



VIRGINIA MUSEUM OF FINE ARTS

AUDIT OF SELECT CYCLES

FOR THE YEAR ENDED

JUNE 30, 2018

Auditor of Public Accounts
Martha S. Mavredes, CPA

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AUDIT SUMMARY

Our audit of revenue, art collection assets, and capital assets cycles at the Virginia Museum of Fine Arts for the fiscal year ended June 30, 2018, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth's accounting and financial reporting system and the Commonwealth's capital asset system, except as noted in the findings entitled "Properly Record Assets in the Commonwealth's Capital Asset System" and "Implement Policies and Procedures over Construction in Progress;"
- three matters involving internal control and its operation necessary to bring to management's attention regarding capital assets;
- 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 prior audit findings identified as resolved in the [Findings Summary](#) included in the Appendix.

We did not review management's corrective action on prior audit findings identified as deferred in the [Findings Summary](#). We will follow up on these findings in a future audit.

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AUDIT FINDINGS AND RECOMMENDATIONS

Properly Record Assets in the Commonwealth's Capital Asset System

Type: Internal Control

Repeat: No

The Virginia Museum of Fine Arts (Museum) did not properly record capital assets in the Commonwealth's capital asset system (the system). Museum had issues with multiple assets tested because the Museum updates the system on an irregular and infrequent basis, due to staff transition in the procurement department, as follows:

- A disposed asset remained in the system a year after the disposal date.
- Three out of nine assets with physical asset tag numbers did not match the tag number in the system.
- Two out of the nine physical asset tags had the wrong asset tag.
- Ten out of the 15 assets with a physical asset tag were not in the system.
- The ArtMobile asset was not in the system (traveling museum and art studio).

Additionally, the Museum did not perform a capital asset physical inventory within two years because they did not have a process to perform physical inventories on a regular basis and the counts were not a priority for the responsible Museum team. The Museum performed the last physical inventory in November 2014.

Per Commonwealth Policies and Procedures Manual (CAPP Manual) Topic 30505, the Commonwealth's capital asset system is maintained on a perpetual inventory basis. Updates should be made to the system as soon as practicable after changes occur in asset status. Information concerning new acquisitions should be recorded once the item has been delivered to the agency. Additionally, a physical inventory of capital assets is required at least once every two years in order to properly safeguard assets and maintain fiscal accountability.

When capitalizing assets on an irregular or infrequent basis, the lag time between an asset's receipt and capitalization increases the probability that relevant parties will not be able to respond to questions about the purchase. Improper recording of capital assets increases the risk that asset balances including depreciation expense are misstated, which can affect the Museum's attachment submissions to the Department of Accounts and the statewide reporting in the Commonwealth's Comprehensive Annual Financial Report. Not performing inventory counts increases the risk of improper reporting of capital assets because the count may identify errors and allow the agency the opportunity to correct them within the system.

To ensure consistent recording of capital asset acquisitions, management should ensure Museum personnel properly implement policies and procedures. Management should ensure personnel involved with capital assets understand the importance of timely recording of assets and any necessary adjustments, as it affects both depreciation and asset balances. Finally, management should perform capital asset physical inventory counts at least once every two years.

Implement Policies and Procedures over Construction in Progress

Type: Internal Control

Repeat: No

The Museum capitalized \$2.6 million of the \$5.1 million budget for a construction project. The Museum should have accumulated the expenses in construction in progress and capitalized the total expenses at the end.

The CAPP Manual, Topic 30405, states that the agency should accumulate ongoing construction costs in the Commonwealth's capital asset system as construction in progress. Upon the completion of the construction project, the construction in progress should be reversed in the Commonwealth's capital asset system and the asset should be recorded using the applicable asset category.

The Museum capitalizes expenses in construction in progress to specific projects on an annual basis since most projects have components that become operational while the overall project may still be in progress during the next fiscal year. The Museum typically does not have projects of larger size and scale and mostly performs renovations to the museum while maintaining ongoing operations during the renovation. Capitalizing a project too early will affect the timing of depreciation and not allow the Museum to capitalize the asset as a whole.

Management should update policies and procedures to identify the capitalization methods used based on the nature of the projects. Larger projects that do not allow ongoing operations during renovation should be capitalized at the end of the project.

Reconcile Capital Assets Monthly

Type: Internal Control

Repeat: No

The Museum did not perform the monthly reconciliations between the Commonwealth's capital asset system and the Commonwealth's accounting and financial reporting system in a timely manner. The Museum performed reconciliations three months after the selected month-end.

The CAPP Manual, Topic 30905, states the reconciliation between the Commonwealth's capital asset system and the Commonwealth's accounting and financial reporting system should be performed monthly. If accounting personnel do not perform reconciliations each month, incorrect transactions may occur and go undetected, and asset account balances within the Commonwealth's accounting and financial reporting system may be inaccurate.

The Museum performs the reconciliation of the capital asset system to the accounting and financial reporting system a few times a year, but includes all months throughout the year in the reconciliations that are completed. The Museum's fiscal department did not perform the monthly reconciliations due to an oversight of the CAPP Manual requirement.

The Museum's fiscal department should follow the CAPP Manual requirement. Management should ensure their implemented procedures include monthly reconciliations.

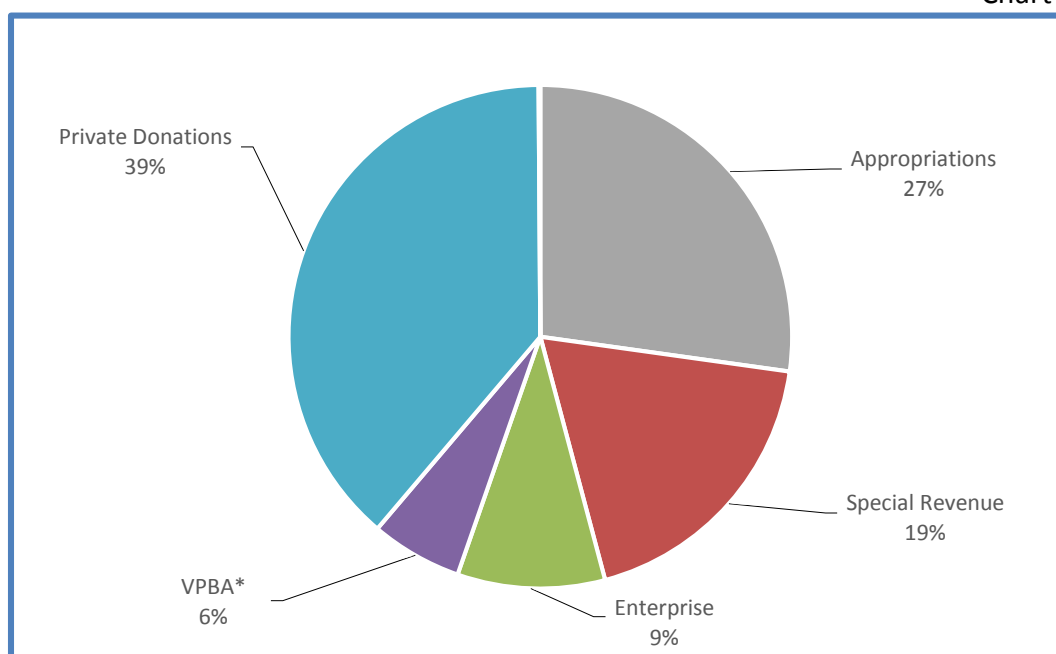
AUDIT SCOPE OVERVIEW

The Museum serves to collect, preserve, exhibit, and interpret art, and to encourage the study of the arts. The Museum houses a permanent collection of over 35,000 works of art from almost every major world culture. In addition, the Museum offers curated temporary exhibitions, arts-related audiovisual programs, symposia, lectures, conferences, and workshops by visual and performing artists. In October 2018, the Museum launched the ArtMobile, a state-of-the-art traveling museum and art studio with the purpose of providing residents from across the Commonwealth the opportunity to experience works of art from the collection up close.

The Museum is funded mostly from various sources of non-general fund revenues including revenues from memberships, exhibition admissions, food services, gift shops, parking, private donations, and federal grants. The remainder comes through general fund appropriations. The following chart shows the breakdown of revenue by type for fiscal year 2018. As seen in Chart 1, the largest funding source of the Museum is private donation support from The Virginia Museum of Fine Arts Foundation (Foundation).

Analysis of Fiscal Year 2018 Museum Revenues

Chart 1



Source: Commonwealth's accounting and financial reporting system

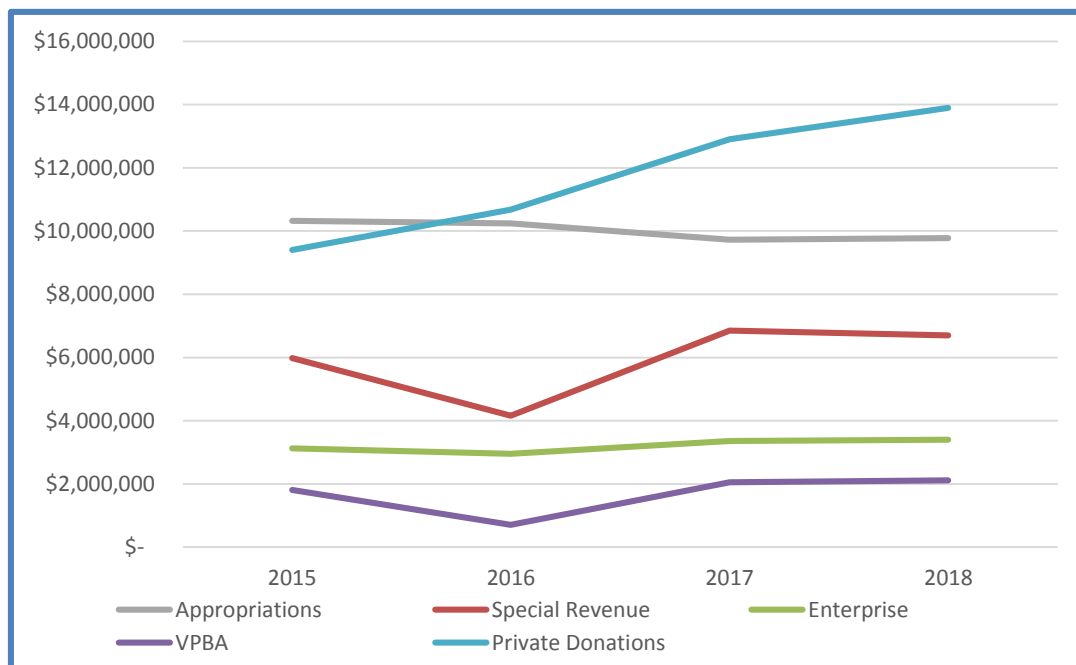
*Virginia Public Building Authority

The Foundation serves as the fundraising component of the Museum and is dedicated solely to assisting the Museum in building and preserving the endowment and in addressing, through financial support, the long-term priorities of the Museum. In fiscal year 2018, the Foundation provided over \$13.8 million to support the Museum's operations as well as capital projects. As shown in Chart 2, Foundation

support has increased steadily over the past four years in order to meet the Museum's financial obligations.

Trend Analysis of Museum Revenues

Chart 2



Given its mission, the Museum manages significant assets within the art collection. All of the pieces in the art collection were either donated or procured with funds from private donations.

The Museum has significant capital assets such as land, buildings, and equipment, totaling \$155,093,212. In maintaining these assets, the Museum expended \$2,787,562 in capital outlay over the course of the year. During fiscal year 2018, the Museum underwent capital projects such as the Robinson House renovation and Fabergé exhibit expansion and renovation.

We selected to review Museum revenues, art collection assets, and capital assets as our primary areas of focus for the fiscal year 2018 audit. We gained an understanding of the relationship between the Museum and its Foundation and tested funds drawn down from the Foundation to ensure compliance with restrictive covenants and proper recording in the Commonwealth's accounting and financial reporting system. We performed analytics over other sources of revenue collected by the Museum to determine reasonableness of collections based on activity at the Museum. Lastly, we performed procedures to determine whether the Museum is performing required monthly reconciliations between internal records and the Commonwealth's accounting and financial reporting system.

We reviewed the Museum's process for tracking and monitoring the Museum's art collection assets. We tested art collection assets to determine proper controls are in place to track, maintain, and preserve the assets.

We reviewed the Museum’s process for taking physical asset inventories and tested capital assets to determine whether proper controls are in place to track and record Museum capital assets. We reviewed monthly reconciliations between the Commonwealth’s capital asset system and Commonwealth’s accounting and financial reporting system. We reviewed the procurement of a construction contract to ensure compliance with required guidelines. Lastly, we reviewed the Museum’s procedures for tracking and reporting construction in progress.



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

August 6, 2019

The Honorable Ralph S. Northam
Governor of Virginia

The Honorable Thomas K. Norment, Jr.
Chairman, Joint Legislative Audit
and Review Commission

We have audited the revenue, art collection assets, and capital asset cycles of the **Virginia Museum of Fine Arts (Museum)** for the year ended June 30, 2018. 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 Scope and Objectives

Our audit's primary objectives with regard to the revenue, art collection assets, and capital asset cycles were to evaluate the accuracy of transactions recorded in the Commonwealth's accounting and financial reporting system and the Commonwealth's capital asset system; review the adequacy of the Museum's internal controls; and test compliance with applicable laws, regulations, contracts, and grant agreements. We also reviewed corrective actions for select audit findings from the prior year report. See the [Findings Summary](#) included in the Appendix for a listing of prior year findings and the status of follow-up on management's corrective action. We did not review management's corrective action on prior audit findings identified as deferred in the [Findings Summary](#). We will follow up on these findings in a future audit.

Audit Scope and Methodology

Museum'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, as they relate to the audit objectives, sufficient to plan the audit. We considered significance and risk in determining the nature and extent of our audit procedures. 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, regulations, contracts, and grant agreements as they pertain to our audit objectives.

Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of the Museum's operations. We performed analytical procedures, including budgetary and trend analyses. We also tested details of transactions to achieve our objectives.

A non-statistical 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 Museum properly stated, in all material respects, revenue transactions recorded in the Commonwealth's accounting and financial reporting system relating to the audit objectives.

We noted no matters involving internal control and its operation pertaining to the revenues and art collection assets that we consider necessary to be reported to management. The results of our tests of compliance, as they pertain to revenues, art collection assets, and capital assets, 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.

We noted certain matters pertaining to capital asset recording and reporting in the Commonwealth's capital asset system and involving internal controls and its operation that require management's attention and corrective action. These matters are described in the section entitled "Audit Findings and Recommendations."

The agency has taken adequate corrective action with respect to select audit findings reported in the prior audit that are listed as resolved in the [Findings Summary](#) included in the Appendix.

Exit Conference and Report Distribution

We discussed this report with management on August 14, 2019. Management's response to the findings identified in our audit is included in the section titled "Agency 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, Board of Trustees, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

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APPENDIX

Findings Summary

Finding	Follow Up Status	Year Issued
Properly Manage the Change Fund	ICQ**	2013
Properly Manage Local Funds	ICQ**	2013
Update Fine Arts Policies and Procedures	Resolved	2013
Improve Internal Controls over and Compliance with the Small Purchase Charge Card Program	ICQ**	2013
Update the Information Security Program and Ensure Compliance with the Security Standard	ICQ**	2013
Improve Internal Controls over Terminated Employees' User Access	ICQ**	2013
Improve Internal Controls over Sensitive Information (Cycled Agency Payroll Review)	ICQ**	2016
Improve Internal Controls over Terminated Employees (Cycled Agency Payroll Review)	ICQ**	2016
Update Policies and Procedures (Payroll study)	ICQ**	2016
Follow 1500-Hour Rule for Wage Employees (Cycled Agency Payroll Review)	Resolved	2016
Ensure Compliance with the Prompt Pay Act (Cycled Agency Procurement Review)	Deferred*	2017
Improve Contract Procurement and Management Process (Cycled Agency Procurement Review)	Deferred*	2017
Discontinue Disallowed Charge Card Program (Cycled Agency Procurement Review)	Deferred*	2017
Strengthen Controls over Small Purchase Charge Card Operations (Cycled Agency Procurement Review)	Deferred*	2017
Properly Record Assets in the Commonwealth's Capital Asset System	New	2018
Implement Policies and Procedures over Construction in Progress	New	2018
Reconcile Capital Assets Monthly	New	2018

*Follow-up Status on prior year findings identified as "Deferred" indicates review of management's corrective action on a prior year finding will be performed in a future audit.

**The follow-up for these findings was included in the scope of the Internal Control Questionnaire (ICQ) Reviews that were performed during calendar year 2017 and 2018. Any findings where corrective action was not complete were included in the ICQ Results Letters located at http://www.apa.virginia.gov/APA_Reports/Reports.aspx.

Ms. Martha S. Mavredes, CPA
Auditor of Public Accounts for the Commonwealth of Virginia

Date: August 22, 2019

Subject: Response to the audit of revenue, art collection assets and capital assets for the fiscal year ended June 30, 2018.

Dear Ms. Mavredes:

Thank you for the opportunity to respond to the audit report for the fiscal year ended June 30, 2018.

We are pleased with the finding that revenue was properly recorded and reported in the Commonwealth's accounting and financial reporting system and that there were no instances of noncompliance with applicable laws and regulations, or other matters, that were required to be reported.

With regard to the audit recommendations (as included on pages 1-3 of the report), we have undertaken the following steps, as referenced below, to address the findings:

Properly Record Assets in the Commonwealth's Capital Asset System

We began a museum-wide project to record the physical inventory and reconcile the capital asset system on July 15th, shortly after the exceptions were verbally communicated to us. The physical inventory and reconciliation reports will be provided to your office by September 30, 2019.

In addition, we have reorganized the Fiscal Services and Procurement departments to more fully integrate the purchasing and payables functions, to include the timely recording and reconciliation of capital assets on a monthly basis.

Implement Policies and Procedures over Construction-in-Progress

As a result of the finding, the Capital Outlay, Fiscal Services and Procurement teams are working together to update the existing policies and procedures for the capitalization methods used based on the nature of the projects. The revised policies and procedures will be provided to your office by September 30, 2019.

Reconcile Capital Assets Monthly

The reconciliation between the Commonwealth's capital asset system and accounting and financial reporting system is now being performed on a monthly basis.

We appreciate the audit team's diligent work and your recommendations.

Sincerely,



Hossein Sadid, Deputy Director for Finance and Administration

VIRGINIA MUSEUM OF FINE ARTS

As of June 30, 2018

Alex Nyerges, Director and Chief Executive Officer

Hossein Sadid, Chief Financial Officer

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