



VIRGINIA COMMISSION FOR THE ARTS

REPORT ON AUDIT FOR THE YEAR ENDED JUNE 30, 2021

Auditor of Public Accounts
Staci A. Henshaw, CPA

www.apa.virginia.gov

(804) 225-3350



AUDIT SUMMARY

We audited several business cycles and processes at the Virginia Commission for the Arts (Commission) as part of following up on findings and recommendations from a special report we issued in October 2019. Our audit covered the period of July 1, 2020, through June 30, 2021, and included the following cycles and processes: personnel and payroll expenses, transfer payments, information system security controls, and overall fiscal processes.

Overall, we found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth's accounting and financial reporting system;
- four matters involving internal control and its operation necessary to bring to management's attention;
- one instance of noncompliance with applicable laws and regulations or other matters that are required to be reported; and
- adequate corrective action with respect to the recommendations reported in the prior report that are not referenced in this report. The Commission has made progress in addressing the prior issues, but additional action and steps are needed to completely resolve the remaining issues.

We also followed up on a recommendation from prior reports related to 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. Our report includes a recommendation that the Commission continue to work with the Department of Planning and Budget to evaluate the purpose of both the Foundation and the Fund to ensure the intent of the original legislation is being met.

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AGENCY AND AUDIT SCOPE OVERVIEW

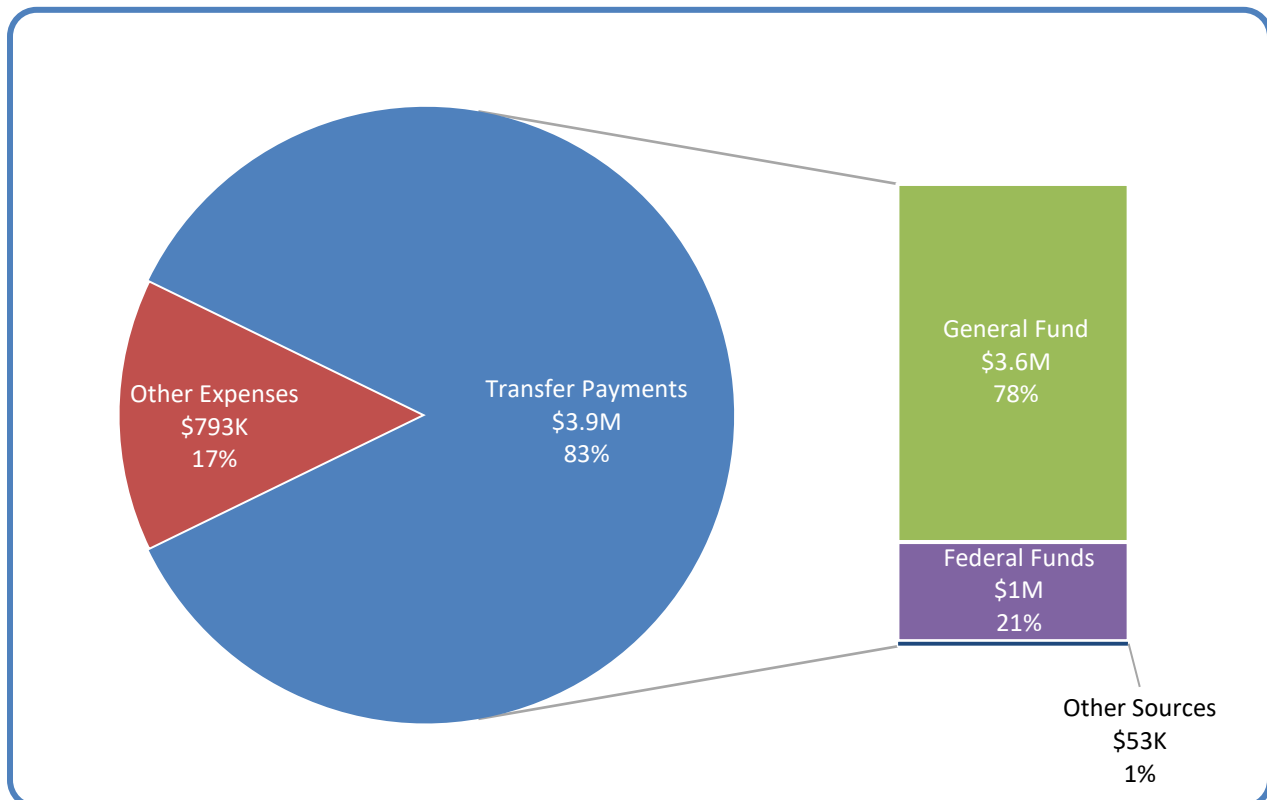
The Commission is the state agency primarily responsible for supporting the arts and encouraging participation in arts-related activities in the Commonwealth. This is primarily accomplished by providing financial assistance through various grant programs to eligible individuals, arts organizations, and localities.

The Commission's primary funding source is General Fund appropriations, but they also receive an annual federal grant from the National Endowment for the Arts. In fiscal year 2020, they received additional federal funding through the Coronavirus Aid, Relief, and Economic Security Act and some of these funds were disbursed in fiscal year 2021.

The Commission's fiscal year 2021 financial activity is summarized in the following chart. The most significant expense area is grant payments discussed earlier, which are referred to as "Transfer Payments" in the chart below.

Expense and Funding Summary - Fiscal Year 2021

Chart 1



Source: Commonwealth accounting and financial reporting system

In May 2019, we conducted two separate reviews of the Commission, one focused on transfer payments and the other on internal controls over fiscal and administrative processes. Due to the significance and overlap of the issues identified during these reviews, we issued a combined special report in October 2019.

Our current audit focused on the Commission's corrective action in response to the findings and recommendations included in the October 2019 report. Our scope covered the Commission's most significant cycles and processes including personnel and payroll expenses, transfer payments, information system security, and overall fiscal processes.

Overall, we found that the Commission has made progress in addressing the recommendations from our prior report, but additional action and steps are needed to completely resolve the issues. The Commission has made a concerted effort to strengthen the control environment; however, policies and procedures over some business areas are still under development. The Commission is a small agency with limited resources and this, combined with the lack of policies and procedures in several areas, contributed to some of the findings discussed in the section entitled "Audit Findings and Recommendations." In addition, we followed up on an issue reported in our prior two reports related to the Virginia Arts Foundation Fund. The status of this issue is discussed in the section entitled "Comment to Management."

AUDIT FINDINGS AND RECOMMENDATIONS

Properly Communicate Federal Award Information to Subrecipients

Type: Internal Control and Compliance

Repeat: Partial (first issued in 2019)

Prior Year Title: Improve Financial Management of Federal Grants

The Commission is not properly communicating all the required federal grant award information to subrecipients. The Commission receives funding from the National Endowment for the Arts (Endowment) which partially supports the Commission's grant programs for artists and arts organizations. The Commission is not properly communicating the following information to subrecipients of these grant funds:

- Federal Award Identification Number;
- Federal Award Date;
- Subaward Period of Performance;
- Total Amount of the Federal Award (to include the specific amount of funds obligated by the action and total amount awarded to the subrecipient, as applicable); and
- CFDA Number and Name.

In accordance with the Code of Federal Regulations, 2 C.F.R § 200.331, the Endowment's General Terms and Conditions (Terms and Conditions) for Partnership Agreements require the Commission to communicate federal award information any time a subaward includes federal funds. While the Commission is communicating some federal award information, management was unaware of the specific requirements noted above. There has been some turnover in management over the last several years which may have contributed to this issue. Without communicating the required federal award information there is an increased risk that subrecipients are unaware of the source of the funding and the applicable requirements. This increases the potential for unallowable costs and non-compliance with federal requirements.

Since our last review, the Commission has made progress in complying with federal award requirements; however, the Commission should continue to review the Terms and Conditions to gain a thorough understanding of the Commission's responsibilities and update processes to ensure proper communication of federal award information to subrecipients. The Commission should also ensure their policies and procedures outline all federal award requirements and processes for fulfilling these requirements.

Ensure Compliance with the Agency Risk Management and Internal Control Standards

Type: Internal Control

Repeat: Partial (first issued in 2019)

The Commission is not in compliance with the minimum Agency Risk Management and Internal Control Standards (ARMICS) requirements established by the Department of Accounts (Accounts). Specifically, the Commission was unable to provide documentation to demonstrate compliance with the following ARMICS requirements:

- identification of fraud risks;
- analysis of agency strengths, weaknesses, opportunities, and threats;
- documentation of the key elements and assessments of various internal control components (i.e., Control Environment, Information and Communication, Monitoring, Existing Control Activities); and
- transaction-level assessment, including how controls were tested and results of tests.

The Commonwealth's Accounting Policies and Procedures (CAPP) Manual Topic 10305, Internal Control, prescribes the requirements for agencies to establish and monitor internal controls to ensure compliance with ARMICS. CAPP Manual Topic 10305 requires agencies to document, evaluate, and test all agency-level and transaction-level controls to assess each element of the control environment. Each fiscal year, agencies are required to certify to Accounts that they have established, maintained, and evaluated their internal control framework.

Since our last review, management has completed the required ARMICS training and properly submitted their ARMICS certification to Accounts, noting non-compliance with the requirements. Limited staff and resources have affected management's ability to obtain a complete understanding of ARMICS requirements and to perform the required analysis and evaluations. A lack of compliance with ARMICS can result in weak internal controls which could lead to the improper recording of financial transactions, non-compliance with financial reporting requirements, and non-compliance with laws and regulations.

The Commission should review CAPP Manual Topic 10305 to ensure they have a thorough understanding of the requirements and agency responsibilities under ARMICS. Further, the Commission should consider consulting with other agencies, such as Accounts, to gain a better understanding of how to document and assess controls to ensure compliance with ARMICS.

Complete Financial System Reconciliations Correctly

Type: Internal Control

Repeat: Yes (first issued in 2019)

The Commission is not properly reconciling their internal financial records to the Commonwealth's accounting and financial reporting system. The Commission reconciles expense transactions recorded in the system on a monthly basis; however, they are not reconciling deposits or journal entries. Further, the Commission is not properly identifying and consistently documenting reconciling items each month.

CAPP Manual Topic 20905 requires agencies to maintain a log of all transactions entered into the accounting and financial reporting system to provide an audit trail from initial source documents to system reports. The transaction types which agencies must reconcile include, disbursements, deposits, budget adjustments, journal entries, and employee expenses. CAPP Manual Topic 20905 also states that reconciliations which include unidentified balances or transactions are incomplete and inadequate. Further, CAPP Manual Topic 20905 requires agencies to complete a monthly certification to Accounts to certify that they have properly completed the reconciliation.

The Commission does not have a sufficient understanding of the reconciliation requirements, primarily due to a lack of policies and procedures. CAPP Manual Topic 20905 requires agencies to have detailed written procedures for meeting all reconciliation requirements. Without properly reconciling the accounting and financial reporting system, the Commission increases the risk of reporting incomplete or inaccurate financial data. As an example, the Commission recorded revenue collected from license plate sales in the wrong account and this was not detected by Commission staff.

The Commission should review CAPP Manual Topic 20905 to improve their understanding of reconciliation requirements. Further, the Commission should develop and implement policies and procedures that ensure they are meeting all reconciliation requirements, including maintaining a complete transaction log and identifying and evaluating all reconciling items.

Properly Perform Reconciliations over Retirement Benefits System Information

Type: Internal Control

Repeat: Partial (first issued in 2019)

Prior Year Title: Comply with State Requirements for Payroll and Human Resource Processes

The Commission is not properly completing the reconciliation process over information from the Commonwealth's retirement benefits system. While the Payroll Service Bureau (Bureau) performs certain reconciliation processes on behalf of the Commission, the Commission is not properly completing the following processes that fall under their control.

- The Commission did not perform a reconciliation of credible compensation between the Commonwealth's human resource and retirement benefits systems prior to confirming the monthly contribution.

- The Commission did not review the Commonwealth's human resource system cancelled records report.
- The Commission did not resolve discrepancies identified on the automated reconciliation reports provided by the Bureau.

The CAPP Manual Topic 50410 requires agencies to perform a monthly reconciliation of creditable compensation between the Commonwealth's human resource and retirement benefits systems. The Bureau's Scope of Services agreement with the Commission more specifically states that the Commission is responsible for reconciling creditable compensation prior to confirming the monthly contribution, reviewing the Commonwealth's human resource system cancelled records report and resolving discrepancies identified during the reconciliation process. The Commission did not have an adequate understanding of their responsibilities outlined in the agreement and, as a result, did not perform some of the required tasks.

Retirement benefit system information is critical to the services provided by the Virginia Retirement System (VRS) and insufficient reconciliations could result in improper payment of employee contributions to VRS or errors in members' retirement-related data. Improper reconciliation processes can also affect the integrity of the information in the Commonwealth's retirement benefits system.

The Commission should review CAPP Manual Topic 50410 and the Bureau's Scope of Services agreement to ensure they have an adequate understanding of their responsibilities in relation to retirement benefits system information. They should also ensure their procedures require the timely reconciliation and review of this information.

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. We do not consider this issue an internal control weakness or a compliance finding for the agency.

Continue to Evaluate the Intent of the Virginia Arts Foundation Fund

Our last two reviews have included recommendations that the Commission evaluate the intent of the Virginia Arts Foundation Fund and its funding. 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 with its primary purpose being to oversee and administer the Fund. The Fund was established as a special non-reverting trust fund to promote the arts in the Commonwealth and allows for the collection of voluntary state income tax refund donations, specialty license plate fees and any private gifts or donations. The Code of Virginia allows the Foundation to spend from the Fund's interest and income but prohibits spending from the Fund's principal.

Since the Fund's inception, the general interpretation of these requirements has been that only interest earned by the Fund is available to spend. As a result, funds collected from the voluntary state income tax refund donations and specialty license plate sales have not been available to spend and have continued to accumulate in the Fund. As of June 30, 2021, the Fund has an accumulated cash balance of over \$1.2 million.

There are several issues that Commission management, along with the Department of Planning and Budget (Planning and Budget), need to consider in relation to this Fund and the Foundation. The language in the Code of Virginia should be reviewed to ensure it is appropriate and relevant given the nature of the Foundation and the Fund's activities. As this Fund has evolved, the nature of the financial activity in the Fund is not consistent with a typical endowment fund. Additional consideration should be given to whether the current administration of this Fund would meet the reasonable expectations of the citizens who are contributing to it through donations and fees.

There has been some turnover in Commission management since our initial recommendation, but current Commission staff recently discussed this issue with staff from Planning and Budget. We recommend the two agencies continue to work together to resolve these issues to ensure the Fund and its related revenues are meeting the original intent, as well as the expectations of citizens.



Staci A. Henshaw, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

September 1, 2021

The Honorable Ralph S. Northam
Governor of Virginia

The Honorable Kenneth R. Plum
Chairman, Joint Legislative Audit
and Review Commission

We have audited several business cycles and processes at the **Virginia Commission for the Arts** (Commission) for the year ended June 30, 2021, as part of following up on recommendations from a special report we issued in October 2019. 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's accounting and financial reporting system; review the adequacy of the Commission's internal controls; test compliance with applicable laws, regulations, contracts, and grant agreements; and review corrective actions of audit findings from prior year reports.

Audit Scope and Methodology

The Commission's management has responsibility for establishing and maintaining internal control and complying with applicable laws, regulations, contracts, and grant agreements. 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.

- Transfer payments
- Personnel and payroll expenses
- Information system security
- Other fiscal processes

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 grant agreements, and observation of the Commission's operations. We performed analytical procedures, including budgetary and trend analyses. We also tested details of transactions to achieve our objectives.

A nonstatistical sampling approach was used. Our samples were designed to support conclusions about our audit objectives. An appropriate sampling methodology was used to ensure the samples selected were representative of the population and provided sufficient, appropriate evidence. We identified specific attributes for testing each of the samples and when appropriate, we projected our results to the population.

Conclusions

We found that the Commission properly stated, in all material respects, the amounts recorded and reported in the Commonwealth's accounting and financial reporting system. The financial information presented in this report came directly from the Commonwealth's accounting and financial reporting system.

We noted certain matters involving internal control and its operation and compliance with applicable laws, regulations, contracts, and grant agreements that require management's attention and corrective action. These matters are described in the section entitled "Audit Findings and Recommendations."

The Commission has taken adequate corrective action with respect to 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 October 8, 2021. Management's response to the findings identified in our audit is included in the section titled "Commission 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.

Staci A. Henshaw
AUDITOR OF PUBLIC ACCOUNTS

LCW/vks



COMMONWEALTH of VIRGINIA

COMMISSION FOR THE ARTS
MAIN STREET CENTRE
600 EAST MAIN STREET, SUITE 330
RICHMOND, VIRGINIA 23219

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EXECUTIVE DIRECTOR

October 14, 2021

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

Dear Ms. Henshaw:

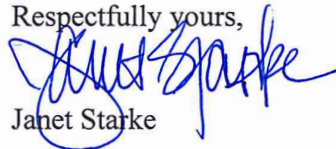
On behalf of the staff and Board of Virginia Commission for the Arts, I would like to thank you for the opportunity to comment on the findings and recommendations from the 2021 audit of the agency.

I am grateful that your team found "the Commission has made progress in addressing the prior issues". We have consciously worked to address many issues identified near immediately. We also agree with and accept your assessment that "additional action and steps are needed to completely resolve some of these issues".

As you also noted, we are a small agency with limited resources, however we take seriously the need for accountability with regards to public funding, and will continue to focus on strengthening the documentation of our policies and procedures, and the testing of those as required. We will also ensure that all staff is made fully aware of these, and understands their role in implementation.

We further appreciate your findings and recommendations for the Virginia Arts Foundation fund, and there too, are working to address recommendations already.

We sincerely appreciate the opportunity to work with and learn from your team. We look forward to reporting progress on corrective action, and otherwise to a productive and constructive relationship with the APA team.

Respectfully yours,

Janet Starke

(804) 225-3132 (Voice/TDD) Email: arts@vca.virginia.gov URL: www.arts.virginia.gov

COMMISSION OFFICIALS

As of June 30, 2021

Janet Starke, Executive Director

Lucas Hall, Deputy Director

COMMISSIONERS

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Asa M. Jackson, Commission Vice-Chair

Terry Emory Buntrock, Commission Secretary

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Robert Goudie	Laurie Naismith
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