



# **Santa Barbara Veterans' Coordinating Council**

*Management Agreement Audit Report  
January 12, 2012*



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# Summary & Conclusion

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## OBJECTIVES & SCOPE

The Internal Audit Division of the Auditor's Office conducted an audit of the Management Agreement (the Agreement) between the Veterans' Coordinating Council (the Council) and the County of Santa Barbara (County). Our audit was made for the purpose of determining whether the County and the Council complied with the terms and conditions of the Agreement. Our audit was conducted in accordance with professional standards established by the Institute of Internal Auditors.

Our audit was limited to certain records and documents that support the Council's gross receipts and expenses reported for the 36-month audit period of January 1, 2008 through December 31, 2010. Our audit included inquiry, auditor observation, and limited testing to assess the adequacy of records to verify that the Council complied with the Agreement.

## BACKGROUND

Military & Veterans Code Section 1262 enables the County to provide for a memorial hall, meeting place, memorial park or recreation center for the use or benefit of one or more veterans' associations. Pursuant to this code section, the County entered into a Management Agreement with the Council to lease the Santa Barbara Veterans' Memorial Building (Building) to benefit the eleven veterans' associations that comprise the Council. The Agreement was originally established by the Board of Supervisors around January 1, 1998 and was most recently revised commencing July 1, 2004 and extended in 2009 for an additional five year period. The Building is a County owned facility located on Cabrillo Boulevard.

Under the agreement, the Council assumes responsibility for the management of the Building and for its lease to the general public and other organizations. The Council is also responsible for utility payments, janitorial services, facility maintenance services, and monthly \$500 capital improvement contributions for the first five years of the agreement, if the costs for these items do not exceed available revenues. If the costs exceed available revenues, the agreement contains a provision that the County Board of Supervisors, by majority vote, will pay any excess amounts.

Over the period audited, the County covered the costs for the Building's utilities. Figure 1 depicts the Council's net income (losses), for the past three years. Figure 2 depicts amounts the County expended for the Building's utilities for the same years.

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Figure 1 – Financial statements for the years ended 2008, 2009, & 2010, Source - IRS Form 990s (Not-for-profit Tax Return).

	2008	2009	2010
Contributions	\$5,198	\$5,231	\$ -
Service Revenue	156,333	166,152	123,635
<b>Total Revenue</b>	<b>161,531</b>	<b>171,383</b>	<b>123,635</b>
Salaries	74,228	83,751	68,924
Professional Fees	12,135	-	-
Other Expenses	85,385	84,522	53,838
<b>Total Expense</b>	<b>171,748</b>	<b>168,273</b>	<b>122,762</b>
<b>INCOME/(LOSS)</b>	<b>\$(10,217)</b>	<b>\$3,110</b>	<b>\$873</b>

Figure 2 – Building Utility Expenses for the Calendar Years Ended 2008, 2009, & 2010

	2008	2009	2010
Electricity	\$11,526	\$8,232	\$8,794
Gas	3,610	2,279	2,528
Water/Sewer	3,452	3,001	2,260
Garbage	2,949	4,890	5,428
<b>TOTAL</b>	<b>\$21,537</b>	<b>\$18,402</b>	<b>\$19,010</b>

The Council also did not make any capital improvement payments to the County due to its lack of available revenues.

## CONCLUSION

Based on our audit, we noted deficiencies in the controls at the County and the Council over policies and procedures that impact the accurate recording and reporting of financial transactions. In addition, we identified issues of non-compliance with the Agreement and various laws, and opportunities for improvement.

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The "Statement by County Officials" section includes the response of the County Department of General Services. The Council's response follows as "View of Veterans' Council Members." If further clarification to the finding was needed, an additional section titled "Clarification by Auditor-Controller" was added.

We recommend that the County and the Council better manage the terms and conditions of the agreement. By the end of the existing term in 2014, recommendations should be made by both parties to modify the agreement to maximize its benefit to both parties and to allow for improved monitoring and enforcement of its terms and conditions.

## **Statement by County Officials:**

*The General Services Department generally concurs with the conclusions of the audit and the eleven (11) Findings. For each Finding, the Department also provides a specific comment and statement regarding how it intends to correct any issues, and compel the Veterans Coordinating Council to comply with the recommendations.*

*The Department believes the Veterans Coordinating Council should be provided an opportunity to correct the deficiencies described in this audit. Given the unique nature of the facility in which it is first and foremost, a Veterans Memorial Building, not a special events hall, the Department believes the Council has done an adequate job in renting out the Building for events, and using the revenue generated from those events for maintenance and operation expenditure. In particular, the Department believes the Program Manager hired by the Council has performed her duties in a faithful and professional manner under the dual goals of making the facility a comfortable facility for the various Veteran groups, and maximizing revenue from special events.*

*That said, the Department generally concurs with all of the Findings and will work with the Council to correct them expeditiously. General Services does not believe the current Agreement needs to be amended to enforce compliance with this Audit. Rather, the Department intends to give the Council 6 months (from the date the Audit is formally delivered to the Board of Supervisors) to correct deficiencies and comply with the recommendations contained herein. At the end of the six month period, General Services and the Auditor-Controller will provide a back-check of their operations and draw a written conclusion of whether compliance has been met or not. If compliance has not been met, the other options listed above may be considered. As recommended by the Auditor, when the current term of the Agreement is up in 2014, the Department will work with the Council to amend the Agreement as necessary to improve operations prior to exercising the next five-year Option.*

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## Finding 1 – Management Agreement & County Oversight

The terms and conditions of the Agreement may not provide incentive to the Council to fully generate a profitable condition to meet utilities, maintenance, and certain capital costs.

Additionally, the agreement requires the Council to submit monthly financial statements to the County within 25 days following the end of each month. The County did not receive these reports throughout the timeframe of our audit.

According to the Agreement, if the Council cannot afford the Building's utility costs, the County may, by a majority vote of the Board of Supervisors, agree to pay the costs. The Board of Supervisors has not voted on or formally authorized the payment of the Building's utility expenses; however, these expenses were paid directly through a County Department.

**Recommendation:** The County should exercise its oversight over the Council and ensure that monthly financial statements are received. Building costs funded by the County should be approved by vote of the Board of Supervisors as specified in the agreement.

### View of County Officials:

*Agree with this finding. The Council shall provide the General Services Department monthly financial reports which have been reviewed and approved by the President of the Council. The County will provide a sample document of level of detail required. If the County makes Building expenditures on maintenance, those expenditures will be disclosed to the Board of Supervisors.*

### View of Veterans' Council Members:

*The Veterans Coordinating Council established a Finance Committee to provide oversight. The management uses Quick Books for the accounting software. A monthly financial statement will be provided to General Services Department through the Finance Committee in the format recommended by the County. Since the Council meeting occurs on the last Wednesday of the month, often on the 25th day or later, the Council requests the 25 day requirement be extended to 30 days to get appropriate Council review.*

## Finding 2 – Segregation of Duties

The Program Manager is responsible for handling cash, preparing receipts, recording events in the calendar, and reconciling the Council's bank statements; all of which are duties specified in her employment contract. As such, a deficiency in segregation of duties at the Building exists. Furthermore, it appears the Council does not employ mitigating controls to sufficiently address this deficiency. Without these controls, the

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Council is subject to the possibility that misappropriation of assets could result in material misstatement of the financial statements.

**Recommendation:** The Council should implement mitigating controls. Such controls might include implementing a policy that prohibits accepting cash payments from lessees and reviewing detailed vendor reports at every Council meeting including individual credit card transactions.

## **View of County Officials:**

**Agree** with this finding. *The Council shall take measures to provide a secondary level of oversight for approval of all expenditures and receipts including credit card transactions to ensure accurate accounting for the monthly financial report which the President of the Veterans' Coordinating Council approves each month.*

## **View of Veterans' Council Members:**

*The Council is implementing mitigating controls. The newly formed Finance Committee will review vendor invoices, checks (normally requires two signatures), and disbursements prior to the Council meeting including individual credit card transactions, if applicable. Because of the diversity of the client base, cash payments are an important part of business at the building. Although we recommend noncash payments, cash will be accepted if the Operations Manager determines it necessary to complete the transaction. Cash payments will be limited to those times-when the Operations Manager and the Council Chairman are notified or present.*

## **Auditor-Controller Response:**

*The Council should always require two signatures for issuance of checks. Furthermore, when cash is received, two persons should sign off on the receipt issued to the customer. A review of revenue and rental occupancy rates should also be made by the Council on a recurring basis.*

## **Finding 3 – Rental Rates**

The Agreement requires the Council to post the Building's rental rate schedule to assure equal access to all segments and members of the community on an equitable basis.

During the audit we examined 20 rental transactions. We noted the following:

- ❖ A 50 percent discount is offered to non-profit organizations. Rental fees for select non-profit organizations are waived or further discounted at the Program Manager's discretion.
- ❖ Rental fees for Council affiliated veterans' organizations are waived.

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- ❖ Rental fees for all government organizations (Federal, State, local) are waived.
- ❖ Council employees are granted free events.
- ❖ The rental fee(s) for the Council’s primary caterer is waived for providing discounted catering services. However, both parties (the Council and the caterer) benefit, as a markup on catering services is also passed through to lessees.

Furthermore, according to the Program Manager, if a room is available, a rate is negotiated with a potential lessee, depending on ability to pay. The following table depicts usage of the Building during calendar year 2010 by lessee type and standard discount offered:

Figure 3 – 2010 Rental Activity by Type of Lessee

Lessee	Percentage Used	Rate Charged
Veterans	36%	Free
For-Profit/Public	21%	Full Rate
Non-Profit	20%	Half Rate
Government*	12%	Free
Non-Profit	8%	Free
For-Profit/Public	1%	Free
Employees	1%	Free

\*County events accounted for approximately 50% of all government use in 2010.

A review of the Building’s 2010 rental calendar indicated that the Council waived rental fees approximately 58% of the time. With a portion of the waived fees, the Council could fund some of the Building’s utility expense, or other repairs or improvements.

**Recommendation:** The Council should consistently charge the rates stated on the fee schedule. Furthermore, the Council should consider charging governmental organizations, other than the County of Santa Barbara, in full for use of the Building. The Council should also disallow free use of the Building by employees and the caterer.

**View of County Officials:**

*Partially Agree with this finding. The Veterans’ Coordinating Council shall adopt an annual rental rate fee schedule for use of the Building which represents a market-driven rental rate and shall apply that rate consistently to all users. The Department concurs with the current practice that a special rate for non-profits that is 50% of the regular rate should be used. The Veterans’ Coordinating Council shall prohibit the use of the*



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*Building by employees and vendors. Each Veterans group occupying the Building shall have a one-time group event in the Building at no cost. A copy of the annually approved rates and comparisons will be provided to the County after approval by the Council on or before December 31 of each year setting forth that up-coming years rates.*

## **View of Veterans' Council Members:**

*Rates for the following year are determined prior to and become effective on January 1 of the New Year which will be provided prior to December 31 of current year. Rates have not been increased in the past two years due to current economic conditions; the static pricing reflects the sensitivity of the economy. The Council has now established a Building Committee to address the market-driven aspect to better gauge rental rates and will attempt to apply those rates consistently to all users. Non-profits will remain at 50% of the listed rates. The Veterans groups within the Council shall have free access to the building, especially when no paid-event is taking place. As the County noted, the Veterans Memorial Building is primarily a Veterans' building and is in accordance with California Military and Veterans Code 1262.*

## **Auditor-Controller Response**

*The Council should only allow Veterans groups reserve one event annually as far in advance as they wish but no more than two weeks for other requests to ensure that paid events have an opportunity to use the facility This process will better define "when a no paid-event is taking place." Furthermore, the Council's response did not address the rates charged to vendors, employees, and other governmental agencies. Services of employees and vendors should not be traded for free rentals.*

## **Finding 4 – Other Facility Rates & Advertising**

The City of Santa Barbara's Cabrillo Pavilion Arts Center (the Arts Center), on Cabrillo Boulevard, and the Santa Barbara Historical Museum (the Museum), on East De la Guerra Street, are two other rental facilities in the area. However, the Arts Center and Museum may not be comparable to the Building, as the facilities are not established to support Veterans' Organizations and may be located in more desirable venues.

The figure below presents selected information obtained from the Council's records and inquiry of the Arts Center and the Museum staff for fiscal year 2010.

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Figure 4 – Other Rental Facilities

	BUILDING	ARTS CENTER	MUSEUM
Saturday Daily Rate	\$1,500	\$3,155	\$6,000
Weekday Daily Rate	\$500	\$1,312	\$3,500
Weekday Hourly Rate	\$100	\$164	N/A
Refundable Deposit	\$500	\$400	\$1,000
Cleaning	\$500	\$225	Included in Deposit
Parking	No	Separate Fee	50 spaces
Maximum Capacity	300	250	450
Advertising	Visitors' Center Brochure	Venue websites, television shows	Venue websites, television shows
2010 Gross Rental Revenue	\$75,871	\$231,124	Not Disclosed

The Building's Saturday rental rates are approximately 52% lower and weekday rental rates are 62% lower than the Arts Center. The Building's gross revenue from rental fees is approximately 67% lower than the Arts Center, potentially indicating that the Arts Center is rented on a more frequent basis than the Building.

Additionally, the Council predominately advertises the Building at the Santa Barbara Visitors' Center via brochure placement. The Pavilion and the Museum heavily rely on free advertising, including websites highlighting local venues and bridal television shows.

The Council may not be maximizing the earnings potential of the Building due to low rental rates. As a result, the Council's ability to pay for utility and maintenance expenses is diminished.

**Recommendation:** The Council should, in setting its operating plan, set aside an amount, as suggested in the operating agreement, towards the ongoing maintenance and improvement of the Building. The Council should consider actively seeking donations to fund the amount set aside. Furthermore, the Council should consider revising its rate schedule to increase rental rates. Additionally, websites that promote

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local venues should be utilized to effectively advertise the Building and potentially increase the Council's income.

## **View of County Officials:**

**Agree** with this finding. *The Agreement should be enforced to reflect that revenue generated from the Building be prioritized to pay for utilities, maintenance and repair, and capital improvement (fund \$500 per month) by the 15th of each subsequent month in order to re-invest in the Building to make it more attractive for rental opportunities. The utilities shall be transferred into the name of the Council who will be fully responsible for their payment. The Council shall consider increasing rental rates to be more competitive with neighboring facilities.*

## **View of Veterans' Council Members:**

*The Council has established a website to promote the venue for revenue generating use. A large amount of business is generated through word-of-mouth, otherwise, referrals from clients past. Some families have used the Building for their events for many years. An example of this is a couple who booked the building to celebrate their 50<sup>th</sup> anniversary; this couple also had their 25<sup>th</sup> anniversary and had the same band. It has been noted by many local residents and others coming to this building that they have attended many Veterans functions here since 1935, when the Building became a dedicated Veterans Building.*

*Income generated through rentals and other activities has financed maintenance projects throughout the years. The council does not request County assistance for maintenance projects such as plumbing, floor maintenance, painting projects, etc. Some projects have arisen as emergency needs requiring immediate resolution. As a County-owned building, the Council asks if the General Services Department could provide maintenance for future maintenance and emergency repairs on the building. If possible, the Council needs assistance with the procedures to follow (including paperwork, phone numbers, etc.) for requesting County assistance.*

*The Building Committee will be reviewing neighboring facilities and will consider increasing rental rates.*

## **Auditor-Controller Response:**

*The terms of the Agreement stipulate that the Council will perform maintenance and repair services and that said maintenance and repair shall be paid for exclusively from revenue collected by the Council. As such, it is the Council's responsibility to engage maintenance services for the Building.*

*Furthermore, under the terms of the agreement, the Council is responsible to make arrangements for and pay for utilities. The utilities are currently in the name of the County. As such, we recommend that the County transfer the utilities to the Council.*

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*The Council should focus on increasing operating revenue and reducing expenses to provide the Building with ongoing support for maintenance and utilities.*

## **Finding 5 – Council Events & Meetings**

During the audit, we examined 25 expenses incurred by the Council. We noted that payments were made by the Council to support Veterans' functions, meetings, and banquets. Although these functions add value to the community and Veteran groups, the expenses, if paid from rental income, reduce funds available to maintain the building.

**Recommendation:** We recommend that the Council ensure that donations are sufficient to fully reimburse Veterans' meetings and larger banquet costs.

### **View of County Officials:**

**Agree** with this finding. *The Council should prohibit the use of funds generated by the Building for Veteran related expenditures that are not directly associated with costs to operate and maintain of the Building.*

### **View of Veterans' Council Members:**

**Disagree** with this finding. *California Military and Veterans Code 1262 states, "provide, maintain or provide and maintain buildings, memorial halls, meeting places, memorial parks, or recreation centers for the use or benefit of one or more veterans' associations." We do not concur with the "Views of County Officials" wherein stated "The council should prohibit the use of funds generated by the building for Veterans related expenditures that are not directly associated with costs to operate and maintain of the Building". The Views of County Officials are inconsistent with the statement of the nature of the facility. Since the Building is first and foremost a Veterans Memorial Building, a portion funds generated by the Building we believe are to be used for the purpose of Veterans' activities.*

*Council members are unpaid volunteers who give their time and efforts into preserving and strengthening the support network for Veterans and to assist with Veterans' needs, an area that is of big concern for the Council. Many of the meetings, coffee and donuts, breakfast, lunch, Memorial Day, and Veterans Day activities are financed by contributions from service organizations and other non-profit groups within the community and support many individuals and families within the County.*

### **Auditor-Controller Response**

*Due to the haphazard accounting of these costs by the Council, the amounts spent for food and beverage purchases was not readily determinable. The Council's accounting records should be accurately coded to depict the total costs for Veterans' food and beverage purchases. The monthly reporting to the County should be sufficiently detailed*

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*to show the amount spent for food and beverages, and the amount of donations received to cover these costs.*

## **Finding 6 – Liability Insurance**

The Agreement requires that the Council maintain comprehensive general liability insurance. The Council did not maintain liability insurance on the Building from April, 2010 through October, 2011.

If the Building was damaged or destroyed during the uninsured period, the County may not have received compensation for the Building's value. Furthermore, lessees are not required to obtain liability insurance before events at the Building. As such, the County may have been liable to pay damages in the event of a lawsuit, if a guest was injured on the premises.

**Recommendation:** We recommend that the Council obtain the required insurance and the County review a copy on an annual basis. The insurance company should also be required to notify the County if a lapse occurs. The Council should also consider requiring lessees to obtain insurance for events.

### **View of County Officials:**

**Agree** with this finding. *Currently, the Council is responsible to provide the County with an annual report describing the new officers and general operation of the Building. The Certificate of Insurance shall be provided at this time.*

### **View of Veterans' Council Members:**

*Insurance is obtained on an annual basis for workman's compensation, building liability and board of directors insurance. An annual report of new officers (election occurs in October each calendar year) and general operation will be provided to the County. Certificates of insurance will be provided to General Services as recommended. The County has an insurance policy that covers events within the building. The Finance Committee will explore providing an option for event holders to buy additional event insurance. Some organizations provide a copy of their insurance policy for events that occur at the Building.*

### **Auditor-Controller Response**

*The Council is required by the Agreement to maintain insurance throughout the term of the Agreement. According to the Agreement, any insurance provided by the County shall be excess, not primary.*

## **Finding 7 – Use of Building as Living Quarters**

During the audit we noted that an employee was permitted to live in the Building in exchange for performing approximately 20 hours of unpaid work a week. Furthermore,

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the Program Manager also stated that she has allowed five other people to live in the Building at various times.

County zoning and use of the Building does not permit residential lodging. By allowing individuals to reside at the Building, the Council may be in violation of County zoning codes.

**Recommendation:** The Council should not permit individuals to live at the Building. The County should take immediate action to ensure that individuals are prohibited from occupying the facility, including exercising its right to inspect the premises on a recurring basis.

## **View of County Officials:**

*Disagree with this finding. The County would consider allowing a caretaker to live on the premises under a County rental agreement and rental fee, if the Council concurs.*

## **View of Veterans' Council Members:**

*The Council requests the County provide a sample of a typical rental agreement and fee. This document will then be reviewed and a decision made on our existing policy that currently enhances building security in exchange for allowing a caretaker to live on the premises. The County will be notified on the decision.*

## **Finding 8 – Security Expenses**

During calendar year 2010, the Council hired two individuals to work as security for Quincenearas, baptisms, and other events identified as potentially 'risky' by the Program Manager. Valid Social Security Numbers (SSNs) were not obtained by the Council for these workers, who were designated as independent contractors and compensated through petty cash.

Subsequent to the commencement of our audit, the individuals hired to provide event security furnished the Council with SSNs. However, when we submitted the numbers through the Internal Revenue Service (IRS) data match system, we could not match the names with the SSNs. Unless valid SSNs are obtained, the Council runs the risk of not complying with IRS code.

Additionally, the Council may face increased liability due to the risky nature of the events for which the individuals provide services. The likelihood that damage will occur to the Building or that injury will be inflicted upon a guest or worker may be greater during an event deemed 'high risk'. As these workers are not official employees of the Council, any damages or injuries that may occur when they handle a risky situation may not be covered by the Council's insurance. Moreover, the County might be held liable in the event of a lawsuit should a worker possibly mishandle a risky situation.

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Furthermore, we noted that because the payments to these individuals were not properly expensed in the Council's general ledger, the Council's petty cash balance was overstated at \$890 in the general ledger at December 31, 2010. Inaccurate accounting may result in misstatements to net income.

**Recommendation:** The Council should not hire independent contractors without obtaining valid SSNs. The Council should consider modifying the rental contract to require the lessee to provide and pay for their own security, through a Council approved company, for events. Additionally, the petty cash balance in the general ledger should be adjusted to \$50, or to the amount retained in the till by the Program Manager.

### **View of County Officials:**

*Agree with this finding. The Veterans' Coordinating Council shall use appropriate accounting principles which are not in conflict with Federal, State, and local law when hiring staff to assist with the operation and rental of the Building. Security for the Building during events shall be required. The security guards hired shall be from the same company that is under contract with the County and may not be staff members hired by the Council or veteran volunteers. The cost for the security guards shall be included in the cost of the rental for each event.*

### **View of Veterans' Council Members:**

*The Council will not employ individuals without valid Social Security Numbers. Security/monitors for events are provided by designated employees already employed by the Council. The Council disagrees with "the security guards hired shall be from the same company that is under contract with the County and may not be staff members hired by the Council or veteran volunteers," especially in terms of cost. However, the Council will explore the feasibility of using the County contracted security company for events.*

### **View of Auditor-Controller**

*The Council should maintain a copy of a social security card for each employee or independent contractor.*

## **Finding 9 – Credit Card Expenses**

During the period under audit, the Program Manager used her personal credit card for Council expenses. She also permitted an employee to use this card for personal expenses. At time of audit, the exact amount of personal items charged by the employee had not been determined by the Program Manager.

Generally, the Council pays approximately \$500 a month towards the balance. The balance on the card at December 9, 2010 amounted to \$12,175 with \$2,449 and \$153

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incurred as interest and late fees, respectively. Credit card expense during calendar year 2010 amounted to \$5,700.

It appears that the employee reimbursed the Council \$3,000 during calendar year 2010 for a portion of the expenses incurred. However, we could not determine whether this amount sufficed for reimbursement when compared to the credit card payments made by the Council. Therefore, the personal expenses incurred on the credit card may have increased the Council's expenses and thereby reduced net income.

**Recommendation:** The Council should require repayment of any unallowable expenses. Furthermore, because the card is not an authorized Council credit card, but a personal card owned by the Program Manager, payments should not be made by the Council. Instead, reimbursement for Council costs should be made on a Council approved reimbursement form. Another option for the Council is to approve a business credit card and authorize card expenses at a Council meeting.

## **View of County Officials:**

*The Council shall review the monthly financial report to determine credit card expenses which are not associated with the cost of operating the Building. Credit card charges not associated with the cost to operate the Building shall be paid in full by the individual whose name is on the credit card. At no time shall the County be responsible for a credit card expense made by a private credit card holder on items unrelated to the cost of operating the Building. It is recommended that a credit card be used for the convenience it provides, but that the balance is paid in full at the end of every month so that no interest is incurred.*

## **View of Veterans' Council Members:**

*The Finance Committee will be reviewing the monthly financial report to determine credit card expenses which are not associated with the cost of operating the Building. A Council approved reimbursement form will be implemented. Personal credit cards are not a normal method of payment and credit card payments from the Council will be reviewed by the Committee to ensure that costs associated with operating the building will be paid/reimbursed, based on receipts presented and all else will not. The Council will determine at a later date if a Council credit card is necessary.*

## **Auditor-Controller Response**

*It is our understanding that non-business credit card charges were recorded in the Council's accounting records, and partially funded by the Council. We require a report of the charges be made, within 15 days after the date that the audit is formally delivered to the Board of Supervisors, from the Council to our office. The report must show all amounts charged to the card identified as business or personal, the amount of interest and fees incurred, and amounts and dates reimbursement was made to the Council by the employee. We also require that the Council submit invoices for all purchases*



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*classified as business related and provide documentation supporting the business purpose.*

## **Finding 10 – Commission Calculation**

Under the employment agreement negotiated between the Council and the Program Manager, the Program Manager receives five and a half percent of gross receipts as a commission. At December 31, 2010, back commissions totaling \$27,659 remained outstanding.

Refundable deposits were not always classified in the same revenue accounts. During 2008 and 2009, refundable deposits were included as gross receipts, but in 2010, amounts were excluded from gross receipts. As a result, during 2008 and 2009, commissions were paid on items that did not generate income and thereby increased the Council's expenses.

Furthermore, the Council inconsistently applies its treatment of accounting entries throughout its Council's records.

**Recommendation:** The Program Manger's commission should be revised to eliminate items that are refundable to lessees. Furthermore, the Council should ensure that accounting entries are consistently applied.

### **View of County Officials:**

*Agree with this finding. The Council is responsible to the County for the operation and rental of the Building. If the Council decides to contract with an individual or company to take management responsibility, then that individual and/or company should be properly licensed or certified in accounting and/or property management and approved by the County. If an individual and/or company takes this responsibility, and if they receive a commission based on the rental, the commission shall be on the net income and not include deposits.*

### **View of Veterans' Council Members:**

*The Finance Committee has recalculated the commissions owed to the Operations Manager to exclude refundable deposits moving forward. The commissions will be calculated using net income.*

### **Auditor-Controller Response**

*The Council should recalculate the Program Manger's back commissions to exclude refundable deposits. Within 15 days after the date that the audit is formally delivered to the Board of Supervisors, we require that the recalculation, and documentation supporting how it was made, be submitted to our office.*

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## Finding 11 – Elevator Donation

During calendar year 2010, the Council received a donation to install an elevator at the Building in the amount of \$100,000. As the Council could not immediately install the elevator without the County's assistance, and additional funding was needed to begin the installation, the donor requested that the Council return half of the donation to earn interest on the money. The donor intends to return the \$50,000 to the Council when the installation project commences. On September 7, 2011, the Department of Housing and Community Development informed General Services in writing of their intention to use funds granted to the County amounting to \$260,000 to install an elevator at the Building.

Furthermore, the Council did not record the remaining \$50,000 as a donation on its IRS Form 990 or in its Quickbooks accounts. The funds were retained in an outside bank account. Maintaining these amounts outside of an accounting system may increase the risk of misreporting, misappropriation, or misuse.

**Recommendation:** As sufficient funding is now in place, the Council should remit any funds donated for the elevator to the County to ensure that amounts are utilized for the elevator's construction.

### View of County Officials:

**Agree** with this finding. *The Council should remit the \$100,000 donation to the County for use on the elevator project. The County will provide evidence to the Council that the money is deposited into a special fund that can only be used for the elevator and that interest accumulated on the money prior to expenditures will remain with the fund.*

### View of Veterans' Council Members:

**Disagree** with this finding. *The Council has two pledges for the \$100,000 towards the elevator. The two Veterans Organizations are:*

- *Disabled American Veterans*
- *Veterans of Foreign Wars*

*The terms of the donations will need to be discussed before any transfer of funds. This Council is not in a position to insist where donors place their funds.*