

SIR BRANCH 116
SIR BRANCH & GOLF ACCOUNT AUDIT
2022

SCOPE

According to the SIR Manual Policy 33 (b2) Auditing:

1. Auditing- The Big Sir-elect shall appoint a Committee Chairman and one or more members who have not served as officers during the current (audit) year. The Committee shall make an audit of the books and records covering the financial transactions of the Branch during the current calendar year. The audit shall include golf, bowling, travel, and any other activity as directed by the Big Sir. Form 29 – Branch Audit Report containing a resume of the audit(s) shall be submitted according to its instructions by February 10 following the audit year.

This report provides the findings and recommendations developed by the Audit Committee for the SIR116 Branch and Golf financials, including custodial activities. Included are the two 2022 year-end Form 28 Monthly Cash Reports and the Form 29 Branch Audit Report.

Audit Committee members include SIRs Bill Ginter, Harry Oberle III, and Ron Armijo (Chairman). Meetings were conducted in person.

1. Findings

a. Branch 116

- i. Primary focus of the audit centered on the protocols implemented to manage Credit Card (SQUARE) transactions and Branch transaction processing protocols.
- ii. BEC Bank balance increased. Increase in 2022 was 8% from \$9.8k to \$10.6k dissimilar to the 13% decrease in 2021 due to canceling annual dues. Contributing factor for the increase was the Executive Committee decision to reinstate dues for 2022. This generated an additional \$804 above budget for annual contributions plus including items in the budget that did not get spent such as publicity at \$1k and officers' expense at \$.5k. On-going expenses such as publishing the roster, postage, Trampas Topics publication, caterer subsidies, and birthday gifts are examples of ancillary expenses.
- iii. Expanded use of SQUARE to process Golf activity fees plus other branch custodial activities continues to grow. Use of Square has become the method of choice for collecting fees while making the accounting process more labor intensive. Protocols are being enhanced to strengthen accountability and timing issues. Net dollars processed through Square was \$49.8k represented by 266 bank transactions; of this \$29.9 was transferred to the Golf account. Branch Treasurer transfers funds booked to the branch checking account by Square to the Golf account throughout the month.
- iv. SQUARE charges a Credit Card Fee for all ancillary custodial transactions. Branch receives the net revenue for each transaction and for Golf transactions, Treasurer transfers their portion to the Golf bank account. Golf group absorbs the transaction fee

when payment is made to a Golf course. Branch custodial activity also absorbs the credit card fee through branch subsidy to each custodial activity who received revenue from SQUARE.

- v. Square refunds add an additional accounting challenge. Square returns the full amount of a refund including credit card fees by drawing the amount from the Branch bank account. There are situations where SQUARE has an amount sufficient to cover the refund in a SQUARE sub account and uses those funds to satisfy the refund. If the amount in the sub account is insufficient to satisfy the refund, the balance is drawn unilaterally from the SIR bank account. That amount for 2022 (\$2.6K) was drawn from the Branch bank account.
- vi. Branch subsidies to Custodial Accounts continues to grow. In 2022 subsidies totaled \$1.24K exclusively for monthly luncheons. Birthday and Speaker lunches are accounted for separately. The net over/under recoveries for Ladies Day (-\$403), Christmas Party (-\$39) and Din-o-Sirs (+209) resulted in a 2022 BEC subsidy of \$233.
- vii. Budget for 2022 resulted in a net budget excess caused principally by budgets for printing supplies of \$300, officers' expense of \$500, and publicity of \$1,000 that did not get spent thus adding to the Branch surplus. Budget is used to develop the annual member contribution fee.
- viii. The BRANCH AUDIT REPORT (Form 29) asks the following question.
 1. **"4. Are all Branch activities such as travel, bowling, golf, etc. financed by the participants and not by the Branch?"**
 - a. The reply to this question is No. All branch activities are considered custodial activities. These are recognized as self-sustained activities, translated means that they are self-funding i.e., without any subsidies from the Branch
 - b. Monthly lunches are custodial activities, which means that they are not eligible for sustained Branch subsidies. Branch 116 does subsidize lunches therefore the correct audit response to the question is no.
 - c. Suggest that the BEC evaluate this BEC decision to subsidize monthly lunches. Suggest:
 - i. Consult with State Treasurer
 - ii. Negotiate new contract with caterer to make guaranteed number achievable
 - iii. Modify menu to buffet or finger foods to reduce cost. Lunch is not the motivating activity for attendance, it is member relations.
 - iv. Enforce cost recovery from, "No Shows".
- b. Transactions reviewed
 1. One transaction (\$370) posted at year end did not appear in the bank statement. Reconciliation found that the transactions cleared the bank in January.
 2. Golf SQUARE receipt and monthly transfer transactions to the Golf account did not match by \$2.2k. Determined to be a timing issue and assembly of the transfers to the Golf account to match the receipts.

- ii. The year-end book balance and bank balance did not match. The book balance was understated by \$980.20
 1. Investigation determined that adjustments for the out-of-balance to the book required:
 - a. Deducting \$370 from the book account for outstanding check
 - b. Posting a missing golf transfer to BEC of \$211.99
 - c. Year-end adjustment for unreconcilable errors over the year of \$398.21 to balance to the year-end bank balance.
- iii. Over the year there were a total of 444 transactions posted as follows:
 1. Square 266
 2. Online transfers to golf 28
 3. Mobile Deposits 96
 4. Checks 42
 5. Deposits 12
- iv. Branch Custodial Activities
 1. Custodial activities are self-sustaining financially, which means that the Branch may not subsidize these events
 2. Custodial events are single Branch events, excluding Golf, requiring admission fees that cover all expenses. Each event must net to zero. Examples of custodial events are Luncheons, Dine Out Group, Ladies Day, and Christmas Dinner Dance plus any other activity endorsed by the BEC. Finances are managed by the event chairman who is accountable for the finances. Each year the BEC approves the custodial events for the year which is required to qualify for insurance coverage.
 3. The Audit Committee does not recommend performing annual audits for these standalone events since each event is managed by the custodial event chairman who is responsible for netting the event to zero. Treasurer must ensure each event nets to zero and reports the results to the BEC.
 4. Custodial activity chairmen sign contracts binding the BEC to the contract terms. Best practices principles would suggest that an authorized signatory from the BEC Executive Committee sign all contracts. Signed contracts bind SIR to the terms of the contract.
- v. Cost recovery for luncheon "No Shows"
 1. All members are required to attend monthly Branch Luncheons unless they advise Luncheon Chairman that they will not attend. A No-Show member is a member who fails to advise the Luncheon Chairman of their cancelation.
 2. For those "No-Shows" a follow up letter from the Luncheon Chairman is sent to the member for collection. A follow up letter may or may not be sent if fee is not received. A failed collection results in the Branch absorbing the luncheon fee as a subsidy for the missed lunch. These failed collections should be reported to the BEC by the Luncheon Chairman or the Treasurer. An accrual mechanism should be developed to manage these missed luncheon fees.
- vi. Recommendations
 1. The SIR Manual does not provide guidance for excess reserves carried in the Branch bank account but suggests that the reserve be minimal for unexpected

expenses. In 2022 reserves increased by \$1,558 to \$11,366.81. Appropriate level of reserves should be determined by the BEC and actions implemented to reach a minimal reserve balance. Possible algorithm might be the total G&A budget for the coming year plus 5%.

2. Continued refinement of the SQUARE protocol to reduce the processing burden on the Treasurer should be pursued. Increased use of SQUARE for most Branch receipts beyond Golf transactions increased the burden on Treasurer to report receipts to the separate custodial activity chairman. Close coordination with custodial activity chairman is necessary
3. Protocol for accounting for SQUARE pull backs needs to be addressed. SQUARE has unilateral authority to draw funds from the branch account.
4. Square transaction fees are not posted yet reported by Square. Accounting protocol should be established to manage these fees and included as a budget line item for the year so such fees can be reported to the BEC in the Budget vs Actual report.
5. Custodial accounts for special activities should net to zero. Reconciliation should occur when activity ends and results reported to the BEC by the activity chairman. If a subsidy is justified, the BEC should recognize that a subsidy was necessary.
 - a. For Luncheon “No Shows” a roster should be maintained to manage payments. Either quarterly or semi-annually a letter to those not paid should be sent requesting payment for outstanding missed lunches.
6. It is important that the Cash Flow Statement and the Bank Statement be reconciled every month. Failure to balance every month results in many hours at year end to reconcile the book to the bank statement. And will necessitate writing off unreconcilable differences. Substantial adjustments may be required to prepare the book for the new year.
7. Implement use of adjusting entries at month end to reconcile book to bank balances excluding uncleared book entries or unposted receipts. For example, a check written for \$50 but booked at \$40, a month end adjustment of \$10, with proper notation, will balance the book to the bank account. Suggest not changing the original entry. General accounting principle.
8. Annually, signature authorization on the bank account should be reviewed/updated especially if the Big SIR is given signature authority.
9. Audit Committee recognizes that generally accepted accounting principles for a cash basis accounting system have been implemented. It is the committee’s recommendation that use of the guiding principles be followed especially in the reconciliation from Bank to Book Accounts. Continued scrutiny of transactions between SQUARE, the BEC and Golf is necessary. The financial accounting for Branch 116 in 2022 given the caveats presented in this report is acceptable and should be approved for reporting to the Area Governor along with the year-end Form28 Cash Report.

c. Golf Account

- i. Bank balance decreased from a high of \$11.2k on 1/1/2022 to a yearend balance of \$5.3k. Note that the fee to NCGA has not yet been posted for 2023. As recommended

in the 2020 audit to reduce the account balance, the Golf committee approved deferral of the NCGA and operating expense fee for 2022. This was a positive move to reduce the high account balance. On-going planning remains to ensure working capital is available to cover advance payments to golf courses to be played later in the year plus expected operating expenses. Any excess should be addressed.

- ii. Introduction of SQUARE to process Golf activity fees has greatly benefited the Golf group.
- iii. Using SQUARE has reduced the amount of financial monitoring by the Golf Treasurer. Treasurer receives fewer checks than before and writes checks for away Golf events. Use of a BofA Credit Card has increased.
- iv. Transactions posted include:
 1. Total Transactions 111
 2. Checks 63
 3. Deposits 9
 4. Online BofA CC Banking Payments 11
 5. Online Banking Transfers to BEC 3
 6. Online Banking Transfers from BEC 25
- v. Transition to a cash accounting system modeled after the BEC system was implemented. Training on use of the system continues.
- vi. Bank statement reconciliation at yearend was time consuming due to learning curve issues and not reconciling book to bank statements monthly. Reconciliation of book to bank at month end will resolve issues as they occur. Review of accounting protocols was performed, and recommendations offered. Review of the bank transactions did not highlight any abnormalities that caused concern and follow up. Further refinements to the accounting system were made to enable transaction processing.
- vii. Recommendations
 1. Bank reconciliation to book must be performed monthly. Adding SQUARE processing and use of a BofA Credit Card for payments increased effort to manage the bank account.
 2. Protocol for managing BofA Credit Card use and reimbursement was pursued.
 3. Golf group subsidies for fees charged by the SQUARE system should be managed separately.
 - a. SQUARE fees should be a budgeted item
 4. Year-end bank balance has been reduced considerably. Congratulations! Continued action should be pursued to continue reducing the reserve amount to accommodate annual recurring operating expense needs, which may just result in a much smaller reserve. Analysis of the yearend financial report will highlight those recurring expenses that require a budget. A smaller amount for ancillary expenses may be included as a reserve.

5. The BEC should commission the Golf Committee to remain diligent in their pursuit to maintain a reasonable level of reserves in their bank account. The golf group is a custodial activity reporting to the BEC and has a significantly larger financial implication on the Branch relative to other custodial activities.
- viii. The Audit Committee recognizes that the Golf accounting system was newly implemented for the 2022 accounting year. Further training and implementation of reporting protocols should result in an improved outcome for 2023 following generally accepted accounting principles for a cash basis accounting system.

Submitted by:

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