UCIRVINE | INTERNAL AUDIT SERVICES

Claire Trevor School of the Arts

Internal Audit Report No. I2019-102

October 12, 2018

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INTERNAL AUDIT SERVICES
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STEPHEN BARKER, Ph.D.
PROFESSOR AND DEAN
CLAIRE TREVOR SCHOOL OF THE ARTS

Re: School of the Arts Audit
Audit No. I2019-102

Internal Audit Services has completed the review of the 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.

Mike Bathke
Director
UC Irvine Internal Audit Services

Attachment

C: Audit Committee
    Alan Doig – Director, Financial Operations
    Deborah Jean Stansbury Sunday – Assistant Dean

I.   MANAGEMENT SUMMARY

In accordance with the fiscal year (FY) 2018-19 audit plan, Internal Audit Services (IAS) reviewed business operations within the Claire Trevor School of the Arts (CTSA). Many internal controls within CTSA business operations are functioning satisfactorily. However, opportunities exist to strengthen certain control measures and processes to ensure compliance with University policies and procedures and/or best business practices. The following opportunities were noted.

Donated Art – A sample review of art donated to CTSA disclosed one missing art piece and incomplete documentation. Donated art is not verified in a timely manner. In addition, well-defined roles and responsibilities and written policies and procedures can strengthen administrative processes for donated art. This observation is discussed in section V.1.

Costume Inventory – A perpetual inventory system was implemented in 2011 to assist management in tracking 7,000+ costumes and accessories. However, inventory records have been difficult to maintain and do not agree with costume and accessories inventories. This observation is discussed in section V.2.

Sales and Service Activities – Certain sales and service activities require written agreements. However, agreements are not always completed and submitted to the Budget Office. This observation is discussed in section V.3.

Equipment Management – A sample review of inventorial equipment disclosed one missing equipment item. Furthermore, its disposition was not documented. Equipment items were not always found in locations indicated on the official list of inventorial equipment, and seldom had University property tags. This observation is discussed in section V.4.

PALCard Expenditures – A sample review of PALCard transactions disclosed that, on two occasions, PALCards were used to pay for high risk services that need to be acquired through a Kuali Financial System (KFS) requisition. In addition, these services were completed before internal purchase requisitions were prepared by the cardholder and pre-authorized by the reviewer. In the sampled transactions, PALCard supporting documentation did not always include proof of goods received. This observation is discussed in section V.5.

II.   BACKGROUND

CTSA was established in 1965 as the School of Fine Arts. However, 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 has become a national leader in training future generations of artists and scholars.

CTSA is home to the departments of Art, Dance, Drama, and Music, in addition to The Center for 21st Century Creativity (21C). Undergraduate and graduate degree courses include extensive studio, workshop, and performance experiences; theoretical and historical studies; and arts/technology practices. The Drama Ph.D. program is one of the top programs in the country, run jointly with UC San Diego. The Music department has a new Ph.D. program in Integrated Composition, Improvisation, and Technology.

Currently, CTSA occupies twenty-one buildings on the campus, and provides excellent facilities to support artistic development. Available resources 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. CTSA students regularly participate in choirs, instrumental ensembles, drama productions, dance performances and art exhibitions.

CTSA fosters collaboration and teamwork among 428 individuals, including 81 faculty members, 51 staff members, 156 graduate students and 140 student workers. Business and financial operations are primarily the responsibility of an Assistant Dean who reports to the Dean. The Assistant Dean is supported by an Academic Personnel Manager, a Director of Technology Services, a Director of Outreach Programs, a Production Manager/Technology Director, a Director of Financial Operations, a Facilities Manager, and associated staff members.

III.   PURPOSE, SCOPE AND OBJECTIVES

The purpose of the audit was to assess CTSA business operations. The review was designed to determine whether internal control measures are in place to ensure appropriate and compliant transactions, and efficient/effective business

operations. The audit scope included FY 2017-18 business operations. The following audit objectives were included in the review.

1. Verify donated artwork; reconcile artwork to the official inventory list.
2. Verify that costume and accessories are safeguarded, recorded, and periodically reconciled to costume/accessories inventory records.
3. Verify that sales and service agreements are prepared when necessary and approved by the UC Irvine Budget Office.
4. Verify existence, location, and proper tagging of inventorial equipment.
5. Verify that PALCard purchasing processes are compliant with policy.
6. Verify that disbursement vouchers are appropriate, reasonable and compliant with policy.
7. Verify that certain payroll processes are compliant with UC/UCI policies; verify that overtime hours are pre-authorized in writing
8. Verify the reason(s) certain funds have negative balances at fiscal year-end and determine when the funds are projected to have positive balances.

IV.   CONCLUSION

Many internal controls within CTSA business operations appear to be functioning satisfactorily. Opportunities exist to strengthen internal controls and improve processes with donated art, costumes and accessories, and equipment inventories. Processes can also be improved with sales and service agreements and PALCard transactions.

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

V.   OBSERVATIONS AND MANAGEMENT ACTION PLANS

1. Donated Art

Background

CTSA is responsible for managing donated artwork received from many benefactors, including family members of Claire Trevor and her estate. The

official inventory list of donated art contains seventy art pieces, including watercolor and oil paintings, lithographs, sculptures, and other art. Some art pieces have been loaned to other on-campus venues where the art is displayed.

Observation

CTSA processes for managing donated art were discussed with management. Additionally, on a sample basis, art pieces documented in an official inventory list were verified. The following items were noted.

1. **Missing Artwork/Incomplete Documentation** - One of the loaned art pieces could not be found at its designated location, or elsewhere. Furthermore, loan documentation for the art piece could not be located. Management indicated that documentation is missing for other loaned artwork, and the official inventory list may not include all donated art.

2. **Verification of Donated Art** - Management disclosed that 40 pieces of inventoried art were verified in April 2018. However, other inventoried artwork has not been verified recently. As a best practice, inventoried artwork should be verified and inspected in coordination with the semi-annual update of the official Fine Arts inventory list completed by UC Irvine Insurance Services.

3. **Written Policies and Procedures** – Policies and procedures have not been written for receiving, recording, safeguarding, verification, inspection, reconciliation, and other key processes associated with donated art management and oversight.

4. **Roles and Responsibilities** – Although one CTSA employee has been assigned primary responsibilities for donated artwork, the inventory list mentions three additional employees with oversight responsibilities. Continuity in the oversight of donated art may be strengthened with the appointment of one employee serving as a back-up to the employee with primary accountability for donated art.

Sound management and oversight of donated artwork requires clearly defined roles and responsibilities and well-written policies and procedures.

Management Action Plan

By March 31, 2019, CTSA, working with the Dean's Office, Development Director, Art Department, and Facilities Manager, plans to have a comprehensive written policy in place dealing with the receiving, handling, storage, loans and tracking of donated artwork.

Also by March 31, 2019, loan agreements for art will be in writing and approved by the Dean. Instructions on moving the art will be included in the agreements.

By June 30, 2019, a current inventory will be completed. Roles regarding tracking and documenting the location of the art will be clearly defined and added to the job descriptions of those responsible. Art inventory verification will be done on a regular basis, with a full inventory completed at least once a year. For art that is currently on loan, if no loan documentation can be found, a new agreement will be put in place.

2. Costume Inventory

Background

In fiscal years prior to 2011, costumes and accessories stored on-site were not inventoried due to resource shortages. In FY 2010-11, a perpetual inventory application was put in place, in addition to new clothing/costume photography and barcoding processes, and an automated conveyor rack to assist management's efforts to monitor 7,000+ costume and accessories.

Observation

IAS reviewed current processes for monitoring costume and accessories. The following items were noted.

1. A significant amount of staff/student time is required to update inventory records. Due to limited resources and competing priorities, processes for recording and reconciling costumes and accessories have been a low priority for the costume manager. Prior years' efforts to maintain alignment of inventory records with physical inventories have been insufficient; only 25 percent of costumes and accessories have inventory records. A periodic

reconciliation of stored costumes and accessories is not being completed, and cannot be performed because inventory records are incomplete.

2. The costume shop has discontinued efforts to sell outdated costumes and accessories. Instead, reusable items earmarked for disposal are donated to Goodwill or to high school drama departments. However, UC Business and Finance Bulletin BUS-38, Disposition of Excess Property and Transfer of University-Owned Property states that all excess property must be transferred to UC Irvine Equipment Management for sale/other disposition.

3. Equipment inventory records for the Drama department include a line item for "theatrical costumes and accessories collection." The UC Irvine inventorial equipment manager has requested that this inventory line item be taken out of inventory, as the University tag number indicates the costume and accessories collection in 1970.

Internal controls over costume and accessories inventories could be further strengthened to decrease the risk for financial loss. UC Business and Finance Bulletin BUS-29, Management and Control of University Equipment defines other inventorial items (i.e., costume and accessories) as items purchased for less than $5,000 that are not inventoried as equipment or governmental property, but are subject to safeguards provided by the inventory process. Such items are subject to local University location inventory control procedures.

Management Action Plan

By March 31, 2019, a written policy will be created to address how costume and accessory items are added to as well as removed from the inventory record.

Any costume inventory that is deemed to be no longer needed will be disposed of through campus Excess and Salvage, in accordance with Business and Financial Bulletin BUS 38. Access to costume storage will be controlled in order to ensure the integrity and accuracy of the inventory.

By December 31, 2018, the CTSA Facilities Manager will work with the University Asset Manager to remove the outdated costume listing from the University equipment list.

3. Sales and Service Activities

Background

CTSA participates in several revenue-generating activities with third parties unaffiliated with UC Irvine. CTSA provides standardized goods and services to these unaffiliated third parties for consideration. Activities include drama, music, and dance productions, art galleries and exhibitions, and other ticketed events. Additional activities include outreach programs, space rental, and the rental of props, furniture, and sound equipment. Certain activities require written sales and service agreements that are forwarded to the UC Irvine Budget Office for final approval.

Observation

CTSA processes involving sales and service activities were reviewed. Eight FY 2017-18 sales and service activities were selected for detailed review. Activities included space rentals, and rentals of props, furniture, and sound equipment.

Sales and Service Activities without Agreements – Five of the eight sampled activities involved the CTSA Production unit's rentals of props and furniture, and the CTSA Drama unit's rental of sound equipment. Discussions with management disclosed that sales and service agreements could not be located, and had not been forwarded to the Budget Office or to UC Irvine Procurement/Contract Services for any of these rental activities, as follows.

	Activity	Date	S&S Agreement
1.	SOC Open Air Theatre-Prop Rental	9/18/17	No
2.	OC Centric, Play Festival-Prop Rental	9/21/17	No
3.	CA. Shakespeare Ensemble-Prop Rental	10/13/17	No
4.	University of La Verne-Furniture Rental	1/10/18	No
5.	S. Coast Repertory-Sound Equip Rental	10/16/17	No

As a result, the Budget Office was unable to review these sales and service activities for appropriateness and provide a final approval, as required by UC Irvine Policy 703-14, Sales and Services Income Guidelines.

Management Action Plan

CTSA will make sure that all sales and service related activities are properly documented and properly vetted through the UC Irvine Budget Office. By November 30, 2018, a memo will be sent to the departments detailing proper procedures for sales and service related activities.

4. **Equipment Management**

   Background

   UC Irvine inventorial equipment is defined as any tangible asset with an acquisition cost of $5,000 or more and a useful life of one year or more. UC Irvine policy requires a uniform property control system that includes property identification through assigned numbers documented on tags that are attached to the equipment items. A record of inventorial assets must be maintained by each UC campus, which must be updated annually with input from each campus unit that has inventorial equipment.

   Observation

   Current processes for managing inventorial equipment were reviewed. Eight inventorial equipment items were sampled to verify the existence and location of the items and whether or not the items were properly tagged.

   Of the eight sampled equipment items, one item could not be located and may have been sent to salvage; there were not any documents available to determine the item's disposition. The remaining seven equipment items were found, however only five of them were in their designated locations. Additionally, only two of the seven equipment items had property tags.

   Proper management of equipment requires accurate equipment inventory records, adequate safeguarding of equipment items, and periodic reconciliations between inventory records and equipment inventory.

   Management Action Plan

   By March 31, 2019, CTSA will ensure that inventorial equipment policies will be posted and shared across the School. Property tags will be attached to

equipment where it will be possible to see and verify the tag numbers. On moveable equipment the School will use a log to identify movement and location of equipment when not in the designated storage area.

Proper policies will be in place to document when a piece of inventorial equipment is sent to salvage, it is also removed from the inventory list.

Periodic audits will be conducted to reconcile the equipment inventory with actual equipment on site.

5. **PALCard Transactions**

Background

PALCard is UC Irvine's procurement card. Purchasing authority is delegated to individuals with PALCard/low value purchase training. Purchases made by others are unauthorized. In addition, PALCard purchases should be pre-authorized.   CTSA utilizes internal purchase requisitions to document purchase pre-authorizations.

Observation

IAS reviewed FY 2017-18 PALCard purchases. Sampled purchases included costumes, lighting rental and services, art materials, equipment maintenance services, and food/furniture props. The following items were noted.

Purchasing Methods: Certain high-risk services should be acquired through a KFS requisition, not a PALCard. In two instances, PALCards were utilized to pay for onsite maintenance of two CTSA lifts. Central Purchasing was not consulted to determine whether a vendor agreement was in place, and whether PALCard was a proper payment method for these high risk services.

Timeliness of Purchase Pre-authorizations: Pre-authorization signatures in internal purchase requisitions seldom include a signature date, which can obscure untimely purchase pre-authorizations. However in the PALCard review, two sampled requisitions did include dates with the pre-authorization signatures. A comparison of each requisition's signature date to the vendor's service date disclosed that the vendor had provided services 24 days and 18 days, respectively, prior to the dates that the services were pre-authorized.

Receipt of Purchased Goods: Receipts, packing slips and/or other documentation utilized to document the receipt of purchased goods and services are seldom included in PALCard supporting documentation.

As a best practice, Central Purchasing should be contacted for guidance prior to the procurement of high-risk services. Furthermore, cardholder and pre-authorization signatures in purchase requisitions should include signature dates. In addition, receiving documentation should be included in PALCard supporting documentation to provide proof of goods received.

Management Action Plan

CTSA will continue to follow the policies and procedures for PalCards set out by the University and School, posted on the School's Business Office website. The School will continue to provide in-depth training on PalCard and purchasing methods annually, as well as one-on-one training for new PalCard holders. PalCard holders will be reminded to ask the Business Office or Central Purchasing for guidance prior to procuring high-risk vendor services.

The School will require purchasers and approvers to date their signatures on the requisition. Some pre-approvals are done via a shopping plan, where the total plan is turned in with projected costs, not knowing the actual purchase point or exact cost of each item. These pre-approvals will be filed in the Business Office.

The school will ask for receiving documentation, such as packing slips and will-call receipts to be included in PalCard supporting documentation.

By October 31st, 2018, notification will be sent to PalCard holders and departments to address these issues.