

July 28, 2023

TIFFANY ANA LÓPEZ
DEAN
CLAIRE TREVOR SCHOOL OF THE ARTS

RE: Claire Trevor School of the Arts Audit
Audit No. I2023-102

Internal Audit Services has completed the review of Claire Trevor School of the Arts and the final report is attached.

We extend our gratitude and appreciation to all personnel with whom we had contact while conducting our review. If you have any questions or require additional assistance, please do not hesitate to contact me.

Sincerely,



Mike Bathke
Director

Attachment

C: Audit Committee
Alan Doig, Director of Financial Operations – Claire Trevor School of the Arts
Jason Valdry, Assistant Dean – Claire Trevor School of the Arts

I. MANAGEMENT SUMMARY

In accordance with the fiscal year (FY) 2022-23 audit plan, Internal Audit Services (IAS) conducted a general review of the Claire Trevor School of the Arts (CTSA). In general, department controls and processes appear to be functioning as intended. Based on the audit work performed, some internal controls need improvement and should be strengthened to minimize risks, ensure compliance with University policies and procedures, and/or best business practices. Specifically, IAS noted the following concerns.

Revenue and Sales Activity – CTSA does not always maintain adequate supporting documentation. CTSA does not adequately monitor the paid and outstanding balances associated with current contracts in order to ensure the full amount due is received. CTSA is also handling their billing and collections internally when University policy requires use of the University invoices created through the Campus Billing System Online (CBSO). This observation is discussed in Section V.1.A.

Facilities Use Agreements and Rental Rates – Facilities Use Agreements do not consistently document fees. Room rental rates have not been reviewed annually and may be insufficient to cover both direct and indirect costs (for external parties). The details related to these issues are discussed in Section V.1.B and C.

Cash Management – CTSA cash handling practices are inconsistent across CTSA departments. This is discussed in Section V.2.

Inventory Management – Lack of succession planning with no documentation of processes in place has led to lapses in controls for inventory management. Additionally, inventory counts have not taken place. These issues are discussed in detail in Section V.3.

II. BACKGROUND

CTSA was originally known as the University of California, Irvine's School of Fine Arts, but with its expansion of programs and focus over the years, it evolved into the School of the Arts. In 2000, the School was named in honor of Academy Award-winning actress Claire Trevor and her involvement with the School and its students.

CTSA offers undergraduate and graduate degrees in four departments including Art, Dance, Drama, and Music, in addition to a program in Arts and Humanities. Undergraduate and graduate degree courses include extensive studio, workshop, and performance experiences; theoretical and historical studies; and arts and technology practices. The CTSA Drama Department has one of the top Ph.D. programs in the country, running jointly with UC San Diego, and is ranked among the Top 10 in the United States.

CTSA fosters collaboration and teamwork among 81 faculty members, 51 staff members, 820 undergraduate students, and 124 graduate students. Business and financial operations are primarily the responsibility of an Assistant Dean who reports to the Dean. The Assistant Dean is directly supported by a Personnel Director, Facilities Manager, Director of Outreach Programs, Director of Financial Operations, and Director of Technology Services with associated staff members.

Currently, CTSA occupies 21 buildings on the campus. The CTSA provides facilities to support artistic development and after-class life. They include four theatres; a concert hall; three art galleries; the Beall Center for Art + Technology; electronic music studios; cutting edge costume, lighting, and scenic design studios; a stage production shop; digital arts labs; and a video production studio. Because of CTSA, UCI is one of the only university campuses in the area to have a Performance Capture Studio and a fully equipped Meyer Sound Lab.

III. PURPOSE, SCOPE, AND OBJECTIVES

The primary purpose of the audit was to perform a general review of CTSA to assess business risk, internal controls, and compliance with University policies and procedures. The scope focused on certain operational and financial activities for FY 2021-22 and 2022-23.

The audit included the following objectives:

1. Review revenue-related transactions and the methods to monitor client agreements and verify they were properly executed and that outside facilities were billed accurately and timely in accordance to the terms;
2. Verify that cash collections were properly handled and secured, accurately deposited, and reconciled;
3. Verify that equipment and costume inventory were properly managed, safeguarded from loss, and periodically reconciled to inventory records;
4. Assess personnel practices related to overtime and verify proper approval was obtained, was adequately supported, and monitored;
5. Evaluate purchasing practices to verify that transactions were properly requested and approved, received, reconciled, and complied with University policy; and
6. Evaluate travel and entertainment expenditure practices to verify that transactions were properly requested and approved, received, reconciled, and complied with University policy.

IV. CONCLUSION

In general, department controls and processes appear to be functioning as intended. However, systems of internal controls and processes should be strengthened in the areas of revenue and sales activities, facilities use agreements, cash management, and inventory management.

Observation details and recommendations were discussed with management, who formulated action plans to address the issues. These details are presented below.

V. OBSERVATIONS AND MANAGEMENT ACTION PLANS

1. Revenue and Sales Activities

Background

CTSA has 21 different venues available for rent for both public and private events and that are used by many local nonprofit organizations and corporate groups throughout the year.

Observations

IAS tested a sample of FY 2021-22 revenue-related transactions and obtained supporting documentation to verify the existence of an executed agreement, invoicing of the client in a timely manner, and receipt of payment in accordance with the contract and rental rates set by CTSA. The following is a summary of the observations.

A. Revenue Testing

- For one selection, there was no supporting documentation (contract, invoice, etc.) tied to a wire transfer CTSA received for a royalty transaction. IAS reviewed the email communications regarding this transaction and noted a lack of prior knowledge by the unit of the incoming receipt of wire payment.
- Invoices issued to clients were not consistently retained as part of supporting documentation.
- For one selection, a packing slip unrelated to the transaction was included as part of supporting documentation while the pertinent documentation was not.

To ensure that invoices have been paid in full in accordance with the stipulations of the contract, CTSA departments should perform a more

thorough review of transaction documentation to ensure that relevant and accurate supporting documents are being retained in accordance with the UC Record Retention Schedule. As noted on *the UCI Accounting and Fiscal Services - Document Retention for Accounting webpage*, documents and records related to “Regular Fiscal-Year Financial Activities [UC Records Code: 0005A3] . . . should be retained for four years after the end of the fiscal year.”¹

- Two selections included department-generated invoices as part of the supporting documentation.

However, according to *UCI Administrative Procedures Section 704-15: Non-Student Accounts Receivable Management Procedures*, “all University Invoices must be created using the Campus Billing System Online (CBSO) which produces the only approved invoice format for the University. Invoicing outside of CBSO causes misstatement of campus financials and is out of compliance with generally accepted accounting principles (GAAP).”²

- For two related selections, a total of \$625 appears to have been unpaid due to a possible error of the total amount outstanding as noted on the second invoice after the first invoice was paid.

CTSA should monitor the paid and outstanding balances associated with contracts in order to ensure the full amount due is received. Additionally, CTSA should retain documentation of collection efforts and follow-up notes in order to determine the cause for late payments and thus avoid future late payments. The longer receivables go uncollected, the less likely they are to be collected, which is lost revenue to the University.

Use of CBSO also strengthens monitoring and reporting of invoices with their process of automatic follow up and progressively escalating demands if a bill is not paid within 30 days. CTSA management should implement the use of CBSO and the University invoice which will achieve policy compliance in addition to enabling proper segregation of duties, accountability, and strengthening of the controls that minimize potential loss stemming from errors and fraud.

Management Action Plan

By December 2023, CTSA, intends to have a written policy concerning the maintenance of documentation, monitoring of balances, and billing procedures

¹ “Document Retention for Accounting.” *UCI Accounting & Fiscal Services*, n.d., www.accounting.uci.edu/support/guides/retention.html

² “Section 704-15: Non-Student Accounts Receivable Management Procedures.” *UCI Official University Policies & Procedures*, issued February 2022, www.policies.uci.edu/policies/procs/704-15.php

compliant with the University's CBSO system. This will address sales activity-related issues.

By the same date, a financial monitoring system will be implemented, and relevant staff will be trained on CBSO for invoice creation.

Detailed Action Plan:

1. Obtain examples of existing policies from other departments or institutions by 8/30/2023.
2. Convene a meeting with Facilities and Finance Department staff to discuss new policies and training needs by 9/30/2023.
3. The Finance Manager will draft new sales activity policies, using previous audit findings as a reference.
4. Committee members will review, amend, and approve the policy by 10/30/2023.
5. The new policies will be implemented by 1/1/2024.

Due date: No later than January 1, 2024

B. Facilities Use Agreements

In reviewing facilities use agreements, IAS noted the following issues:

- For one contract, no deposit amount was noted.
- For one contract, no facilities fee was charged.
- For one contract, there was no fee breakdown for each room used.
- For four contracts, there were no notes regarding the hourly room rate, personnel rate, and piano use rate.

Proper execution of the Facilities Use Agreement falls under Section 7.8.2 (Licenses), *UC Facilities Manual*³ and *UCI Delegation of Authority (IDA) 617 - Approve and Execute Commitments for Licenses*.⁴ For facilities use term not to exceed one year in duration and a base consideration not to exceed \$35,000 per year, CTSA should consult with the Executive Director of UCI Real Estate Services (RES), Division of Finance and Administration (DFA) for guidance and review to ensure proper execution. Furthermore, RES is the office of record for original executed licenses of real property, including facility use agreements and amendments.

³ "Section 7.8: Requirements to Lease, License, and Granting Easements or Rights-of-Way under Delegated Authority." *UC Facilities Manual, Volume 2: Planning, Chapter 7: Capital Planning and Real Estate Approvals*, www.ucop.edu/construction-services/facilities-manual/volume-2/vol-2-chapter-7.html#7-8

⁴ "IDA617: Approve and Execute Commitments for Licenses." *UCI Official University Policies & Procedures/Irvine Delegation of Authority*, issued July 1, 2019, www.policies.uci.edu/delegations/ida617.php

C. **Rental Rate Sheet**

In discussions with management, IAS noted that rates have not been updated since July 2017. Additionally, the following information is missing: fee information for four venues and charges for use of a parking attendant, parking permits, parking signage, and trash services.

In order to provide quality rental service to internal and external parties in a reasonable and cost-effective manner in accordance with University policies, CTSA should:

- Establish and document budgets for all income activities.
- Ensure that rates cover both direct and indirect costs.
- Document pricing rationale for each rate.
- Document stipulations to waive portions of fees on a case-by-case basis.
- Review and adjust rates annually.

Additionally, CTSA should consider surveying the field of like-kind facilities, especially those offered by universities and hotels in the area, to help determine a fair market value for comparable spaces.

- According to *UCI Administrative Policies Section 900-10: Policy on Use and Scheduling of UC Irvine Properties*,⁵ Regular and special events may be scheduled on University properties by campus and off-campus groups through an appropriate scheduling office. CTSA is a designated scheduling office and is responsible for providing “cost estimates for use of properties and bill users for such services.”

Fees and expenses for the use of University properties apply to all organizations unless waived by the director of a scheduling office for special circumstances detailed further in policy. The fees charged include: deposit, facility fee, use fee, parking fee, equipment fees, and staff support costs. The facility fee recovers the cost of utilities, custodial services, and opening and closing of the property.

- According to *UCI Administrative Policies Section 701-23: Sales and Service Activities Policy*,⁶ the charges established for the sale of goods and services provided by UCI campus units to non-University entities must recover full University costs, both direct and indirect.

⁵ “Section 900-10: Policy on Use and Scheduling of UC Irvine Properties.” *UCI Official University Policies & Procedures*, revised May 2010, www.policies.uci.edu/policies/pols/900-10.php

⁶ “Section 701-23: Sales and Service Activities Policy.” *UCI Official University Policies & Procedures*, revised March 2022, www.policies.uci.edu/policies/pols/701-23.php

Direct costs are readily identifiable costs which are associated with the furnishing of goods and services by the UCI unit. They can include personnel costs, consumables, materials, etc.

Indirect costs, also known as facilities and administrative (F&A) costs, cannot be readily identified with particular projects or to a specific activity. They include appropriate amounts for campus-overhead costs, such as building usage, equipment usage, operation and maintenance of plant, and general administrative services.

On the *UCI Accounting and Fiscal Services - Appendix S: Sales & Service Additional Information webpage*,⁷ the F&A overhead rate is added to the total direct costs. F&A rates are based on the negotiated current Federal research overhead rate for the campus. The rate should be sufficient to recover the campus sales and service assessment (14.6%) and department/school/ unit indirect support (recommended at 15.2%).

- The *UCI Accounting and Fiscal Services – Income Activities – Sales and Service/Recharge Training*,⁸ for both recharge (internal UCI entities) and income (external, non-UCI entities) activities states that:
 - Rates must be established on a per hour or per unit basis.
 - Pricing rationale worksheets are used to itemize and calculate costs.
 - Different rates should be established for different levels of services.
 - Base and current budgets are required for all income activities.
 - Rates should be adjusted annually, to eliminate any deficits or surpluses over as short a period as possible (not to exceed three years).
 - Departments should ensure that year-end surpluses and deficits do not exceed 60 days of operating costs.

Management Action Plan

By July 31, 2023, CTSA will establish a comprehensive written policy for the documentation of fees in Facilities Use Agreements and annual review of rental rates. This policy will be developed with inputs from the CTSA Facilities Manager and the Finance Department.

By December 31, 2023, a complete review of current rental rates will be completed, and the new policy will be fully implemented.

⁷ “Appendix S: Sales & Service Additional Information.” UCI Accounting & Fiscal Service, revised August 2017, www.accounting.uci.edu/cost-analysis/appendix-s.html

⁸ “Income Activities – Sales and Service/Recharge Training” [PowerPoint presentation]. UCI Accounting & Fiscal Service Website, 28 Feb 2019, www.accounting.uci.edu/docs/cost-analysis/Recharge_Training_02-28-19.pdf

Detailed Action Plan:

1. Conduct a meeting involving the Facilities Manager, Finance Department, and other relevant stakeholders to outline the scope of the new policy by 7/20/2023.
2. Draft a new policy on Facilities Use Agreements and rental rates by 7/31/2023.
3. Obtain committee approval for the new policy.
4. Implement the new policy by 12/31/2023.
5. Conduct an annual review of rental rates and document the findings according to the new policy.

Due date: No later than December 31, 2023

2. Cash Management

Background

*UC Business and Finance Bulletin BUS-49 "Policy for Cash and Cash Equivalents Received" (BUS-49)*⁹ establishes the University's policies related to handling and processing cash and cash equivalents and defines roles and responsibilities related to receipt, safeguarding, reporting, and recordkeeping for all University cash and cash equivalents. Its purpose is to ensure that University assets are protected, accurately and timely processed, and properly reported. Non-compliance with the University's cash handling policy increases the risk of misappropriation of funds.

Observations

CTSA collects cash and cash equivalents for student programs, security deposits for studio space, lost key charges, space rentals, and other activities. IAS performed a walkthrough of three CTSA safes that store cash and cash equivalents and performed testing over a sample of 21 FY 2021-22 cash deposits and noted that cash handling practices are inconsistent across CTSA departments:

- For six selections, checks were not timely deposited based on IAS's review of the check copies. According to *BUS-49*, collections at departments should be deposited at the designated main cashiering station at least weekly or whenever collections exceed \$500.
- For one selection, the date was not filled out on the check.
- Two departments making deposits have no procedures in place to log key details of cash and cash equivalent payments received (in person or through

⁹ "Number BUS-49: Policy for Cash and Cash Equivalents Received." *University of California Business and Finance Bulletin*, revised Sept 2008, www.policy.ucop.edu/doc/3420337/BFB-BUS-49

the mail), the individual recording the receipt, and the individual verifying the receipt process. *UCI Administrative Procedures Section 704-10: Campus Cashiering Procedure for Handling Cash and Cash Equivalents, F. Unit Standards, 1. Separation of Duties and Dual Custody*¹⁰ states that all payments received by campus departments should be verified and documented in the presence of the payer or in dual custody whenever possible, and a receipt should be issued documenting the transaction. Separation of duties must be maintained when cash is received.

- For one department making deposits, checks are not endorsed upon receipt because they do not have an endorsement stamp. In order to prevent liability associated with improper endorsement of checks and to comply with *BUS-49*, the department should contact Central Cashier to acquire their exclusive endorsement stamp.
- Two departments stored their cash and cash equivalents in the desk drawer of the department manager when they could not deposit them on the day received. One of these departments deposited over \$25,000 at one time. *BUS-49* establishes various stored cash limits and matches them with an appropriate type of lockable receptacle or burglarproof/fire resistant safe for safekeeping:
 - Up to \$1,000 in cash and equivalents should be in a lockable receptacle.
 - Amounts from \$1,001 to \$2,500 should be kept in a safe.
 - Amounts from \$2,501 to \$25,000 should be kept in a steel-door safe, with a door thickness of not less than one inch and wall thickness of not less than half-inch.
 - Cash and equivalent amounts from \$25,001 to \$250,000 should be kept in a class TL-15 composite safe or better.
- For one CTSA safe, only one person has access to the code that opens it. *BUS-49* states that the safe's combination must be given only to supervisory and authorized personnel who must then commit the combination to memory. For emergency backup access, a spare set of keys and/or a record of the combination should be sealed, maintained in a place away from the safe, and when necessary, opened by two people together (double-custody) to prevent unauthorized access.
- The safe combination has not been changed in over five years for two CTSA safes.
- For the one CTSA safe that complied with *BUS-49's* mandated safe combination changes, there is no documentation that records when and why

¹⁰ "Section 704-10: Campus Cashiering Procedure for Handling Cash and Cash Equivalents." *UCI Official University Policies & Procedures*, revised Feb 2022, www.policies.uci.edu/policies/procs/704-10.php

the combination changed. As stated in *BUS-49*, documentation must be maintained showing the date and the reason for safe combination changes.

Management Action Plan

By September 30, 2023, CTSA plans to have a uniform policy for cash handling across all departments. This would involve collaboration between the Finance Department and all other departments. In coordination with our sales activity policy, cash and check usage will be minimized.

A training program for this policy will be established, and the first training session will be conducted by October 31, 2023.

Detailed Action Plan:

1. Unused safes will be removed by 9/30/2023.
2. Coordinate with the Finance Department to draft a uniform cash handling policy by 9/30/2023.
3. Review and approve the policy.
4. Communicate the new policy to all departments and conduct a training session by 10/31/2023.

Due date: No later than October 31, 2023

3. Inventory Management

Background

IAS conducted discussions with CTSA staff and management to understand inventory practices regarding sound equipment and costume inventories.

The costume inventory database is on a computer that is physically housed in the Costume Annex in the Contemporary Arts Center (CAC). All costumes are barcoded and should be recorded in the database.

Sound equipment is barcoded and stored in two different storage rooms in CAC. The sound equipment inventory database is on a computer located in one of the storage rooms. Equipment is checked out and checked back in using this database. According to CTSA management, the sound equipment inventory has an estimated value of \$1,148,000.

IAS performed a walkthrough of the sound equipment and costume inventory storage areas. As part of walkthrough procedures regarding the sound equipment inventory, IAS randomly selected a few items to trace between the production sound inventory list to their physical storage location.

Observations

In IAS's discussions with management, the high turnover of staff and the lack of succession planning, including no documentation of processes in place, has led to lapses in controls for inventory management.

Based on a review of internal controls over CTSA inventory practices, IAS notes the following observations:

- Physical inventory counts of sound equipment are not currently taking place and physical inventory counts of costumes have not taken place since December 2019.
- The electronic costume database has not been updated since December 2019 and CTSA did not have access to the database until March 2023.
- The sound equipment database does not record who has checked out or checked backed in equipment.
- One equipment item was randomly selected to trace from the physical storage location to the sound equipment database, but the database had not been updated to note the correct location and the item was still considered as checked out to a production.
- There are no written departmental policies and procedures that sufficiently define processes and the roles and responsibilities regarding inventory management. Specifically for costume and sound equipment inventories, there are no written procedures on how to check out and check back in items and how to perform an annual inventory count.

With a high total replacement cost of the sound equipemnt inventory and a lack of regular inventory counts, there is an increased risk of errors and potential theft of items due to management having a reduced ability to discern whether changes in inventory levels are truly due to legitimate production needs. As a result, the likelihood of timely detection and reconciliation of discrepancies is greatly diminished. The lack of regular inventory counts also lessens management's ability to verify the overall accuracy of the inventory database, which in turn, hinders efficient and effective management of operations.

Based on *UCI Administrative Procedures Section 706-19: Physical Inventory of Equipment - Procedure*,¹¹ University and contracting/granting agencies' regulations require campus departments to conduct periodic physical inventories of assigned equipment and to verify and update departmental equipment records. As a good business practice, a physical count of inventory

¹¹ "Section 706-19: Physical Inventory of Equipment - Procedure." *UCI Official University Policies & Procedures*, revised Feb 2007, www.policies.uci.edu/policies/procs/706-19.php

should be taken at least annually. Management should be advised of any significant inventory discrepancies.

Documentation of the physical inventory counts should consist of two or more individuals counting, notation of any detected variances reconciled with explanations, any adjustments needed, and acknowledgment by the reviewer of the count documentation. Maintaining inventory count documentation records will allow management to better detect any potential irregularities in inventory that could be caused by error, theft, damage, or other types of loss, and to facilitate investigations, when necessary.

Any adjustment to inventory records (for missing, damaged, obsolete, or stolen items) should be documented and approved by departmental management.

Management Action Plan

CTSA aims to have an exhaustive policy concerning inventory management, including a formal succession plan and regular inventory counts, in place by December 31, 2023.

By December 31, 2023, the first comprehensive inventory count will be conducted under the new policy.

Detailed Action Plan:

1. Convene a meeting with key stakeholders to discuss the new inventory management policy by 9/15/2023.
2. Draft, review, and approve the new policy by 9/30/2023.
3. Communicate the new policy to all relevant staff and conduct a training session by 10/31/2023.
4. Conduct the first comprehensive inventory count under the new policy by 12/31/2023.

Due date: No later than December 31, 2023