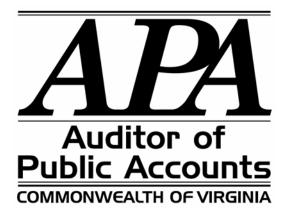
VIRGINIA COMMISSION FOR THE ARTS RICHMOND, VIRGINIA

REPORT ON AUDIT FOR THE PERIOD JULY 1, 2002 THROUGH DECEMBER 31, 2003



AUDIT SUMMARY

Our audit of the Virginia Commission for the Arts for the period July 1, 2002 through December 31, 2003, found:

- proper recording and reporting of transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- no internal control matters that we consider material weaknesses; and
- no issues of noncompliance that are required to be reported under <u>Government Auditing Standards</u>.

-TABLE OF CONTENTS-

AUDIT SUMMARY

AGENCY INFORMATION AND FINANCIAL HIGHLIGHTS

INDEPENDENT AUDITOR'S REPORT

AGENCY INFORMATION AND FINANCIAL HIGHLIGHTS

The Virginia Commission for the Arts provides direct financial support for art activities and services to artists, arts organizations, and others interested in the arts in Virginia. The Commission expends over 90 percent of its funds in this effort. The Commission's 13 members meet quarterly to review and approve these activities. The Commission awards grants in the following categories:

- General Operating Support for Arts Organizations Grants
- Project Grants
- Technical Assistance Grants
- Local Government Challenge Grants
- Touring Assistance Program Grants
- Artist Fellowships
- Writers in Virginia Program Grants
- Arts Curriculum Development Grants
- Artists-In-Education Residency Grants (PK-12)
- Teacher Incentive Grants

The Commission funds its grants from General Fund appropriations and a grant from the National Endowment for the Arts. The Commission's budget began experiencing reductions in its General Fund appropriation in fiscal 2003. Between fiscal years 2002 and 2004, the Commission's budget has been reduced 43 percent. The following tables detail the cuts in each fiscal year.

Fiscal Year 2003	Fiscal Year 2002	General Fund	Percentage of
Appropriation	Appropriation	Budget Reduction	Total Budget
\$4,765,728	\$5,448,737	\$683,009	13%

Fiscal Year 2004	Fiscal Year 2003	General Fund	Percentage of
Appropriation	Appropriation	Budget Reduction	Total Budget
\$3,321,642	\$4,765,728	\$1,444,086	30%

As a result of the decrease in funding, the Commission began reassessing the number and dollar amount of each type of grant they award. The largest grant program the Commission administers is the General Operating Support for Arts Organizations Grant. This program assists organizations financially to continue, strengthen, and expand their artistic programs. This grant is not only the largest dollar value awarded per grantee, it also has the largest number of grantees. As a result of the large number of grantees that depend on this funding annually, the Commission decreased the amount of each award while maintaining the average number of awards. Between fiscal years 2002 and 2004, the maximum award amounts of this grant decreased \$58,000 from \$108,000 to \$50,000 per applicant.

Fiscal	Applications	Applicants	Amount	Percentage of
Year	Received	Awarded Funding	Awarded	Total Budget
2003	192	187	\$3,224,100	68%
2004	188	182	\$1,799,400	54%

The following table compares the Commissions' financial results for fiscal years 2002 and 2003.

	FY 2003	FY 2002
Revenues:		
General Fund appropriations	\$3,870,245	\$4,854,423
Federal grants *	843,470	541,700
Other income		20,000
Total revenues	<u>\$4,713,715</u>	\$5,416,123
Expenses:		
Ĝrant awards	\$4,275,378	\$4,709,218
Administration	418,087	448,040
Total expenses	<u>\$4,693,465</u>	<u>\$5,157,258</u>

^{*} Fiscal year 2003 includes \$252,500 in carryover funds from fiscal year 2002.

As of December 31, 2003, the Commission has \$3,324,009 in revenue and \$2,433,642 in expenses.



Commonwealth of Birginia

Walter J. Kucharski, Auditor

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

April 7, 2004

The Honorable Mark R. Warner Governor of Virginia State Capitol Richmond, Virginia The Honorable Lacey E. Putney Vice Chairman, Joint Legislative Audit and Review Commission General Assembly Building Richmond, Virginia

INDEPENDENT AUDITORS REPORT

We have audited the financial records and operations of the **Virginia Commission for the Arts** for the period July 1, 2002 through December 31, 2003. We conducted our audit in accordance with <u>Government Auditing Standards</u>, issued by the Comptroller General of the United States.

Audit Objectives, Scope, and Methodology

Our audit's primary objectives were to evaluate the accuracy of recording financial transactions on the Commonwealth Accounting and Reporting System, review the adequacy of the Commission's internal control, and test compliance with applicable laws and regulations.

Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Commission's operations. We also tested transactions and performed such other auditing procedures as we considered necessary to achieve our objectives. We reviewed the overall internal accounting controls, including controls for administering compliance with applicable laws and regulations. Our review encompassed controls over revenues and cash receipts and expenses. We considered these to be the Commission's significant cycles, classes of transactions, and accounting balances.

We obtained an understanding of the relevant internal control components sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. 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 and regulations.

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 and regulations.

Our audit was more limited than would be necessary to provide assurance on the internal control or to provide an opinion on overall compliance with laws and regulations. Because of inherent limitations in

internal control, errors, irregularities, or noncompliance may nevertheless occur and not be detected. Also, projecting the evaluation of internal control to future periods is subject to the risk that the controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of controls may deteriorate.

Audit Conclusions

We found that the Commission properly stated, in all material respects, the amounts recorded in the Commonwealth Accounting and Reporting System. The Commission records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted no matters involving internal control and its operation that we considered material weaknesses. Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to financial operations may occur and not be detected promptly by employees in the normal course of performing their duties.

The results of our tests of compliance with applicable laws and regulations found no instances of noncompliance that are required to be reported under <u>Government Auditing Standards</u>.

This report is intended for the information of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

EXIT CONFERENCE

We discussed this report with management at an exit conference on May 3, 2004.

AUDITOR OF PUBLIC ACCOUNTS

SHW/kva kva: