



VIRGINIA COMMISSION FOR THE ARTS

INTERNAL CONTROL QUESTIONNAIRE

REVIEW RESULTS

AS OF SEPTEMBER 2025

Auditor of Public Accounts
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Auditor of Public Accounts

P.O. Box 1295
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November 21, 2025

The Honorable Glenn Youngkin
Governor of Virginia

Joint Legislative Audit
and Review Commission

Colleen Dugan Messick
Executive Director, Virginia Commission for the Arts

INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS

We have reviewed the Internal Control Questionnaire for the **Virginia Commission for the Arts** (Commission). We completed the review on September 8, 2025. The purpose of this review was to evaluate if the agency has developed adequate internal controls over significant organizational areas and activities and not to express an opinion on the effectiveness of internal controls. Management of the Commission is responsible for establishing and maintaining an effective control environment.

The Auditor of Public Accounts has developed a process for auditing agencies that are not required to have an audit every year, which we refer to as “cycled agencies.” Traditionally, we audit these agencies at least once every three years. We now employ a risk-based approach to auditing the cycled agencies. Under this approach, we perform an annual risk analysis for cycled agencies considering certain criteria and divide the agencies into two pools. One pool will receive an annual audit, and the other pool will be subject to a review of internal controls in the form of a questionnaire. This letter is to communicate the results of the Internal Control Questionnaire review.

Review Process

During the review, the agency completes an Internal Control Questionnaire that covers significant organizational areas and activities including payroll and human resources; revenues and expenses; procurement and contract management; capital assets; grants management; debt; and information technology and security. The questionnaire focuses on key controls over these areas and activities.

We review the agency responses and supporting documentation to determine the nature, timing, and extent of additional procedures. The nature, timing, and extent of the procedures selected depend on our judgment in assessing the likelihood that the controls may fail to prevent and/or detect events that could prevent the achievement of the control objectives. The procedures performed target risks or business functions deemed significant and involve reviewing internal policies and procedures. Depending on the results of our initial procedures, we may perform additional procedures including reviewing evidence to ascertain that select transactions are executed in accordance with the policies and procedures and conducting inquiries with management. The “Review Procedures” section below details the procedures performed for the Commission. The results of this review will be included within our risk analysis process for the upcoming year in determining which agencies we will audit.

Review Procedures

We evaluated the agency’s corrective action for all prior review findings. The agency has taken adequate corrective action with respect to review findings reported in the prior review that are not repeated in the “Review Results” section below.

We reviewed a selection of system and transaction reconciliations in order to gain assurance that the statewide accounting system contains accurate data. The definitive source for internal control in the Commonwealth is the Agency Risk Management and Internal Control Standards (ARMICS) issued by the Department of Accounts (Accounts); therefore, we also included a review of ARMICS. The level of ARMICS review performed was based on judgment and the risk assessment for the Commission. Further, we evaluated the Commission’s process of completing and submitting attachments to Accounts.

We reviewed the Internal Control Questionnaire and supporting documentation detailing policies and procedures. As a result of our review, we performed additional procedures over the following areas: expenses; contract management; capital assets; grants management; and information technology and security. These procedures included validating the existence of certain transactions; observing controls to determine if the controls are effectively designed and implemented; reviewing transactions for compliance with internal and Commonwealth policies and procedures; and conducting further review over management’s risk assessment process.

As a result of these procedures, we noted areas that require management’s attention. These areas are detailed in the “Review Results” section below.

Review Results

We noted the following areas requiring management’s attention resulting from our review:

- **Repeat (First Reported in 2015)** – The Commission did not properly monitor the spending of funds from the Virginia Arts Foundation Fund (Fund). The general interpretation of the Code of Virginia allows the Commission to spend from the Fund’s interest but prohibits spending from the Fund’s principal. The Commission currently does not have a process to ensure it

only spends interest funds. The Commission should continue to evaluate the intent of the Fund and develop a process to track expenses to ensure spending aligns with the intent. The Commission should work with the General Assembly and the Department of Planning and Budget to review the language in the Code of Virginia to ensure it is appropriate and relevant given the nature of the Commission and the Fund's activities.

- **Repeat (First Reported in 2019)** – The Commission did not meet the minimum requirements for ARMICS set by Accounts' and Commonwealth Accounting Policies and Procedures (CAPP) Manual Topic 10305. Specifically, the Commission did not document and assess all key elements of the control environment. The Commission did not assess specific agency level control activities applicable to all significant fiscal processes, accounting administration, and information systems. The Commission did not document and assess significant transaction level control activities applicable to all significant processes. In addition, the Commission did not document consideration of the risk of fraud at the agency level or transaction level. The Commission should document compliance with all minimum requirements of ARMICS.
- **Partial Repeat (First Reported in 2019)** – The Commission did not properly communicate all federal grant award information to subrecipients as required by the Code of Federal Regulations, 2 C.F.R § 200.332. For two of three subaward letters reviewed, the Commission did not properly communicate the Assistance Listing Number and federal program name to the subrecipients. The Commission should communicate all required federal grant award information to subrecipients.
- **Partial Repeat (First Reported in 2019)** – The Commission did not properly review all the necessary reports to support reconciliations between the Commonwealth's human resources system and retirement benefits system. Specifically, management does not have documentation over the review of the Commonwealth's human resource system Cancelled Records Report. The Commission should update policies and procedures for this area and document the review of all required reconciliation reports detailed within CAPP Manual Topic 50470.
- The Commission did not properly monitor subrecipient activity to ensure subrecipients spent grant funds appropriately. The Commission received final reports from subrecipients; however, for one of the three subrecipients reviewed, the report did not contain necessary information to ensure the subrecipient spent the grant funds appropriately. The Commission should ensure the final reports submitted by subrecipients include sufficient information to determine if the subrecipient spent the funds appropriately.
- The Commission did not maintain a contract listing with all required elements. To ensure proper contract administration practices, the Agency Procurement and Surplus Property Manual states that agencies should assemble and maintain a master listing of all contracts to include the initial period and number of renewals. As a best practice, the contract listing should also include vendor name, contract description, procurement type, contract number, yearly spend amount, contract officer, and contract administrator. Failure to maintain a

master listing of contracts increases the risk of contract management and administration issues and it can also hinder the planning of renewal or rebidding actions. The Commission should maintain a master listing of all contracts which contains information relevant to the nature of the contract.

- The Commission did not perform a complete physical inventory over capital assets within the past two years as required by CAPP Manual Topic 30505. The date of the last physical inventory was unknown prior to the inventory the Commission was performing at the time of our review. Additionally, the Commission does not have appropriate segregation of duties between those responsible for maintaining, counting, and recording inventory. Due to the lack of physical inventory and communication of the status of assets, the asset listing in the Commonwealth's capital asset system was inaccurate. The Commission should perform a physical asset inventory count at least once every two years to ensure proper safeguarding of assets and ensure the accuracy of the Commonwealth's capital asset system data. In addition, the Commission should ensure it has proper segregation of duties between those responsible for maintaining, counting, and recording inventory.
- The Commission is not properly identifying and accounting for subscription-based information technology arrangements (SBITA) in accordance with Governmental Accounting Standards Board (GASB) Statement No. 96. The Commission has a memorandum of understanding (MOU) with Accounts to assist in recording SBITAs in the lease accounting system. As part of the MOU, the Commission is responsible for providing SBITA-related information such as identifying potential SBITAs and the SBITA interest rate to Accounts for recording in the system. The Commission did not properly evaluate all contracts to identify all potential SBITAs in accordance with GASB Statement No. 96 and the MOU with Accounts. In addition, the Commission did not follow the correct procedure for determining the correct interest rate to provide Accounts. CAPP Manual Topic 31200, which references GASB Statement No. 96 for SBITAs, requires agencies to determine and record the necessary accounting information in the Commonwealth's lease system based on the contract to ensure proper classification of long-term and short-term SBITAs; and to evaluate explicit, implicit, and incremental borrowing rates before defaulting to the prime rate for a reasonable and accurate interest rate. Management should develop and implement a process to accurately identify SBITAs and provide all relevant SBITA information to Accounts to properly record and classify SBITAs in the lease accounting system.
- The Commission is not properly identifying and accounting for leases in accordance with GASB Statement No. 87. The Commission has an MOU with Accounts to assist with recording leases in the lease accounting system. As part of the MOU, the Commission is responsible for providing lease-related information such as identifying potential leases, lease interest rate, and potential lease asset grouping to Accounts for recording in the system. The Commission did not properly evaluate all contracts to identify all potential leases in accordance with GASB Statement No. 87 and the MOU with Accounts. The Commission also did not consider the potential for grouping leased assets with the same contracted vendor, lease term, and interest rate. In addition, the Commission did not follow the correct procedure for

determining the interest rate to provide Accounts. CAPP Manual Topic 31200, which references GASB Statement No. 87 for leases, requires agencies to properly identify leases and group leases for recording in the lease accounting system to ensure proper classification of long-term and short-term leases; and to evaluate explicit, implicit, and incremental borrowing rates before resorting to using the prime rate for a reasonable and accurate interest rate. Management should develop and implement a process to accurately identify leases and provide all relevant lease information to Accounts to properly record and classify leases in the lease accounting system.

- The Commission did not perform an analysis of potential aggregated assets in accordance with GASB Implementation Guide 2021-1 Question 5.1, Accounts guidance email, and CAPP Manual Topics Section 30000. The Commission should obtain an understanding of the relevant guidance, develop a process for evaluating aggregated assets, perform an analysis to determine aggregated assets, and record the capitalizable aggregated assets in the Commonwealth's capital asset system.
- The Commission did not perform an annual system access review of its information systems as required by the Commonwealth's Information Security Standard (Security Standard), SEC530. The Commission should annually review and document all users' access to ensure network and applications access is reasonable and properly approved.
- The Commission's Disaster Recovery Plan (DRP) did not include adequate documentation including all required elements. The Security Standard requires agencies to periodically review, reassess, test, and revise the DRP to reflect changes in mission essential functions, services, information technology system hardware and software, and personnel. The Commission should update and test the DRP to ensure compliance with the Security Standard.
- The Commission has formal, documented policies and procedures over some of its significant business processes. However, during our review, we identified several critical business areas where the Commission should develop or improve policies and procedures to maintain an effective control environment. Topic 20905 and other sections of the CAPP Manual require each agency to publish its own policies and procedures documents, approved in writing by agency management. Management should ensure detailed policies and procedures exist for all critical business areas. In addition, management should develop a process to review and approve all policies and procedures either annually or as needed and retain documentation of the process.
- The Commission outsources multiple controls to other agencies such as Accounts, Payroll Service Bureau, and Department of Human Resource Management; however, there are significant controls and review and approval processes that the Commission must perform. Even though the Commission outsources some significant controls, it is responsible for ensuring the information is accurate and reasonable. We noted a lack of documentation of the Commission's oversight for several areas that the Commission outsources such as review

of financial and payroll reconciliations and processing. The Commission should ensure staff have a proper understanding of outsourced areas and that adequate controls are in place to satisfy the Commission’s responsibilities in the agreements with third-party providers.

We discussed these matters with management on October 15, 2025. Management’s response to the findings identified in our review is included in the section titled “Agency Response.” We did not validate management’s response and, accordingly, cannot take a position on whether it adequately addresses the issues in 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.

Sincerely,

Staci A. Henshaw
AUDITOR OF PUBLIC ACCOUNTS

JDE/clj



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EXECUTIVE DIRECTOR
COLLEEN DUGAN MESSICK

December 15, 2025

Ms. Staci Henshaw
Auditor of Public Accounts
PO Box 1295
Richmond, VA 23218

Dear Ms. Henshaw:

Thank you for the opportunity to comment on the Auditor of Public Accounts FY24 Internal Control Questionnaire results letter. The Virginia Commission for the Arts (VCA) very much appreciated the efforts and professionalism of your staff during the review process. It was very informative.

The VCA has already made progress on several areas of concern which were noted in the letter. We fully expect to have all the concerns fully addressed within the next two years. Thank you for your time and attention.

Sincerely,

Colleen Dugan Messick