

VIRGINIA WAR MEMORIAL FOUNDATION

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2007**

APA

**Auditor of
Public Accounts**

COMMONWEALTH OF VIRGINIA

AUDIT SUMMARY

Our audit of the Virginia War Memorial Foundation for the year ended June 30, 2007, found:

- proper recording and reporting of all transactions, in all material respects, in the Foundation's accounting records and the Commonwealth Accounting and Reporting System;
- certain matters involving internal control and its operations necessary to bring to management's attention which are discussed in the section titled Findings and Recommendations; and
- no instances of noncompliance with applicable laws and regulations or other matters that are required to be reported.

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FINDINGS AND RECOMMENDATIONS

Consolidate Accounting Processes and Internal Controls

The Virginia War Memorial Foundation Board needs to re-examine its structure in order to maintain its financial position and the effect that maintaining this financial position will have on ensuring sound internal controls and accounting records. Over the last two years, we have discussed with the Executive Director the decline of funds to supplement administrative costs for operations.

Our calculation of spending indicates that without additional resources, the Foundation will exhaust its remaining discretionary funds sometime in late calendar 2008 or early 2009. Once the Foundation depletes these funds, the Foundation will need to use the General Fund from the Department of General Services and Virginia War Memorial Education Foundation donations to pay an estimated \$10,000 per year for recurring expenses.

The lack of staff makes having strong internal controls not practicable and we have relied heavily on the oversight and approval by the Board and involvement by the Department of General Services to control the majority of financial transactions. Legislation, which passed during the 2008 General Assembly Session, will transfer the administrative support for the Foundation from the Department of General Services to the Department of Veterans' Services. We believe that this change provides an ideal opportunity to make substantial changes to the financial operations of the Foundation by eliminating or consolidating bank accounts, accounting records and other administrative duties within the Department of Veterans' Services. Transferring these functions will greatly improve internal controls and reduce the burden on the Board of providing detailed oversight rather than policy direction and assistance.

During the past year, we have observed that staff need to pay more attention to the financial operations of the Foundation. We noted overdrafts of the Foundation checking account for three checks totaling \$48,700 in October 2006. Additionally, based on check dates, we found the untimely deposit of checks received for various activities and the delays for seven of these checks extend over 30 days. The Foundation has now instituted an internal policy to date-stamp checks upon receipt to provide documented proof of timely deposits. Finally, we also find some inconsistency in the reports to the Foundation board; however, overall the reports had appropriate information.

The Board needs to assess the limited resources of the Foundation to provide sound internal controls. We encourage the Board in seriously considering the transfer of all of the financial transaction processing and reporting, including discretionary funds, to the Department of Veterans' Services.

FOUNDATION 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 verify that the War Memorial (Memorial) includes the names of all Virginians killed-in-action from World War II, the Korean War, the Vietnam War, and the Persian Gulf War, and Virginians missing-in-action from the Vietnam War.

The Trustees have focused on the renovation and expansion of the Memorial to include educational facilities, as well as the development of the educational programs. To further support its mission and provide a greater incentive for donations, the Trustees established the Virginia War Memorial Educational Foundation, Incorporated (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 is a publicly supported organization, and grantors and contributors may rely on its publicly supported status to make tax-exempt donations. Therefore, all fund-raising efforts flow through the Corporation to ensure the tax-exempt status of donations received.

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

- Management and the daily operations of the Memorial
- Coordination of board meetings and communications
- Development and implementation of educational programs
- Coordination of fund-raising activities
- Maintenance of the Foundation’s internal accounting records
- Collection and preservation of books, manuscripts, war artifacts, and memorabilia

The Department of General Services (General Services) provides some administrative support including cash receipt, payroll accounting, procurement, contract management, and building and maintenance activities, and supports these activities from its General Fund Appropriations.

The following schedule reflects the Foundation’s General Fund activity for fiscal year 2007.

Virginia War Memorial Foundation – General Fund

	<u>2007</u>
Funding sources:	
General fund appropriations	\$ 515,638
Total funding	<u>\$ 515,638</u>
Expenses:	
Personnel	\$ 211,018
Contractual services	267,246
Supplies and materials	4,555
Continuous charges	32,437
Equipment	<u>372</u>
Total expenses	<u>\$ 515,628</u>

The Foundation also has operating accounts with the Treasurer of Virginia’s Local Government Investment Pool (LGIP). The LGIP account earns pooled interest with other state agencies and local government bodies. When the Foundation requires funds for operating expenses; the Executive Director transfers the funds from the LGIP account to a local money market account where it earns a smaller return. The Foundation then transfers funds to a local checking account before disbursement to vendors for miscellaneous expenses.

The following schedule reflects the aggregate activity of the operating accounts for the Foundation for fiscal year 2007. The original source of the beginning cash balance reflects donations, interest earning and some excess appropriations from prior years.

<u>Virginia War Memorial Foundation – Operating Accounts</u>	
	<u>2007</u>
Beginning cash and cash equivalents ^A	\$100,463
Revenue:	
Donations ^B	9,164
Interest and dividend earnings	2,240
Reimbursed expenses ^C	<u>3,266</u>
Total revenue	<u>14,670</u>
Less expenses:	
Construction expense ^D	69,788
Rent expense	4,437
Office supplies & services expense	3,266
Other miscellaneous expenses ^E	<u>4,016</u>
Total expenses	<u>81,507</u>
Ending cash and cash equivalents	<u>\$33,626</u>

Source: QuickBooks accounting record maintained by VWMF

Footnotes:

- A – Cash and cash equivalents includes the aggregate of the Local Government Investment Pool, mutual-money-market, and local checking account funds.
- B - The Virginia War Memorial Educational Foundation receives the donations before sending them to the Virginia War Memorial Foundation.
- C - Reimbursed expenses include payments from organizations for the use of the War Memorial facilities.
- D - Construction expenses include a \$50,000 match of General Fund appropriations for the design of an Education Center and a \$17,085 projector for the Hall of Honor Auditorium.
- E - Miscellaneous expenses include bank transfer fees, flag purchases, consulting services, travel, and training expenses.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

February 29, 2008

The Honorable Timothy M. Kaine
Governor of Virginia
State Capital
Richmond, Virginia

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, Virginia

We have audited the financial records and operations of the **Virginia War Memorial Foundation** for the year ended June 30, 2007. We conducted this performance audit in accordance with generally accepted Government Auditing Standards, issued by the Comptroller General of the United States. 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 on both the Commonwealth Accounting and Reporting System and QuickBooks, review the adequacy of the Foundation's internal controls, and test compliance with applicable laws and regulations.

Audit Scope and Methodology

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.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered materiality and control 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 management
Acquisition of and payment for goods and services

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. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of the Foundation's operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

Conclusions

We found that the Foundation properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System and QuickBooks. The Foundation 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 and QuickBooks.

We noted certain matters involving internal control and its operation that we consider necessary to be reported to management. These matters are discussed in the Findings and Recommendations section of this report. The results of our tests of compliance with applicable laws and regulations disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Exit Conference And Report Distribution

We discussed this report with management on March 24, 2008. Management's response has been included at the end of this report.

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

AWP/clj



March 24, 2008

Mr. Walter J. Kucharski, Auditor
Auditor of Public Accounts
Post Office Box 1295
Richmond, Virginia 23218

Dear Mr. Kucharski:

This letter is in response to your 27 February 2008 Memorandum: Improve Cash Management and Accounting Practices and to your draft Audit Report dated 29 February 2008.

As to the decline of funds held by the Foundation, APA audit staff have indicated over the past two years that the Foundation accounts will be exhausted in the late 2008/early 2009 timeframe. As we explained during these discussions, the Foundation plans to exhaust these funds and this fact will not negatively impact operations.

As Foundation funds have decreased, accounts held by the Foundation have already been consolidated as you suggest. One of the two bank accounts has been closed. The final solution to this problem, as you state, will occur in late 2008/early 2009 by all funds being exhausted and all accounts thereby being closed. We feel that transferring this activity to the Department of Veterans' Services at a time before they could "get up to speed" with Memorial activities would only further complicate a situation that is temporary.

You indicate that the checking account was overdrawn three times in October 2006. This was actually one event with three checks. Funds had been transferred from our Treasury LGIP account to cover these checks and were deposited in the Foundation's money market account. We believe that it was a bank error that then resulted in the bank making three transfers between our two checking accounts to cover checks presented. To safeguard against the same action taking place in the future, we initiated action to close the money market account some months ago. This will prevent future transfer problems and is in line with your recommendation of consolidating bank accounts.

You suggest that there was untimely deposit of checks received. Over the past year, we have noted that incoming mail is delivered well past the mailing date. Complaints have been made to the Post Master by phone and in person. Additionally, the Memorial's Educational Foundation occasionally prepares checks for signature and then encounters delays in securing the required signatures which results in variance from date of check to receipt of check. To preclude any future perception of delay of deposits, the Memorial has instituted an internal policy to date checks upon receipt.

I disagree with your finding regarding staff capabilities. There have been no reportable audit points or recommendations over the last ten years. This would indicate that there is no shortfall of capabilities. Additionally, the financial accounts of the Foundation are predicted by your office to be closed by early 2009. For this reason, we feel your recommendation to transfer these financial activities to the Department of Veterans' Services after the anticipated transfer on July 1, 2008, of the Memorial from the Secretary of Administration to the Secretary of Public Safety would be ill advised.

In summary, we ask for relief from this recommendation to consolidate accounting processes and internal controls as it is felt that all items have been addressed and corrective action has been taken in the past or as of this date.

Thank you for considering this request.

Sincerely yours,



Jon C. Hatfield

AGENCY OFFICIALS

Virginia War Memorial Foundation

The Honorable William K. Barlow

The Honorable J. Brandon Bell, II

Mr. Dale D. Chapman, Adjutant

The Honorable John S. Edwards

The Honorable Frank D. Hargrove, Sr.

Mr. John Harper, Jr.

RDML John Hekman, USN (Ret.)

BG Bert Wellington Holmes, Jr., M.D.

The Honorable William R. Janis

The Honorable L. Scott Lingamfelter

RADM John L. Marocchi, USN (Ret.)

BG John W. "Jack" Nicholson, USA (Ret.)

Mr. Roger L. Overstreet

The Honorable Melanie L. Rapp

The Honorable D. Nick Rerras

COL E. Phillip Russell

Mr. S. Judson Stanley

BG Wilma L. Vaught, USAF (Ret.)

Ex-Officio

The Honorable Viola Baskerville

