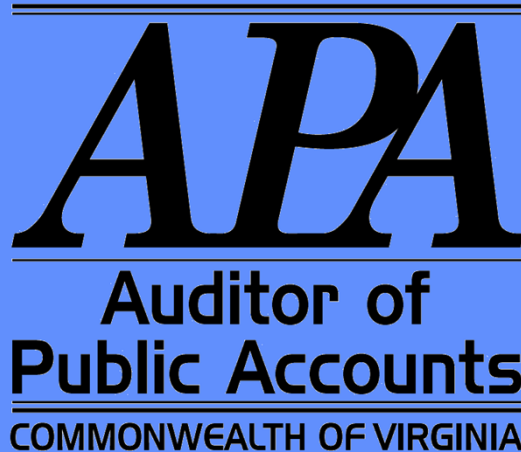


VIRGINIA MUSEUM OF FINE ARTS

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



AUDIT SUMMARY

Our audit of the Virginia Museum of Fine Arts, for the period July 1, 2007 through June 30, 2010, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- one matter involving internal control and its operations necessary to bring to management's attention; and
- no instances of noncompliance with applicable laws and regulations or other matters that are required to be reported.

- TABLE OF CONTENTS -

	<u>Pages</u>
AUDIT SUMMARY	
INTERNAL CONTROL FINDING AND RECOMMENDATION	1
MUSEUM BACKGROUND	2
<i>Financial Information on Operations</i>	2-4
<i>Financial Information on Capital Projects</i>	4-5
<i>Factors Affecting Fiscal Year 2011 and Beyond</i>	5
INDEPENDENT AUDITOR'S REPORT	6-7
MUSEUM RESPONSE	8
MUSEUM OFFICIALS	9

INTERNAL CONTROL FINDING AND RECOMMENDATION

Improve Internal Controls over Small Purchase Charge Cards

Museum management needs to improve procedures for granting access to and monitoring small purchase charge cards. There are 68 Museum employees with small purchase charge cards, and fiscal year 2010 expenses for these cards were almost \$1.5 million. Given the size of the Museum staff, this is a significant number of employees who have access to charge cards. Of these employees, 48 individuals averaged less than four transactions a month using their charge card in fiscal year 2010.

Museum management should review who currently have charge cards to ensure only individuals who need them for their job responsibilities have cards. Based on this review, management should revoke the charge cards for any individuals who do not need charge card access to perform their job duties. In addition, management should review their procedures for granting access to charge cards to ensure these procedures adequately evaluate the need for a charge card in the future.

MUSEUM BACKGROUND

The Virginia Museum of Fine Arts (Museum) serves to collect, preserve, exhibit, and interpret art and encourage the study of the arts. The Museum features permanent collections and original masterworks of art spanning more than 5,000 years from six continents. Special temporary exhibits also present views of art from all over the world. The performances featured by the Museum provide a full range of concerts, films, theater and dance from classical to contemporary.

The Museum receives a significant amount of financial support from the Virginia Museum of Fine Arts Foundation (Foundation). The Foundation is a nonprofit corporation set up to implement and fund programs and projects authorized by the Museum's Board of Trustees. The Foundation formed a nonstock corporation, the Virginia Museum Real Estate Foundation, for the purpose of managing property for the benefit of the Museum.

The Museum began a major expansion and renovation project in 2002 and had substantially completed this project in fiscal year 2010. The Museum closed to visitors from July 2009 through May 2010, during the final phases of the expansion construction. During that time, the Museum reassigned key museum staff to other open positions and laid off the remaining staff members. On May 1, 2010, the Museum reopened for business with an expansion of 165,000 square feet to the existing building, a new parking deck and a three and a half acre sculpture garden.

Financial Information on Operations

The Museum receives a combination of General fund appropriations and various non-general monies to fund operations. The non-general funds include financial support from the Foundation, membership dues, and admission for special exhibits and events.

The following table shows operating expenses broken down by funding source for fiscal year 2008 through 2010.

Operating Expenses by Funding Source

Funding Source	2008	2009	2010
General fund appropriations	\$ 9,432,083	\$ 8,704,663	\$ 9,799,061
Special revenue (admissions and membership revenue)	917,369	839,605	1,305,416
Dedicated special revenue (foundation support)	5,823,556	6,171,583	7,482,272
Federal grants and contracts	-	73,825	-
Total operating expenses	\$16,173,008	\$15,789,676	\$18,586,749

The Museum uses General fund appropriations to cover payroll expenses, which are the most significant operating cost for the Museum. These costs make up about 2/3 of total operating costs. General fund appropriations fluctuated during the period due to statewide budget reductions. The Museum's General fund appropriation decreased in 2009 due to these reductions. In an effort to

absorb the reduction, the Museum reduced discretionary spending, did not fill vacant positions and used other fund sources for some expenses. While the Museum also experienced statewide budget reductions in 2010, there was a restoration of some of the General fund appropriations to provide additional funds and positions for staff and operating costs of the new expansion.

All operating costs, other than payroll costs, of the Museums must come from the additional funding generated by admissions and other sources. These special revenues are critical to the long-term operations of the museums especially in times of reduced general fund support. The following tables show budget to actual operating expenses for each year by funding source.

Budget and Actual Operating Expenses by Funding Source – Fiscal Year 2008

Funding Source	Original Budget	Final Budget	Expenses
General fund appropriations	\$ 9,093,369	\$ 9,435,009	\$ 9,432,083
Special revenue (admissions and membership revenue)	1,423,500	1,423,500	917,369
Dedicated special revenue (foundation support)	7,584,209	7,584,209	5,823,556
Federal grants and contracts	100,000	100,000	-
Total operating expenses	\$18,201,078	\$18,542,718	\$16,173,008

Budget and Actual Operating Expenses by Funding Source – Fiscal Year 2009

Funding Source	Original Budget	Final Budget	Expenses
General fund appropriations	\$10,399,766	\$ 8,704,663	\$ 8,704,663
Special revenue (admissions and membership revenue)	1,717,500	1,717,500	839,605
Dedicated special revenue (foundation support)	8,348,570	8,917,070	6,171,583
Federal grants and contracts	100,000	100,000	73,825
Total operating expenses	\$20,565,836	\$19,439,233	\$15,789,676

Budget and Actual Operating Expenses by Funding Source – Fiscal Year 2010

Funding Source	Original Budget	Final Budget	Expenses
General fund appropriations	\$11,252,169	\$ 9,799,061	\$ 9,799,061
Special revenue (admissions and membership revenue)	1,717,500	2,243,538	1,305,416
Dedicated special revenue (foundation support)	9,000,030	9,501,432	7,482,272
Federal grants and contracts	100,000	100,000	-
Total operating expenses	\$22,069,699	\$21,644,031	\$18,586,749

Overall, the Museum did maintain their commitment to obtain 30 percent of operating costs from non-general fund sources as they have consistently in the past. Although operating expenses funded with non-general funds have increased overall, they have still been less than budgeted. At the beginning of a year, the Museum estimates the amount of Foundation support needed for operations; however, the Museum only requests as much support as they need for expenses. In each of the years above, the Museum did not need as much Foundation support for operations as anticipated.

In addition, the Museum set their fiscal year 2010 budgets with the assumption they would close for six or seven months and reopen in early calendar year 2010. There were some delays in the expansion project and the Museum remained closed for ten months and did not reopen until May 2010. As a result, actual expenses were less than budgeted for the year.

Financial Information on Capital Projects

The Museum has had several significant capital projects ongoing during this period. The financing for these projects came from various sources including General fund appropriations, Foundation support, and bond funds. The table below shows total capital project expenses for fiscal years 2008 through 2010 by funding source.

Capital Expenses by Funding Source

Funding Source	2008	2009	2010
General fund appropriations	\$ 2,647,838	\$ 1,604,855	\$ 940,259
Special revenue – Foundation support	15,123,542	24,294,214	26,735,618
General Obligation (9B) Bond Funds	3,581,063	12,104,043	580,375
VPBA Bond Funds	657,597	4,327,977	7,189,539
Federal grants and contracts	148,500	-	852,355
Total capital projects expenses	\$22,158,540	\$42,331,089	\$36,298,146

Most of the expenses shown above relate to a major expansion project that started several years ago. The Museum expansion includes a 165,000 square feet expansion, a new parking deck, and sculpture garden. The table below shows capital project expenses over the life of this project by funding source. Approximately \$116 million of the total cost below is for the expansion and sculpture garden, while \$15 million is for the parking deck.

Summary of Expenses for Museum Expansion Project by Funding Source

	General Fund appropriations	Foundation Support	Federal Grants	Bond Funding	Total
Prior to 2004	\$251,421	\$981,676	-	\$2,211,007	\$3,444,104
2004	95	1,559,450	-	2,217,071	3,776,616
2005	-	692,773	-	2,694,732	3,387,505
2006	1,500,000	185,136	-	9,332,056	11,017,192
2007	-	12,577,884	-	7,611,476	20,189,360
2008	1,978,591	15,096,941	148,500	3,634,133	20,858,165
2009	10,991	24,295,821	-	12,104,043	36,410,855
2010	-	26,616,065	852,355	4,874,793	32,343,213
Total	\$3,741,098	\$82,005,746	\$1,000,855	\$44,679,311	\$131,427,010

The bond funding included in the table is a combination of General Obligation bonds as well as bonds issued through the Virginia Public Building Authority (VPBA). The Foundation support included in the table also includes some bond funding. The Foundation issued \$50 million in revenue bonds in two separate bond issues (2005 and 2008) through the Virginia Small Business Financing Authority to help finance the expansion project. The 2005 and 2008 bonds are due and payable in full in 2035 and 2038, respectively. The Foundation anticipates using existing and anticipated pledges to pay the debt.

Factors Affecting Fiscal Year 2011 and Beyond

With the expansion project, Museum management is expecting more visitors to the Museum, which should generate more revenues. With the reopening in May 2010, the Museum expanded their hours of operation to allow greater access for visitors. In addition, management expects the expanded facilities to attract new exhibits and will allow the Museum to host several events at once.

The Museum has a number of funding challenges in the coming years. While the Museum expects to generate new revenues, their operating expenses will increase and they will need to determine if the additional revenues will cover the increased costs. At the same time, the Museum has become more reliant on Foundation support to fund operations in light of declining general fund support due to statewide budget reductions. The Foundation will be under increased financial pressure due to debt payments and the Museum will need to ensure they can continue to rely on a certain amount of Foundation support for operating costs in the future.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

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

April 11, 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 Fine Arts** (Museum) for the years ended June 30, 2008, June 30, 2009, and 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 the Museum'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

The Museum'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.

Payroll expenses
Capital outlay expenses
Small Purchase Charge Card
Cash receipts
Information Systems Security

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

Audit Conclusions

We found that the Museum properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. The Museum 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 a matter involving internal control and its operation that requires management's attention and corrective action. This matter is described in the section entitled "Audit Finding and Recommendation." 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.

The Museum 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 finding identified in our audit is included in the section titled "Museum 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

LCW: clj



April 11, 2011

The Auditor of Public Accounts
P.O. Box 1295
Richmond, VA 23218

Dear Sir:

Thank you for the opportunity to respond to the Internal Control Finding and Recommendation from the audit for the period July 1, 2007 through June 30, 2010.

Improve Internal Controls over Small Purchase Charge Cards

In keeping with your recommendation, the Finance Office is currently reviewing all active small purchase charge cards by division. Finance will work with the Deputy Director of each division to eliminate/revoke cards where appropriate based on responsibility and need. Our goal is to significantly reduce the number of outstanding cards and ensure that only those employees with demonstrated need and/or designated procurement responsibilities within each division are assigned a small purchase charge card.

Going forward, the Museum will ensure the procedures for granting approval of a charge card are appropriate and access to cards is limited within each division. Cards will only be issued when there is a demonstrated need and it is not feasible for other designated card holder(s) within a division to fully cover the procurement needs of the division.

We appreciate having the opportunity to work with your staff and appreciate your efforts to assure the integrity of our performance as well as improve our operations.

Sincerely,

A handwritten signature in blue ink, reading 'Fern Spencer', is positioned above the printed name and title.

Fern Spencer
Chief Financial Officer

VIRGINIA MUSEUM OF FINE ARTS

Alex Nyerges, Director

Board of Trustees

Mrs. Richard S. Reynolds III, President
Thurston R. Moore, President Elect
Mrs. Suzanne T. Mastracco, Statewide Vice President
Richard G. Tilghman, Vice President

Karen Cogar Abramson	Carolyn Hsu-Balcer
John B. Adams, Jr.	Ivan P. Jecklin
Martin J. Barrington	Jane Joel Knox
Alfonso L. Carney, Jr.	Ms. Frances A. Lewis
James C. Cherry	John A. Luke, Jr.
Mrs. Whitt W. Clement	Steven A. Markel
Mrs. Louise B. Cochrane	James W. McGlothlin
John R. Curtis, Jr.	Mrs. Barbara-lyn B. Morris
W. Birch Douglass, III	Mrs. Stanley F. Pauley
Thomas F. Farrell, II	Agustin Rodriguez
Dr. Elizabeth Ann Fisher	Michael J. Schewel
Cynthia Kerr Fralin	Dr. Alvin J. Schexnider
Susan S. Goode	Ranjit K. Sen
Grant H. Griswold	John R. Staelin
Dr. Elizabeth Forsyth Harris	Dr. Shantaram K. Talegaonkar
Ms. Mary F. White	

Ex-Officio Trustees

The Honorable Robert F. McDonnell	The Honorable William T. Bolling
The Honorable William J. Howell	The Honorable Dwight C. Jones