Internal Audit Report
Jefferson Performing Arts Society
January 30, 2013

SCOPE AND OBJECTIVES

The audit of the Jefferson Performing Arts Society (JPAS) was performed at the request of the Jefferson Parish Council under resolution 117985, which was adopted on December 7, 2011. The resolution requested that Internal Audit review agencies that do not fall under the jurisdiction of the Jefferson Parish government, but which regularly receive funds from Jefferson Parish to ascertain whether or not such funds are being used as intended and in accordance with applicable parish and state laws.

JPAS is a non-profit professional arts organization whose mission is to promote arts performance, training, and outreach by providing a diverse range of quality programs that entertain, educate, and enrich the cultural and economic vitality of Jefferson Parish, Greater New Orleans, and the Gulf South.

The JPAS is funded by Public ticket sales, donations, sponsorships, participation fees, grants, and contributions from Jefferson Parish. JPAS currently has a Cooperative Endeavor Agreements (CEA) with Jefferson Parish, which provided $100,000 authorized by Jefferson Parish Ordinance Number 118247 on January 25, 2012. Jefferson Parish has also provided, from the period August 1, 1990 through June 30, 2012, a local sales tax of one-half of one percent of the gross proceeds derived from the lease or rental of automobiles, with two-thirds of the tax going to the Jefferson Performing Arts Society under LSA-R.S. 47:551.

RESPONSE

Management responses were received from the Jefferson Performing Arts Society on February 25, 2013. These responses are incorporated in to the report as Appendix I. The Attachments referenced in the response are not included in this final report, but are available in the office of the Jefferson Parish Internal Audit Department and have been distributed to all members of the Jefferson Parish Governmental Ethics and Compliance and Audit Committee.

FINDINGS AND RECOMMENDATIONS

Independent Auditor’s Report of Lack of Segregation of Duties

FINDNG: Internal Audit noted that for at least the last three years, Reginald Bressette, LLC, the Independent Auditor for the Jefferson Performing Arts Society, had noted that their examination had disclosed a lack of segregation of duties within JPAS. The auditor noted that with a small staff, the most desirable system of internal controls may not be practicable. They further recommended that the organization’s finance committee and executive director continue to closely monitor all records and transactions.

RECOMMENDATION: Internal Audit recommends that JPAS create specific written policies and procedures to ensure that the control environment is adequate over records and transactions. Internal Audit noted that JPAS concurred with the audit findings, but did not note any improvement in the internal control environment as a result. Detailed areas of concern are listed in the following findings.

Lack of Segregation of Duties Regarding Accounts Payable

FINDING: Internal Audit noted a serious deficiency in the segregation of duties in accounts payable. The Executive Director could incur an expense, approve the expense, and sign the check paying for the expense. The Accountant does input the transactions into the accounts payable system, but does not review transactions for appropriateness.

RECOMMENDATION: JPAS needs to create, via written policies and procedures, a control environment that requires segregation of duties to not allow the same person to spend, approve, and pay for an expense.

Pre-Approved Check Requisition Forms

FINDING: All employees had access to check requisition forms that had been photocopied with the Executive Director's signature already included, approving the requisition. There was no other evidence or documentation that the requisition was reviewed for appropriateness. Because there was no evidence or requirement for any other review, it cannot be assured that all payments made by JPAS are authorized and appropriate business expenses. Further, because there are two additional employees who are approved check signers (in addition to the Executive Director), these employees also could spend, approve (via pre-signed requisition form), and sign the check to release payments without any other review.

RECOMMENDATION: We recommend immediate discontinuance of the use of pre-approved requisition forms. Each accounts payable requisition should document review and approval by an appropriate level of management. A policy should be implemented to insure proper segregation of these duties.

Bank Reconciliations

FINDING: The JPAS is a very small operation; therefore it is difficult to maintain a proper segregation of duties. For example, the current process is for the Business Manager, who also processes accounts payable, to prepare the bank reconciliation. There is no documentation on the reconciliation that anyone reviews the reconciliations. Internal Audit also noted that the account had not been reconciled since May 30, 2012 and included unposted items in suspense accounts.

RECOMMENDATION: Internal Audit believes that because the Business Manager has access to the check stock and the Executive Director signs the checks, there is not adequate segregation of duties currently in place. A member of the Board of Directors who does not have check signing authority should sign off on a review of the reconciliations. The review should also ensure that the reconciliations are performed monthly, in a timely manner.

JPAS Employee Credit Card Use

FINDING: Several JPAS employees had JPAS credit cards issued in their names for business travel and other business expenses. JPAS had inadequate control over employee credit card usage. It had no written policy for JPAS credit card usage. The Business Manager attempted to match the credit card statements to the credit card receipts, but often, the credit card receipts were not attached. Because of the numerous credit card charges without supporting invoices, Internal Audit is unable to ensure that credit cards were not abused by employees for personal use. We did note that many meals (both local and out-of-town), gasoline purchases, grocery/drug store purchases, and many other potentially personal charges did not include receipts and/or document the business purpose of the purchase. **None of the credit card statements and supporting documents evidenced review and approval.**

Also, Internal Audit noted many credit card purchases were with recurring vendors, such as Home Depot, with which JPAS could create charge accounts. By using charge accounts, the invoices could more easily be matched to monthly statements to ensure that all receipts have a business purpose. JPAS Credit card expenditures for 2012 totaled over $250,000.

Several late fees, credit card interest charges (at 29.9%), and over-limit fees were also noted as incurred and paid.

RECOMMENDATION: Internal Audit recommends that JPAS discontinue the use of JPAS credit cards and instead reimburse expenses only via personal expense reports. If JPAS feels it can ensure proper internal controls, it should have a member of the Board of Directors review and approve all personal expense reports and credit card bills for the Executive Director. JPAS should also establish a policy where the highest ranking employee participating in an expense pays for it so the approval of the reimbursement goes up to the level above all persons participating in the expense.

Direct Reimbursements to the Executive Director

FINDING: Between January 2011 and October 2012, the Executive Director was reimbursed over $15,000 of expenses directly to him through the accounts payable system. As noted above, he could spend, approve, and authorize the payments without any other review. Several of these reimbursements were based on photocopies of credit card statements and did not include detailed, original receipts or invoices.

RECOMMENDATION: We recommend that JPAS create a policy that requires the review and approval of the Executive Director’s reimbursements by the JPAS Board of Directors. This review should be documented in the Board meeting minutes.

Employee Reimbursements Were Missing Proper Documentation

FINDING: Internal Audit noted many of the employee reimbursement requisitions were missing proper documentation of the expenses. Reimbursements were made to employees based on photocopies of personal credit card receipts, meal reimbursements did not include the detailed receipts, fuel purchases did not document business purpose of expenditure, etc.

RECOMMENDATION: We recommend JPAS create specific reimbursement policies to include original detailed receipts and documentation of the business purpose. Internal Audit provided JPAS with a sample reimbursement form that includes the employee signature certifying that the expenses were business related.

JPAS Travel Policy

FINDING: Internal Audit noted frequent meal expenses on the credit card statements (both local and out of town) as well as gas station, drug store, grocery expenses, etc. Frequently, theses were paid without copies of the detailed receipts and without the business purpose documented. The JPAS staff stated that group lunches were frequently provided by JPAS for birthdays, working lunches, etc.

For example, On February 11, 2012, five charges were posted to the JPAS Discover card for hotel rooms in Meridian, MS. On February 12, 2012, there were charges of $332.98 and $352.78 at Olive Garden-Meridian and another charge of $339.06 at Logans-Meridian. There also were several Sam's Club purchases on the Sam's Discover as well as various meal, fuel, hotel, and other expenses charged on the Capital One visa cards of the Executive Director, Technical Director, and the Stage Manager. None of the charges had detailed receipts.

RECOMMENDATION: We recommend that JPAS develop a travel and entertainment policy which outlines the allowable travel and local entertainment expenses. This policy should establish specific limits on the amount, timing and should also address purchases of alcoholic beverages. The policy should require detailed receipts and documentation of business purpose for payment or reimbursement. Travel expenses should all be reimbursed to the employee rather than charged on company credit cards. Public funds should not be used for gratuitous meals or for the purchase of alcoholic beverages.

Co-mingled Funds and Personal Expenses Reimbursed

FINDING: Internal Audit noted several reimbursements to employees included reimbursement for personal items such as sodas or chewing gum. Other reimbursements had business and personal purchases co-mingled, with the personal items deducted from the reimbursement request.

RECOMMENDATION: We recommend JPAS develop a policy to prohibit co-mingling of personal and business purchases. Personal items should never be passed through to JPAS.

Invoices Did Not Always Agree to Payment Amount /Double Payment

FINDING: Internal Audit noted at least one invoice that was reimbursed twice to an employee. One of the reimbursements was paid from a photocopy of the receipt. We also recalculated the receipts attached to several accounts payable and the total of the receipts did not always agree to the check amount.

RECOMMENDATION: We recommend that all accounts payable be paid only from original, detailed receipts or invoices. The requesting party should attach a calculator tape to the requisition to verify the amount requested is properly calculated.

Accounts Payable Made Payable to "Cash"

FINDING: Internal Audit noted over $9,000 of accounts payable checks made payable to "cash". According to the Executive Director, most of these payments were to establish change funds for ticket windows and concessions at JPAS performances; however, since payments to "cash" are negotiable; it cannot be assured that these expenses were legitimate business expenses. There did not appear to be a reconciliation process to ensure that funds for these purposes were ever returned to JPAS.

RECOMMENDATION: We recommend JPAS never issue checks payable to cash. A formal process to ensure change and concessions are returned after performances should be implemented.

Petty Cash

FINDING: The Accountant for JPAS maintained a "petty cash" fund for small, non-recurring expenses. This petty cash fund was rarely used and not reconciled regularly. There was no custodial agreement making the Accountant responsible for the funds.

RECOMMENDATION: We recommend JPAS develop specific policies for the petty cash fund. The custodian of the fund should sign a custodial agreement and the fund should be periodically reconciled.

Liquor Permit

FINDING: JPAS sells beer and wine at performances in Westwego. These sales are usually done by volunteers, who receive tickets to future shows, and food and drinks while they work. JPAS did not maintain a liquor permit to sell alcohol and did not have written procedures for the volunteers to follow.

RECOMMENDATION: We recommend JPAS determine the requirements for legal sale of alcoholic beverages at the venue and ensure compliance. JPAS needs to develop policies for volunteer compensation to include limits on the consumption and restrictions on serving alcoholic beverages.

Asset Inventory

FINDING: JPAS did not maintain an asset inventory of all capital assets owned or leased. Without an asset inventory, items owned or leased, JPAS cannot properly account for their existence.

RECOMMENDATION: We recommend that JPAS conduct an inventory of assets. This inventory should be perpetually updated for additions and deletions of assets and periodically reconciled.

Concessions

FINDING: JPAS had absolutely no controls over concessions. Concession items were purchased by different people, on different credit cards, and from different locations. When sold at performances, no inventory checklist was used to determine the items provided to the volunteers, and no reconciliation of income produced or ending inventory was performed. Concession items and cash could easily disappear without anyone from JPAS being aware.

RECOMMENDATION: We recommend that JPAS develop policies to control the purchase, distribution of concession items, the return of unused concession items, and cash from purchases. These policies should include some form of inventory reconciliations.

Related Party Transactions

FINDING: Several members of the Executive Directors family have been paid performers at JPAS productions on multiple occasions. There was no documentation that anyone other than the Executive Director, who chooses performers and sets their compensation, approved these related party transactions. Further, several JPAS employees have also been hired by JPAS as contract employees to perform acting and stage management roles.

RECOMMENDATION: We recommend that JPAS develop a policy to ensure that the Board is aware and documents approval of any related party transactions.

Mileage Logs for Company Vehicles

FINDING: As noted in several of the previous findings, fuel purchases are frequently noted on JPAS credit card statements, often without detailed receipts which document the business purpose of the purchase. IT cannot be determined therefore if the fuel purchases were for JPAS owned vehicles or were used on personal vehicles for personal use. Per JPAS staff, on occasion, the Executive Director allowed staff to fuel their personal vehicles on JPAS credit cards or be reimbursed for fuel purchases related to business travel.

RECOMMENDATION: We recommend that JPAS develop policies for fuel purchases that do not allow fuel to be purchased for personal vehicles. Mileage logs should be used for JPAS vehicles to ensure that fuel purchases are reasonable for the amount of miles the JPAS vehicles are driven. If employees use personal vehicles for business, a mileage allowance should be utilized rather than allowing them to buy gas on JPAS credit cards.

Independent Contractors Versus Employee

FINDING: At various times in the past two years, JPAS workers have been reclassified from employees to independent contractors and vice versa. Also, several employees have concurrently been both employees and performed contract labor for JPAS as actors, stage management, etc. IRS rules are very stringent over who may be considered independent contractors, primarily based on how much control the organization has over the worker.

Currently, the Grants Director is being paid as an independent Contractor although she turns in time sheets and has no written contract. Conversely, interns who are working under short term contracts do not report time, but are paid as employees at a fixed rate.

RECOMMENDATION: We recommend that JPAS review the above to ensure that workers are properly classified as employees or independent contractors. Potential liability for misclassification should be considered.

Exempt Versus Non-Exempt Employees

FINDING: Related to the above finding, Internal Audit noted that all full-time employees of JPAS are classified as" Exempt" from wage and labor laws under FSLA (Fair Labor Standards Act). FLSA states that to be exempt, an employee must: 1) earn $23,600 per year, 2) be paid on a salary basis, and 3) perform job duties that meet the legal definition of "exempt." The classification of employees as exempt may be a conflict of interest with their work for JPAS as independent contractors.

RECOMMENDATION: We recommend that JPAS review the job description of all full-time employees to ensure that the job duties qualify them for "exempt" positions. We also recommend that JPAS ensure that the job duties for employees paid as independent contractors do not conflict with their duties as employees.

Employee Time Reporting

FINDING: The JPAS Employee Handbook contains specific rules for personal and vacation leave, based on tenure of employment. For example, employees with over five years of employment with JPAS are entitled to fifteen paid vacation days per calendar year and days cannot be carried over from year to year.

However; JPAS does not follow this written policy because JPAS does not monitor personal and vacation time. Per the Executive Director, employee use of personal and vacation time has never been an issue and has not been tracked since Hurricane Katrina.

RECOMMENDATION: We recommend JPAS follow their written policy regarding personal and vacation time. Under the policy as written, the Executive Director's month-long trip to Italy would not have been allowed.

Pre-Signed Contracts/Missing Contracts

FINDING: Internal Audit noted that performance contracts contained a photocopy of the Executive Director's signature; therefore, may not be considered a valid contract. Many of the contracts requested for review during the audit were not provided.

RECOMMENDATION: We recommend that original signatures be required for both JPAS and the contractor. These original signed documents should be retained in the accounts payable files.

FLSA Required Posters Not Posted

FINDING: Federal and State required employment posters were not posted on site as required.

RECOMMENDATION: We recommend compliance with labor posting requirements.