



**NATIONAL ENDOWMENT FOR THE ARTS
OFFICE OF INSPECTOR GENERAL**

LIMITED SCOPE EVALUATION REPORT

ON THE

VIRGIN ISLANDS COUNCIL ON THE ARTS

ST. THOMAS, VIRGIN ISLANDS

REPORT NO. LSE-09-01

MARCH 25, 2009

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INTRODUCTION

REQUEST

The Deputy Chairman for Management and Budget has requested that we evaluate whether the Virgin Islands Council on the Arts (Council) can be removed from the working capital advance method of funding (WCA).

BACKGROUND

The Council is an agency of the Virgin Islands Government within the Department of Planning and Natural Resources. The Territorial Government funds the Council's operating support with federal support coming from the National Endowment for the Arts. The Council's mission is to enrich the cultural life of the Virgin Islands through leadership that preserves, supports, strengthens, and makes accessible, excellence in the arts to all Virgin Islanders. Offices are maintained on both St. Thomas and St. Croix. On July 31, 1989, the NEA placed the Council on WCA, while indicating that no documentation would be required when funds were requested.

SCOPE AND OBJECTIVE

The scope of the evaluation was limited to our review of the Government of the United States Virgin Islands OMB Circular A-133 Report and Financial Statements, and our discussion with the Council's executive director relating to internal controls that were in place at the Council.

The objective of the evaluation was to determine whether the Council should be removed from WCA and returned to the regular method of funding.

We did not perform an audit and therefore, we do not offer an opinion on any financial statements or other financial information. The evaluation was conducted in accordance with the President's Council on Integrity and Efficiency Quality Standards for Inspections, as applicable.

RESULTS OF OIG EVALUATION

OMB Circular A-133 Audit Report and Financial Statements. KPMG LLP audited the Government of the Virgin Islands' financial statements for the year ended September 30, 2005. Qualified opinions were given on the financial statements of several of the Government agencies. The auditors also rendered a Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 for the year ended September 30, 2005. The A-

133 report noted numerous reportable conditions that were also considered to be material weaknesses. Three of the major findings were as follows:

The reconciliations of all Government bank accounts as of September 30, 2005, were not completed until more than six months after the end of the year;

In certain instances, the Virgin Islands department managing the federal program prepares its federal financial reports primarily based on information from the internal accounting records of the federal programs. However, as noted in the report findings, on occasion these records do not agree with the accounting records of the Government's accounting system;

During 2005, as in previous years, the Government experienced delays in its year-end closing process and in the preparation of complete and accurate financial statements in accordance with U.S. generally accepted accounting principles. During 2005, the Government was unable to submit the required Single Audit Reports within the nine month time frame established by the Single Audit Act and OMB Circular A-133. The Government processes and records numerous year-end closing entries that represent, in certain instances, corrections to routine transactions that have occurred throughout the year. The nature, timing, and extent of these year-end correcting entries are indicative of weaknesses in controls over financial reporting.

We reviewed the auditors' reports and based on the information provided, we believe that the Government has a fair amount of work to complete in order to correct its reportable conditions. However, we did not note any findings that mentioned the Council nor could we determine whether the findings would have any potential indirect impact on NEA funding. We also should note that the September 30, 2006 audit and A-133 reports were due by June 30, 2007 and they have not been issued to date.

Evaluation of the Council's Internal Controls. We conducted a phone discussion with the Council's executive director concerning the Council's internal controls and financial management operations. It was evident by the answers that the executive director provided to our questions that the Council has a system in place and an understanding of what controls are needed. In addition, we discussed the Council's operations with the NEA's State & Regional Specialist, who has worked closely with the Council for many years. The specialist has visited the Council in the past and had many positive things to say about their operations. Based on our evaluation of the information provided, we believe that the Council has an adequate system of internal controls in place. Therefore, we make the following recommendation.

RECOMMENDATION

We recommend that the NEA remove the Council from the working capital advance method of funding and return the Council to the regular method of funding for all current and future grants.

Other Matters Relating to Personnel Activity Reports. While evaluating internal controls, we found that the Council was not adequately documenting salary and fringe benefit costs by maintaining personnel activity reports as required. The NEA's *General Terms and Conditions for Grants and Cooperative Agreements to Organizations (General Terms)* refers to the *Financial Management Guide for State & Local Governments*, which NEA provides to each applicable grantee and states in part:

For every employee whose salary is charged to an NEA grant, as a whole or in part, personnel activity reports must be maintained to account for all compensated time spent on all activities.

OMB Circular A-87, Costs Principles for State, Local, and Indian Tribal Governments, section 8 (h) also provides the following standards:

Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification...

Where employees work on multiple activities or cost objectives, a distribution of their salaries and wages will be supported by personnel activity reports or equivalent documentation...

RECOMMENDATION

We recommend that the Council implement procedures to ensure that personnel activity reports are maintained for any employee whose salary is charged, in whole or in part to a Federal grant.

EXIT CONFERENCE

An exit conference was held with the Council's executive director on March 25, 2009. She acknowledged and concurred with the findings and recommendations.