

**VIRGINIA WAR MEMORIAL FOUNDATION**

**REPORT ON AUDIT  
FOR THE YEAR ENDED  
JUNE 30, 2010**

---

---

***APA***

---

---

**Auditor of  
Public Accounts**

---

---

**COMMONWEALTH OF VIRGINIA**

## **AUDIT SUMMARY**

Our audit of the Virginia War Memorial Foundation for the year ended June 30, 2010, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System and QuickBooks;
- internal control matters that require management's attention and corrective action; these are located in the "Audit Findings and Recommendation" section of this report beginning on page 1; and
- instances of noncompliance with applicable laws and regulations that are required to be reported; these are located in the "Audit Findings and Recommendations" section of this report beginning on page 1.

- TABLE OF CONTENTS -

	<u>Pages</u>
AUDIT SUMMARY	
AUDIT FINDINGS AND RECOMMENDATIONS	1-3
SERVICE HIGHLIGHTS	3
FINANCIAL HIGHLIGHTS	4
INDEPENDENT AUDITOR'S REPORT	5-6
FOUNDATION RESPONSE	7-11
FOUNDATION OFFICIALS	12

## **BACKGROUND**

Over the past several years, we highlighted the need for clarification of the relationships between the War Memorial and both the Commonwealth and the Virginia War Memorial Educational Foundation (Educational Foundation). We have also reported on the financial challenges facing the Virginia War Memorial Foundation (War Memorial) including inconsistencies in budgeting, a lack of controls, and a lack of policies and procedures concerning financial management.

As a result, the Educational Foundation, in conjunction with the War Memorial, hired an outside company to help develop and implement a strategic plan. Management expects the strategic plan will address many of the following issues, as well as governance from its board. However, as of the date of this report the War Memorial and the Educational Foundation are finalizing their strategic plan with input from the Department of Veterans Services (Veterans Services). According to the boards for both the War Memorial and the Educational Foundation, strategic planning is expected to take another year with the goal of having any suggested legislative changes in time for the 2012 General Assembly.

In addition to working on the strategic plan, War Memorial will need to address several issues found during the current audit.

## **AUDIT FINDINGS AND RECOMMENDATIONS**

### **Evaluate Coordinating Efforts for Fundraising**

The Commonwealth has three fundraising entities that provide support; the Virginia War Memorial Foundation, the Educational Foundation, and the Veterans Services Foundation. The Veterans Services Foundation raises funds for the Virginia care centers and the Virginia Wounded Warrior Program. The Virginia War Memorial Foundation raises funds to maintain the War Memorial, and the Educational Foundation raises funds for items related to educational programs at the war memorial in Richmond.

While all three foundations have different missions, all three foundations normally seek donations from the same general population and specific groups, which may cause confusion or diffuse the ability of the groups to raise funds. With leadership from the new Secretary of Veterans Affairs and Homeland Security, there is an opportunity for these foundations to evaluate if the foundations would find it mutually beneficial to coordinate their fundraising and marketing efforts.

### **Develop Regulations and Procedures for the New Educational Wing**

The Executive Director of War Memorial has not developed procedures covering the use and charges for the new educational wing of the War Memorial and the Board will need to approve these procedures. In fiscal year 2010, the memorial in Richmond increased in size and functionality with the addition of a \$9.1 million educational wing named “The Paul & Phyllis Galanti Education Center.” This expansion consisted of \$6.5 million in government funding, and \$2 million in private donations. The War Memorial has experienced an increase in the use of the facility because of this expansion. With higher demand for the War Memorial’s space and well-equipped educational rooms, the War Memorial needs to have policies and procedures to govern use, and possible fees, of the facilities by civic groups, schools, political organizations, and other potential users.

Without policies and procedures that address the new wing, the Board is not fulfilling its responsibility to adopt regulations for the use of and visitation to the Memorial as required by the Code of Virginia § 2.2-2706. Additionally, without a fee schedule, the War Memorial will not be able to charge for its usage and recoup any additional expenses.

To comply with the Code of Virginia, the Board should develop and implement comprehensive regulations governing use of the War Memorial, and in return, the War Memorial's Executive Director should develop and implement procedures to execute these regulations in a consistent and fair manner.

### **Improve Controls and Policies for Historical Artifacts**

The War Memorial does not have adequate controls or policies governing its collection of historical artifacts. During our audit, we found the following issues regarding controls and policies surrounding historical artifacts at the memorial in Richmond. The War Memorial will need to work with its fiscal agent, Department of Veterans Services, to address some of these issues.

#### *Segregation of Duties*

The War Memorial's Curator is the sole person responsible for entering and deleting historical artifacts in the fixed asset system, Past Perfect. The Curator is also the sole person responsible for taking inventory and controlling historical artifacts for the War Memorial.

Segregation of duties must exist between persons physically responsible for assets and those recording the assets. Without segregating these duties, the War Memorial limits its ability to hold the Curator accountable for historical artifacts in his control. The War Memorial should work with its fiscal agent, Department of Veterans Services, to ensure the proper controls exist surrounding the recording of historical artifacts.

#### *System Back-up*

The War Memorial maintains a back-up copy of their Past Perfect system and data on-site; however, there is no copy of the system or data kept off-site as a backup. Off-site back-up data is essential for disaster recovery and knowing the extent of losses if there is heavy damage to the memorial and its historical artifacts.

#### *Change Policy or Capitalize Collection*

The War Memorial has not assigned a value to its collection of historical artifacts or adopted the necessary policies needed to exclude them from capitalization requirements. The governmental accounting standards used by the Commonwealth allow agencies not to capitalize their collections if they meet all of the following requirements.

1. The collection is for public exhibition, education, or research in furtherance of public service, rather than financial gain.
2. The organization protects, keeps unencumbered, cares for, and preserves the collection.
3. There is an organizational policy that requires the use of the proceeds from sales of collection items to acquire other items for collections.

While the War Memorial's collection meets the first two requirements, the War Memorial's current policy does not meet the third requirement because it allows the use of funds earned through the sale of historical artifacts for the care of the current collections and not exclusively for acquiring other items for the collection.

## *Collection of Artifacts*

The War Memorial has routinely accepted gifts of various military items from the general public, including such items as uniforms and antique firearms. However, as we reported last year, the War Memorial did not have the required approval of the Governor to accept gifts. On February 10, 2011 the War Memorial received the Governor's approval for recent donations to the War Memorial. However, the Governor did not approve a blanket authorization for all future, unspecified donations.

Instead, the approval instructed the War Memorial that it should submit requests for approval of any future specific donation prior to accepting it from the donor. As of the date of our report, the Board of the War Memorial has not adopted a formal resolution instructing the War Memorial's staff not to accept future donations from the public without the written approval of the Governor as required by Chapter 874, 2010 Acts of Assembly, §4-2.01. Without the Board communicating this expectation, the staff may find it difficult to stop the practice of accepting historical artifacts.

The Board for the War Memorial should evaluate policies related to the sale of historical artifacts to determine if they should institute a policy change in light of the Commonwealth's reporting requirements. Further, the Board should establish policies of accepting historical artifacts as a result of the Governor not granting a blanket authorization for accepting future donations. The Department of Veterans Services should evaluate the War Memorial's current system and process for reporting and controlling historical artifacts and determine if they can ensure that the War Memorial staff maintain a proper segregation of duties and that it can back-up its information off-site for disaster recovery.

## **Determine Which Agency is to Record Capital Assets**

The Department of General Services (General Services) completed construction on the War Memorial expansion during 2010. As part of the construction, General Services purchased assets for War Memorial, which meet the Commonwealth's criteria for capitalization and financial reporting. Neither General Services nor the War Memorial's fiscal agent, Department of Veterans Services, has capitalized these assets. The War Memorial should come to an agreement with General Services as to who has responsibility for recording these assets and their value and useful life for financial reporting.

## **SERVICE HIGHLIGHTS**

War Memorial's Board of Trustees (the Trustees) determines how to honor Virginians for faithful service in time of war, and it oversees all Memorial Foundation activities. The Trustees verify that the 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 War 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 Memorial 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.

## FINANCIAL HIGHLIGHTS

### *Commonwealth Funding*

The War Memorial receives an appropriation from the Commonwealth, which pays the salaries and fringe benefits of the staff. Starting in fiscal 2012 this appropriation will increase to pay for the rent charged by the Department of General Services (General Services) for maintenance and upkeep of the memorial and educational center. From time to time, the Commonwealth supplements this operating appropriation by providing funding for special projects or enhancements to the War Memorial. The War Memorial's appropriation is not set out as a separate item in the Appropriation Act, but included in the funding for historic landmarks and facilities management for the Department of Veterans Services.

### *Other Funding*

In addition to the Commonwealth's funding for the War Memorial, the Virginia War Memorial Educational Foundation solicits donations to fund both War Memorial's operations and the improvement of the War Memorial.

### *Actual and Projected Funding and Expenses*

The War Memorial payroll expenses should remain constant; however, rent and utilities will increase in 2012 because of the new Paul & Phyllis Galanti Education Center. The chart below shows the War Memorial's actual and projected funding sources and expenses for fiscal years 2010 through 2012.

#### Actual and Projected Funding Sources and Expenses for Fiscal Years 2010 – 2012

	<u>2010 Actual</u>	<u>2011 Projected</u>	<u>2012 Projected</u>
<b>Funding sources</b>			
Cash	\$ 41,050	\$ 11,942	\$ -
General Fund appropriations	246,313	391,312	741,312
Other receipts	<u>9,018</u>	<u>-</u>	<u>-</u>
Total funding sources	<u>296,381</u>	<u>403,254</u>	<u>641,312</u>
<b>Expenses</b>			
Payroll	239,518	325,000	325,000
Rent and utilities	-	-	250,000
Miscellaneous expenses	<u>44,921</u>	<u>47,107</u>	<u>47,107</u>
Total Expenses	<u>284,439</u>	<u>372,107</u>	<u>622,107</u>
Ending cash/(deficit)	<u>\$ 11,942</u>	<u>\$ 31,147</u>	<u>\$ 119,205</u>

*Source: 2010 Actual Funding and Expenses: CARS and QuickBooks; 2011 and 2012 Projected Funding Sources: Appropriations Act 874; 2011 and 2012 Projected Expenses Budget provided to the Board on April 20, 2010 but not approved*



# Commonwealth of Virginia

**Walter J. Kucharski, Auditor**

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

March 28, 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 War Memorial Foundation** (War Memorial) for the year ended 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 and QuickBooks, review the adequacy of the War Memorial'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

War Memorial'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.

Board Governance  
Appropriations  
Revenues

Expenses  
Payroll expenses  
Capital assets

We performed audit tests to determine whether War Memorial'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, and records, and observation of War Memorial's operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

### Conclusions

We found that the War Memorial properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System and QuickBooks. War Memorial 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, QuickBooks, and other sources referenced within the report.

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."

The War Memorial 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 April 15, 2011. Management's response to the findings identified in our audit is included in the section titled "Foundation 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

GDS/alh



April 21, 2011

Mr. George D. Strudgeon  
Audit Director  
Auditor of Public Accounts  
101 N. 14<sup>th</sup> Street, 8<sup>th</sup> Floor  
Richmond, VA 23218

Dear Mr. Strudgeon:

The Audit Findings and Recommendations of the Auditor of Public Accounts for the fiscal year 2011 listed below were discussed by your audit team with the Memorial staff on April 15, 2011 at the Virginia War Memorial. The audit team requested the Memorial's staff respond with comments regarding these findings and these responses are shown below in blue. The findings and recommendations are shown in black.

### **AUDIT FINDINGS AND RECOMMENDATIONS**

#### **Evaluate Coordinating Efforts for Fundraising**

The Commonwealth has three fundraising entities that provide support; the Virginia War Memorial Foundation, the Virginia War Memorial Educational Foundation, Inc. and the Veterans Services Foundation. The Veterans Services Foundation raises funds for the Virginia care centers, and the Virginia Wounded Warrior Program. The Virginia War Memorial Foundation raises funds to maintain the War Memorial, and the Educational Foundation raises funds for items related to educational programs at the war memorial in Richmond.

While all three foundations have different missions, all three foundations normally seek donations from the same general population and specific groups, which may cause confusion or diffuse the ability of the groups to raise funds. With leadership from the new Secretary of Veterans Affairs and Homeland Security, there is an opportunity for these foundations to evaluate if the foundations would find it mutually beneficial to coordinate their fundraising and marketing efforts.

The Virginia War Memorial Foundation does not raise funds. The Virginia War Memorial Educational Foundation, Inc. does raise funds for both capital improvements and educational programs at the Memorial to supplement the Virginia War Memorial Foundation's general fund budget.

Coordination between the Educational Foundation and the Veterans Services Foundation may well be desirable and to the benefit of both organizations. However, since both are independent corporations not under the control of the Virginia War Memorial Foundation, it may be irrelevant for the state entity (Virginia War Memorial Foundation) to comment on their operation or methodology.

## **Develop Regulations and Procedures for the New Educational Wing**

The Executive Director of War Memorial has not developed procedures covering the use and charges for the new educational wing of the War Memorial and the Board will need to approve these procedures. In fiscal year 2010, the memorial in Richmond increased in size and functionality with the addition of a \$9.1 million educational wing named "The Paul & Phyllis Galanti Education Center." This expansion consisted of \$6.5 million in government funding, and \$2 million in private donations. The War Memorial has experienced an increase in the use of the facility because of this expansion. With higher demand for the War Memorial's space and well-equipped educational rooms, the War Memorial needs to have policies and procedures to govern use, and possible fees, for the facilities by civic groups, schools, political organizations, and other potential users.

Without policies and procedures that address the new wing, the Board is not fulfilling its responsibility to adopt regulations for the use and visitation to the Memorial as required by the Code of Virginia § 2.2-2706. Additionally, without a fee schedule, the War Memorial will not be able to charge for its usage and recoup any additional expenses.

To comply with the Code of Virginia, the Board should develop and implement comprehensive regulations governing use of the War Memorial, and in return, the War Memorial's Executive Director should develop and implement procedures to execute these regulations in a consistent and fair manner.

The Memorial is evaluating information received from other similar state organizations and will be developing policies for the Paul and Phyllis Galanti Education Center.

## **Improve Controls and Policies for Historical Artifacts**

The War Memorial does not have adequate controls or policies governing its collection of historical artifacts. During our audit, we found the following issues regarding controls and policies surrounding historical artifacts at the memorial in Richmond. The War Memorial will need to work with its fiscal agent, Department of Veterans Services, to address some of these issues.

### *Segregation of Duties*

The War Memorial's Curator is the sole person responsible for entering and deleting historical artifacts in the fixed asset system, Past Perfect. The Curator is also the sole person responsible for taking inventory and controlling historical artifacts for the War Memorial.

Segregation of duties must exist between persons physically responsible for assets and those recording the assets. Without segregating these duties, the War Memorial limits its ability to hold the Curator accountable for historical artifacts in his control. The War Memorial should work with its fiscal agent, Department of Veterans Services, to ensure the proper controls exist surrounding the recording of historical artifacts.

During this audit period, the Memorial had three employees: one Curator, one Educational Specialist, and the Director. The Educational Specialist is a wage employee (part-time) and is not always in the Memorial offices and the Director is frequently out of the office attending and speaking to various veterans service organization meetings, civic clubs, and other

groups to market the Memorial. While the Memorial recognizes that segregation of duties is preferred, it would welcome guidance from the Auditor of Public Accounts regarding how to segregate duties in a work area with only one employee.

#### *System Back-up*

The War Memorial maintains a back-up copy of their Past Perfect system and data on-site; however, there is no copy of the system or data kept off-site as a backup. Off-site back-up data is essential for disaster recovery and knowing the extent of losses if there is heavy damage to the memorial and its historical artifacts.

Agreed, the Curator has been instructed to keep a copy of the Memorial's artifact collection records off-site.

#### *Change Policy or Capitalize Collection*

The War Memorial has not assigned a value to its collection of historical artifacts or adopted the necessary policies needed to exclude them from capitalization requirements. The governmental accounting standards used by the Commonwealth allow agencies not to capitalize their collections if they meet all of the following requirements.

1. The collection is for public exhibition, education, or research in furtherance of public service, rather than financial gain.
2. The organization protects, keeps unencumbered, cares for, and preserves the collection.
3. There is an organizational policy that requires the use of the proceeds from sales of collection items to acquire other items for collections.

While the War Memorial's collection meets the first two requirements, the War Memorial's current policy does not meet the third requirement because it allows the use of funds earned through the sale of historical artifacts for the care of the current collections and not exclusively for acquiring other items for the collection.

The Curator and Director will request that the Board of Trustees, at its next meeting, approve a change of the current policy to reflect this recommendation.

#### *Collection of Artifacts*

The War Memorial has routinely accepted gifts of various military items from the general public, including such items as uniforms and antique firearms. However, as we reported last year, the War Memorial did not have the required approval of the Governor to accept gifts. On February 10, 2011 the War Memorial received the Governor's approval for recent donations to the War Memorial. However, the Governor did not approve a blanket authorization for all future, unspecified donations.

Instead, the approval instructed the War Memorial that it should submit requests for approval of any future specific donation prior to accepting it from the donor. As of the date of our report, the Board of the War Memorial has not adopted a formal resolution instructing the War Memorial's staff not to accept future donations from the public without the written approval of the Governor as required by Chapter 874, 2010 Acts of Assembly, §4-2.01. Without the Board communicating this expectation, the staff may find it difficult to stop the practice of accepting historical artifacts.

The Board for the War Memorial should evaluate policies related to the sale of historical artifacts to determine if they should institute a policy change in light of the Commonwealth's reporting requirements. Further, the Board should establish policies of accepting historical artifacts as a result of the Governor not granting a blanket authorization for accepting future donations. The Department of Veterans Services should evaluate the War Memorial's current system and process for reporting and controlling historical artifacts and determine if they can ensure that the War Memorial staff maintain a proper segregation of duties and that it can back-up its information off-site for disaster recovery.

The Board of Trustees will have the recommendation of staff to change the policy regarding use of funds from any sale of artifacts to comply with the Commonwealth's reporting requirements at its next meeting.

The Board's counsel in the office of the Attorney General is reviewing the recommendation that the Board of Trustees establish a policy describing how the Memorial accepts historical artifacts. A report is expected at the next Board of Trustees meeting.

Since this report was issued, the Governor has approved the Memorial's request to accept a donation of miniature military figures for educational display regarding historical military tactics.

### **Determine Which Agency is to Record Capital Assets**

Department of General Services (General Services) completed construction on the War Memorial expansion during 2010. As part of the construction, General Services purchased assets for War Memorial, which meet the Commonwealth's criteria for capitalization and financial reporting. Neither General Services nor the War Memorial's fiscal agent, Department of Veterans Services, has capitalized these assets. The War Memorial should come to an agreement with General Services as to who has responsibility for recording these assets and their value and useful life for financial reporting.

The Virginia War Memorial staff has requested that the Department of Veterans Services meet with staff and complete any required financial reporting.

### **SERVICE HIGHLIGHTS**

War Memorial's Board of Trustees (the Trustees) determines how to honor Virginians for faithful service in time of war, and it oversees all Memorial Foundation activities. The Trustees verify that the 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 War 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 Memorial 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.

Sincerely yours,

A handwritten signature in blue ink, appearing to read "Jon C. Hatfield", is written over the typed name and title.

Jon C. Hatfield  
Executive Director

VIRGINIA WAR MEMORIAL FOUNDATION

DEPARTMENT OFFICIALS

Jon Hatfield  
Executive Director

BOARD OF TRUSTEES

The Honorable John M. O'Bannon, III  
Chairman

The Honorable John S. Edwards  
Vice Chairman

The Honorable William K. Barlow

Mr. Dale D. Chapman

The Honorable Marla Graff Decker

Commander Paul E. Galanti, USN (Ret.)

The Honorable Thomas A. "Tag" Greason

The Honorable Frank D. Hargrove, Sr.

The Honorable John Harper, Jr.

Rear Admiral John Hekman, USN (Ret.)

The Honorable Mark R. Herring

Brigadier General Bert Wellington Holmes, Jr., M.D.

The Honorable William R. Janis

Lieutenant Commander F. Caroline Lane, USN (Ret.)

The Honorable L. Scott Lingamfelter

Rear Admiral John L. Marocchi, USN (Ret.)

The Honorable Paula J. Miller

The Honorable Ralph S. Northam

The Honorable Ralph K. Smith

Mr. Scott Taylor

Brigadier General Wilma L. Vaught, USAF (Ret.)

Colonel Sam Wilder, Jr., USA (Ret.)