



# VIRGINIA COMMISSION FOR THE ARTS

## REPORT ON AUDIT

### FOR THE PERIOD

JULY 1, 2012 THROUGH JUNE 30, 2015

Auditor of Public Accounts

Martha S. Mavredes, CPA

[www.apa.virginia.gov](http://www.apa.virginia.gov)

(804) 225-3350



## AUDIT SUMMARY

Our audit of the Virginia Commission for the Arts (Commission) for the period July 1, 2012, through June 30, 2015, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System and Cardinal;
- no matters involving internal control and its operation necessary to bring to management's attention;
- no instances of noncompliance with applicable laws and regulations or other matters that are required to be reported; and
- adequate corrective action with respect to the audit finding reported in the prior report.

Our report includes a recommendation that the Commission work with the Department of Planning and Budget (Planning and Budget), as well as the General Assembly if appropriate, to review the Virginia Arts Foundation Fund. This special non-reverting fund was established at the same time as the Virginia Arts Foundation, an advisory foundation to the Commission. The Commission and Planning and Budget need to evaluate the Foundation's and the Fund's purpose to ensure the intent of the original legislation is being met as well as the expectations of citizens who are contributing to it.

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## COMMENT TO MANAGEMENT

*A Comment to Management is an issue that came to our attention during the course of the audit that we want to bring to management's attention for their consideration. This issue is not considered to be an internal control weakness or a compliance finding for the agency.*

### **Evaluate the Intent of the Virginia Arts Foundation Fund**

The Virginia Arts Foundation Fund (Fund) was established in 1997 through legislation that also established the Virginia Arts Foundation (Foundation). The Foundation was established as an advisory foundation to the Commission, and the Foundation's board is made up of the 13 members of the Commission who are appointed by the Governor. The Foundation's primary purpose is to oversee and administer the Fund.

The Fund was set up as a special non-reverting trust fund to promote the arts in the Commonwealth. The Fund was established to include income tax refund checkoff funds, revenues from specialty license plate sales and any private gifts or donations (e.g. money, securities or property). The Code of Virginia allows the Foundation to make expenditures from the Fund's interest and income, but prohibits expenditure from the Fund's principal.

Since the Fund's inception, the general understanding of the Code of Virginia requirements has been that only interest earned by the Fund is subject to expenditure. As a result, funds collected from income tax refund checkoffs and specialty license plate sales have not been available to the Foundation to spend and have continued to accumulate in the Fund. Additionally, statewide budget restrictions in place over non-general funds have prohibited the Fund from earning any interest since fiscal year 2011.

During our audit, we analyzed the financial activity in this Fund given the cash balance had grown close to \$1 million as of June 30, 2015. We expanded our initial analysis and reviewed activity since the Fund's inception in 1997. The Fund's cash balance has continued to accumulate over time as revenues have been collected, primarily for license plate fees and income tax refund checkoff contributions, and there have been minimal expenses.

Based on the results of the analysis and given Planning and Budget's understanding of the Fund's requirements, it does appear that there are funds available to the Foundation to spend should they choose to do so. As shown in the summary in Table 1, Interest earned to date in the Fund is \$120,145 with expenses of \$23,203, which leaves a balance of \$96,942 which should be available to the Foundation. The available balance was brought to the attention of Commission management and Planning and Budget staff during the course of the audit.

**Summary of Financial Activity  
Virginia Arts Foundation Fund  
Fiscal Years 1998-2015**

Table 1

Beginning balance, July 1, 1997	\$ -
Funds collected:	
Income tax refund checkoff contributions	465,774
Specialty license plate fees	428,945
Interest earned	120,145
Private donations and gifts	125
Transfer in	<u>1,242</u>
Total funds collected	1,016,231
Funds spent:	
Expenses approved by the Foundation	<u>( 23,203)</u>
Cash balance at June 30, 2015	<u>\$ 993,028</u>

*Source: Commonwealth Accounting and Reporting System and Planning and Budget*

There are some other issues that Commission management and Planning and Budget should consider in relation to this Fund and the Foundation. The language in the Code of Virginia establishing the Fund and the Foundation should be reviewed to ensure it is appropriate given the nature of the Fund's activities. This review should include certain terms used in the requirements, such as "principal" and "income" so it is clear what these terms mean. The original language appears to address a situation similar to a college endowment fund; however, as this Fund has evolved, the financial activity to date is not consistent with a typical endowment fund.

Additional consideration should be given to whether or not the current administration of this Fund would meet the reasonable expectations of the citizens who are contributing to it. To date, the majority of monies collected by the Fund are coming from citizens who are voluntarily contributing money to supports the arts in the Commonwealth, either through a tax refund checkoff or the purchase of specialty license plates. Currently, these funds are not available for the Foundation to spend, but instead are accumulating in the Fund. These contributions have also not earned interest since 2011, and so no additional monies are available for spending beyond the interest collected in the earlier years. Undoubtedly, the expectations of the citizens who are making these voluntary contributions to support the arts are that the money is being used and not sitting stagnant.

Commission management, Planning and Budget and the General Assembly, if appropriate, should review the Code of Virginia requirements and intent of this Fund to ensure it is meeting its original intent as well as the expectation of the citizens.

## COMMISSION HIGHLIGHTS

The Commission provides financial assistance for arts activities and advisory services to artists, arts organizations, and others interested in the arts. The Governor appoints the Director and thirteen commissioners, who have five-year appointments with confirmation by the General Assembly. There must be at least one Commissioner, and no more than two from each congressional district. The Commissioners meet quarterly to review and approve the grants awarded by the Commission and serve as advisors to the Director.

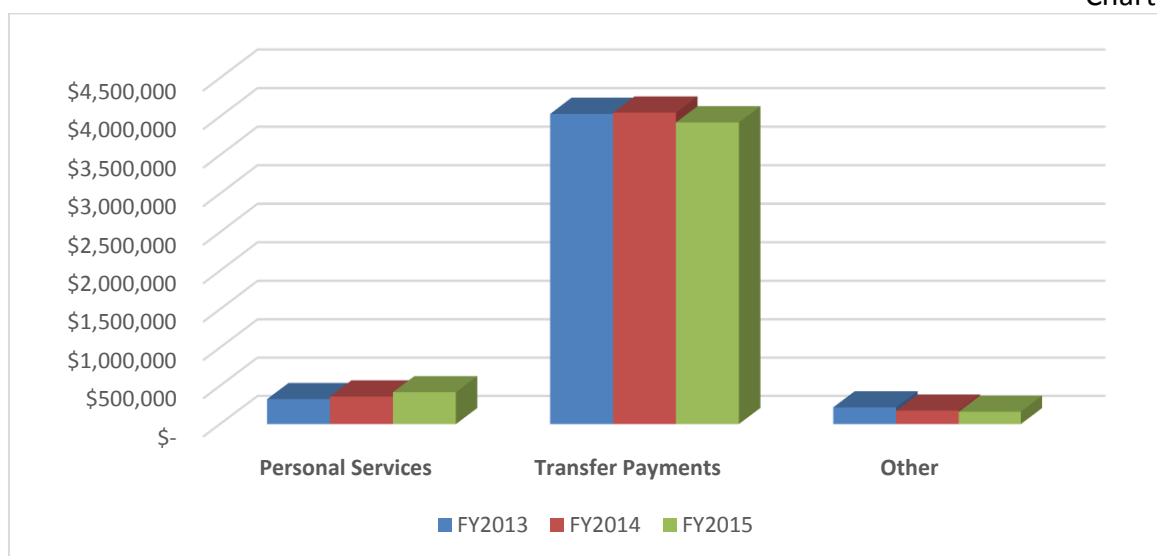
The Commission has a staff of five people who process and review grant applications, and monitor the organizations and artists that receive awards. The staff also provides a variety of workshops to arts organizations and artists.

Seven regional and two statewide advisory panels help the Commission make decisions on grant applications. The panelists also evaluate activities funded by the Commission and make recommendations regarding the grant review process. Each panel consists of seven to nine members appointed by the Commission. The panelists represent a variety of arts disciplines and cultural perspectives, and serve a one-year term with the opportunity to serve a maximum of three years.

The Commission's primary funding source is General Fund appropriations which remained fairly consistent over the three year period although funding available for art organization grants decreased in fiscal year 2015. The Commission also receives funds from license plate fees and tax refund checkoff donations as discussed in the "Comment to Management" section, and they receive an annual grant from the National Endowment for the Arts. The majority of the Commission's funding goes toward grants which are shown in Chart 1 as "Transfer Payments."

**Commission Expenses**  
**Fiscal Years 2013 through 2015**

Chart 1



Source: Commonwealth Accounting and Reporting System



Martha S. Mavredes, CPA  
Auditor of Public Accounts

# Commonwealth of Virginia

*Auditor of Public Accounts*

P.O. Box 1295  
Richmond, Virginia 23218

March 23, 2016

The Honorable Terence R. McAuliffe  
Governor of Virginia

The Honorable Robert D. Orrock, Sr.  
Vice-Chairman, Joint Legislative Audit  
and Review Commission

We have audited the financial records and operations of the **Virginia Commission for the Arts** for the period July 1, 2012, through June 30, 2015. 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 Cardinal, review the adequacy of the Commission's internal controls, test compliance with applicable laws, regulations, contracts, and grant agreements, and review corrective action of the audit finding from the prior year reports. The Commission transitioned to using Cardinal, the Commonwealth's new accounting and financial reporting system, on October 1, 2014.

## **Audit Scope and Methodology**

The Commission'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.

Revenue and appropriations  
Grant awards  
Payroll and related expenses  
Small purchase charge card  
eVA Procurement System

We performed audit tests to determine whether the Commission'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 the Commission's operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

### **Conclusions**

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

We noted no matters involving internal control and its operation that we consider necessary to be reported to management. The results of our tests of compliance with applicable laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Commission has taken adequate corrective action with respect to the audit finding reported in the prior report that is not repeated in this letter.

### **Exit Conference and Report Distribution**

We discussed this report with management on April 18, 2016.

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

LCW/alh



## COMMISSION OFFICIALS

(as of June 30, 2015)

Margaret Vanderhye, Executive Director

Mackenzie Byrne, Deputy Director

## COMMISSIONERS

Charles G. Ellis, Commission Chair

Sharron Kitchen Miller, Commission Vice-Chair

Shelley Kruger Weisberg, Commission Secretary

Faye Bailey

Robert Behr

Dorothy S. Blackwell

Lorita Copeland Daniels

Jay H. Dick

Ronald Fabin

Jo Hodgins

Wanda Judd

John V. Rainero

Grace Han Wolf