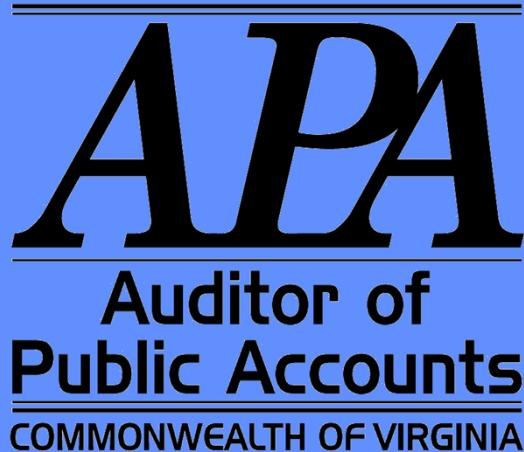


**VIRGINIA MUSEUM OF NATURAL HISTORY**

**REPORT ON AUDIT  
FOR THE THREE YEAR PERIOD ENDING  
JUNE 30, 2010**



## **AUDIT SUMMARY**

Our audit of the Virginia Museum of Natural History, 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 operations 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 Complete Inventory

The Virginia Museum of Natural History (Natural History) is not in compliance with the Commonwealth Accounting Policies and Procedures (CAPP) manual with regard to the inventory requirement. The CAPP manual states a full inventory should be completed at a minimum every two years. Natural History completed a partial inventory in March 2010, when the majority of their assets were inventoried; however, not all items had values associated with them, nor did the inventory include all locations.

An incomplete inventory may result in an inaccurate accounting of assets, and does not allow for reliability of the system of accountability for acquisition, use, and disposal of those assets.

We recommend that Natural History conduct a physical inventory of all assets and locations at least once every two years as required by the CAPP Manual in order to properly safeguard assets and maintain fiscal accountability.

### Improve Internal Controls over Expenditures

Natural History is not following the CAPP manual with regard to expenditure processing. We found instances where receipt of services was not acknowledged prior to payment, an expenditure was improperly coded, and an inter-agency transaction was not properly approved. These issues could lead to improper payments and inaccurate classification.

We recommend that Natural History review their expenditure processing procedures to ensure they are in compliance with the CAPP manual.

### Status of Prior Year Finding

We have one prior recommendation that remains partially unresolved and the following information provides an update on the status of this recommendation.

### Improve Information Security Program

Natural History has improved its Information Security Program since our prior audit and has put forth an active effort in developing policies and procedures. We encourage Natural History to continue developing its program, and to contact the Department of Accounts' Information Security Assistance Team to resolve the more technical aspects of its program.

## AGENCY HIGHLIGHTS

The Virginia Museum of Natural History, located in Martinsville, serves to preserve, study, and interpret the Commonwealth's natural heritage by providing research sites, exhibits, and programs for the public. Fiscal 2008 was the first full year of occupancy for the museum's new site on Starling Avenue.

Natural History has an affiliation with the Virginia Museum of Natural History Foundation (Foundation), an independently incorporated entity that exists for the sole purpose of soliciting, receiving, investing, and managing private donations for Natural History. The net assets of the Foundation reported as of June 30, 2010 were \$298,624.

## FINANCIAL HIGHLIGHTS

General Fund appropriations account for 84 percent of the approximately \$2.9 million in actual funding that Natural History received for fiscal year 2010. Special revenues make up 15 percent of the total funding with approximately 42.5 percent from the Foundation, 17.6 percent from workshop registration fees, 13.2 percent from café and gift shop sales, with the remaining funds coming from admission sales at 9.9 percent, receipts from city/county at 9.5 percent, and other miscellaneous revenues.

The following table illustrates Natural History's original budget, final budget, and actual expenses for all of its funds.

### Analysis of Budgeted and Actual Funding

	<u>2008</u>			<u>2009</u>		
	<u>Original</u>	<u>Final</u>	<u>Expenses</u>	<u>Original</u>	<u>Final</u>	<u>Expenses</u>
General Fund Appropriations	\$2,966,822	\$3,369,339	\$3,369,339	\$3,141,062	\$2,881,660	\$2,881,660
Special Revenue Fund	746,938	746,938	618,378	765,752	765,752	561,537
Federal Trust Fund	<u>30,000</u>	<u>30,000</u>	<u>21,000</u>	<u>30,000</u>	<u>50,000</u>	<u>26,887</u>
Total	<u>\$3,743,760</u>	<u>\$4,146,277</u>	<u>\$4,008,717</u>	<u>\$3,936,814</u>	<u>\$3,697,412</u>	<u>\$3,470,084</u>

	<u>2010</u>		
	<u>Original</u>	<u>Final</u>	<u>Expenses</u>
General Fund Appropriations	\$2,661,503	\$2,386,588	\$2,386,588
Special Revenue Fund	765,752	765,752	481,798
Federal Trust Fund	<u>30,000</u>	<u>30,000</u>	<u>22,196</u>
Total	<u>\$3,457,255</u>	<u>\$3,182,340</u>	<u>\$2,890,581</u>

During fiscal year 2008, Natural History saw an increase in expenses for the hiring of additional staff for their new facility. However, in fiscal year 2009 Natural History underwent budget reductions as did most other state entities. Natural History worked with the Department of Human Resource

Management to reduce all full-time staff hours by 20 percent for five months, to bring costs in line with expected budget reductions. Further, two employees took early retirement and Natural History laid off two employees in its efforts to reduce costs.

Fiscal 2010 total operating costs were approximately \$2.9 million with personal services costs at 72 percent, contractual services at 16 percent, continuing charges (primarily heating, lighting and other operating costs) at approximately eight percent and supplies and materials at about four percent.



# Commonwealth of Virginia

**Walter J. Kucharski, Auditor**

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

January 25, 2011

The Honorable Robert F. McDonnell  
Governor of Virginia

The Honorable Charles J. Colgan  
Chairman, Joint Legislative Audit  
and Review Commission

We have audited the financial records and operations of the Virginia Museum of Natural History (Natural History) for the three year period ending June 30, 2010. 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 Natural History'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

Natural History'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 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.

Expenditures  
Payroll expenses  
Small purchase charge cards  
Network security

Revenues  
Cash receipting  
Capital assets and inventory

We performed audit tests to determine whether Natural History'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 contracts, and observation of Natural History's operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

### Conclusions

We found that Natural History properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. Natural History 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 "Audit Findings and Recommendations."

Natural History has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this letter.

### Exit Conference and Report Distribution

We discussed this report with management on February 17, 2011. 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

EMM/alh

February 10, 2011

Mr. Walter J. Kucharski  
Auditor of Public Accounts  
P. O. Box 1295  
Richmond, VA 23218

Dear Mr. Kucharski:

We have reviewed the audit report for Virginia Museum of Natural History and appreciate the opportunity to respond to the comments and recommendations applicable to the museum for fiscal years 2008, 2009 and 2010. We value the auditor's comments and recommendations and have already implemented the recommended change. Please see our comments on the issues below.

Properly Complete Inventory

We concur with the finding that the physical inventory was incomplete. During the audit period the Virginia Museum of Natural History moved from the Douglas Avenue building to its new facility on Starling Avenue. We took occupancy of the office and exhibit spaces while the labs and scientific areas were being completed. This caused a delay in completing a proper inventory. However, once the move was completed, the inventory was completed first in the new building. The finding was that the inventory had not been completed in the Douglas Avenue building that we currently use for storage. We have now completed the inventory in that building and there were no fixed assets there; mostly surplus items. Now that our move is completed, VMNH will ensure that a complete inventory is done every two (2) years as required by the CAPP Manual.

Improve Internal Controls over Expenditures

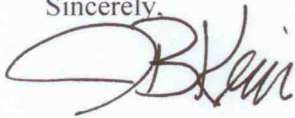
There were three (3) findings in expenditure processing. One service ticket was not signed by the end-user, an invoice was improperly coded and an interagency transaction was not properly approved. We have promptly taken measures to correct these weaknesses by improving our expenditure processing procedures.

Improve Information Security Program

The Virginia Museum of Natural History will continue to improve on its information security program and strive to be in compliance with all requirements. During this audit period, all VMNH staff completed the Security Awareness Training on the DOA training site. It is recommended that we complete training annually. In response to this recommendation, we have implemented our training program for this fiscal year and will continue this on an annual basis. We have contacted the Department of Accounts' Information Security Assistance Team for assistance on identifying what additional information is needed in our sensitive systems documentation to be in compliance.

The audit findings and your comments and recommendations regarding areas of internal control weaknesses are highly valued. Efforts are underway to fully comply with the three areas addressed in the audit report. I would also like to commend your staff for the professional manner in which the audit was conducted.

Sincerely,

A handwritten signature in dark ink, appearing to read "J. Keiper", with a stylized, flowing script.

Joe Keiper  
Executive Director

# VIRGINIA MUSEUM OF NATURAL HISTORY

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