 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

August 6, 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 **Frontier Culture Museum of Virginia** for the fiscal years ended June 30, 2012, and June 30, 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 Frontier Culture's internal controls, test compliance with applicable laws, regulations, contracts, and grant agreements, and review corrective actions of audit findings from prior year reports.

Audit Scope and Methodology

Frontier Culture'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, 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
Information system security

We performed audit tests to determine whether Frontier Culture'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, regulations, contracts, and grant agreements. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of Frontier Culture's operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

Conclusions

We found that the Frontier Culture Museum of Virginia properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Frontier Culture Museum of Virginia 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."

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

Exit Conference and Report Distribution

We discussed this report with management on October 14, 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

RNR/alh



COMMONWEALTH of VIRGINIA

Frontier Culture Museum of Virginia

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October 19, 2015

Ms. Martha S. Mavredes
Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218

Dear Ms. Mavredes,

I have reviewed the audit findings by the Auditor of Public Accounts of the Frontier Culture Museum for fiscal years 2012 and 2013 and agree with your results. I recognize that there were several areas that needed to be addressed including:

1. Ensuring proper reconciliation and documentation of the small purchase charge card logs by end users and supervisors
2. Deletion of user access to sensitive systems is promptly processed upon the end users termination of employment
3. The timely deposits of cash revenues to the bank
4. Ensuring adequate internal controls through updated internal policies and addressing staffing levels within the fiscal department

Since the audit was conducted, the Museum has worked diligently to address the findings from this audit. The Museum has updated its internal policies and procedures to address issues of internal control including areas such as the small purchase charge card, accounts payable, accounts receivable, procurement, fixed assets, and cash revenue deposits. This was completed by our Fiscal Officer and the policies have been reviewed by a member of the APA staff.

The Museum has also hired an additional full-time fiscal technician as of July 2014 to address the findings of inadequate staffing levels, including addressing any findings with segregation of duties, timely deposits of cash revenue, and internal control oversight. The Museum has also trained additional staff to assist with cash deposits to the bank and reconciliation of all daily revenue receipts.

I understand the importance of proper reconciliation and documentation for the small purchase charge card, especially after the fraud that occurred in 2012. The Museum worked with a

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www.frontier.virginia.gov

Certified Fraud Examiner from the APA to ensure that any internal control concerns were addressed. The Fiscal Officer also worked with the auditors who conducted this audit to ensure that the small purchase charge card reconciliation procedures were updated and included additional measures to ensure proper documentation and supervisory oversight.

The Museum acknowledges that access to sensitive systems should be terminated promptly as per the Commonwealth's Information Security Standard SEC501-08. We recognize that there was a lapse in this area during fiscal year 2013 and the Museum has worked diligently to ensure that access to all sensitive systems is promptly removed upon termination of employment from the Museum. Executive management will work with the fiscal department to ensure that this is completed promptly and within Commonwealth policies.

I offer my thanks for your staff's work during this audit; please let me know if I need to provide any further information.

Sincerely,



G. John Avoli
Executive Director

FRONTIER CULTURE MUSEUM OF VIRGINIA

John Avoli, Executive Director

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