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**THE LOUISIANA PHILHARMONIC
ORCHESTRA**

June 30, 2004

Audits of Financial Statements

**June 30, 2004
and
June 30, 2003**

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 11-24-04

**THE LOUISIANA PHILHARMONIC
ORCHESTRA**

June 30, 2004

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To the Board of Trustees and Members of
The Louisiana Philharmonic Orchestra

Independent Auditor's Report

We have audited the accompanying statements of financial position of the **LOUISIANA PHILHARMONIC ORCHESTRA** (a non-profit organization) as of June 30, 2004 and 2003, and the related statements of activities and cash flows for the fiscal years then ended. These financial statements are the responsibility of the **LOUISIANA PHILHARMONIC ORCHESTRA's** management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the **LOUISIANA PHILHARMONIC ORCHESTRA** as of June 30, 2004 and 2003, and the results of its activities and its cash flows for the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 25, 2004, on our consideration of the **LOUISIANA PHILHARMONIC ORCHESTRA's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



A Professional Accounting Corporation

August 25, 2004

**THE LOUISIANA PHILHARMONIC ORCHESTRA
STATEMENTS OF FINANCIAL POSITION**

A S S E T S

	June 30	
	2004	2003
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 866,069	\$ 442,082
Contributions Receivable	696,191	668,780
Other Current Assets	25,425	22,503
Deferred Marketing Costs	16,879	25,003
Total Current Assets	1,604,564	1,158,368
PROPERTY AND EQUIPMENT, NET	46,698	40,612
OTHER ASSETS		
Investments	9,010	8,704
Branding Campaign Costs, Net	22,601	30,134
Interest in Endowment Trust	115,945	115,855
Total Assets	\$ 1,798,818	\$ 1,353,673
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Trade Accounts Payable and Accrued Liabilities	\$ 78,059	\$ 80,283
Deferred Revenue - Ticket Sales	493,832	522,276
Total Current Liabilities	571,891	602,559
NET ASSETS		
Unrestricted	(647,153)	(997,679)
Temporarily Restricted	867,730	1,448,472
Permanently Restricted	1,006,350	300,321
Total Net Assets	1,226,927	751,114
Total Liabilities and Net Assets	\$ 1,798,818	\$ 1,353,673

The accompanying notes are an integral part of these financial statements.

THE LOUISIANA PHILHARMONIC ORCHESTRA
STATEMENT OF ACTIVITIES
For The Year Ended June 30, 2004

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES AND OTHER SUPPORT				
Earned Revenue	\$ 1,399,915	\$ -	\$ -	\$ 1,399,915
Contributions	1,706,617	221,336	705,939	2,633,892
Other Income	127,792	-	-	127,792
Net Assets Released from Restrictions - Satisfaction of Purpose Restrictions for Orchestra Programs	<u>802,078</u>	<u>(802,078)</u>	<u>-</u>	<u>-</u>
Total Revenues and Other Support	<u>4,036,402</u>	<u>(580,742)</u>	<u>705,939</u>	<u>4,161,599</u>
EXPENSES				
Orchestra Programs	2,656,873	-	-	2,656,873
Management and General	470,015	-	-	470,015
Marketing	395,991	-	-	395,991
Fundraising and Development	<u>162,997</u>	<u>-</u>	<u>-</u>	<u>162,997</u>
Total Expenses	<u>3,685,876</u>	<u>-</u>	<u>-</u>	<u>3,685,876</u>
ENDOWMENT RETURN IN EXCESS OF AMOUNTS DESIGNATED FOR CURRENT OPERATIONS				
	<u>-</u>	<u>-</u>	<u>90</u>	<u>90</u>
CHANGES IN NET ASSETS				
	350,526	(580,742)	706,029	475,813
NET ASSETS AT BEGINNING OF YEAR				
	<u>(997,679)</u>	<u>1,448,472</u>	<u>300,321</u>	<u>751,114</u>
NET ASSETS AT END OF YEAR				
	<u>\$ (647,153)</u>	<u>\$ 867,730</u>	<u>\$ 1,006,350</u>	<u>\$ 1,226,927</u>

The accompanying notes are an integral part of these financial statements.

THE LOUISIANA PHILHARMONIC ORCHESTRA
STATEMENT OF ACTIVITIES
For The Year Ended June 30, 2003

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES AND OTHER SUPPORT				
Earned Revenue	\$ 1,339,987	\$ -	\$ -	\$ 1,339,987
Contributions	1,567,497	1,022,734	184,366	2,774,597
Other Income	130,166	-	-	130,166
Net Assets Released from Restrictions - Satisfaction of Purpose Restrictions for Orchestra Programs	<u>917,322</u>	<u>(917,322)</u>	<u>-</u>	<u>-</u>
Total Revenues and Other Support	<u>3,954,972</u>	<u>105,412</u>	<u>184,366</u>	<u>4,244,750</u>
EXPENSES				
Orchestra Programs	2,974,408	-	-	2,974,408
Management and General	440,465	-	-	440,465
Marketing	470,310	-	-	470,310
Fundraising and Development	<u>204,316</u>	<u>-</u>	<u>-</u>	<u>204,316</u>
Total Expenses	<u>4,089,499</u>	<u>-</u>	<u>-</u>	<u>4,089,499</u>
ENDOWMENT LOSS IN EXCESS OF AMOUNTS DESIGNATED FOR CURRENT OPERATIONS				
	<u>-</u>	<u>-</u>	<u>(2,441)</u>	<u>(2,441)</u>
CHANGES IN NET ASSETS	(134,527)	105,412	181,925	152,810
NET ASSETS AT BEGINNING OF YEAR	<u>(863,152)</u>	<u>1,343,060</u>	<u>118,396</u>	<u>598,304</u>
NET ASSETS AT END OF YEAR	<u>\$ (997,679)</u>	<u>\$ 1,448,472</u>	<u>\$ 300,321</u>	<u>\$ 751,114</u>

The accompanying notes are an integral part of these financial statements.

**THE LOUISIANA PHILHARMONIC ORCHESTRA
STATEMENTS OF CASH FLOWS**

	For The Years Ended	
	June 30	
	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in Net Assets	\$ 475,813	\$ 152,810
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities		
Depreciation and Amortization Expense	32,966	33,494
Accretion of Investment Discount	(306)	(307)
Endowment Returns	(90)	(3,579)
Cash Received from Endowment	-	6,020
(Increase) Decrease in Contributions Receivable	(27,411)	11,248
Decrease in Interest Receivable	-	939
Increase in Other Current Assets	(2,922)	(4,584)
Decrease (Increase) in Deferred Marketing Costs	8,124	(6,256)
Decrease in Trade Accounts Payable and Accrued Liabilities	(2,224)	(65,361)
(Decrease) Increase in Deferred Revenue - Ticket Sales	(28,444)	12,393
Net Cash Provided by Operating Activities	<u>455,506</u>	<u>136,817</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(31,519)	(20,684)
Cash Paid for Branding Campaign	-	(37,668)
Net Cash Used in Investing Activities	<u>(31,519)</u>	<u>(58,352)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	423,987	78,465
CASH AND CASH EQUIVALENTS BEGINNING OF YEAR	<u>442,082</u>	<u>363,617</u>
CASH AND CASH EQUIVALENTS END OF YEAR	<u>\$ 866,069</u>	<u>\$ 442,082</u>
CASH PAID FOR INTEREST	<u>\$ 7,131</u>	<u>\$ 11,514</u>

The accompanying notes are an integral part of these financial statements.

**THE LOUISIANA PHILHARMONIC ORCHESTRA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE A

ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

THE LOUISIANA PHILHARMONIC ORCHESTRA (LPO) is a non-profit entity formed to establish a symphony to perform classical and other music, to present programs, and to undertake other activities to further the enjoyment of classical and other music by the public.

BASIS OF ACCOUNTING

The LPO's financial statements are presented using the accrual method of accounting. Under this method, revenues are recognized in the period earned, and expenses are recognized in the period in which the benefit is realized. Revenues from ticket sales are recognized when the performances are given. The LPO reports grants and other contributions of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets unless that restriction expires in the fiscal year the gifts were received. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. The LPO reports gifts of assets as permanently restricted support if they are received with donor stipulations that permanently restrict the assets from use.

PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets as of June 30, 2004 totaled \$1,006,350 and consist of an interest in an endowment as well as contributions received with donor stipulations that require the assets to remain in perpetuity. The assets classified as permanently restricted as of June 30, 2003, totaling \$300,321 are all representative of an interest in an endowment. Distributions from the endowment can be made twice a year at the discretion of the trustee in the amount of 2.5% of the average endowment balance for the past twelve quarters, not exceeding the expected long-term investment return of the endowment. Distributions are classified as unrestricted other income on the Statement of Activities.

CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of unconditional promises to give to the LPO. Contributions receivable are recorded at net realizable value.

PROPERTY AND EQUIPMENT

Property and equipment, including the music library, are stated at cost. It is the LPO's policy to capitalize all expenditures for these items. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, primarily five years.

**THE LOUISIANA PHILHARMONIC ORCHESTRA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE A

**ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

BRANDING CAMPAIGN

During the 2003 fiscal year, the LPO undertook a marketing and branding campaign that is expected to have a benefit over several fiscal years and orchestra seasons. Costs incurred related to this campaign have been capitalized and are being amortized over a period of five years using the straight-line method. Amortization expense recognized during the years ended June 30, 2004 and 2003 was \$7,533, respectively.

TAX STATUS

The LPO is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

INVESTMENTS

Investments are stated at fair market value. The LPO's investments at June 30, 2004 and 2003 consist of interest bearing bonds.

DONATED SERVICES AND MATERIALS

Donated services and materials, if significant in amount, are recorded as contributions at their fair market value provided the donor has a clearly measurable and objective basis for determining their value. No value is assigned to other donated items if there is no ascertainable basis for assigning the value. During fiscal 2004 and 2003, the LPO has recorded both revenues and expenses of approximately \$88,769 and \$90,800, respectively, relating primarily to management and general expenses for donated professional services, materials, and occupancy of its management office.

ENDOWMENTS

As mentioned in Note E, the LPO has several endowments where the recipient organization has variance power over the assets. Also as mentioned in Note E, the LPO is the beneficiary of one endowment where the recipient organization does not have variance power. As such, the endowment is recorded as an asset on the Statements of Financial Position.

CASH AND CASH EQUIVALENTS

The LPO considers all money-market investment instruments and certificates of deposit with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents for 2004 and 2003 include approximately \$608,166 and \$138,900, respectively, of money market funds.

At June 30, 2004, the LPO had \$200,000 in certificates of deposit that were held for specific LPO programs. There were no certificates of deposit held as of June 30, 2003.

**THE LOUISIANA PHILHARMONIC ORCHESTRA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE A

**ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of net assets and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of changes in net assets during the reporting period. Actual results could differ from those estimates.

DEFERRED REVENUE – TICKET SALES

The LPO promotes and collects season ticket sales for the subsequent season during the latter part of the current fiscal year. Revenues generated for the following season are presented as deferred revenue and are recognized systematically throughout the next fiscal year as the season progresses and performances are held.

NOTE B

PROPERTY AND EQUIPMENT

Property and equipment, net is summarized as follows for June 30th:

	<u>2004</u>	<u>2003</u>
Office Furniture and Equipment	\$ 161,775	\$ 134,124
Music Library	<u>70,851</u>	<u>66,983</u>
	232,626	201,107
Less: Accumulated Depreciation	<u>(185,928)</u>	<u>(160,495)</u>
	<u>\$ 46,698</u>	<u>\$ 40,612</u>

Depreciation expense for the years ended June 30, 2004 and 2003 amounted to \$25,433 and \$25,961, respectively.

**THE LOUISIANA PHILHARMONIC ORCHESTRA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE C

OPERATING LEASE

During the fiscal years ended June 30, 2004 and 2003, the LPO leased office space for which the rent was waived as a contribution to the LPO. Management estimates that the annual fair market value of this rental is approximately \$42,000. This amount is included in the amounts disclosed in Note A related to donated services and material for the fiscal years 2004 and 2003. As of July 1, 2004, the LPO relocated to office space for which rent is not contributed. The required lease payments for the office space is as follows:

For the Year Ended <u>June 30,</u>	
2005	\$ 25,596
2006	25,596
2007	27,117
2008	27,117
2009	<u>27,117</u>
Total	<u>\$ 132,723</u>

NOTE D

CONCENTRATION OF FINANCIAL RISK

During the year ended June 30, 2004, the LPO maintained cash account balances greater than the amount insured by the Federal Deposit Insurance Corporation at one of the financial institutions used by the LPO.

NOTE E

ENDOWMENTS

Several endowments have been established at the Greater New Orleans Foundation (GNOF) for the benefit of the LPO which GNOF has variance power over the endowments. As of June 30, 2004 and 2003, these endowments were valued at approximately \$1,374,367 and \$1,245,858, respectively. Distributions from these endowments, which are at the discretion of the GNOF, were approximately \$52,755 and \$70,764 during the years ended June 30, 2004 and 2003, respectively.

The LPO has, on the Statements of Financial Position, an interest in an endowment trust in the amount of \$115,945 and \$115,855 at June 30, 2004 and 2003, respectively. GNOF serves as the trustee of the trust. Distributions from the endowment trust were \$-0- and \$6,020 for the periods ending June 30, 2004 and 2003, respectively.

**THE LOUISIANA PHILHARMONIC ORCHESTRA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

NOTE F

TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes or periods as of June 30, 2004:

Periods after June 30, 2004	\$ 657,600
Specific Programs and Purposes	<u>210,130</u>
	<u>\$ 867,730</u>

Temporarily restricted net assets restricted for periods after June 30, 2004 consist primarily of the unreleased amount of grants received from the Lila Wallace Reader's Digest Fund and the Mellon Foundation.

NOTE G

LINE OF CREDIT

The LPO has a \$650,000 unsecured bank credit facility. At June 30, 2004, the LPO had no outstanding borrowings under this credit facility.

NOTE H

FUNCTIONAL EXPENSES

The LPO's expenses classified by functional category for the years ended June 30, 2004 and 2003 are as follows:

	2004				Total
	Orchestra Programs	Management and General	Marketing	Fundraising and Development	
Salaries and Wages	\$ 2,152,921	\$ 204,927	\$ 110,433	\$ 68,862	\$ 2,537,143
Supplies and Travel	46,310	34,291	166,720	17,714	265,035
Services and Professional Fees	45,080	29,424	350	2,570	77,424
Office and Occupancy	403,290	185,213	110,954	73,851	773,308
Depreciation and Amortization	<u>9,272</u>	<u>16,160</u>	<u>7,534</u>	<u>-</u>	<u>32,966</u>
	<u>\$ 2,656,873</u>	<u>\$ 470,015</u>	<u>\$ 395,991</u>	<u>\$ 162,997</u>	<u>\$ 3,685,876</u>

**THE LOUISIANA PHILHARMONIC ORCHESTRA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004 AND 2003**

**NOTE H
FUNCTIONAL EXPENSES (Continued)**

	2003				Total
	Orchestra Programs	Management and General	Marketing	Fundraising and Development	
Salaries and Wages	\$ 2,374,907	\$ 211,478	\$ 127,116	\$ 96,833	\$ 2,810,334
Supplies and Travel	97,090	31,672	235,834	22,743	387,339
Services and Professional Fees	49,005	9,936	21,429	6,301	86,671
Office and Occupancy	443,389	171,436	78,397	78,439	771,661
Depreciation and Amortization	<u>10,017</u>	<u>15,943</u>	<u>7,534</u>	<u>-</u>	<u>33,494</u>
	<u>\$ 2,974,408</u>	<u>\$ 440,465</u>	<u>\$ 470,310</u>	<u>\$ 204,316</u>	<u>\$ 4,089,499</u>

**NOTE I
PENSION PLAN**

The LPO participates in the American Federation of Musicians and Employers' Pension Fund (the Fund). The Fund covers every musician employed by the LPO. Under the terms of the Fund, the LPO contributes 7% of all wages for musical services (as described in the AFM's Wage Scale Book). The amount contributed to the Fund for the years ended June 30, 2004 and 2003 totaled \$91,165 and \$96,611, respectively.

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Trustees and Members of
The Louisiana Philharmonic Orchestra

We have audited the financial statements of the **LOUISIANA PHILHARMONIC ORCHESTRA** (a non-profit organization) as of and for the years ended June 30, 2004 and 2003, and have issued our report thereon dated August 25, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the **LOUISIANA PHILHARMONIC ORCHESTRA's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit we considered the **LOUISIANA PHILHARMONIC ORCHESTRA's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expression our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information of the **LOUISIANA PHILHARMONIC ORCHESTRA**, management, and the Legislative Auditor of the State of Louisiana, and it is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.



A Professional Accounting Corporation

August 25, 2004

LOUISIANA PHILHARMONIC ORCHESTRA

**AUDIT OBSERVATIONS AND
RECOMMENDATIONS
YEAR ENDED JUNE 30, 2004**



August 25, 2004

Board of Trustees
Louisiana Philharmonic Orchestra
New Orleans, LA 70112

Ladies and Gentlemen:

In planning and performing our audit of the financial statements of the **LOUISIANA PHILHARMONIC ORCHESTRA** (the **LPO**) for the year ended June 30, 2004, we considered its internal control to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control. This letter does not affect our report dated August 25, 2004 on the financial statements of the **LPO**. Our comments and recommendations are intended to improve the internal control or result in operating efficiencies.

Our audit of financial statements for June 30, 2004 did not uncover any concerns regarding the internal controls of LPO. However, at this time, we would like to provide review the status of the recommendations which were provided to LPO for on September 26, 2003 for the June 30, 2003 year end. Our comments are summarized as follows:

REVIEW OF PRIOR YEAR COMMENTS AND RECOMMENDATIONS

PAYROLL AND PERSONNEL FILE DOCUMENTATION

Personnel Policies and Procedures Manual

Through our discussions with the **LPO's** Controller, it was learned that management provides a copy of its Administrative Staff Personnel Policy Manual to all staff employees. However, there is no requirement that staff employees confirm to management that they have read the manual and understand policies and procedures contained within the manual.

In order to reduce the risk that an employee could deny being aware of a stated policy or procedure, the **LPO** should require that all staff employees confirm to management that they have received a copy of the Administrative Staff Personnel Policy Manual and understand its contents. **This signed confirmation should then be placed in the employee's personnel file.**

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To the Board of Trustees
Louisiana Philharmonic Orchestra
Page 2

Management's Response

The LPO Controller will create a form, suitable for use as verification, by which each staff employee will confirm receipt, and comprehension of, the Administrative Staff Personnel Policy Manual.

Current Status

The LPO ensured that each staff employee received a copy of the Administrative Staff Personnel Policy Manual. The LPO confirmed that receipt by having employees sign a form stating that they had received the manual and acknowledged they understood the information contained within the document. The form is then placed in the employee's personnel file.

Maintenance of Personnel Files

During our testing of payroll disbursements, we noted that personnel and payroll information was maintained and controlled by two employees of the LPO. The Controller maintained the personnel files for all administrative personnel, and the Orchestra Personnel Manager maintained the personnel information for the musicians. Also, we noted in several instances that certain documents, primarily I-9 Forms, were not completed by employees at the time of their hire. Finally, we noted in two instances that the personnel file did not contain documentation to support the amount gross salary paid per the payroll register.

Due to the extreme sensitivity and importance of personnel information, all personnel files should be maintained at the LPO's main office with access restricted to authorized personnel. In addition, all necessary employment forms (i.e., W-4 Form, I-9, Confirmation of Review of Personnel Policies and Procedures Manual, etc.) should be completed by the employee at the time of hire, with the completed form being placed in the employee's personnel file. Finally, wage and salary information should be properly maintained in the personnel file. Any changes in an employee's wage or salary should be documented in writing with the approval of the appropriate level of management.

Management's Response

All personnel files will be placed in the Controller's office, located at 305 Baronne St. Required forms will be maintained by the Controller, in cooperation with the Orchestra Personnel Manager.

Current Status

All employee files for both staff and musicians are kept in the Controller's office at the **LPO** main office. All employee files are complete with all necessary forms at the time of hire.

Review of Payroll Journals

Currently, the Controller prepares the payroll information that is submitted to Paychex, Inc. for processing. After Paychex, Inc. processes the information, payroll reports are returned to the Controller for verification of the information, and payroll is finalized. On a periodic basis, someone independent of the payroll processing function, ideally the General Manager, should review the payroll reports prepared by Paychex, Inc. prior to the release of payroll checks/direct deposits. This provides an opportunity for an individual independent of the payroll function to identify any unfamiliar employee names as well as large or unusual pay amounts. Any discrepancies noted should be addressed with the appropriate level of management.

Management's Response

Payroll journals, and payroll checks/vouchers, will be presented to the General Manager before they are given to the Controller for handling. The unopened package will be given to the General Manager, on a periodic basis, to verify that payroll is monitored by a management person, other than the Controller.

Current Status

The General Manager periodically receives an unopened package from Paychex which contains payroll checks and vouchers for employees. The General Manager reviews that information and then forwards it to the Controller.

CONTROLS OVER CASH

Effective internal controls consist of prevention controls and detection controls. Prevention controls serve as a means to prevent an individual from misappropriating assets from an organization. Detection controls serve as a means of identifying potential misappropriations of assets that may have occurred.

Release of Signed Checks – Prevention Control

Currently, signed checks are forwarded to the Controller for mailing/distribution. As a result, the risk exists that the Controller could alter the signed check **and** alter the posting of the transaction in the accounting system to match the alteration. In order to reduce this risk, we recommend that signed checks be forwarded to someone independent of the disbursement process (e.g., front desk receptionist). Although an individual independent of the disbursement process could alter a signed check prior to it being released, that individual would not be able to alter the underlying information recorded in the accounting system.

Review of Bank Statements – Detection Control

Bank statements should be addressed to and opened by the Executive Director. This provides the Executive Director with the opportunity to identify any unusual disbursements. This would include disbursements for unusual amounts or to unfamiliar vendors. Only after the Executive Director is satisfied with the bank statement and canceled checks should they be forwarded to the Controller for reconciliation. Review of the bank statements by the Executive Director serves as a detection control for disbursements.

Management's Response

Prevention: A three-step procedure will be used when checks are ready for signature. (1) Controller presents checks to check signer #1. Check signer #1 signs checks and delivers them to Check signer #2. (2) Check signer #2 signs checks, separates them from backup documents, and mails/distributes the checks. (3) The backup documents (only) are returned to the Controller.

Detection: Bank statements will be delivered to the Executive Director or the Managing Director. After review, the statements will be given to the Controller for reconciliation.

Current Status

Currently, checks are prepared by the Controller and then forwarded to check signer #1. Check signer #1 signs the checks and presents them to check signer #2. Check signer #2 signs them, detaches the supporting documentation and mails or has a staff member mail the checks. The supporting documentation is then returned to the Controller.

Bank statements are now forwarded from the mail, unopened to the General Manager. The General Manager reviews the bank statement and canceled checks and which satisfied with the review, forwards the statement to the controller for reconciliation.

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We would like to take this opportunity to express our appreciation for the assistance and courtesy extended to us by the personnel at the **LPO** during our audit. We appreciate the opportunity to present these comments for your consideration and we will be glad to discuss them with you at your convenience.

This report is intended solely for the information and use of the Board of Trustees and management of the **LPO**.



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