OFFICE OF THE AUDITOR-CONTROLLER

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FOLLOW UP REVIEW REPORT

DATE: December 23, 2011

TO: Solano County Board of Supervisors

CC: Patti Coppes, Dixon Veterans Building Association

Greg Coppes, American Legion Post 208

FROM: Simona Padilla-Scholtens, CPA, Auditor-Controller

SUBJECT: Follow Up to the Review of Dixon Veterans Building Association Financial

Review and Internal Control Assessment Review of Remote Caller Bingo Operations

In accordance with the fiscal year 2011/12 Audit Plan, we conducted a follow up to the review of Dixon Veterans Building Association Financial Review and Internal Control Assessment. Our follow up included procedures to determine management's progress in resolving the findings identified in the auditor's report dated May 24, 2011.

Based on our follow up, we have determined twenty five findings are resolved and fifteen findings unresolved. The attached table (Attachment A) contains detailed information regarding the findings, recommendations, and the current status. The Dixon Veterans are working to fully implement all necessary corrective actions on unresolved findings and expect to be complete by June 30, 2012.

In addition, based on a request from the Board of Supervisors, we performed a review of remote caller bingo activity. The results are presented in Attachment B.

Therefore, we recommend the Dixon Veterans take corrective action on the fifteen unresolved findings. We recommend the General Services Department ensure the findings still in process are adequately resolved as part of the ongoing oversight and monitoring of the Dixon Veterans contract with the County for operations of the Veterans Hall.

We would like to thank the management and Board Members of the Dixon Veterans Building Association and American Legion Post 208 for their cooperation and assistance provided during the follow up review and assessment of the bingo operations.

Dixon Veterans Building Association Financial Review and Internal Control Assessment

FOLLOW-UP REVIEW REPORT – DVBA

The following is a list of findings identified in the report presented to the Board of Supervisors on May 24, 2011 and their status as of December 1, 2011.

	Findings	Recommendations	Status
1.	DVBA Operations and Management Agreement		
	Our review identified the following compliance issues with the Operations and Management Agreement:		
	a. The DVBA has failed to pay the PG&E bills associated with use of the building. These expenses are the responsibility of the DVBA. To date the DVBA has made no payments to PG&E and has an outstanding balance of \$19,362.80.	a. Assume responsibility for all operating costs incurred to date as stipulated in the agreement. If funds are not available to cover such costs then current operations driving the cost of the PG&E bills should be reviewed for future viability.	Resolved
	b. Rental of Premises: Item 7.A states the Association shall utilize a contract for each rental of the Premises which shall be reviewed and approved by the Office of the Solano County Counsel. The DVBA uses three Rental Agreements (Member, Non-Member and Non-Profit w/ Volunteer Service Organization (VSO) Sponsor), none of which have been reviewed or approved by County Counsel.	b. Work in conjunction with the Office of the Solano County Counsel to establish hall rental contracts that include all necessary legal terms and conditions.	Unresolved – County Counsel has reviewed the standard rental contracts, however; these contracts incorporate terms and conditions of the DVBA Hall Rental Policies which are still in draft with the contract CPA, Mr. Parkman.
	c. Recordkeeping and Audits: Item 11.A states the Association shall maintain on the Premises true, full and accurate financial records and documents for a period of no less than three (3) years. Based on our review, the financial records and documents pertaining to use of the premises were inadequate and incomplete.	c. Find a qualified person from the DVBA membership or consider hiring a part-time bookkeeper/accountant to maintain the accounting records.	Resolved

	Findings	Recommendations	Status
	d. Use of Building by Persons Other than Veterans Groups: Item 6 states the Association may rent the Premises on a daily basis at a daily rate charged on a published fee schedule established by the Association and posted at the facility. During our review a posted fee schedule was not present.	d. Post the current and approved hall rental fee schedule in a prominent location in the hall for view and inspection to any and all who patronize the premises.	Resolved
	e. Responsibilities of Association: Item 3.A.5 states the Association shall at its sole cost and expense maintain errors and omissions insurance for its directors. Our review of the organization's insurance policy for the period 3/8/10 to 3/8/11 disclosed there was no such insurance coverage.	e. Obtain the required errors and omissions insurance coverage for directors.	Resolved
2.	DVBA Constitution and By-Laws		
	Based on our review, we identified the following non-compliance issues with DVBA Constitution and By-Laws: a. The DVBA Finance Officer does not prepare a monthly report of income and expenses. b. The DVBA Finance Officer is not involved with the compilation or preparation of tax information/documents. c. The DVBA Finance Officer does not provide a balance sheet and profit & loss statement every six months for the Board's review. As a result of not preparing the required financial statements, the financial position and financial operations of the DVBA could not be determined.	It is the Board of Directors responsibility to provide financial accountability and oversight ensuring that all required financial information is prepared and presented based on criteria establish in governing documents.	Resolved

	Findings	Recommendations	Status
3.	DVBA Hall Rental Policies		
	The Dixon Veteran's Building Association established Hall Rental Policies pertaining to the Veteran's Memorial Hall that specify terms and conditions for rental of the premises. As a result of our review the following issues were identified:		
	 a. A \$500 refundable cleaning deposit is required and must be paid 15 days prior to the event by cash, money order or cashier's check. The refundable cleaning deposit is used in place of the rental fee for the event. The deposit is not consistently collected 15 days prior to the event as stipulated in the DVBA policy. The DVBA accepts cleaning deposits made with personal checks. Receipts are not issued to customers upon receipt of the cleaning deposit. 	 a. Update the Hall Rental Policies for refundable cleaning deposits. Do not apply refundable cleaning deposits as rental fees for events. Ensure the amount is collected by the due date and account for each amount separately. If payment by personal checks is acceptable, approve the change to the policy to reflect the authorized payment modes. Issue sequentially prenumbered receipts for all payments received. 	Unresolved – Our review confirmed the DVBA is now using sequentially pre-numbered receipts for all payments received. However, the DVBA Hall Rental Policy is still in draft with the contracted CPA, Mr. Parkman.
	 b. All rental fees must be paid to the building manager 15 days prior to the event by cash, money order or cashier's check. Hall rental fees were not consistently collected 15 days prior to date of event. In several instances we noted fees were collected subsequent to the event, (in one case more than 2 weeks after). The DVBA accepts personal checks for rental fee payments. Receipts are not issued to customers upon receipt of the rental fees. 	 b. Account for hall rental fees consistently. Collect and deposit all event fees into the DVBA bank account when received. If payment by personal checks is acceptable, approve change and update the policy to reflect that payment mode. Issue sequentially prenumbered receipts for all payments received. 	Resolved

Findings	Recommendations	Status
c. A cancellation fee is charged by the DVBA. The policy states 50% of the deposit will be refunded if notice is given 45 days in advance of the event. However, the policy does not require payment of the deposit until 15 days prior to the event date. As a result of the inconsistency between the two, it is likely there will be no deposit to be withheld if a cancellation occurs. The policy is silent on what amount (if any) is refundable if less than 45 days cancellation notice is given.	c. Revise the policy to specify the terms when the cancellation fee is charged and the deposit is forfeited.	Unresolved -The Hall Rental Policy has been updated to include specific terms for the cancellation /refund policy when an event cancellation fee is charged and the deposit is forfeited. However, the Hall Rental Policy is still in draft with the contracted CPA, Mr. Parkman
 d. Hall rental records consist of the rental agreement and evidence of insurance and building security requirements. Hall rental records are not maintained in one location. They are maintained in random folders and unorganized. Rental agreements are not sequentially accounted for and required information is incomplete. All required customer information (i.e., cleaning deposit, event fees, security fees paid, date received/deposited and how (if) refunded) was not always present. The Rental Terms and Agreement Form does not clearly specify if all fees due for the event were paid in full. In several instances there was no evidence the cleaning deposit, rental fee or security fee was paid or amount noted as paid was less than actual amount received. Cancelled events are not noted on the rental agreement form. Hall rental agreements are not sequentially numbered or tracked for accountability. 	 d. Maintain a separate folder for each customer to include rental agreements and all related documentation (copies of checks and other forms of payment for all fees, bank deposit documentation, insurance, and security requirements). Sequentially number hall rental agreements and log into a spreadsheet when completed/signed for tracking purposes/accountability. 	Resolved
 e. The Hall Rental Policies do not separately address Memorial Services. Memorial Services typically do not have the required 15 days advanced notice of event (due to their nature) in order to make the required hall rental fee payment in advance. 	e. Create a separate policy and agreement for Memorial Services to reflect the less stringent requirements for these unique events.	Unresolved- The Hall Rental Policy is still in draft with the contracted CPA, Mr. Parkman. There are no agreements for "no-fee" rentals for veterans memorial services and membership events. Auditor recommend agreements be completed for all events and marked as "no-fee" to document use of building.

Findings	Recommendations	Status
 Memorial Services are not required to pay a cleaning deposit or provide proof of insurance or a security guard. f. A security guard is required at all times during an event. The DVBA provides the required event security per the customer's request. Fees paid in accordance with the rental agreement are recorded as income to the DVBA. However, there were no expenses recorded. Per the Hall Manager, the cost for security for events is paid out of the petty cash funds. Petty cash disbursements are not recorded in the DVBA check register. Amounts paid to individuals providing security services are not tracked in total to determine if the maximum amount allowable by the IRS has been exceeded. If that is the case a Form 1099 needs to be issued. On occasion, the DVBA Hall Manager or a veteran's group member agrees to attend an event and serve as the required security. The fee is typically waived when this occurs. However, based on Hall Rental Policies this is not an approved practice. The policy does not address the waiver of any type of fees. 	f. Update the Hall Rental Policy and Rental Agreement to incorporate security guard requirements. Compensate security personnel with a check from the DVBA bank account to ensure the expense associated with the income is properly recorded. Separately track amounts paid to each individual performing security services. Issue a Form 1099 for those exceeding the maximum limit allowable by the Internal Revenue Service. Document all approved practices of engaging required security personnel for an event, including waiver of fees.	Unresolved- The Hall Rental Policy is still in draft with the contracted CPA, Mr. Parkman.
practice. The policy does not address the waiver of	for an event, including	Unresolved- The Hall Rental Policy is still in draft with the contracted CPA, Mr. Parkman.
day of the event.		

4. DVBA Hall Rental Income Our review of hall rental income disclosed the following issues: a. Cash collections are not properly accounted for in the DVBA's books and records. Deposit descriptions are listed on the DVBA check register as "rentals" or the name of the event, however there is a lack of documentation to support the totals and determine the completeness of collections. > Receipts are not issued upon collection of hall rental payments itemizing services. > Cleaning deposits itemized on the rental agreements could not be traced to the check register or to a bank deposit. > Hall rental fees are not collected in advance of the event. In several instances the refundable cleaning deposits were used in lieu of receiving the hall rental fee. > One event rental agreement indicated the cash payment in the amount of \$735 was received. The amount traced to the bank deposit was \$535 resulting in an understatement of income. Resolved	Our review of hall rental income disclosed the following issues: a. Cash collections are not properly accounted for in the DVBA's books and records. Deposit descriptions are listed on the DVBA check register as "rentals" or the name of the event, however there is a lack of documentation to support the totals and determine the completeness of collections. > Receipts are not issued upon collection of hall rental payments itemizing services. > Cleaning deposits itemized on the rental agreements could not be traced to the check register or to a bank deposit. > Hall rental fees are not collected in advance of the event. In several instances the refundable cleaning deposits were used in lieu of receiving the hall rental fee. > One event rental agreement indicated the cash payment in the amount of \$735 was received. The amount traced to the bank deposit was \$535		Findings	Recommendations	Status
issues: a. Cash collections are not properly accounted for in the DVBA's books and records. Deposit descriptions are listed on the DVBA check register as "rentals" or the name of the event, however there is a lack of documentation to support the totals and determine the completeness of collections. > Receipts are not issued upon collection of hall rental payments itemizing services. > Cleaning deposits itemized on the rental agreements could not be traced to the check register or to a bank deposit. > Hall rental fees are not collected in advance of the event. In several instances the refundable cleaning deposits were used in lieu of receiving the hall rental fee. > One event rental agreement indicated the cash payment in the amount of \$735 was received. The amount traced to the bank deposit was \$535 resulting in an understatement of income. a. Cash collections policies and procedures should include the following: > Issue a sequentially prenumbered receipt for all hall rental fees received. > Collect and account for all fees separately. Document the composition of each deposit to include copies of all items. Attach a copy of the receipt to each customer's rental agreement and indicate when it is deposited to the bank. > Recorded procedures should include the following: > Issue a sequentially prenumbered receipt for all hall rental fees received. > Collect and account for all fees separately. Document the composition of each deposit to each customer's rental agreement and indicate when it is deposited to the bank. > Record deposits received for future events and refundable cleaning deposits as a	a. Cash collections are not properly accounted for in the DVBA's books and records. Deposit descriptions are listed on the DVBA check register as "rentals" or the name of the event, however there is a lack of documentation to support the totals and determine the completeness of collections. > Receipts are not issued upon collection of hall rental payments itemizing services. > Cleaning deposits itemized on the rental agreements could not be traced to the check register or to a bank deposit. > Hall rental fees are not collected in advance of the event. In several instances the refundable cleaning deposits were used in lieu of receiving the hall rental fee. > One event rental agreement indicated the cash payment in the amount of \$735 was received. The amount traced to the bank deposit was \$535 resulting in an understatement of income. > Deposits in the amount of \$2,550 for future events were incorrectly recorded as income to the DVBA at time of receipt. > A separate column in the DVBA check register accounts for refundable deposits. These items are not posted consistently, Refundable deposits are included as income making it appear these funds are available to spend at the DVBA's discretion when available to spend at the DVBA's discretion	4.	DVBA Hall Rental Income		
were incorrectly recorded as income to the DVBA at time of receipt. A separate column in the DVBA check register accounts for refundable deposits. These items are not posted consistently. Refundable deposits are included as income making it appear these funds are These funds are not available to spend at the DVBA's discretion. Once the event occurs the deposit will either be refunded to the customer or recorded as income if it is		4.	Our review of hall rental income disclosed the following issues: a. Cash collections are not properly accounted for in the DVBA's books and records. Deposit descriptions are listed on the DVBA check register as "rentals" or the name of the event, however there is a lack of documentation to support the totals and determine the completeness of collections. > Receipts are not issued upon collection of hall rental payments itemizing services. > Cleaning deposits itemized on the rental agreements could not be traced to the check register or to a bank deposit. > Hall rental fees are not collected in advance of the event. In several instances the refundable cleaning deposits were used in lieu of receiving the hall rental fee. > One event rental agreement indicated the cash payment in the amount of \$735 was received. The amount traced to the bank deposit was \$535 resulting in an understatement of income. > Deposits in the amount of \$2,550 for future events were incorrectly recorded as income to the DVBA at time of receipt. > A separate column in the DVBA check register accounts for refundable deposits. These items are not posted consistently. Refundable deposits are included as income making it appear these funds are	 a. Cash collections policies and procedures should include the following: Issue a sequentially prenumbered receipt for all hall rental fees received. Collect and account for all fees separately. Document the composition of each deposit to include copies of all items. Attach a copy of the receipt to each customer's rental agreement and indicate when it is deposited to the bank. Record deposits received for future events and refundable cleaning deposits as a liability and not as income. These funds are not available to spend at the DVBA's discretion. Once the event occurs the deposit will either be refunded to the customer or recorded as income if it is 	

Findings	Recommendations	Status
 b. A monthly calendar is used to schedule hall rental events. The calendar is maintained by the hall manager and is not formal, complete or has restricted access. We were unable to reconcile all events scheduled on the calendar with actual events occurring. Events were scheduled on the calendar with no evidence the event occurred (i.e., rental agreements were not present and no deposit was recorded). Deposits were recorded in the check register for events not recorded on the events calendar. 	 b. The hall manager should maintain a formal schedule of hall rental events. Ensure the schedule is complete and includes all functions occurring at the hall. 	Resolved
 c. Rental Terms and Agreement Form Agreements are not properly executed. The renters and/or managers initials or signatures were not always present. The itemization of fees charged for building rental, cleaning deposit and security fee was incomplete. In numerous instances it was unclear what fees were paid for the various services. The use of DVBA provided security personnel or other acceptable provider was not documented on the agreement. Scheduled events/meetings held by the veteran's associations groups do not pay a rental fee for use of the building. There is a "Members" hall rental agreement which isn't currently being used. 	 c. Rental Terms and Agreement Forms should be reviewed to ensure the following are present: Agreements are properly executed by appropriate parties. Agreements include all fees paid for specific services. The terms and conditions for use of the facility free of charge (whether by veterans groups or others) should be approved by the DVBA Board and documented in the Hall Rental Policies. This will prevent confusion regarding various types of use of the building. 	Unresolved- County Counsel has reviewed the standard rental contracts, however; these contracts incorporate terms and conditions of the DVBA Hall Rental Policies which are still in draft with the contract CPA, Mr. Parkman.

	Findings	Recommendations	Status
5.	DVBA Expenses		
	Our review of DVBA expenses disclosed the following issues:		
	 a. Expenses are not recorded in the DVBA accounting records. The DVBA has not paid for utility services (PG&E) since occupying the new Building in December 2009. The County has paid two payments totaling \$10,131.50 on behalf of the DVBA. As of 2/28/11, the outstanding amount due to PG&E is \$19,362.80. This expense and related liability have not been recorded in the DVBA accounting records. Seven aged invoices in the disbursement records totaling \$283.31 do not appear to have been paid. Petty cash disbursements are not recorded in the check register to reflect the expenses incurred (i.e., hall rental security services). 	 a. Record all expenses in the DVBA financial records. Establish a process for the timely payment and recording of all expenses (including petty cash disbursements). Disputed items should be filed in a separate folder until resolved. However, record a liability to accurately reflect those items in the DVBA's accounting records. 	Resolved
	 b. No supporting documentation present. There was no supporting documentation (vendor invoice/statement) for 11 of 20 disbursements tested. This comprised \$ 5,478 (or approximately 82% of the total amount tested) in the DVBA check register. The DVBA does not have an effective filing system for paid invoices. Paid invoices are loosely filed in a folder and are not arranged in any methodical order, (e.g., date paid, vendor name). 	 b. Maintain supporting documentation of all expenses paid. Establish and maintain an adequate system for the documentation of expenses paid to include the invoice/statement, copy of the check stub, any relevant documents/ correspondence, etc. This will ensure supporting documentation for cash disbursements are adequately maintained, kept intact and substantiate the propriety of DVBA expenses. 	Resolved

Findings	Recommendations	Status
No disbursement policy exists. The DVBA does not have a disbursement policy specifying the process for the authorization, approval and payment of expenses. There are no procedures establishing an accounts payable payment process where bills are accounted for and paid in a methodical, timely manner. Bills are paid in a random, haphazard manner. Two invoices were noted as past due with late charges assessed. Payment of invoices are not indicated as such, (stamped "PAID" or otherwise canceled). Several checks contained in DVBA records were marked as "void". However, the DVBA does not update the check register to account for void checks.	c. Create an expense policy to address the following: Implement a policy to specify the process for the proper authorization, approval and timely payment of all expenses. The Finance Officer should perform a review and authorize monthly expenses and compile a schedule to present to the Board of Directors for formal approval and signature. Cancel paid invoices denoting "PAID" on the face of the invoice(s). Proper cancellation serves to prevent invoices from being paid twice. List all checks in a cash disbursements log and note checks that were void in a separate column. This serves to verify and account for the sequential issuance of all checks.	Unresolved- The DVBA has implemented all of the processes recommended be contained in the Expense Policy. However, the Expense Policy is still in draft with the contracted CPA, Mr. Parkman.

<u>FOLLOW-UP REVIEW REPORT – American Legion Post #208</u>

	Findings	Recommendations	Status
1.	Dixon Veterans Building Association/American Legion B		Sucus
	No agreement exists between the DVBA and the American Legion (AL) for use of the bar and coffee shop space. An agreement has not been completed between the DVBA and the AL documenting the terms and conditions for the AL to operate a coffee shop and bar for the benefit of American Legion Post #208. Neither the DVBA nor AL Boards of Directors have identified this as an issue that required action. The DVBA is responsible for the costs associated with maintaining and operating the building. Any use of the Dedicated Veterans Memorial Building Premises requires some form of compensation to mitigate such costs. The full time use of space in the building requires an agreement specifying the terms and conditions related to such use and from the opening of the bar and coffee shop in January 2010 to the present there have been no payments or reimbursement for rental fees or overhead charges for utilities (PG&E, water, garbage, internet) associated with use of the space. This has resulted in the DVBA absorbing the operating costs of the AL bar and coffee shop.	Create an agreement between the AL and the DVBA to address the terms and conditions for use of the space to operate the coffee shop and bar. The AL should compensate the DVBA for use of the space based on the current market rental rate for a space of similar size and geographic location as well as a percentage of the overhead costs associated with use of the space.	Unresolved- The current Operating & Management Agreement is between the County and the DVBA which is comprised of the AL and the VFW. Negotiations have occurred which may result in the execution of an MOU between the AL and VFW which would provide the AL with sole operational responsibility and control of the use of the entire facility. If this were to occur, the Operation and Management Agreement (Agreement) between the County and the DVBA would need to be terminated and a new Agreement would need to be executed solely between the County and the AL. Note: Operation of the coffee shop and bar for use by the general public has been temporarily discontinued. However the AL uses the hall for weekly bingo games which the DVBA receives no compensation.
2.	American Legion Bar & Coffee Shop Revenue		
	Our review of the bar and coffee shop revenue disclosed the following issues:		
	 a. Cash collections are not properly accounted for by the AL bar and coffee shop. Deposit totals are listed on the American Legion Bar check register. Documentation to support the composition of deposits only consists of a bank deposit slip. The AL does not issue receipts for amounts received 	 a. Develop cash collections policies and procedures to include the following: Issue sequentially prenumbered receipts or utilize invoices to itemize all 	Resolved

Findings	Recommendations	Status
from various sources (special events/ catering). Issuing receipts provides a record of and formal accountability for amounts received. Deposits are recorded as a lump sum in the check register. The composition of the amounts deposited (i.e., daily coffee shop/bar sales or other type of payment) could not be identified based on the lack of supporting documentation. The timely deposit of cash receipts could not be determined based on the lack of documentation that supports the source of the income and when it was received. Recording of income in the proper accounting period could not be determined based on the lack of documentation that supports when income was received and what accounting period it applies. Deposits posted to the check register in the amount of \$1,139 could not be traced to the bank statement. Amounts from various organizations/individuals, totaling \$2,756 appear to be DVBA hall rental receipts and should be recorded in their records. These amounts should not be deposited into the AL Bar account but transferred to the correct organization for proper accountability and to prevent co-mingling of funds. Daily cash register receipts for coffee shop and bar sales could not be traced to bank deposits.	services provided and amounts paid for all special events/catering activities conducted by the AL. Collect and account for all cash receipts separately (special events, catering, coffee shop, bar, etc.). Document the composition of each deposit to include relevant back-up documentation of all items to determine source, amount, date received, etc. Account for cash receipts received on behalf of the DVBA separately.	
 b. The AL does not perform a reconciliation of the coffee shop/bar daily sales to the cash drawer receipts. A daily cash accountability form is prepared by each employee at the conclusion of their shift. The employee performs a closeout of the cash register with a "z" tape. The amount per the cash register "z" tape is compared with the amount collected in the cash drawer less the beginning cash balance. During our review the following were noted: The differences between the two amounts are not investigated or identified. In several instances the 	 b. Perform a reconciliation of daily cash receipts. Expand the preparation of the daily cash accountability form to require a separate person perform the cash drawer closeout and reconciliation of cash receipts to the cash register "z" tape at the end of each 	Resolved

	Findings	Recommendations	Status
	 "z" tape totals did not agree to the cash on hand per the daily accountability form. Money from the cash drawer is taken to replenish the ATM. This process is not documented on the daily cash accountability form. Coffee shop/bar cash register receipts could not be traced to bank deposits for any given day. 	shift. Any discrepancies should be noted and reviewed by the Finance Officer as well. Deposit daily cash receipts intact. Funds should not be used for other purposes such as replenishing the ATM.	
	c. The AL does not bond individuals who handle money. Based on the American Legion Post Operations Manual, Standard 6 states to see that those who handle money are bonded.	 c. Ensure the AL Post Operations Manual is followed. Bond all individuals who handle funds in any capacity. 	Resolved
3.	American Legion Bar & Coffee Shop Expenses		
	The AL incurs expenses associated with the operation of the coffee shop and bar. Our review of AL expenses disclosed the following issues:		
	 a. Insufficient supporting documentation/information: There was no supporting documentation (vendor invoice/statement) for six of twelve expenses tested. This comprised \$ 2,935 (or approximately 32% of the total amount tested) in the AL check register. As such, we were unable to determine the validity, propriety or proper authorization of the expenses. The amount paid for two of the twelve expenses tested were \$319.10 more than the supporting documentation (vendor invoice, statement). There is no formal time record signed by the employee or approved by management to validate wages received for hours worked. Documentation for payment of bar and coffee shop staff hours consists of a "post it" note with the name of volunteer, date worked and number of hours. Prior to April 2010, the AL issued one check for the 	 a. Maintain supporting documentation of all expenses paid in order to determine validity, propriety and proper authorization. Establish and maintain an adequate system for the documentation of expenses including the invoice/statement, copy of the check stub, time sheets, etc. This will ensure supporting documentation for cash disbursements are adequately maintained, kept intact and substantiate the propriety of AL expenses. 	Resolved

Findings	Recommendations	Status
entire weekly payroll payable to cash. Each volunteer was paid from that pool of cash. There was no evidence of any employee certification of hours worked. We could not determine if employees were paid for hours actually worked. Subsequent to April 2010, the AL began issuing separate checks; however no employee time sheets signifying certification of hours worked is maintained. Transactions are recorded in a check register format which provides minimal description/information about the type of expense incurred for financial reporting purposes.	The Finance Officer should establish and maintain a detailed set of accounting records to facilitate the preparation of financial reports.	
 b. No disbursement policy exists The AL does not have a disbursement policy to specify the process for the authorization, approval and payment of expenses. 	 b. Create an disbursement policy to address the following: Require proper authorization, approval and timely payment of all expenses. Require the Finance Officer to review and authorize monthly expenses and compile a schedule to present to the Board of Directors for formal approval and signature. Cancel paid invoices denoting "PAID" on the face of the invoice(s). Proper cancellation serves to prevent invoices from being paid twice. 	Resolved

	Findings	Recommendations	Status
	 c. Potential for misappropriation of funds for payment of staff. Prior to April 2010, the AL issued one check for the entire weekly payroll payable to cash. Each volunteer was paid from that pool of money. There was no evidence of any employee certification of hours worked. We could not determine if employees were paid for hours worked. Due to the lack of appropriate documentation, an employee could have worked 5 hours but the amount requested for payment could have been for 10 hours. The additional money could have either gone to the employee or the individual submitting the payment for the weekly payroll. 	 c. Implement procedures to mitigate the potential for misappropriation of funds. Require all staff to complete, sign and date a weekly timesheet of hours worked and submit to the hall manager/finance officer for approval. Pay staff individually based on the number of hours worked as certified on the employee signed and manager approved time sheet. 	Resolved
4.	American Legion Coffee Shop/Bar Operations Viability		
	AL Post Operations Manual Standard 6 states if a Post has a food or beverage operation, it should be self-supporting and normally should give financial support to the Post. It should never be a drain on other funds of the Post. However, the records pertaining to the operation of the coffee shop and bar were inadequate and incomplete due to poor record keeping, lack of complete accountability and co-mingling of funds. In addition, the AL does not pay for any expenses associated with use of the building (i.e., rent, utilities, etc.). As a result, we were not able to determine whether the operations of the coffee shop/bar are self supporting as a feasible use of the building space and have a negative financial impact on the operation of the hall.	Require the Finance Officer to prepare a monthly profit and loss statement of the coffee shop and bar operations. If it is determined over the course of time the food and beverage operation are not, at a minimum, self supporting the Board should evaluate the future viability of the operation.	Unresolved- AL awaiting pending review of "all operating agreements, contracts and other necessary documents" by County Counsel that pertain to the operation of a bar and coffee shop at the Memorial Hall. The American Legion will then evaluate the future viability of the operation.

	Findings	Recommendations	Status
5.	Automatic Teller Machine (ATM)		
5.	Automatic Teller Machine (ATM) Automatic Teller Machine (ATM) transactions are not properly accounted for. Our review of the ATM process disclosed the following issues: > One person (ATM manager) is responsible for maintaining all aspects of the ATM process. This includes accessing the machine and replenishing it from the bar/coffee shop cash drawer and requesting reimbursement from AL Post #208 for the cash used. The lack of segregation of duties and oversight could lead to potential errors and/or irregularities going undetected. > Cash is used from the coffee shop/bar cash receipts drawer to replenish the ATM machine. However, there is no documentation maintained for this process. The daily cash receipts do not account for this reduction in funds either on the cash register tape or the daily cash accountability form. > There are no records or reports to account for the funds put into the ATM. There is no way to verify the amount removed from the cash receipts drawer	Implement policies and procedures to properly account for ATM transactions. Establish an adequate segregation of duties for the various ATM functions. Replenish the ATM with funds obtained directly from the AL Post #208 main bank account. Require a written request for the funds and include sufficient documentation (i.e., a reconciliation of ATM activity to include reports indicating the funds withdrawn and amounts replenished) to substantiate the amount requested. Inquire regarding the	Resolved
	 is equal to the amount used to replenish the ATM. The ATM is replenished when it is either empty or heavy usage has been noted. There is no process for monitoring when replenishing should occur. 	availability of other reports from the ATM Company that would be useful for overall	
	The AL Finance Officer issues a check from the AL Post #208 main bank account upon verbal direction from the ATM manager to repay the cash drawer. There is no documentation required or provided to substantiate the amount requested.	accountability, monitoring and oversight of ATM activity. This includes deposit detail for amounts put into the machine. Require the AL Finance	
	 The AL Finance Officer does not reconcile the activity associated with the ATM (withdrawals from cash drawer, deposits into and withdrawals from the ATM, and amounts reimbursed by the AL Post #208 main account). The use of several bank accounts (AL Bar account, 	Officer to perform a monthly reconciliation of ATM activity to ensure all funds are properly accounted for. Identify and document all unusual/reconciling items.	

	Findings	Recommendations	Status
	AL Post #208 main account) to operate the ATM results in the co-mingling of funds and increases the risk of misappropriation.		
6.	Coffee Shop and Bar Staff		
	The staff operating the American Legion Post #208 coffee shop and bar has been classified by AL management as volunteers. These workers were not considered employees and as such were not subject to the federal or state employment tax rules. Based on our review this classification is incorrect. We noted the following: Staff is compensated at a fixed rate of \$8 per hour and also collects tips. The Internal Revenue Service (IRS) Form 990 - Return of Organization Exempt from Income Tax defines a volunteer as a "person who serves the organization without compensation. Compensation for this purpose includes tips". AL staff are told how, when and where to do the work. All staff is scheduled by AL management for specific work hours at the specified location using established procedures. In according to IRS Publication 1779, the above actions suggest should be classified as an employee. As a result, AL management has incorrectly classified the employees as volunteers. Based on the foregoing, AL management is in violation of federal and state payroll tax	Seek the advice of a professional specializing to: > Offer guidance on the proper way to classify coffee shop/bar staff. > Provide assistance with all necessary payroll tax withholdings, quarterly and annual filings and any other related issues.	Resolved
	and labor laws. IRS Publication 15 (Circular E) Employer's Tax Guide states an employer will generally be liable for		
	social security, Medicare taxes and withheld income tax if		
	they do not deduct and withhold these taxes because an employee was treated as a nonemployee. As such the		
	following requirements apply: An employer must withhold income tax and the		

	Findings	Recommendations	Status
	 employee portion of social security and Medicare taxes. An employer is responsible for paying Social Security, Medicare, and Unemployment (FUTA) taxes on employee wages. Employers are required to issue a W-2, Wage and Tax Statement, showing the amount of taxes withheld from employee's pay. An employer is required to prepare and submit all applicable federal and state tax forms. An employer is required to comply with all federal and state employment laws. 		
7.	Bar and Coffee Shop Unrelated Business Income Tax *Ul	BIT)	
	The American Legion (AL) Post #208 operates a bar and coffee shop that is open to the general public. Based on our review, the AL did not track sales to the general public and submit required UBIT in accordance with the Internal Revenue Code. As a veteran's organization, the AL Post #208 has been designated as a not-for-profit under Internal Revenue Code (IRC) 501(c) (19). The non-profit status exempts the organization from federal income tax. The specific guidelines stipulate that a post can operate a bar and/or restaurant (coffee shop) to provide a setting for social and recreational activities. However, the use of a bar and/or restaurant must be limited to members of the organization and members of the auxiliary units and their "bona-fide guests". All guests must be invited by the member who in addition must pay all guest expenses.	 a. Seek the advice of a professional specializing in notfor-profit organizations. They will be able to provide the following: › Offer guidance on the proper way to classify and report bar/coffee shop income. › Provide assistance with all required sales tax withholdings, quarterly and annual filings. › Identify and account for nonmember and other unrelated business income separately. 	Unresolved - At the present time both the bar and coffee shop has ceased operations to the public and is only open for Legion functions.

	Findings	Recommendations	Status
8.	Alcohol License		
	The American Legion Post #208 holds two separate alcohol licenses. Based on our review the AL may not be in compliance with the terms and conditions of its alcohol licenses. Several issues were identified pertaining to their use.		
	 a. License Type 51 Club - The State of California Department of Alcoholic Beverage Control (ABC) defines the operating restrictions associated with this type of license and its basic privileges. A License Type 51-Club "authorizes the sale of beer, wine and distilled spirits, to members and guests only, for consumption on the premises where sold. No off-sale privileges. Food service is not required. Minors are allowed on the premises". Our review identified the following: The ABC Act, California Business and Professions Code Section 23037 define "Club" and "guest." "Club" means a corporation or association which is the owner, lessee, or occupant of an establishment operated solely for the objects of a social or athletic nature but not for pecuniary gain, having a bona fide membership list, and the majority of the members of which pay dues at least once in every year, and the property as well as the advantages of which belong to the members, and which sells alcoholic beverages only to its members and its bona fide guests. 	a. Meet with ABC staff or other qualified professionals who possess knowledge regarding the various rules and regulations pertaining to the specific license types 51 and 58. This will serve to ensure the bar and event operations are in compliance with the specified intentions of those licenses.	Resolved
	Under the same code section, a "guest" is defined as a person who is actually a houseguest, or a person whose presence as a guest is in response to a specific invitation for the special occasion.		
	➤ IRS Publication 3386-Tax Guide for Veterans' Organizations defines a bona fide guests as "one that is invited by a member to participate in an activity and whose expenses are paid for by the member. If the guest pays for his own recreation or food, the		

Findings	Recommendations	Status
guest is not a bona fide guest." We were unable to determine whether the sales of alcoholic beverages under the Type 51 Club License were made only to club members and their bona fide guests. A sign-in log is maintained at the bar for customers who do not possess proper military identification. This does not serve as a proper control to ensure only club members and their guests are being served. It has been disclosed by AL management that the general public does patronized the AL bar.		
 b. License Type 58- Caterer Permit-This authorizes various licensees (including Type 51) to sell beer, wine and distilled spirits at various onetime special events/functions. All licensees wishing to cater alcoholic beverages must obtain separate written authorization from the Department of ABC for each event/function they plan to sell alcohol. The Department of Alcoholic Beverage Controls Common ABC License Types and their Basic Privileges states the following: "At all approved events, the licensee may exercise only those privileges authorized by the licensee's main license (Type 51) and shall comply with all provisions of the ABC Act pertaining to the conduct of on-sale premises. Violation of those provisions may be grounds for suspension or revocation of the licensee's license (Type 51) or permit (Type 58), or both". 	b. Inquire of the possibility of obtaining a different license to reflect the intentions of the AL bar operation.	Resolved
The License Type 58- Special Events Catering Authorization conflicts with the conditions applicable to the American Legion's main License Type 51 by allowing sales to other than members and their bona fide guests. The permit (Type 58) is used to serve alcoholic beverages at various hall rental events to outside parties not considered		

Findings	Recommendations	Status
members or their bona-fide guests.		
The American Legion Post #208 operates the bar. It is the responsibility of the exempt organization to demonstrate that a nonmember is a bona fide guest so that 1) the organization is in compliance with the terms of their license type and 2) the income is not taxable. The organization should maintain an adequate process to identify members and their bona fide guests and distinguish them from nonmembers.		
The American Legion management needs to obtain clarification regarding the terms and conditions for use of the two ABC licenses in their possession. Operating outside of the established guidelines could jeopardize their continued authorization to serve alcoholic beverages.		

<u>FOLLOW-UP REVIEW REPORT – Financial Accountability</u>

	Findings	Recommendations	Status
1.	Accounting Discipline – DVBA and American Legion		
	Based on our review, the DVBA and AL have not established a formal accounting system to record and report financial information. Staff is not aware of proper accounting methodology to ensure the accurate and complete reporting of all financial transactions for veterans' organizations. The following deficiencies were noted: a. Accounting Records A general ledger with a corresponding chart of accounts is not maintained. Transactions are recorded into an excel spreadsheet (check register). The records are inadequate and incomplete. Income and expenses are not properly supported with adequate supporting documentation. Financial reports (such as a Statement of Net Assets, Statement of Activities, etc.) are not prepared. The financial position of the organization could not be determined. The DVBA or the AL has no formal policies and procedures in place to ensure the proper, consistent and accurate reporting of income and expenses. There is also no formal policy that requires the finance officer to periodically review financial information for monitoring and oversight purposes. The accounting staff does not possess an understanding of the necessary accounting requirements to ensure the accurate and complete reporting of all financial transactions/information.	a. Consider contracting for accounting services for notfor-profits. This would serve to provide the necessary expertise to ensure all accounting transactions are properly recorded and financial information is accurate and current. Prepare financial statements on a regular basis.	Resolved

Findings	Recommendations	Status
b. Capital Assets Capital asset records are not maintained. A capitalization policy has not been adopted. This serves to determine the dollar amount and type of items that require capitalization. Generally accepted accounting principles require assets used in the production of income be capitalized and the cost of using those assets be allocated on a pro rata basis (as determined by the assigned useful life) in the period used (depreciation).	 b. Maintain adequate capital assets and related depreciation records. Information would include a description of the asset; date placed into service, estimated useful life, depreciation method, as well as depreciation expense and accumulated depreciation. Establish a capitalization policy to account for all fixed assets. 	Unresolved - Per information provided by the contracted CPA, Mr. Parkman, the DVBA has no fixed assets. The AL is in the process of compiling fixed asset information based on the impending filing of the exempt organizations tax information.
 c. Reconciliation of Bank Account Bank account reconciliations are not performed. Monthly bank statements were not reconciled to cash balance/check register. There are no formal policies and procedures in place to require (a) the reconciliation of the bank account on a monthly basis and (b) an independent review of the reconciliation process. Due to the lack of proper controls we are unable to determine the accuracy of the financial records. 	c. Establish policies and procedures for fiscal operations. Include requirements for the monthly reconciliation and independent review of the all bank accounts.	Unresolved - Policies and procedures for fiscal operations are being drafted by the contracted CPA, Mr. Parkman.

	Findings	Recommendations	Status
2.	Accounting Discipline - DVBA		
	 a. Reconciliation of Petty Cash Fund A reconciliation of the DVBA petty cash fund is not performed. The Hall Manager is the custodian of the fund. There is no independent authorization of disbursements or review of fund activity. The petty cash fund activity (expenses incurred and fund reimbursement) is not recorded in the DVBA financial records. There are no policies and procedures that require the authorization of petty cash disbursements, periodic reconciliation of the petty cash fund and independent review of the fund activity. 	a. Establish and implement policies and procedures to require the periodic reconciliation and independent review of the petty cash fund. This will ensure petty cash transactions are recorded to the general ledger and provide a detailed summary of fund activity.	Resolved
	 b. Recordkeeping The original, signed DVBA Constitution and By-Laws and other permanent documents were contained in a random folder of miscellaneous items. 	b. Implement a recordkeeping policy to ensure original/important documents are properly safeguarded.	Unresolved - A Recordkeeping Policy is being drafted by the contracted CPA, Mr. Parkman.
3.	Internal Controls/Fiscal oversight - DVBA		
	Based upon the results of the Solano County Auditor's attempt to review the expenses and income related to the Premises, the DVBA lacks fiscal management and oversight and has not established an effective internal control structure. The DVBA failed to establish internal controls necessary to record the transactions of the Association in accordance with generally accepted accounting principles. The lack of internal controls combined with other material weaknesses identified herein resulted in an inability to determine the financial position of the DVBA.	Establish a system of internal controls to ensure transactions are recorded in accordance with generally accepted accounting principles. This includes providing adequate fiscal oversight to ensure the timely and accurate recording and reporting of financial transactions.	Resolved

Review of American Legion Dixon Post 208 - Bingo Operations

INTRODUCTION

Based on a special request from the Board of Supervisors, we performed a review of remote caller bingo operations conducted at the Dixon Veterans Memorial Hall. Our review was conducted in accordance with both Auditing Standards Generally Accepted in the United States of America as developed by the American Institute of Certified Public Accountants and International Standards for the Professional Practice of Internal Auditing as developed by the Institute of Internal Auditors.

BACKGROUND

The American Legion Dixon Post 208 requested permission from the Solano County Board of Supervisors to organize and conduct remote caller bingo games at the County owned Dixon Veterans Memorial Hall for the purpose of increasing revenues.

Gambling activities (which include bingo) are prohibited in the Cities and County of Solano. Pursuant to Section 19 of Article IV of the State Constitution, the Board of Supervisors enacted County Ordinance Chapter 14.5-Bingo Games, which allows the American Legion Post 208 to conduct bingo games only in accordance with Penal Code Sections 326.3 and 326.5, and only by organizations exempt from the payment of bank and corporation tax by various Revenue and Taxation Codes.

The American Legion Post 208 (AL), a member of the Dixon Veterans Building Association, is recognized as a tax exempt veterans organization under Section 501(c)(19) of the Internal Revenue Code (IRC). Under this designation the AL is allowed to operate bingo and pull-tabs in its facility.

OBJECTIVES

The objective of the review of remote caller bingo operations was to determine if adequate controls and procedures are in place and operating effectively and efficiently in order to provide reasonable assurance of the accuracy and completeness of the financial and compliance records as they pertain to remote caller bingo activities.

SCOPE AND METHODOLOGY

The scope of our review was comprised of the following four components of remote caller bingo operations:

- **1. Solano County Ordinance Chapter 14.5-Bingo Games** –Assess whether the American Legion Post 208 complies with the articles contained in County Ordinance Chapter 14.5- Bingo Games.
- **2. Agreement with Bingo Innovations, Inc.** Assess whether the American Legion complies with the terms and conditions of the agreement with Bingo Innovations, Inc. related to the conducting of remote caller bingo games.
- **3.** California Penal Code Sections 326.3 & 326.5- Assess whether the American Legion complies with legal provisions related to the organization and conduct of remote caller bingo games. Identify and evaluate the legal provisions (penal code) for organizing and conducting remote caller bingo games and pull-tabs.
- **4. Bingo Cash Collections and Financial Compliance-** Verify whether the American Legion properly accounts for cash collections for remote caller bingo and pull-tabs.

CONCLUSION

Based on our review, we noted no significant deficiencies or material weaknesses in the controls, policies and procedures pertaining to remote caller bingo activities. In addition, there were no instances noted of non-compliance with the County Ordinance, Agreement with Bingo Innovations, Inc., or California Penal Code Sections 326.3 and 326.5.

However, we have identified a recommendation resulting from our review to assist the American Legion in maintaining accurate and complete records in relation to the use of volunteer labor. This recommendation is presented on the following page.

RECOMMENDATION

Unrelated Business Income on Remote Caller Bingo Earnings

Internal Revenue Service (IRS) Publication 3079- Tax-Exempt Organizations and Gaming states that bingo (also referred to as gaming or gambling) that is limited to members and bona fide guests furthers a 501(c)(19) veteran's organization's social and recreational purpose. However if a 501(c)(19) organization permits the general public to participate in its social and recreational activities- including gaming- the activity does not further an exempt function.

The Dixon American Legion Post 208, an exempt organization, regularly carries on a trade or business (bingo) that is not substantially related to its exempt purpose, except the trade or business provides funds to carry out that purpose. Since offering remote caller bingo to the general public does not further the exempt purpose of the veteran's organization, the income generated from such activities may be subject to the tax on unrelated business income.

There are several conditions that will exclude bingo earnings from being classified as such. The one applicable to Dixon American Legion Post 208 is the use of volunteer labor. If volunteer labor is used to provide substantially all of the work performed to conduct the remote caller bingo games, any earnings from bingo will not be considered an unrelated trade or business and the income from such activities will not be taxed.

During the course of our review we did verify that substantially all (defined by the IRS as 85%) of the work in conducting the bingo games is performed by volunteer members of various veterans' organizations. If it is the intent of the American Legion Post 208 to rely on the volunteer labor exclusion to preclude bingo activities as an unrelated trade or business, then detailed records should be maintained reflecting the number of hours worked by both compensated and volunteer workers. This serves to adequately document that income earned from bingo activities is not taxable as unrelated business income.