Report #
2012-05

Audit of the Sacramento Region Sports Education Foundation (SRSEF):

SRSEF did not meet required loan-agreement terms

- SRSEF expended all loan proceeds and did not have funds available to repay the City loan by its due date
- SRSEF did not segregate the City loan funds and can therefore not ensure that City money was only used for its intended purpose
- While SRSEF provided key financial reports, it did not fully comply with reporting requirements
- SRSEF attempted to develop conservative estimates, but projections proved to be overly optimistic

SRSEF lacked strong financial management

- The non-profit's annual spending has exceeded annual revenues for several years
- Budgeting lacked formal approval and complete information
- While no evidence of unauthorized transactions was found, SRSEF lacked strong internal controls
- SRSEF did not create financial reports that were required by the non-profit's bylaws
- Financial responsibilities were not clearly defined

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Background

The Sacramento Sports Commission is a joint Sacramento City and Sacramento County advisory board that was created in the 1980s with the aim of attracting professional and amateur sporting events to the area. In 1998, the Commission created a non-profit organization, the Sacramento Region Sports Education Foundation (SRSEF). SRSEF is charged with administering Commission events. Some major past events include Olympic Track & Field Trials, National Collegiate Athletic Association competitions, and the Amgen Tour of California.

In recent years, SRSEF has generated between $480,000 and $1.4 million in revenues per year. Revenues are generated from events and fundraising. Additionally, the Sports Commission has received about $140,000 annually in funding from the City and $100,000 from the County. These funds are transferred from the Commission to SRSEF to cover administrative expenses.

SRSEF ran the 2011 World Masters Athletics Championships (WMA) in July 2011. In anticipation of this track and field competition for athletes over age 35, SRSEF asked the City and County for cash-flow loans. These loans were requested because the event relied on athletes' registrations to fund the competition, and much of these funds were not expected to be received until just before the start of the event.

On March 16, 2010, City Council approved a $400,000 loan to SRSEF. The loan was funded from the City's Parking Fund (Fund 6004). In addition to the City funds, Sacramento County also loaned SRSEF $150,000. SRSEF provided the City a financial projection of the event to show why the advance was necessary and when the loan funds would be paid back to the City and County.

Key terms of the loan agreement with the City required that SRSEF:

- Repay the City the $400,000 loan principal and 4.0% annual interest before or on October 1, 2011
- Keep the loan proceeds in a segregated account and only use them to meet operating expenses for the WMA event
- Provide the City with monthly reports about the event's finances

In September 2011, the City's Department of Convention, Culture and Leisure (CCL) invoiced SRSEF for the loan repayment totaling $420,044.44 ($400,000 in principal and $20,044.44 in interest). SRSEF informed CCL that it could not repay the loan at that time and that it had lost money on the WMA event.

In 2012, the CCL Director worked with the City Attorney's Office and SRSEF to establish a forbearance agreement between the City and SRSEF related to the loan. A forbearance agreement is a tool that specifies a time before a lender will exercise its rights to enforce loan payments that allows for fact-finding to determine if a resolution is feasible.

As part of this fact-finding, the CCL Director requested that the Office of the City Auditor conduct an audit to better understand how SRSEF spent City loan proceeds and to evaluate the organization's finances and financial practices. On May 8, 2012, City Council directed the City Auditor to complete this audit prior to the expiration of the forbearance agreement at the end of the year.

As of the completion of Audit work in July, SRSEF was facing financial challenges that threatened the continued operations of the non-profit. SRSEF management established a task force that includes the organization's Executive Director, board members, and participants from the City and County to discuss possible changes to the organization's structure with the goal of ensuring sustainability.

Objective, Scope, and Methodology

The objectives of this audit were to explore why the loan was not repaid and evaluate SRSEF's financial conditions.

To meet our objectives, we reviewed SRSEF's compliance with the City loan agreement as well as the non-profit's finances and structure. To evaluate compliance, we reviewed the loan agreement, WMA monthly financial reports, and other relevant documents related to the loan. To assess SRSEF's finances, we evaluated accounting records related to the entire organization and the WMA event. In addition to steps described above, we conducted interviews with SRSEF staff, SRSEF board members and City staff to better understand all key areas.

Besides audit work conducted by the Sacramento Office of the City Auditor, Macias Gini & O'Connell LLP (MGO) reviewed WMA and SRSEF finances and the organization's accounting controls.

In addition to gathering SRSEF's operational and financial information, we evaluated best practices related to running non-profit organizations. This information was included for consideration by SRSEF staff and board members.

As noted in the background, SRSEF has formed a task force to examine changes to the organization's structure in light of financial challenges. Since alternatives were still in development when audit work ended, we did not evaluate the feasibility of possible structural changes.

Finding 1: SRSEF did not meet required loan-agreement terms

On March 16, 2010, City Council approved $400,000 in loans to SRSEF for the 2011 World Masters Athletics Championships (WMA). The loan was funded from the City's Parking Fund and was meant to be a cash flow loan that would allow SRSEF to pay for event-related expenses prior to receiving event-generated revenue. The City provided SRSEF with loan funds of $200,000 in May 2010 and another $200,000 in September 2010.

We found that:

- SRSEF expended all loan proceeds and did not have funds available to repay the City loan by its due date;
- SRSEF did not segregate the City loan funds and can therefore not ensure that City money was only used for its intended purpose;
- While SRSEF provided key financial reports, it did not fully comply with reporting requirements; and
- SRSEF attempted to develop conservative estimates, but projections proved to be overly optimistic.

SRSEF did not repay the City loan and failed to fully meet other loan requirements. While the non-profit attempted to plan for the WMA event's finances conservatively, projected revenue and expense figures were too optimistic.

SRSEF expended all loan proceeds and did not have funds available to repay the city loan by its due date

Contract terms required SRSEF to pay the City loan by October 1, 2011. In September 2011, the Department of Convention, Culture and Leisure (CCL) formally invoiced SRSEF for the loan repayment totaling $420,044.44 ($400,000 in principal and $20,044.44 in interest).

However, the SRSEF Executive Director informed the CCL Director that SRSEF could not repay any of the City loan because the non-profit did not have the cash available to do so by the October 1, 2011 due date. As noted above, the $400,000 City loan was intended to cover cash-flow issues and was slated to be repaid after the WMA event.

Excluding the government loans, our review of SRSEF's accounting records found that the WMA event closed out with a loss of about $253,000.

Exhibit 1: The WMA Event Closed With a Shortfall:

WMA Event	Actuals
Revenues	$1,428,305
Expenses	$1,681,273
Shortfall	($252,968)

Source: Auditor generated from accounting records

Since the above exhibit does not take into account loan proceeds, it would indicate that some WMA funds should be available to repay the City loan. Specifically, it would be reasonable to expect that the difference between the loan amount ($400,000) and the shortfall ($252,968) would be available to repay the City. However, this $147,032 was not available to pay towards the loan, as explained in the next section.

In addition to losing money on the WMA event, it appeared that SRSEF suffered losses in other areas. Specifically, SRSEF ended 2011 with a total organization loss of about $432,500. The fact that no portion of the City loan could be repaid even though the WMA event's loss was less than the City loan amount indicates that City loan funds were ultimately used to offset SRSEF's expenditures elsewhere.

According to the SRSEF Executive Director and the SRSEF Board Chair, the non-profit intends to repay the City loan and is working on a plan to do so. As of the completion of audit field work in July, SRSEF has not made any payments towards the loan.

SRSEF did not segregate the City loan funds and can therefore not ensure that City money was only used for its intended purpose

Under the loan requirements, SRSEF agreed that City funds should "be used to meet operating expenses of the SRSEF in presenting the World Masters Athletics Championships event only" and "until expended, the funds loaned hereunder shall be kept in a segregated account and shall be identified as funds obtained pursuant to this loan agreement."

These requirements specified both what the City funds could be used for (restricted to WMA only) and how they must be accounted for (in a segregated account). We found that loan funds were not kept separate and this comingling meant that there is no clear way to definitively know if the City loan funds were spent only on the WMA event.

Both SRSEF's Executive Director and Bookkeeper acknowledged that the loan proceeds had not been segregated, as required. Our review indicated that City loan funds were deposited into SRSEF's interest-bearing checking account along with other SRSEF revenues.

The Executive Director said that not segregating the loan funds in a separate bank account was a mistake. He explained that he thought the City loan funds had been segregated from SRSEF's other funds, but learned later that these funds had not been segregated in a separate bank account. However, he believed that the loan funds were only used for the WMA event because of the timing of when they were made. He explained that by May 2010, SRSEF had already spent about $170,000 on WMA and that spending was increasing as the event approached.

However, our review of SRSEF's accounting records around the time that the non-profit received City loan funds showed that SRSEF spent money on events[1] other than WMA. As noted above, the City provided loan funds in both May and September 2010. The following shows SRSEF's event expenditures for the month of and next three months after loan funds had been received.

[1] Other events included the Amgen Tour of California and a USA Track and Field event.

Exhibit 2: SRSEF Paid More For Non-WMA Events Than WMA Events During This Period

Type of Expense	May - Aug. 2010	Sept. - Dec. 2010	Total May - Dec.
WMA Event	$65,475	$92,377	$157,852
Non-WMA Events	$294,139	$82,483	$376,621

Source: Auditor generated from accounting records

Since City loan funds were not held in a separate account and SRSEF spent money on other events during this time, there was no way to ensure that loan funds were only spent on the WMA event. As Exhibit 2 shows, SRSEF paid more in expenses for other events than the WMA event during the eight months reviewed. Specifically, it spent more than twice the amount of WMA expenses on non-WMA events from May to December 2010.

While SRSEF provided key financial reports, it did not fully comply with reporting requirements

The loan agreement with the City set terms to allow for City oversight of the WMA loan. Specifically, the agreement required SRSEF to submit financial reports about the WMA event. The contract's "reporting" section stated:

> "During the term of this Agreement, SRSEF shall provide to the City monthly financial reports for the Event prepared in accordance with generally accepted accounting principles that include a balance sheet and a detail of gross revenues and expenses and operating income by month. The reports shall be provided to the City not later than the 15th of each month for the preceding month's activities."

Article 5 of the loan agreement provided additional details about the reports. It stated:

> "Borrower agrees to furnish to Lender, on or before the fifteenth (15th) of each month in which there is an outstanding Loan Balance, monthly financial statements for the previous month. The statements shall consist of a balance sheet, income statement, and supplemental schedule of gross receipts and expenditures for the previous month and a cumulative report of loan to date. The statement shall be signed by Executive Director and Board Chairman, for the Borrower, on the Borrower's stationary."

To assess compliance with reporting requirements, we reviewed reports for the following:

1. Did reports contain the specified financial information?
2. Were reports submitted in a timely manner as required?
3. Were they submitted for the entire time that they were required?
4. Were they signed off by the Executive Director and Board Chair?

To evaluate compliance, we reviewed financial reports and interviewed SRSEF and City staff. We determined that SRSEF partially met reporting requirements.

Item 1: Reports contained specified financial information

Information contained in the reports generally provided the specified financial information such as revenues and expenses. Also, the reports compared actual to budget figures and included the percent of budget amounts used. Differences between these figures were displayed and many of the lines contained notes to explain variations and assumptions. Reports also projected cash flow along with when the City loan would be repaid. SRSEF met with the CCL Director to ensure that reports were in line with her expectations.

During most of the reporting period, SRSEF was projecting that the event would close out with a surplus. However, the May 31, 2011 report projected that the event would end with a loss of nearly $40,000 by November 2011. This loss was to be realized after the event met all of its obligations – including repayments of the City and County loans.

Item 2: While the City was satisfied with the timeliness of reports, when they were submitted could not be verified

The CCL Director said she did not know when exactly reports were submitted, but said that they were generally submitted in a timely manner and that SRSEF responded to her requests for additional information. There were no cover letters or other documents that indicated when reports were submitted.

Item 3: While reports were submitted as the event approached, they were discontinued prematurely:

SRSEF did not submit reports for the entire period required. Specifically reports were required for each month in which there was an outstanding loan balance. According to the bookkeeper and a review of records, the last report was issued for the period ending May 31, 2011. This was about four months before the loan was due.

While the non-profit was in contact with the City about the event's financial condition, the decision to stop providing these required reports violated loan agreement terms. Additionally, it did not allow the City to fully continue its oversight role or evaluate the likelihood of loan repayment.

Item 4: Reports did not contain required signoffs:

SRSEF did not meet the requirement to have the reports signed off by the Executive Director and Board Chair on SRSEF letterhead. According to the Executive Director, this was an oversight.

We Recommend that SRSEF:

1. **Create a plan and repay the City and County loans as soon as possible.**

SRSEF attempted to develop conservative estimates, but projections proved to be overly optimistic

As noted above, SRSEF prepared monthly reports related to the WMA event. These reports provided information about actual revenue and expenses as well as projections. To plan for this large event, an executive committee made up of the Executive Director and SRSEF board members formed. According to the Executive Director and board members, this group met weekly or every other week as the event approached.

The Board Chair, who was also on the executive committee, said the committee discussed finances during the meetings. As event revenues began to fall short of expectations, the board members worked with the Executive Director around March and April 2011 to cut event expenses to better balance them with projected revenues. This decrease in expenses was reflected in the May report.

Despite these reductions, the event still ended with a shortfall. While event budgeting is difficult since many revenues and expenses are outside of the direct control of organizers, SRSEF would have benefited from more conservative budgeting practices.

To provide context about how this projection changed, we reviewed various monthly reports. The reports projected the event's cash flow as of November 2011. This period was about four months after the WMA event. The following shows the projected revenues, expenses and surplus or deficits to be realized in November 2011, as shown in reports with the following dates:

Exhibit 3: Projections Changed as the Event Approached

Report Period	Projected Revenue	Projected Expenses	Projected Surplus/Deficit
12/31/2010	$ 1,840,000	$ 1,763,026	$ 76,974
4/30/2011	$ 1,924,000	$ 1,869,937	$ 54,063
5/31/2011	$ 1,545,499	$ 1,585,356	$ (39,857)

Source: Auditor generated from WMA reports

The $76,974 surplus projected at the end of 2010 to the projected deficit five months later represented a decrease in net revenue of more than $115,000. During this time, SRSEF also cut its projections for budgeted revenue and budgeted expenses. Budgeted revenue was decreased by $294,501, or about 16 percent. Budgeted expenses were decreased by $177,670, or about 10 percent. The Executive Director explained that SRSEF cut its expenses in anticipation of a reduction in revenues.

The May 2011 report projected large decreases in revenue for four areas. These items and respective decreased adjustments from the December 2010 report are shown below.

Exhibit 4: SRSEF Reduced Projected Revenue in Four Major Areas

Areas of Projected Revenue	Projection Per 12/31/10 Report	Projection Per 5/31/11 Report	Reduced Projected Revenue
Dorm Housing	$ 246,330	$ 80,500	$ 165,830
Hotel Commission	$ 200,000	$ 150,000	$ 50,000
Sponsorships	$ 200,000	$ 60,000	$ 140,000
Advertising	$ 55,000	$ 17,250	$ 37,750

Source: Auditor generated from WMA reports

These large reductions highlight how projections for some of these main areas changed. This indicated that income projections were adjusted to account for changing conditions over time, which showed SRSEF's responsiveness.

In addition to reviewing the projections, we compared the actual event revenues and expenses from the accounting record to the last completed monthly report (5/31/11). Revenues came in about 8 percent less than expected and expenses were about 6 percent greater than expected. The shortfall was more than five times greater than what was expected.

Exhibit 5: Actual Revenues and Expenses Were Out of Line with Projections

Totals	Projected 5/31/11	Actual 5/21/12	Actual – Projected
Total revenues	$ 1,545,499	$ 1,428,305	$ (117,194)
Total expenses	$ 1,585,356	$ 1,681,273	$ 95,917
Total shortfall	$ (39,857)	$ (252,968)	$ (213,111)

Source: Auditor generated from a WMA report and accounting records

According to the Executive Director, he believed that the event forecasting was conservative. He said that he talked with several people who were familiar with running past WMA events, but he was not able to obtain any budgets from past events. According to the Executive Director, the International WMA Council said SRSEF could expect about 6,000 athletes to register with revenues of about $200 per athlete (including registration fees and other revenues like lodging commissions, transportation passes, concessions, etc). The Executive Director said that he believed that the WMA Council's estimate of the number of participants was high.

To arrive at a more conservative event forecast, SRSEF reduced the number of expected athletes to 5,000. This was in line with the number of actual participants, about 4,800. However, the total revenue per participant came in much lower than what the WMA Council had projected, the Executive Director explained. He said that the WMA Council had provided overly optimistic estimates.

Forecasting the budget for a large and complex event can be challenging. However, effectively estimating event revenues and expenses is fundamental for an organization that has limited funds available to run such events. In planning for future events, SRSEF should consider recommended non-profit budgeting practices. The book *Managing a Nonprofit Organization in the Twenty-First Century* advises non-profit decision makers in effective financial management. Specifically, it encourages them to carefully estimate expenses and then add at least 10 percent more to these estimates. Additionally, it advises planners to underestimate projected income by at least 10 percent.

These types of budget practices provide cushions and represent a conservative approach to budgeting. As noted above, actual revenues came in about 8 percent less than expected in the May report and actual expenses were about 6 percent greater than expected. If the advised 10 percent cushions were in place for both revenues and expenses, it is possible that the shortfall would have been significantly reduced or even eliminated.

We recommend that SRSEF:

2. **Create event budgets with large cushions to allow for greater than expected expenses and lesser than expected revenues.**

Overall, we determined that SRSEF did not comply with loan agreement terms since it did not repay the loan when required and it did not segregate City loan funds. Additionally, the non-profit did not meet all reporting requirements and could benefit from a more conservative approach to event budgeting. As noted above, SRSEF indicated that it intends to repay the loans. Its task force has discussed repayment options, but has not adopted a repayment plan as of the end of our audit work.

Finding 2: SRSEF lacked strong financial management

SRSEF's mission is to "provide necessary administrative and logistical support to sporting events held in Sacramento and to encourage youth interest and participation in sports by displaying educational exhibits and providing instructive clinics for community youth." To accomplish these goals, SRSEF must operate within its means and manage finances effectively.

We found that:

- The non-profit's annual spending has exceeded annual revenues for several years;
- Budgeting lacked formal approval and complete information;
- While no evidence of unauthorized transactions was found, SRSEF lacked strong internal controls;
- SRSEF did not create financial reports that were required by the non-profit's bylaws; and
- Financial responsibilities were not clearly defined.

We found that SRSEF lacked effective financial management. Specifically, there appeared to be limited financial planning, oversight and controls. For example, the organization's 2011 overall budget was never approved by the SRSEF Board. Additionally, financial roles and responsibilities were not clearly defined by the organization's bylaws or other documents and the non-profit lacked current written financial policies. Under such an environment, it could be difficult for SRSEF to meet its financial obligations – including those to the City and County.

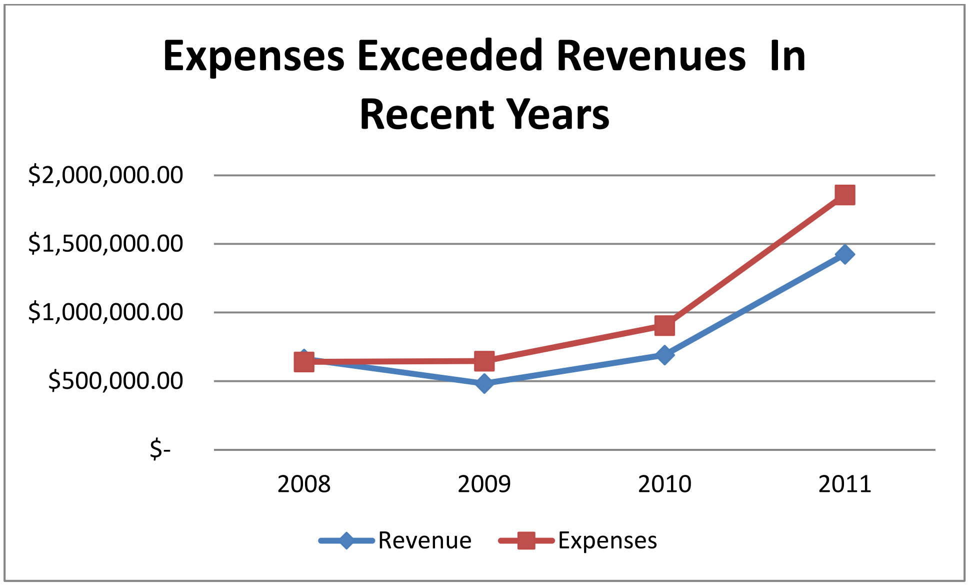
As noted in the background section, SRSEF has established a task force to consider the organization's structure in light of financial challenges. As of the end of audit work, SRSEF had limited funds available that threatened its continued viability. The recommendations below assume that SRSEF will continue to operate under its current structure. They are also meant to provide guidance if the structure changes.

The non-profit's annual spending has exceeded annual revenues for several years

SRSEF has a history of spending more per year than it generated in revenues. Our review of profit and loss details in the accounting records showed several years in which expenses exceeded revenue. Net revenue was -$163,807 in 2009, -$214,449 in 2010 and -$432,532 in 2011. The last time revenue exceeded expenses was in 2008. That year, SRSEF realized about $22,000 more in revenue than expenses.

SRSEF was able to continue operating despite large annual deficits because it had revenues that exceeded expenses in past years that could cover the deficits. Specifically, SRSEF's revenues for the 2004 U.S. Olympic Track & Field Trials exceeded expenses by more than $600,000. The following shows the difference between annual revenues and annual expenses for the past four years.

Exhibit 6: Annual Revenues Outpaced Annual Expenses for the Past Three Years



Source: Auditor generated from accounting records

As shown above, SRSEF had its greatest annual shortfall[2] in 2011, as it lost $253,000 on the WMA event and had losses in other areas. According to SRSEF's financial consultant, while some recent annual deficits were covered by reserves from prior years, there was not a formal record or plan that showed that these funds were drawn from reserves.

As of December 31, 2011, SRSEF had more than $1 million in outstanding liabilities. Additionally, the non-profit appeared to have exhausted remaining reserves by the end of audit field work. Without a significant infusion of revenue, it is unclear how long the non-profit can continue to operate. MGO's evaluation of SRSEF's financial condition concluded that "there is substantial doubt about the ability of the nonprofit organization to continue as a going concern for a reasonable period of time."

In addition to this current condition, we found evidence that the most recent years have not been the only ones in which SRSEF spent more than its annual revenues. Specifically, an audit of SRSEF's financial position in 2000 described the non-profit's financial challenges at that time:

> The 2000 audit, which was conducted by an independent auditor, stated "Due to the significant losses incurred by SRSEF during 1999 and 2000, SRSEF has entered into debt forgiveness and restructuring plans with their creditors. Two major creditors, the City of Sacramento, and the County of Sacramento, have agreed to extend the due dates on the current lines of credit, and negotiate resolutions with SRSEF of the debts owed to them. Other major creditors have agreed to extended payment plans and partial forgiveness of the debts owed to them."

This history indicated that SRSEF could not pay past obligations to the City, County and other creditors when obligations were due more than a decade ago. While organizations can have shortfalls in some

[2] Liabilities like outstanding loan balances were excluded from this analysis.

years, the pattern of losses and failing to clearly account for them indicates a lack of financial planning and effective organizational management.

We recommend that SRSEF:

3. **Improve financial management and create short and long term plans that evaluate the non-profit's capacity to continue operating.**

Budgeting lacked formal approval and complete information

Budgets serve as the key planning document to meet an organization's goals while considering financial constraints. As noted above, SRSEF's 2011 budget was never formally approved by its board. The Executive Director said that this was an oversight and the board should have approved the budget. In addition to not approving the budget, the document was not finalized and it is marked "draft." Also, this draft budget is out of balance. Specifically, it showed a proposed loss of about $90,300 with revenues of about $174,000 and expenses of about $264,000.

As the 2011 budget was not formally approved or completed, it is unclear if SRSEF staff and board members had sufficient information to make financial decisions. Specifically, no overall financial plan was officially in place.

Besides this concern, it became apparent during our review that budgets for the past few years did not fully show the financial condition of SRSEF. Specifically, the loss from prior years was not included in budgets. Also, the balance at the start of the year was not shown on budget documents until recently (the 2012 budget). This meant that decision makers could not clearly see that SRSEF had been spending more than its revenues for several years and understand when reserves would be exhausted.

In addition to this lack of clear prior year financial condition and reserves information, the budgets reviewed did not explicitly show the revenues and expenses for events. Instead, budget documents included the net amounts from each event – meaning the projected profit or loss from the event, but not the budgeted revenues and expenditures. SRSEF has historically managed events that cost at least $50,000. To facilitate better financial management and to provide a more complete picture to decision makers, the organization would benefit from including event revenues and expenses in its annual budgets.

We recommend that SRSEF:

4. **Create a procedure to ensure that the budget is approved annually and that budget documents include a starting balance and event revenues and expenses.**

While no evidence of unauthorized transactions was found, SRSEF lacked strong internal controls

As part of this review, consultant MGO assessed accounting internal controls and gained an understanding of cash receipts and disbursements. Based on the haphazard sample selected, revenue and expenses appear reasonably stated for the year ended December 31, 2011. MGO did not find any evidence of fraud as a result of test work. However, because of the inherent limitations of this consulting project combined with the inherent limitations of internal control, and because it did not perform a detailed examination of all transactions, there is a risk that material misstatements or fraud may exist that would not be detected by the firm.

While the samples selected did not detect any instances of unauthorized transactions and the support reconciled with the accounting system and bank statements, MGO identified processes that lacked strong internal controls. Internal controls are the checks in place to ensure efficient and effective operations and the reliability of financial information.

To process bills, SRSEF's bookkeeper or administrative assistant receive and open mailed-in bills. The bookkeeper reviews these invoices, fills out check request forms, and attaches the form to the invoices. Then she enters invoice information into the accounting system and prints out checks made out to the vendors. The Executive Director reviews the invoices and check requests for appropriateness and then signs the check requests. For payments that are $10,000 or greater, a SRSEF Board Member must also sign the check request form. After receiving approval, the bookkeeper mails checks to vendors.

While this process provides some controls, other potential controls are lacking. Specifically, controls that would strengthen the process would be for:

1. Segregations of duties to different parties that do not overly rely on the bookkeeper
2. The preparation of bank reconciliations for review by the Executive Director or board members
3. The preparation of periodic financial statements for board members' reviews

Such controls could ensure that payments are appropriate and would allow the board to track budget to actual spending.

Additionally, during the review it became apparent that the Executive Director signed off on his own expenses. For example, the sample of transactions reviewed showed that he approved payment for his SRSEF credit card bill. Signing off on ones' own expenses is not a control. It would be more appropriate for someone else in authority, like a board member, to approve such expenses.

A review of transactions also showed that the Executive Director's signature was rubber stamped onto some check request approvals. According to the bookkeeper, this is not a normal procedure and the stamp is only used when the Executive Director is out of town or not available and a payment is due. Using a stamp does not ensure that the check requests receive the appropriate reviews and approvals.

While SRSEF does not have current written accounting procedures, the bookkeeper provided the organization's accounting procedure that was dated 1998. This document notes some key accounting controls for receiving and disbursing cash. However, it is no longer followed.

Creating accounting procedures that stress meaningful internal controls is in line with best practices of non-profit management. Clifton Gunderson LLP, a certified public accountants and consulting firm, published best practices for *Not-for Profit Internal Controls – Enhancing Your Internal Control*

Environment. The publication stresses the importance of creating an accounting manual that establishes internal controls related to segregating duties, and making and receiving payments.

SRSEF could benefit from creating and implementing written accounting procedures that establish key accounting controls.

We recommend that SRSEF:

5. **Adopt written accounting procedures to strengthen internal controls.**

SRSEF did not create financial reports that were required by the non-profit's bylaws

Article V of SRSEF's Bylaws requires financial reports to be prepared after the close of the non-profit's fiscal year, which ends December 31. Bylaws state that the "board of directors shall cause to be prepared within one hundred twenty (120) days after the close of the corporation's fiscal year, for their own use and for whatever further use the board may duly authorize, a report containing in appropriate detail the following information." It specifies that the reports should cover assets and liabilities, principal changes in assets and liabilities, restricted and unrestricted revenue, and restricted and unrestricted expenses. Additionally, the bylaws require an independent accountant or others[3] to prepare the reports.

According to SRSEF's bookkeeper, the organization has not prepared or hired an independent accounting firm to prepare these annual reports. The Executive Director and Bookkeeper explained that some of the financial information specified in the bylaws is sent to the board when SRSEF's accountant prepares the organization's tax submission. However, the specified annual reports have not been completed.

Having this required financial information could have allowed board members and SRSEF staff to more closely evaluate the organization's finances and make decisions based on this information. Specifically, the annual reports were supposed to include a review of both restricted and unrestricted revenues. As noted in Finding 1, SRSEF did not meet the requirement to segregate City loan funds as restricted for the WMA event only. If the annual reports would have been prepared in accordance with the bylaws, it is possible that decision makers would have been aware of the restricted funds and would have ensured that they were segregated appropriately.

We recommend that SRSEF:

6. **Complete annual financial reports in compliance with the Bylaws.**
7. **Report budget to actual expenses and revenues to the SRSEF Board quarterly.**

Financial responsibilities were not clearly defined

SRSEF's bylaws or other policy documents did not clearly define financial roles and responsibilities. Clearly defining responsibilities helps an organization work efficiently and stresses accountability.

[3] Bylaws specified that if financial reports are not prepared by an independent accounting firm, then they must state that they were prepared from the accounting record "without audit."

According to the SRSEF Executive Director, he believes that both he and the SRSEF board members have responsibility for the financial oversight of SRSEF and that he seeks direction from the Board regarding finances. The SRSEF Board Treasurer agreed that both the Board and SRSEF staff have financial oversight responsibilities. The Treasurer said that while she and other board members provide financial oversight like when they review budgets, the day-to-day financial management is delegated to the SRSEF Executive Director and his staff. Additionally, the Board Chair said that the board plays an advisory role to SRSEF and does not have a major role in governance of the non-profit. He explained that the board had a limited role in overall SRSEF finances and relied on staff to oversee finances.

The Bylaws do not adequately specify the financial responsibilities of the board members or SRSEF staff. This leaves the financial oversight roles open to interpretation. As noted above, the Executive Director and Board Treasurer said that both the board and Executive Director have financial oversight responsibilities for SRSEF. However, the Board Chair said that the board acts more in an advisory role regarding the organization's finances. While either approach could be appropriate for different organizations, the expectations should be clearly defined.

We found instances in which this lack of authoritative written criteria could have hindered effective management. Specifically, as explained above, the SRSEF Board never formally approved the 2011 budget. The Executive Director said that this was a mistake and that the Board should have formally approved the budget. While it appears that approving the budget has been a board role and doing so would likely represent a best practice, the requirement for board approval was not formally documented in the Bylaws or other policy documents.

We recommend that SRSEF:

8. **Revise the Bylaws or create a separate policy to clearly define the financial roles and responsibilities of the board and SRSEF staff.**

MEMORANDUM

Date: September 4, 2012

To: Jorge Oseguera, City Auditor

From: Sacramento Region Sports Education Foundation

Subject: Response to Audit of SRSEF

The Sacramento Region Sports Education Foundation appreciates the opportunity to respond to the City Auditor's Findings. The Findings include recommendations that will help to ensure a financially stable organization moving forward. Specifically, SRSEF provides the following response:

- SRSEF agrees with the findings of the audit.
- The audit findings are consistent with and confirm our own assessment made in December of 2011.
- We have already taken steps to address the audit findings. A Task Force comprised of members of the Sacramento Sports Commission, SRSEF and City and County staff has been appointed and is in the process of:

    I. Evaluating structural changes that will provide a stronger organizational base. These structural changes will address each audit recommendation.

    II. Evaluating the non-profit's capacity to continue operating. Funding to support continued operations will include resources to retain a financial manager to implement these measures.

Again, thank you for providing SRSEF with the findings and recommendations.

Sacramento Region Sports Education Foundation
1030 15th Street, Suite 200 • Sacramento, California 95814 • (916) 808-2400
a non-profit 501(c)3 organization