

February 8, 2013

JAMES P. CARMODY
Chair, Department of Theatre and Dance
0344

Subject:*Department of Theatre and Dance***Audit & Management Advisory Services Project 2013-05**

The final audit report for Department of Theatre and Dance, Audit Report 2013-05, is attached. We would like to thank all members of the department for their cooperation and assistance during the audit. Because we were able to reach agreement regarding corrective actions to be taken in response to the audit recommendations, a formal response to the report is not requested.

The findings included in this report will be added to our follow-up system. We will contact you at the appropriate time to schedule a follow-up review of the management corrective actions.

UC wide policy requires that all draft audit reports be destroyed after the final report is issued. Because draft reports can contain sensitive information, please either return these documents to mail code 0919 or destroy them at this time.

David Meier
Assistant Vice Chancellor
Audit and Management Advisory Services

Attachment

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UC San Diego

AUDIT & MANAGEMENT ADVISORY SERVICES

Department of Theatre and Dance
February 2013

Performed By:

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Approved By:

David Meier, Assistant Vice Chancellor

Project Number: 2013-05

Department of Theatre and Dance
Audit & Management Advisory Services Project 2013-05

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I. Background

Audit & Management Advisory Services (AMAS) has completed a review of the Department of Theatre and Dance as part of the approved audit plan for Fiscal Year 2012-13. This report summarizes the results of our review.

Since its founding in 1972, the UC San Diego Theatre and Dance Department (Department) has risen to become one of the top-ranked theatre programs in the country. Many factors have contributed to the Department's success.

Thirty-four permanent and 42 part-time Department faculty members teach and mentor two hundred undergraduate majors and minors, sixty Master of Fine Arts (MFA) students, and 12 PhD students each year. The Department has six performance venues and five performance-sized rehearsal halls available for its theatre and dance productions. The UC San Diego Theatre District houses one of the most technically advanced and flexible performance facilities in the country, including a building devoted exclusively to Dance Theatre. The department produces 15 productions annually, including the Baldwin New Play Festival, created for the development of new plays.

The Department shares these facilities, shops and staff with the Tony award-winning La Jolla Playhouse, and MFA candidates receive professional residencies there after their second year.

The Department and the La Jolla Playhouse (LJP) have collaborated closely for more than two decades. For Fiscal Year 2011-12, the Department of Theatre and Dance managed a total budget of approximately \$7.9 million including \$7.2 million (91%) in general funds. Approximately 90% of departmental expenditures were for salaries and benefits, 8% for supplies and expenses, and 2% for travel expenses.

II. Audit Objective, Scope, and Procedures

The objective of our audit was to evaluate whether Department internal control procedures were adequate to provide reasonable assurance that operations were effective and efficient, complied with University policies and procedures, and resulted in accurate financial reporting. The scope of the review was limited to activities and business practices for Fiscal Years 2011 and 2012.

In order to fulfill our objective, we performed the following procedures:

- Reviewed department policies and procedures for key business processes such as:
 - Operating ledger review and financial reporting,
 - Timekeeping and payroll,

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- Non-payroll expenditure transactions,
 - Travel and entertainment expenses,
 - Express Card purchases,
 - Payment authorizations,
 - Expense transfers,
 - Gift fund expenditures,
 - Petty cash funds,
 - La Jolla Playhouse invoices, and
 - Information systems security.
- Analyzed departmental organizational and financial information;
 - Met with management to discuss any potential areas of concern;
 - Reviewed internal control questionnaires and separation of duties matrices with departmental management;
 - Performed detailed testing of selected key business processes to verify that internal controls were adequate and functioning in compliance with university policy.

III. Conclusion

Based on the audit procedures performed, we concluded that Department internal controls were generally adequate and functioning effectively to provide reasonable assurance that operations were effective and efficient and in compliance with University policies and procedures.

However, during our review we noted several opportunities for improvements in the system of internal controls in the following areas:

- Approval process for payment or reimbursement of expenses,
- Maintenance of supporting documentation for payments made to the LJP, and
- Maintenance of an aging schedule of payments due from the LJP.

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IV. Observations and Management Corrective Actions

A. Expense Approval Processes

Reimbursements for expenses incurred in the Department were sometimes reviewed and approved by the individual incurring the expense, or by someone reporting to that individual.

University policy provides that payments for expenses should be reviewed and approved by someone not reporting directly or indirectly to the person incurring (claiming) the expenditure, (see, for example, UC Policies BFB-G-28, BFB-BUS-43, BFB-BUS-79 and AM-D224-17.)

We noted that reimbursements for travel, business meeting and Express Card expenditures incurred by the Management Services Officer (MSO) were sometimes approved by the MSO or staff reporting to the MSO. All of the reimbursements we reviewed during our audit appeared proper. However the internal control environment in the department would be enhanced if the department strictly complied with University policy with respect to expenses incurred by individuals in management positions within the Department.

Management Corrective Action:

The Department will revise its expenditure review and approval processes as needed to ensure that financial transactions will be reviewed and approved by someone not reporting directly or indirectly to the individual who incurred the expenditure. Specifically, the MSO's travel and entertainment expenses, and Express Card activity, will be reviewed and approved by the Department Chair. The Department Chair's travel and entertainment expenses will be approved by the Dean's Office

B. Supporting Documentation

Procedures for maintaining supporting documentation for the payment of invoices received from the LJP could be improved.

The LJP periodically invoiced the Department for costs such as materials and supplies by the LJP in working on Departmental theatre and dance productions. The Department required that LJP invoices should be approved by the Department Production Manager prior to payment. This was accomplished by requesting the Production Manager to initial the invoices prior to payment by the Department Business Office.

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In reviewing a sample of these invoices during our audit, we found that the Production Manager did not always pre-approve the invoices in writing prior to payment. We were told that a verbal approval of the invoice was sometimes obtained in lieu of written approval. In addition, we noted that two \$500 invoices lacked supporting documentation from the LJP.

We determined that all of the LJP invoices tested during our review appeared valid and were properly paid. However internal controls within the Department would be enhanced if written approval was required from the Department Production Manager prior to payment, and adequate supporting documentation was maintained for LJP invoices.

Management Corrective Action:

Department Management will require that all LJP invoices are approved in writing prior to payment. In addition, adequate supporting documentation will be maintained for all LJP invoices.

C. Aging Schedule for Accounts Receivable

The Department did not maintain an aging receivables schedule for invoices sent to the LJP.

Accounting Manual, Chapter R-212-2: Receivables Management, states that aging information must be collected, maintained, reported, and acted upon in a standardized and consistent manner. Minimum standards require that reference copies of bills be maintained to provide information about the aging of the accounts receivable.

The Department sent invoices on a monthly basis for the LJP portion of the salary and benefits cost for shared staff, and to recharge the LJP for expenses incurred on its behalf. We understand that in recent years, the LJP has paid invoices from the Department in a timely manner. However, to ensure adequate oversight for accounts receivable and compliance with University policy, the Department should ensure that an aging schedule of unpaid LJP invoices is maintained on an ongoing basis.

Management Corrective Action:

Department Management will establish a process for the regular review of aging information on receivables due from the LJP.

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Audit Results by Business Office Functional Process
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Business Office Process	AMAS Audit Review Procedure					Risk & Controls Balance Reasonable (Yes or No)	Audit Conclusion ¹	Comments
	Analytical Review of Financial Data	Internal Control Questionnaire/ Separation of Duties Matrix	Process Walk-through (Ltd Document Review)	Transaction Testing (Sample Basis)				
Express Card	√	√	√	Reviewed randomly selected transactions; traced to supporting documentation.	No	Needs Improvement	Controls should be enhanced to ensure that reimbursements are reviewed and approved by someone who does not report to the individual who incurs the expense. (See Report Observation A, page 3)	
Travel	√	√	√	Reviewed 10 trips totaling \$30,602; traced to vouchers (TEV's) and supporting documents.	No	Needs Improvement		
Entertainment	√	√	√	Reviewed randomly selected transactions; traced to supporting documentation.	No	Needs Improvement		
Timekeeping & Payroll	√	√	√	Reviewed selected timesheets, absence slips, Timekeeper Audit Reports, payroll check distribution log.	Yes	Satisfactory	Procedures for timekeeping and payroll complied with University policies. Key controls were documented.	
Transaction Processing - Non-Payroll Expenditures	√	√	√	Reviewed selected transactions; traced to supporting documents.	Yes	Satisfactory	Supporting documentation was adequate.	

¹ Scale: Satisfactory – Improvement Suggested – Improvement Needed – Unsatisfactory

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Business Office Process	AMAS Audit Review Procedure				Risk & Controls Balance Reasonable (Yes or No)	Audit Conclusion ¹	Comments
	Analytical Review of Financial Data	Internal Control Questionnaire/ Separation of Duties Matrix	Process Walk-through (Ltd Document Review)	Transaction Testing (Sample Basis)			
Operating Ledger Review & Financial Reporting	✓	✓	✓	Examined selected operating ledgers and financial reports.	Yes	Satisfactory	Procedures complied with University policies. Key controls were documented.
Invoices received from La Jolla Playhouse		✓	✓	Reviewed a small sample of payments made to LJP.	No	Needs improvement	Supporting documentation for LJP invoices should be better maintained. (See Report Observation B, page 4)
Receivables due from La Jolla Playhouse	✓	✓	✓	Reviewed a small sample of invoices sent by the Department to LJP.	No	Needs Improvement	An aging schedule should be maintained for receivables due from LJP. (See Report Observation C, page 4)
Payment Authorizations	✓	✓	✓	Reviewed randomly selected transactions; traced to supporting documentation.	Yes	Satisfactory	Supporting documentation was adequate.
Petty Cash	✓	✓	✓	Reviewed a small sample of petty cash reimbursements.	Yes	Satisfactory	Approvals and supporting documentation for Departmental petty cash funds were maintained and reviewed periodically in accordance with University procedures.

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Business Office Process	AMAS Audit Review Procedure				Risk & Controls Balance Reasonable (Yes or No)	Audit Conclusion ¹	Comments
	Analytical Review of Financial Data	Internal Control Questionnaire/ Separation of Duties Matrix	Process Walk-through (Lid Document Review)	Transaction Testing (Sample Basis)			
Expenses Transfers		√		Reviewed timeliness, and business justifications for reasonableness.	Yes	Satisfactory	Payroll and Non-payroll expense transfers were adequately documented and supported.
Gift Fund Expenditures	√	√	√	Examined gift fund documents on file with the UC Foundation. Reviewed a small sample of gift fund expenditures and traced to supporting documents.	Yes	Satisfactory	Expenditures were consistent with donor intentions. Supporting documentation for expenditures was adequate.
Information Systems Environment		√	√	Toured department computer facilities.	Yes	Satisfactory	The Department appeared to be in compliance with campus standards.

¹ Scale: Satisfactory – Improvement Suggested – Improvement Needed - Unsatisfactory