

Corporate Governance in Non-Profit Organizations: Sun State Soccer

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The authors developed the case for class discussion rather than to illustrate either effective or ineffective handling of the situation. The case is based on actual events, yet all names and places been changed in order to mask the identity of both the organization and individuals involved. Any similarity between people, places and events is by coincidence. Previous versions of this case were presented at the Coggin College of Business Research Symposium on September 6, 2006 and the North American Case Research Association (NACRA) at its annual meeting, October 19-21, 2006, San Diego, CA. The authors would also like to thank Carolyn Russell and Katie Stratton for their research on the case. ©Oscar Harvin, John Watler, Jeffrey Michelman & Bobby Waldrup. Contact person: Bobby E. Waldrup, Coggin College of Business, University of North Florida, 4567 St. Johns Bluff Rd., Jacksonville, FL, 32224, 904-620-1669, bwaldrup@unf.edu.

Corporate Governance in Non-Profit Organizations: Sun State Soccer

(Part A)

It was January 2003 and Gary Jackson looked at the pictures of his son and daughter on the wall of their family room in their house in Tampa. Both were wearing their soccer uniforms and both had always made Gary and his wife Melissa proud of their accomplishments. They were both good at sports and enjoyed playing soccer. Gary knew that neither of them were the best athletes on their respective teams, but each had developed a sense of teamwork and sportsmanship that he felt was so critical to their success in life. Yet Gary could not help wondering whether it was worth it to continue his membership on Sun State's board of directors. Over the past four years he had recently forgotten to attend several of his kids games, had become short with his wife on occasion, and often found himself day dreaming at work. Gary had recently developed early signs of an ulcer and found himself angry about things that never used to bother him. He knew he needed to decide whether it was possible to facilitate change on the Sun State Soccer Association (SSSA) Board or if he should just walk away.

Like many of the umpteenth soccer leagues¹ currently operating in the United States, the SSSA was, from an outside observer's point of view, a typical sports association. Operated by volunteers for the enjoyment and athletic skill development of its youth participants, its sports facilities are located in an affluent neighborhood in the suburban area of Tampa, Florida. Most parents of the youth participants are high-income earners and are extremely involved in the activities of their children. Many of the parents are volunteers of the association and attend religious service regularly. Based solely on appearances, the association is dominated by individuals that possessed

¹ In 2005 14.1 million youths age 7 and older participated more than once in youth soccer (<http://www.nsga.org/public/pages/index.cfm?pageid=153>, December 3, 2006)

good moral and ethical values. However, Gary remembered with a slow boiling anger, the many examples of both fraudulent and unethical behavior that occurred while he was involved with the association.

Gary always considered himself a fairly average person with high ethical and moral values. He was previously an officer in the United States Army where his belief in honor and high ethical values was reinforced by the U.S. Army high code of conduct. Currently employed in the information technology profession, he has made a successful career in the field with an associate degree in information technology. He had no formal training in accounting or auditing except for one principles of accounting course that he was required to complete as part of his college education. He felt a measure of pride that although he was not a trained auditor or investigator, his inquisitive nature and persistence enabled him to uncover the fraud that was occurring at SSSA and perhaps prevent this unethical behavior from being the source of the association's demise.

Gary had become involved with SSSA in May of 1999 as a result of his children's burgeoning interest in playing soccer. He initially became an assistant coach and eventually the head soccer coach of his son's soccer team. As a parent concerned with the manner in which the business affairs of the association were handled, he began attending the association's board meetings. After noticing that he had become a regular attendee at the board meetings, he was approached by some of the association's board members and asked if he would be interested in becoming a member of the board as chairman of sports event scheduling. Although it was not his goal to become a board member, he accepted the nomination because the position allowed him to schedule his two children's games at times that would be convenient for his family.

A vote was taken on August 14, 1999 by the association's board of directors concerning his nomination to the board and he was elected as chair of sports event scheduling (see Exhibit I for a

description of the organizational structure). At the time that he was elected, SSSA's by-laws did not require that board members or volunteers have children that participated in the association's soccer events. The by-laws also did not require criminal background checks for board members including executive officers such as the president or treasurer that had access to the association's bank accounts. Only those volunteers such as coaches that worked directly with the youth participants were subjected to a criminal background check. In hindsight, he had thought that this was not unusual, but now he realized that the lack of background checks on the officers, especially those handling money, had been a serious omission.

During his five year tenure with SSSA's board of directors, he served under the leadership of various association presidents. Each had brought their own particular style to the association but, in retrospect, each of the presidents had character flaws that set an atmosphere that would become a breeding ground for fraud and unethical behavior. This was made worse by the very political environment that existed in the organization that had a great influence on board members and other volunteers' behavior.

A History of Presidents & Politics

The first president that Gary served under was Earle Vines. Earle had been the president of SSSA since January 1, 1994. He was a high school coach and his family operated a very successful construction business. Earle was known for using his position as SSSA's President in a manner that benefited his family's construction business. There was an incident in which Earle requested one of the youth participant's father, that was employed by the city's building permit department, to ensure that his family's construction business obtain a building permit that the company was having difficulty with. The gentleman refused Earle's request to use his influence improperly. As retaliation against the father, Earle had ordered the coach of the team to substantially reduce the playing time of

the man's child. It became very clear to Gary that Earle would use his influence against anyone that opposed him.

In addition to being a high school coach, Earle was the owner of a sport shop called Head for Soccer. Earle convinced the board of directors that he could get the association a better price on sporting equipment and supplies if the items were ordered from manufacturers through his sport shop. In addition to making a profit for ordering the equipment and supplies through his store, he kept all the complimentary items that the manufacturers provided because of the large volume of items that were ordered for SSSA. Earle sold all the complimentary items in his store and kept all the proceeds.

When Gary became involved with SSSA, Faye Fields was already the treasurer of the association. She had been the treasurer of the association since January 1, 1994. Faye had two children participating in the association's soccer events. She drove a minivan and was very involved in the sport activities of her children. However, Gary did not view Faye as the stereotypical soccer mom and housewife. Faye was a tall beautiful brunette woman in her late twenties. Many of the board members jokingly compared her striking beauty to that of super model Cindy Crawford. Gary observed that she often wore sexy clothing such as very short skirts and form fitting outfits to the association's board meetings. On several occasions, she attended the meetings in leotards because the association's meetings were held at a location that was near a YMCA where Faye was a part-time pilates instructor. The board of directors whose members were primarily middle-aged men seemed to like her a great deal. She had no formal training in accounting or financial matters. Although she provided very vague information about the financial affairs of the organization at board meetings, board members rarely questioned her about the obviously incomplete financial reports that she presented. Gary would question Faye concerning the inadequacy of her financial

reports but many of the board members would run interference for her and his requests for more detailed financial information from Faye would be shunned. He particularly remembered one board meeting exchange quite vividly:

Gary: Faye, can you provide a written financial statement of the association's financial position which you just presented verbally?

Faye: I have been the treasurer of SSSA for many years and I have always presented the association's financial information to the board of directors verbally instead of preparing formal financial statements. The only written financial report that is prepared is at the end of the year for the accountant that prepares the association's tax return. Why do you think that a formal written financial statement is needed in addition to the verbal report that I just presented?

Gary: Since SSSA has annual revenues of several hundred thousand dollars, I do not believe that it is adequate to provide just a verbal financial report. A written financial statement is required so that the board of directors will be in a better position to safeguard the association's funds. I have been involved in much smaller non-profit organization's in the past and those organizations' have always prepared written financial statements.

Faye: Gary, we at SSSA are not trying to keep up with the Jones'. Verbal financial reports have been sufficient for the board of directors in the past and I do not see any reason why I should spend the extra time that it would take to prepare the written reports.

Gary: It is common practice that the treasurer of an organization provides written financial statements to the board of directors and then verbally discusses the information. I have several examples of the type of reports I am referring to, from other associations that may be helpful to understand the financial state of the organization. I am sure that we can identify a

volunteer or hire an accounting professional to assist you in the preparation of the financial statements if the task is too time consuming or complicated.

Faye: Gary, it seems to me that you are accusing me of being an incompetent treasurer and I am totally offended by your comments!

Earle: Gary, I think that you have said quite enough. Faye has been an excellent treasurer for several years and we agreed with her that written financial statements are not necessary. You have been a board member for only a short period of time and I believe that in time you will also agree that Faye is doing a great job.

Two of Faye's most loyal supporters and close friends on the association's board of directors included Sally Jones and Mary Burns. Sally and Mary were also very attractive women. Some of the board members jokingly referred to the trio of Faye, Sally and Mary as "Earle's Angels". Sally was the commissioner of coaches for the association which gave her a great deal of authority over who was allowed to coach teams at SSSA. Mary was in charge of participant registration which included ensuring that youth participants are placed on the correct teams and collection of the registration fees. Registration fees constituted the main source of revenues for the association. The combination of Faye, Sally and Mary gave the group a great deal of political power pertaining to the operation of the association. In addition to Faye, Sally and Mary disliked Gary because of his questioning of Faye on accounting and financial reporting methods.

After Earle's presidency ended on December 31, 2000, Larry Burns was elected as President of the association. Larry was a middle-aged man who had been very loyal to the association for many years. Although he no longer had any children participating in the association's soccer events, he continued to be the main volunteer in charge of ensuring that the sport fields were properly maintained for the safety and enjoyment of the youth participants. Larry spent many hours each

week performing such tasks as mowing, chalk marking and other duties pertaining to the preparation of the fields for soccer games. Larry would be especially busy maintaining the sport fields when the association hosted soccer tournaments that included many teams from around the city as well as teams from other cities. Even after he became president, he continued spending countless hours maintaining the sport fields. Larry was a board member and therefore did not receive any compensation for the work that he performed.

When Gary thought back on it, Larry appeared to be an honorable man and seemed to have the best interest of the association in mind when making decisions affecting SSSA. Unfortunately, he became unemployed and seemed to be struggling financially as a result. Even though Larry seemed to be striving to be a good leader, he was not a very strong one, enabling more and more individuals to engage in activities that were in their personal best interest to the detriment of the association. The trio of Faye, Sally and Mary appeared to gain more political power over the operations of the association as a result of Larry's weak leadership style. Larry seemed to be more interested in continuing to act as the association's grounds keeper than in leading the association. During association meetings Gary continued to question Faye about the inadequacy of her accounting and financial reporting methods and was again met with strong resistance from other board members who labeled him as a trouble maker. Although Gary and Larry became good friends, Larry was not willing to alienate Faye and her allies and insist that the financial transactions of the association be properly reported.

After Larry's presidency ended on December 31, 2001, Bob Michaels became the president of the association. Bob had a more aggressive personality than Larry but seemed to lack the genuine concern that Larry had for taking actions that were strictly in the best interest of the association. He had a personal agenda that would be revealed in time that was in contrast with the association's best

interests. Bob was also close friends with Faye, Sally and Mary. As a result of their close relationship with Bob, the group of Faye, Sally and Mary obtained even more political power over the operations of the association. Bob showed complete confidence in Faye's ability as treasurer and did not question any action (or lack of action) that she took pertaining to the management of the association's funds.

During Bob's presidency, a wealthy individual granted the association use of 40 acres of land, to be used as a park, for a period of 20 years at no cost. The association was granted the right to use the land for all sport events if it provided the funds for the buildings and sport fields that would be required to host the association's events at the park. This was a very important time for the association; securing the rights to the park would allow it to accommodate more youth participants and host major soccer tournaments that would substantially increase the revenues that the association would generate. Before the association could begin benefiting from obtaining the rights to the use of the park, it would have to raise approximately \$500,000 for the construction of the required buildings and sport fields. Bob spent the majority of his presidency in the pursuit of government grants and private donations to obtain the necessary funds to construct the required buildings and sport fields.

During Bob's presidency, Gary held the position of Advanced Director of Soccer which put him in charge of overseeing the activities of the advanced league of the association. The advanced league was designed for those youth participants that were more skilled and serious about developing their athletic skills. He began to intensify his scrutiny of the manner in which Faye was handling the accounting and financial reporting of the association's financial transactions to the board of directors. When Faye began to intimate that additional funding was needed he became more insistent in his demands:

Gary: Faye, as I have said in the past, you need to provide written financial statements to the board of directors. The verbal financial reports that you are providing are not adequate to keep the board of directors informed of the financial condition of the association.

Faye: Gary, I am tired of your persistent demand that I prepare written financial statements in addition to my verbal financial reports. The board of directors has made it clear on several occasions that written financial statements are not necessary. You are the only board member that seems to have a problem with the manner in which I am handling the accounting and financial reporting of the association.

Gary: Faye, you are making this into a personal matter between us that it is not. Despite the opinion of some board members, written financial statements were necessary in the past and are especially needed now that we have secured the right to use the park for our events.

Fay: That is your opinion and it is not shared by the majority of the board members. I don't have the time to prepare the written reports and you are the only board member that believes the reports are necessary.

Gary: We are attempting to obtain governmental and private grants to construct the facilities on the land that has been donated to the association and financial reports will be required. The grants are not going to be issued to our association without adequate financial statements and accounting records.

Faye: Gary, you talk as if you are an expert on obtaining grant funding which I am sure you are not.

Bob: I believe that we have discussed this issue of preparing written financial statements enough at this time. If financial statements become necessary in the future, we will instruct Faye to prepare the financial reports.

Gary: Okay, we can discuss this issue further at another meeting. However, Faye should at least provide the board of director's access to the association's check register and accounting records.

Faye: I have no problem allowing the board of director's access to my accounting records but I resent the implication that you seem to be making concerning my integrity.

Bob: I am sure that Gary is not questioning your integrity. The board of directors has complete confidence in your ability as treasurer of the association and believes that you are an individual of high integrity.

Several Board

Members: Gary, stop harassing Faye, she is doing a great job as treasurer of the association.

As a result of his persistent scrutiny of Faye, his relationship with many of the board members became more adversarial. His relationship with Bob, Faye, Sally and Mary became especially challenging. Gary was becoming more and more an outsider among the individuals that controlled the association.

An Unsettling Revelation

Gary's suspicions of possible mishandling of the association's financial resources continued to increase. In addition to refusing to provide written financial statements, Faye's verbal financial reports to the board of directors started to indicate that the association was consistently in financial trouble and it was necessary to identify additional sources of revenues for the association. The financial condition of the association that was being reported by Faye was inconsistent with the association's revenues of appropriately \$500,000 that Gary knew were being collected each year by the association.

His suspicions of Faye were further fueled by the fact that Faye had recently purchased a new home and car although it was common knowledge that her family was having financial problems because of the failure of her husband's business and his rumored illegal narcotics use. Her close friend Mary, who was also a board member, began driving a new expensive car and purchased a new home although the salary that she received as a clerk at a credit union would seem inadequate for her to afford such major expenses. Based on the facts that Gary knew at this point, he believed that Faye was embezzling the funds from the association and sharing the proceeds with her friend Mary and possibly Sally. However, he had no proof of the suspected embezzlement by Faye. If he reported his suspicion to President Bob and the board of directors, he knew that his allegations against Faye would quickly be dismissed and Faye's supporters would further see him as a villain. Therefore, Gary decided to maintain his silence about his growing suspicions about Faye until he gathered proof of the crime that he believed she had committed.

On a very pleasant evening, back in May of 2002, after a soccer game in which Gary coached his team to a victory over one of their major rivals, he had a very strange encounter in the parking lot of the soccer facility. While walking to his car, he heard Faye's voice calling his name. She stated that she needed to talk to him about a serious matter. He was totally surprised that Faye would approach him in this fashion and more than a little suspicious. Faye approached him and began to inform him of an embezzlement of the association's funds that had been committed by one of the SSSA's former presidents. He recalled the conversation almost verbatim:

Faye: I need to talk to you about a serious matter pertaining to the association.

Gary: Okay, you have my full attention.

Faye: I recently became aware that while Larry was president, he wrote a check drawn on the association's bank account payable to himself, for his personal use, in the amount of \$5,000.

The allegations made by Faye against Larry totally shocked Gary, and he was momentarily unable to respond to her statements. He believed Larry to be an honorable man and had difficulty entertaining the thought that Larry would use the association's funds for his personal use. After regaining his composure, he continued the conversation with Faye.

Gary: Are you absolutely sure that Larry used the funds for his personal use?

Faye: I am sure that the funds were not used for the benefit of the association.

Gary: If you are sure that he used the funds for his personal use and not for the benefit of the association, you should immediately report it to President Bob.

Faye: Okay, thanks for listening. I will report the matter to President Bob.

Gary was not sure that he could believe the accusation made by Faye because he had serious doubts about her integrity. He found it ironic that Faye would accuse Larry of embezzling funds from the association when he truly believed that she was guilty of the same crime. In addition, he found it very unusual that Faye would confide in him about Larry's possible embezzlement because of the adversarial relationship that he had with her. Why would Faye confide in him when she knew he was a close friend of Larry?

Gary would not have another conversation with Faye about the possible embezzlement of SSSA's funds by Larry until quite some time in the distant future. It became clear during a board meeting subsequent to the conversation in the parking lot that she had discussed the matter with President Bob. During a board meeting, President Bob made a motion to create a new association position titled Executive Director of Facilities at Panther Park. Bob explained to the board that it had become necessary to create the position because of the increased number of youth participants and the number of soccer tournaments that the association was hosting. The Executive Director of Facilities would be responsible for maintaining the facilities at the park and ensuring that the sports

fields were adequately prepared for all the association's soccer games and events. In addition, the individual appointed to the position would be considered an employee of SSSA and not a volunteer due to the substantial amount of work hours that would be required to maintain the facilities. The board of directors approved the motion and appointed Larry the Executive Director of Facilities. Larry began receiving compensation for performing duties that he had previously performed in the past as a volunteer. As part of his appointment, Larry was required to resign his position as a board member because the association's bylaws strictly prohibited board members from receiving compensation from the association. In the future, the board of directors would change the bylaws to allow board members to be compensated for certain services provided to the association. The appointment of Larry to the newly created position was the first time in the history of the association that a position recognized by the bylaws would be occupied by a compensated individual rather than by a volunteer.

After Larry was appointed as the Director of Facilities, Gary became aware that President Bob had falsified the documents that appointed Larry to the position to reflect an effective date of his appointment to precede the date of the alleged embezzlement of funds by Larry. By backdating the documents, Bob in essence concealed the fact that Larry had embezzled funds from the association. If the funds taken by Larry ever became an issue in the future, Larry could claim that he received the funds that he took from the association as compensation for performing the duties of Director of Facilities. Gary could not understand why Bob had decided to conceal Larry's embezzlement rather than openly address it with the board of directors. Despite some serious misgivings, since Larry was a close friend, Gary decided not to pursue the issue further and cause problems for his friend.

Some Things Never Change

After the presidency of Bob ended on December 31, 2002, John Devers became president of SSSA. Everything that Gary knew about John indicated that he was an honorable man with high ethical standards that would make decisions in the best interest of the association. Gary did not believe that John had a personal agenda for wanting to be president as other individuals in the past had. Finally, he thought, the association had a president that he could confide his suspicions about Faye with and expect that the president would do the right thing to uncover any possible wrong doings. He remembered how excited he had been and how he had approached John to congratulate him:

Gary: John, I am very happy and excited that you are now the president of the association.

John: Thanks Gary, I am looking forward to being the catalyst for needed changes in the association.

Gary: I am glad that you believe that changes need to be made. One of the first changes that I think needs to occur is that we need a new treasurer. Not only is Faye an incompetent treasurer, I have reason to believe that she is embezzling funds from the association.

John: Why do you believe that she is embezzling funds from the association?

Gary: I initially thought that her refusal to provide written financial statements was only because she did not possess the necessary financial skills to adequately oversee the association's financial transactions. Her refusal to allow free access to the association's accounting records now leads me to believe that she is also trying to conceal her improper use of the organizations' funds.

John: I don't know whether or not she is embezzling funds from the association but it is my intention to recommend to the board of directors that my sister-in-law, Sandy, be appointed as the new treasurer. Sandy has an accounting degree from Tampa State University.

Gary: That sounds great. Finally, we will have a competent and honest treasurer.

The possibility of having Faye removed as treasurer of the organization put a momentary smile on Gary's face. However, when it was time to nominate executive officers and vacant board member positions, Faye was again nominated as treasurer and Sandy was nominated for another position. Faye was elected once again as treasurer of SSSA. Faye had apparently exercised the tremendous political power that she had developed in the organization to remain in her position. Gary was very disappointed and feared that the embezzlement he suspected Faye of committing would continue. Gary saw the appointment of Faye to another term as SSSA's Treasurer as a major setback to his campaign to establish a more accurate system of accounting and financial reporting for the association.

One positive thing that occurred during John's presidency is that he supported Gary's opinion that written financial statements should be prepared by the treasurer. Faye was finally forced to begin preparing written financial statements for the association.

Gary: Faye, I am glad that you are finally preparing financial statements for the association.

However, the financial statements are not adequate and I believe that they are incorrect! You indicate that we have annual revenues of \$300,000 when it should be closer to \$500,000 based on the number of youths participating in our programs. Also, you reported a large percentage of the association's expenses as miscellaneous without any explanations as to what these expenses are.

Faye: Here you go again Gary. I prepared written financial statements and you are still not satisfied. What is it going to take to please you and stop you from giving me such a hard time?

Gary: Accurate and complete financial statements would be a good start!

Faye: The financial statements are complete and correct. What are you accusing me of?

A Board

Member: I believe we have had enough of this type of discussion. The financial statements appear complete and accurate. Therefore, I move that we accept the financial statements as presented by the treasurer. No further discussion of this matter will be entertained at this time.

Gary left the meeting with a headache. He felt that they were so close. He was confused as to what he should do next. Should he resign from the board? If he continued on the board how could he make change happen? He knew that things would only get worse and the stress from watching this happen was making him miserable, and it was affecting his family and his job. He had to do something. Unfortunately, he knew that if he quit, the fraud and embezzlement would only become worse and an organization that was set up to provide recreation and teach moral values to young people in the community would be destroyed.

Exhibit I- Organizational Structure – SSSA

EXECUTIVE OFFICERS

- (1) President
- (2) Vice President
- (3) Treasurer
- (4) Secretary

BOARD OF DIRECTORS

- (1) Chairman of Sports Event
- (2) Chairman of Registration
- (3) Commissioner of Coaches
- (4) Advanced Director of Soccer
- (5) Chairman of Special Events
- (6) Chairman of Facilities
- (7) Chairman of Fund Raising
- (8) Chairman of Referees
- (9) Chairman of the Booster Club
- (10) Chairman of Sports Programs

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(Part B)

Gary remembered how frustrated he had been at that last meeting. For the past two days he had carried around a piece of paper that had now become crumpled and smudged by the perspiration from his palms. The paper contained the phone number for the Assistant State Attorney who specialized in white collar crime. Aaron Berg's name had been given to him by an associate at work who was Aaron's neighbor. Aaron was a young state prosecutor who seemed to have a no-nonsense attitude about crime. Gary felt he had tried everything. Yet he still couldn't bring himself to dial the phone. In his heart, he knew that once he made the call there would be consequences and no turning back.

In February of 2003 Gary and his wife Melissa went out to dinner with some friends. When the friends asked Gary what was new with his involvement with soccer, it was like a dam burst and Gary couldn't help but tell someone else. One of the friends mentioned that she was a secretary at Tampa State University (TSU) in the accounting department. Several of the professors in her department were involved in accounting fraud research and she thought that they would be good listeners for Gary.

At this point Gary felt that he had no choice but to solicit help from individuals outside the association to assist him in reforming the organization. Gary called one of the professors and set up a date for coffee. The professors were very interested in studying the corporate governance and fraud issues of nonprofit organizations. Gary explained to the accounting professors, both CPAs, his suspicions relating to the lack of accountability that existed at SSSA. The professors agreed to conduct an examination of the organization's financial transactions as well as an evaluation of the system of internal controls that were established by the association. Gary remembered how relieved

he was when the professors agreed to assist SSSA. He was particularly happy when he asked the professors what their fee would be for their services. The professors responded that they would gladly assist the association for their consulting fee of one dollar (\$1).

The professors willingness to assist the association seem to be exactly what Gary needed to finally convince SSSA's board of directors that the organization's accounting and systems of internal controls needed to be improved. Gary was confident that the board of directors would gladly accept the expert accounting assistance that was being offered by the professors. How could the board of directors not accept such expert assistance that would cost the association only one dollar (\$1)?

During the next board of directors' meeting, Gary enthusiastically informed the board of the offer extended by the professors to assist in improving the association's accounting and financial reporting system. He presented the professor's credentials and mentioned that he would like to get started ASAP.

John: Gary has requested to address the board of directors concerning an offer that was made by professors at the local Tampa State University to provide their services in improving our accounting and financial reporting system.

Gary: As you all know, I believe that we need to improve the accounting and financial reporting system that we utilize at SSSA. Since we are drastically increasing our operations and revenues, we need to improve our accounting and system of internal controls to a level that is comparable to other non-profit organizations of our size.

Faye: Gary, we have addressed this before; our accounting system is just fine for our needs.

Gary: No Faye, our accounting system is not just fine. Two accounting professors at the TSU have agreed to perform an examination of our accounting and internal control system.

Faye: As treasurer, I am totally against spending the association's funds to pay the substantial fees that I am sure that the professors will charge for their services.

Gary: Faye, you are very wrong about the fees that they will charge for their services. The professors have agreed to provide their expert financial services to the association for just \$1.

Faye: Regardless of the price, I am still against having individuals from outside the association have access to our accounting and other records.

As expected, Faye and her supporters were against the idea of allowing individuals from outside the organization access to the association's financial information. Many of the board members reiterated that Faye was doing a great job as treasurer and it was not in the best interest of the association to accept the assistance of the professors. A vote was taken pertaining to the professors' offer and the board of directors to the amazement of Gary decided to refuse the offer made by the professors. He was so outraged that the board of directors had failed to take actions that were in the best interest of the association that he again thought about quitting. He decided that he could not just walk away and allow Faye and her cronies to win.

An Expansion of Scope

The needed grants to secure the rights to the use of the donated land were secured and the association signed a contract with the owner of the property to construct the necessary buildings and sport fields in exchange for use of the land. Even though John was now the current president, Bob maintained control of the negotiations of the contract with the city of Tampa. Without the permission of the board of directors, the contract that was expected to be signed was modified by Bob to provide that \$175,000 of the \$500,000 grant funds would be used to develop youth football facilities although the SSSA board of directors had not agreed to offer football events. Bob's brother was the

commissioner of a youth football league and Bob apparently made the unauthorized modification to the contract to accommodate the facility needs of his brother's association. The football fields were never constructed because of defects in the design of the football fields. Because of poor recordkeeping by Faye, it was never determined whether the \$175,000 designated for the football fields was used instead to improve the soccer fields or whether it was embezzled.

Faye and her supporters did not like John being president of the association. Gary believed John was disliked mainly because he was viewed as an honest man that attempted to make decisions that were solely in the best interest of the association and he could not be as easily controlled as past presidents. He recalled that John had three daughters and eventually resigned on June 15, 2003 as president, to Gary's great regret, because of the association's refusal to adequately address the needs of girls' interested in developing their soccer skills. After John resigned as president, Faye informed the board of directors that John had paid himself approximately \$3,600 from the association's bank account, as compensation for his development of a logo for SSSA.

When John resigned, SSSA found itself in need, once again, of a president to lead the association. Gary was very disappointed that John had decided to resign. Despite the fact that John had not vigorously pursued the suspected corruption of some board members, such as Faye, he still believed that the leadership provided by John was a great improvement from the leadership provided by past presidents. He was very concerned who the next president would be since he felt that if things were not righted soon the survival of the organization was at stake.

Gary had been very vocal over the years about the apparent lack of accounting and financial skills of Faye. Although he had felt he was the only board member that opposed Faye and her supporters, he would learn of other board members that secretly supported his opposition of Faye. Shortly after John announced his resignation, two board members approached Gary urging him to

campaign to be the next president of the organization approached Gary. The conversation was enlightening and was easy to recall:

Board

Members: Gary, the association needs a strong president such as you who can resist the political pressures from Faye and her supporters. We have not publicly supported your opposition of Faye because we feared retaliation. We have seen how people are penalized by reduced playing time for their children and not being selected to coach teams.

Gary: It is nice to know other board members believe that changes are need at SSSA.

Board

Members: Please do not judge us harshly for not being vocal of our support of your actions to change the association. Faye is a very influential person at the SSSA. It has been rumored that her relationships with past presidents Earle and Bob extended beyond just the activities of the association. The association needs you to become the next president and provide the leadership that has been lacking at SSSA.

Gary had been pleased to finally know that there were board members that supported his opposition but also somewhat angered that they had not provided him any public support against Faye. Gary had replied, not entirely truthfully, that he had not thought about being president of the organization and he agreed to consider their nomination of him as president. He felt strongly that he had an obligation to seek the presidential nomination for the betterment of the association.

Faye and her supporters quickly learned that Gary was considering campaigning to be the next president of SSSA. Faye was terrified of the possibly of having her nemesis become president of the organization. If Gary became president of SSSA, she would be forced to improve her financial reporting of SSSA's financial records immediately and provide board members access to the association's checkbook and accounting records. Gary would have the authority to force Faye to

submit to a full financial audit of the association's accounting records. Moreover, she knew the conversation concerned the internal control review by the TSU professors would be a certainty under Gary's leadership. Faye knew that she and her supporters would not be able to control Gary. She had to take decisive action to prevent Gary from becoming president.

Faye quickly began making personal contacts and sending e-mails to board members in an attempt to dictate who the next president of the association would be. She explained to the board members that the association has had three presidents, Larry, Bob and John during the past three and a half years. She insisted that the instability in the leadership role of the association was having a negative impact on the reputation of the association. She argued that this was a critical time for the success of the association as a result of securing the right to use the 40 acres of donated property. She sold the idea that the next president of the organization needed to be a person that had experience in leading the organization. SSSA could not afford to elect an individual that would need on the job training. Faye then stated that she and many other board members believed that Larry should again be the next president of the association. She insisted that Larry had been a loyal supporter of the association and was experienced in managing the association.

Gary was surprised by Faye's staunch support of Larry as the next president of the association. Her nomination of Larry as president caused him to think again about the conversation that he had with Faye in the parking lot when she had informed him that Larry was embezzling money from the association. Gary concluded that it was Faye's belief that she could easily control Larry and prevent increased scrutiny of her handling of the association's funds by Gary.

After carefully considering his potential nomination as president of the association, Gary decided not to pursue the president position. He convinced himself that it would have been difficult for him to fulfill the responsibilities of the position due to the demands of his career. He also had no

desire to campaign for president against his close friend Larry. However, in hindsight, although he hated to admit it, he realized he had been outmaneuvered by Faye.

As a result of his decision not to pursue the position, Larry was easily elected as the interim president of the association on July 22, 2003. Gary became very concerned about the future of the organization because Faye and her supporters again had an individual as president of the organization that they knew they could control.

Bob who had concealed the embezzlement by Larry was still in charge of the development of the facilities at Panther Park. Faye, Mary and Sally still held their influential positions on the board of SSSA. The group of Bob, Faye, Mary and Sally were for all practical purposes completely in control of the association. Gary was still a board member and continued to request that Faye provide adequate financial statements to report the financial condition of the association. Without opposition from other board members, Faye was able to avoid complying with Gary's requests. She continued to present financial reports which indicated that the association was having financial problems and needed to increase its revenues although Gary knew that the revenues collected by the association were more than adequate to pay the association's expenses.

Gary believed that the unethical behavior that was occurring at SSSA would eventually result in its demise although he felt powerless to end the corruption. He reflected on the many examples of unethical behavior that he had witnessed or suspected during his association with SSSA. It was common knowledge that many of the volunteers that operated the concession stands for SSSA were stealing a portion of the proceeds but nothing was done to stop the theft. There were top coaches in the association that required parents to pay them up to \$100 per month for the privilege of their children playing on their team. It was common practice for parents to give cash or merchandise to

coaches in exchange for allowing their child to receive more playing time during soccer games. The leadership of the organization was aware of this unethical behavior but decided to ignore it.

Larry served as interim president of the organization until December 31, 2003 and decided not to seek re-election. Paul Buck, who was close friends with Faye, Mary, Sally and Bob, was elected as the next president of SSSA effective January 1, 2005. Gary knew that with the election of Paul, he would not be able to gain enough support to force Faye to allow inspection of the association's check book and accounting records.

Gary again felt all alone and powerless against the strong alliance of Faye, Mary, Sally, Bob and now the addition of Paul; however, he knew he had to take some action to end the corruption that was occurring at the association. If he did not devise a plan to reveal the financial corruption that he believed was occurring on the board of directors to the police, the association was facing a financial disaster because of the suspected embezzlement by Faye. Gary was at his wits end; what could he do to end the financial corruption that he was absolutely certain was occurring at SSSA?

Larry Lends Assistance

Gary believed that he could expose Faye's embezzlement of SSSA's funds if he had access to the association's bank records. He also knew that Faye and her supporters would never allow him access to those records. Suddenly it occurred to him that his friend, Larry, may be able to provide him access to the association's bank records. Gary suspected that since Larry was previously the president of the association, he probably still had signature authority on the association's bank account. Gary decided to seek Larry's assistance in obtaining access to the account records. He was hesitant, since Larry's own past missteps could also be revealed, but he nonetheless approached Larry:

Gary: Larry, I need your help to solve, once and for all, the situation that is occurring at SSSA.

Larry: I will be pleased to help you in any way that I can.

Gary: I am glad that you are willing to assist me but I better first explain the situation. I am totally convinced that Faye has embezzled a substantial amount of funds from the association and I can not stop her from continuing this course of action without your help. Since you were recently president of the association, you probably still have signature authority on the bank accounts and will be able to request the bank records so that we can determine whether or not Faye is embezzling the association's funds.

Larry: I know you have had your differences with Faye but do you really believe that she is stealing from the association?

Gary: I am absolutely sure that she is stealing some of the associations' funds. Before we go any further with this investigation of Faye's handling of the association's funds, I should tell you about a conversation that I had with her several months ago. She told me that you had stolen \$5,000 from the association by writing a check drawn on the association's bank account payable to you personally. Is this true about you stealing \$5,000 from the association?

Larry: Gary, I am not going to answer that question but I will assist you in any way that I can for the sake of the association.

Gary: Okay, we need to go to the First Bank of Tampa and request that the bank provide a copy of the association's bank records.

Gary was pleased that Larry had decided to assist him. However, he knew by Larry's refusal to answer the question and the expression on his face that Faye had been truthful about the theft committed by Larry was a clear indication that he was guilty. Gary was disappointed that his friend had stolen the association's funds. He also admired the fact that Larry was willing to take action to

protect the association despite the fact that by assisting in Gary's investigation, he probably was going to cause his own embezzlement to be revealed to the board of directors and law enforcement.

Larry accompanied Gary to the First Bank of Tampa where SSSA maintained its bank account. They requested that the bank provide them a copy of all the bank statements and supporting documents for the past three years. The bank honored the request since Larry still had signature authority on the bank account. Gary and Larry were told that they should receive the bank records in about 2 to 4 weeks.

Unfortunately, the bank sent the requested bank records addressed to Larry to the association's post office box that Faye had access to. Faye retrieved the bank records sent by the bank which prevented Gary access to the records. The retrieval of the bank records implied to her that an investigation had been initiated into her handling of the association's funds and she knew Gary had to be the catalyst of the investigation. He recalled how she had brazenly confronted him about the bank records:

Faye: Gary, I know you convinced Larry to request the association's records so that you can find something to get me removed as treasurer of the association. I want you to know that your plan is not going to work.

Gary: If you have nothing to hide, you should not be concerned about me reviewing the association's bank records.

Faye: I have the records that you and Larry requested and I suggest that you do not request the bank records again for Larry's sake.

Gary: What do you mean Faye?

Faye: Let me make this very clear for you Gary, if I get in trouble, your good friend Larry also gets in trouble. If I go to jail, Larry will also be going to jail. Do you hate me so much that you are willing to sacrifice Larry so that you can cause me trouble?

Gary: It sounds like you are making a threat against Larry if I continue looking into how you have handled the funds of the association.

Faye: It is not a threat, it's a promise. If I go down, Larry also goes down.

Gary wondered how such a woman could be such a corrupt and ruthless person. He knew Faye meant exactly what she said about causing problems for his friend Larry if he continued his investigation. Gary was not sure what he should do. He believed that he had a duty to protect SSSA from additional embezzlement but he was also concerned about the welfare of his friend and the future of the organization. Should he contact law enforcement and if so what evidence did he have to provide Faye's crimes?

Corporate Governance in Non-Profit Organizations: Sun State Soccer
(Part C)

Gary looked at Larry's mug shot, shown for all to see on page two of the day's local newspaper, and he felt a pang of guilt. He was, after all, partially responsible for his friend's arrest. He shook his head, as if to clear his thoughts, reached into his desk drawer and took out the folder of newspaper articles on SSSA and picked out Faye's mug shot clipping. They were both quite depressing in their own way; both featured individuals with dull, listless eyes with dark shadows underneath, the same bewildered, beaten looks, the same shamed expression. He tried to examine his feelings and he wondered if it had all been worth the sacrifices he had made. He thought back to the very beginning of the story, and he began to reminisce (see Exhibit II for a review of key organization dates).

Gary recalled struggling with his decision to continue his investigation of Faye's handling of the association's funds because of the threat made against Larry. He knew he had an obligation to protect the association but he also did not want to see Larry get in trouble. After all, Larry was good man that had done a great deal of work for the association which was certainly worth a great deal more than the \$5,000 that he had taken from the association. Gary decided he should discuss the situation with Larry before he made a final decision whether to continue or terminate his investigation. It was one of the most difficult conversations he ever had, and he remembered the great anxiety he felt when he approached his friend:

Gary: Larry, Faye called me and she was extremely upset. She found out that we had requested the association's bank records without her permission.

Larry: How did she know that we had requested the records?

Gary: The bank addressed the package containing the bank records to you but sent it to the association's post office box and Faye retrieved the package. Faye has threatened to tell the board of directors and the police that you stole money from the association if we continue with our investigation and get her in trouble.

Larry: What!?

Gary: She said that if she gets in trouble, you are also going to get in trouble. Do you want to continue with the investigation?

Larry: I am not going to discuss the allegation that she has made against me. However, I am not willing to let her control our actions through her threats. Let's continue our investigation and stop this she-devil from destroying our association.

Despite the threat made against Larry by Faye, they went to the First Bank of Tampa and requested the bank records again. A few weeks after the request, Gary and Larry received the records from the bank. Gary sorted the canceled checks into two categories, one category for those checks that appeared to be legitimate SSSA's expenses and those that were suspicious expenditures. The suspicious expenditures included payments to: Mary Kay Cosmetics, Pleasure Day Spa, Neiman Marcus Department Store, Victoria Secrets, Bayside Electric Company, Bed and Bath, ToysRus, Bayside Cable Company, cash and other suspicious payments.

During his review of the bank checks, Gary noticed many checks were written payable to SSYS. He recognized SSYS to be Sun State Youth Soccer which SSSA regularly made payments to. However, Gary was surprised at the large volume of checks that were written payable to SSYS. He approached Larry to discuss it since he was familiar with the SSYS relationship.

Gary: Larry, I noticed that there have been many checks written from the association's bank account to SSYS. How many checks do you think SSSA writes to SSYS each year?

Larry: Based on my memory, there should just be maybe three or four checks written to SSYS each year?

Gary: Well, we have a problem then. Based on my review, it appears that SSSA is writing about fifty checks each year to SSYS totaling about \$ 25,000.

Larry: I know the association should not be writing that many checks to SSYS each year. It might be a good idea if we sent a letter to SSYS to determine the number of checks that their records indicate that the association wrote payable to the organization.

Gary: That sounds like a great idea.

Larry sent a letter to SSYS to determine the total number and payment amounts that SSSA had paid to SSYS during the relevant period. Based on the response received from SSYS, the payments made payable to SSYS by SSSA should be 4 checks totaling five hundred dollars each year instead of the many checks totaling thousands of dollars that Gary noticed during his review of the bank records.

Larry: It is obvious that most of the checks that we have examined that are payable to SSYS are not expenses that were for the benefit of the association.

Gary: After we became suspicious of the checks written payable to SSYS, I examined the checks more thoroughly. I noticed that the majority of the checks were endorsed by Faye and deposited into an account at Bayside Bank.

Larry: That's interesting that Faye would be endorsing the checks.

Gary: Yes it is. Do you finally believe that Faye is stealing from the association?

Larry: I am convinced that Faye is taking money from the association but we will need more details to convince the board of directors. You know since Faye is so likeable, most of the board members are going to be very reluctant to believe anything bad about her.

Gary: You are absolutely right. I believe our next step should be to visit the Bayside Bank to get additional information about this bank account that Faye is apparently depositing a large amount of the association's funds into.

Larry: Sounds like a plan to me.

A Visit to SSYS' Bank

Gary and Larry visited Bayside Bank to obtain additional information about the bank account that Faye appeared to be depositing the suspicious check proceeds in to. They met with the branch manager at the bank to obtain additional information about the account. The branch manager explained that he could not assist them in accordance with bank privacy regulations because neither Gary nor Larry had signature authority on the account. Gary and Larry left the bank wondering how they were going to be able to get the needed information from the bank.

A teller from the bank apparently overheard their conversation with the bank manager and followed Gary and Larry to the parking lot as they were preparing to leave the bank premises.

Bank teller: I overheard your conversation with the bank manager about the SSYS bank account.

According to bank regulations, I am not supposed to provide you any information about the account but I am very suspicious of the woman that owns the account.

Gary: Any information that you can provide to us would be greatly appreciated.

Bank teller: The account belongs to Faye Fields. She comes into the bank about once a week. She is quite arrogant. Every time I try to strike up a conversation, she is very rude to me. I asked her out once and she just mumbled no at me with a look of disbelief that I would even ask.

Gary: Okay, what else can you tell us about the account and the woman?

Bank teller: I became suspicious of her because she came into the bank so often with a check from an athletic association. I wondered why a nonprofit organization would be paying her so much money.

Gary: Thanks very much for your help.

Based on the information obtained, neither Gary nor Larry had any doubt that Faye had been embezzling money from SSSA. The only question that remained was how much had been embezzled from the association by Faye. Based on a thorough examination of the association's bank records, they estimated that Faye had embezzled between \$150,000 and \$200,000 during her tenure as treasurer of the association.

Gary: Larry, we have reached a crossroad in our investigation. We have to decide if we should inform the board of directors of the results of our investigation or report it to law enforcement.

Larry: We do have a decision to make. I am more inclined to report it to the board of directors instead of the police.

Gary: Before we go any further with this discussion, I need to ask you a question. I noticed on the bank statement that there was a check in the amount of \$5,000 around the time that Faye said you took \$5,000 from the association. The check is missing. Did you take the check before I had an opportunity to examine it?

Larry: This is about Faye and not me. How do you feel about reporting what we have found to the board of directors instead of the police?

Gary: I am afraid if we report it to the board of directors, nothing will happen. You know that the board members will resist believing that Faye did anything wrong. Even if they believe that she stole the money, they may still decide not to report it to the police.

Larry: Gary, you certainly have a point about how the board feels about Faye. Okay, I agree that the information that we have found should be reported to the police.

Gary: I actually obtained the phone number for Aaron Berg, the Assistant State Attorney in Tampa. I will contact him.

After Gary and Larry visited the Bayside Bank, another employee at the bank that Faye had befriended informed her that two men came to the bank inquiring about the SSYS account. She knew the two men had to be Gary and Larry. Realizing that Gary and Larry had discovered her fraudulent scheme, she resigned her position as treasurer of the association. Faye hoped that her resignation from the association would prevent any further action being taken against her pertaining to the funds that she had taken from the association.

Gary reported the alleged embezzlement by Faye to Aaron Berg. The state attorney initiated an investigation of the alleged crime and determined that criminal charges should be pursued against Faye. Aaron Berg requested that Gary, SSSA President Paul and other board members sign a complaint against Faye for the funds that she had embezzled. Paul, because of his friendship and loyalty to Faye, initially refused to sign the complaint. As a result of pressure from the investigator and other board members, Paul eventually decided to sign the complaint against Faye.

The Arrests

Faye was arrested on June 6, 2004 and charged with embezzling funds from SSSA. It irked Gary that the actual amount would never be known, since the records were in such disarray, but he believed the figure to be much higher than the \$82,000 she was actually charged with stealing. After she was arrested, she told the investigators that she had not committed a crime because she had taken the funds from the association with the intent of repaying the money. Faye told the investigator that it was unfair that she was being singled out when there were other people at SSSA that had taken money from the association. True to her threats, she also informed the investigators about the embezzlement that Larry had committed against the association. Faye was arraigned on the charges and released on a \$10,000 bond. She was angered that Gary had caused this trouble for her and was determined to make Gary and Larry pay a price for their actions. Faye made a phone call to Gary that still haunts his memory:

Faye: Gary, I wish you had taken my warning to mind your own business. You think you've won but you will not enjoy your victory. Larry will soon be in as much trouble as I am.

Gary: What do you mean?

Faye: I told the state attorney that Larry had stolen \$5,000 from the association and that he should also be arrested.

Gary: There was no need to get Larry involved in this situation that you are in.

Faye: Larry did the same thing that I am accused of. If I have to go jail, I am going to make sure that your good friend Larry also goes to jail. All you had to do was heed my warning and Larry would not be getting in trouble. I hope your momentary pleasure of seeing me in trouble was worth destroying Larry's life. This whole situation is your fault.

Gary: No, it was your greed that caused you to be in the trouble that you are in.

Faye: I wish I could see your face when good old Larry is arrested and taken to jail.

Gary was concerned about his friend Larry. Because of all the media attention that Faye's arrest had received, Gary wondered if the prosecutor would feel compelled to make another arrest in the case. Larry had stolen only \$5,000 which President Bob knew he had taken. Certainly what Larry did was not at the same level as the approximately \$200,000 that he thought Faye had taken from the association.

The prosecutor decided to pursue charges against Larry for the embezzlement of the association's funds. President Paul and other boards members were asked to sign a complaint against Larry for the theft that he had committed against SSSA. Although Paul hesitated to sign the complaint against Faye, he readily signed the complaint against Larry.

Larry was arrested on June 20, 2004 and charged with the embezzlement of funds from the association. He was questioned about the alleged crime that he committed against the organization and quickly admitted to taking the funds when he was having personal financial problems. Larry chose to admit his guilt although Bob had created an excellent defense for him by backdating documents that appointed him to the position of Director of Facilities prior to the date of his embezzlement which entitled him to be compensated for the services that he performed for SSSA. Larry could have claimed that the SSSA check that he wrote payable to himself was for services that he performed for the association.

After the arrest of Larry and Faye, the board of directors formed a committee chaired by Gary to assist law enforcement in the prosecution of the two former board members. Gary and his committee members were instrumental in the successful prosecution of Faye and Larry.

However, Gary wanted the committee to conduct a complete investigation of the organization to uncover additional thefts of SSSA's funds by individuals other than Faye and Larry.

He thought with the help of an auditor or a private investigator, the other thefts that he suspected had occurred could be proven. Gary was mainly interested in funds that may have been embezzled as a result of a soccer event that was canceled, the handling of hotel referral fees that local hotels had agreed to pay the association and the lack of proper accounting for the disposition of the \$500,000 grant proceeds that the association received.

In August of 2004, the association had planned to host a large soccer event that included many local and out of town teams. The association collected a substantial amount of money prior to the date of the event. Mary was in charge of the collection of the registration fees for the event, the event was canceled as a result of a hurricane. Many of the teams that had registered for the event complained that they never received a refund as a result of the event being canceled. Gary wondered if Mary had stolen some of the registration fees instead of returning it to the teams.

Sally was in charge of overseeing and collecting the referral fee from the hotels that was paid to the association for recommending their hotel to visiting out of town teams. The referral fees that the association was reported as collecting seemed to be understated, based on the number of teams that Gary knew were staying at the hotels. Gary suspected Sally may have been taking a portion of the proceeds for her personal use.

President Paul was totally against the committee investigating any other possible embezzlement that may have occurred with SSSA's funds. He would not extend the authority of the committee to search for other possible theft schemes that may be occurring at SSSA.

Despite President Paul's refusal to extend the scope and authority of the committee, Gary decided to pursue other possible embezzlement schemes that may have been committed against the association. Gary was convinced that some of Faye's loyal supporters were also involved in the embezzlement that she committed against SSSA. He decided to send a certified letter to Bob, Mary,

and Sally requesting that they respond to allegations that they were involved in the embezzlement of funds by Faye.

President Paul was outraged when he discovered that Gary had sent the letters to the board members requesting that they respond to the allegation that they may have embezzled funds from the association. Paul told the board members that were the recipient of Gary's letter that the association did not expect them to respond to the outrageous allegations against their integrity. Gary's relationship with the remaining supporters of Faye (Bob, Mary, Sally and Paul) was now especially adversarial as a result of the letters that he had sent.

Gary is Removed

As a result of business travel requirements of his job at the insurance company, Gary missed two consecutive board meetings. The bylaws of the association included a provision that any board member could be removed from his position if the board member missed three consecutive board meetings. Paul decided to use the absences by Gary as a way to force him off the association's board of directors. Despite the fact that the by-laws required three consecutive absences by a board member, the board of directors with the urging of Paul voted to remove Gary as a board member although he had only missed two consecutive board meetings. Gary's removal as a board member was effective immediately as of October 6, 2005.

Gary was disappointed that the board of directors had decided to retaliate against him as opposed to supporting his efforts to rid the association of some of its members' corrupt behavior. He no longer had any children playing soccer for the association and now he had been removed from the board of directors. Maybe it was time to just disassociate himself completely from the association. He decided to visit the two professors that had offered their professional services to the association

for guidelines as to any actions that he could take to force the association to take steps to uncover past embezzlements and prevent future embezzlements.

Gary: Professors, thank for meeting with me. Although Faye and Larry have been prosecuted, there is still corrupt behavior that is occurring at SSSA. The board of directors removed me from the board because I insisted that they investigate prior corrupt actions taken by some of its members.

Professors: Okay, how can we help you?

Gary: I talked to the state prosecutor's office and they are not interested in pursuing the investigation of SSSA any further. The corruption at SSSA is continuing despite the prosecution of Faye and Larry. As a means to make it easier to utilize the association's funds, the board of directors changed the bylaws so that it now allows board of director's members to be compensated for services that they provide the association. It seems to me that now the board of directors has a license to steal. Is there any agency that would be interested investigating the association?

Professors: If the association receives governmental funding, those agencies that are providing the funding can require an audit of the association's financial records.

Gary: Currently, the association is not receiving any governmental funding.

Professors: You could sue the association for not operating in accordance with its bylaws.

Gary: I have no interest in suing the association. It's not the entire association that I have a problem with; it's the corrupt behavior of certain board members.

Professors: In that case, we believe that your best course of action would be to report the association to the Internal Revenue Service.

Gary: The IRS! Why would they be interested in the situation that is occurring at the association?

Professors: SSSA is a non-profit organization that is exempt from taxation only if it complies with certain regulations that the IRS is responsible for overseeing. Based on what we know about SSSA, it appears that they may not be in full compliance of IRS regulations.

Gary: What happens if the IRS determines that the association is not in compliance?

Professors: The IRS can force the association to comply with the applicable regulations. The association may be fined if it is found to have violated the provisions of the applicable regulations. If the violations are determined to be blatant, the IRS can revoke the tax-exempt status of the organization and then impose income taxes on the income that it earns.

Gary: If the organization had to pay income taxes, that would make it very difficult for the organization to operate.

Professors: Yes, the revocation of its tax-exempt status would make it extremely difficult for the association to operate.

Gary: I am not sure I want to report the association to the IRS but I will consider taking that action. Isn't there anything else I could do?

Professors: Unfortunately you now have to make a choice between taking action that would inevitably have a negative impact on the organization and walking away.

Gary was not sure what he should do. His experiences with the IRS had all been unpleasant. If he reported the association to the IRS, the association may lose its tax-exempt status which probably would result in the demise of the association. Causing the association to be dissolved was certainly not his intention. He just wanted the association to be operated properly for the betterment and enjoyment of its youth participants. What should Gary do?

Exhibit II - Summary of Important Dates

- May, 1999 - Gary becomes involved in SSSA
- August 14, 1999 - Gary becomes a member of the board of directors.
- January 1, 2001 - Larry becomes president of the association.
- January 1, 2002 - Bob becomes president of the association.
- January 1, 2003 - John becomes president of the association.
- June 15, 2003 - John resigns as president of the association.
- July 22, 2003 - Larry is elected as the interim president of the association.
- January 1, 2004 - Paul becomes president of the association.
- June 6, 2004 - Faye is arrested for embezzlement of the association's funds.
- June 20, 2004 - Larry is arrested for embezzlement of the association's funds.
- October 6, 2005 - The board of directors approve a motion to terminate Gary's status as a member of the board.

Corporate Governance in Non-Profit Organizations: Sun State Soccer

ABSTRACT

The purpose of this case is to expose students to corporate governance and its impact on the audit process. Further by using an example that most students are quite familiar with—youth sports—the issues of internal control become more salient. Although the issues of corporate governance and internal control are involved in almost every discussion of accounting, only recently has there been increased discussion of their importance in nonprofit organizations. This case follows the thoughts, actions and conflicts that are experienced by Rad Jackson, a member of the local youth soccer association's board of directors. The case brings to the forefront the issue of internal control and its relationship to the corporate governance process. Further students are exposed to the process of forensic accounting and are given an example of how one organization both facilitated fraud and reacted to it once the fraud was suspected.

COURSES AND LEVELS FOR WHICH IT INTENDED

The case exposes students to the issue of Corporate Governance, and more specifically, Ethics and Internal Control in Nonprofit organizations. The case could be used in graduate or undergraduate Fraud, Auditing, and Not-for-Profit courses. Perhaps surprising to most students is the fact that Not-Profits are on the “hit-list” of the IRS for organizational malfeasance. Although this is not intended to be a case in taxation, it will give the instructor the opportunity to relate the importance of tax-exempt status and the role of the IRS in regulating this. It will be necessary to reference outside materials, in addition to the applicable course text depending upon the level and depth of analysis that the instructor wants to achieve. Web sites and relevant references are listed at the end of the instructor's manual. In using this case in a graduate class, we would encourage students to research these issues to find examples of nonprofit frauds and

examine how changes in legislation at both the federal and state levels are changing the way nonprofits are governed.

A PERSPECTIVE ON CORPORATE GOVERNANCE

The framework of corporate governance encompasses both structural and cultural concepts and principles. The structural system of mechanisms (bylaws, procedures, processes, policies, rules, and mission statement) utilized by the Board of Directors and management to direct the day-to-day affairs of an organization is generally represented in written form as official documents and define the methodologies that regulate governance.

There is also a cultural aspect inherent in corporate governance. The organization's leaders communicate their vision, standards, and expectations and, through their example, their perceived commitment to accountability, compliance, transparency and fiduciary responsibility. This defines the organization's internal/control environment, influences its culture, and heavily influences how employees perform their functions and duties. It also sets the overall ethical tenor of the association. This case focuses on the latter.

LEARNING OBJECTIVES

- 1) Gain an understanding of what is meant by Corporate Governance referencing the above definition as a starting point.
- 2) Understand the role of ethics, as exemplified by management behavior, in organizational culture and its impact on governance.
- 3) Discuss how the components of Internal Controls, as identified by the COSO-ERM framework, are interrelated with the Governance process and how this framework could be applied to nonprofit organizations.
 - i. Internal Controls

1. ***Internal Control Environment***
The ethics, integrity and moral values of the leaders of an organization, and their actions, establish the work environment of the entity.
 2. ***Objective Setting***- Strategic/Operational objectives tempered by the risk appetite/tolerance of the organization
 3. ***Event Identification***- Factors impacting objectives
 4. ***Risk Assessment*** - Identifying potential risks
 5. ***Risk Response*** - Mitigating those risks
 6. ***Control Activities***- Processes designed to safeguard assets and facilitate reporting.
 7. ***Information and Communication*** - Information systems and reporting process
 8. ***Monitoring***- Ongoing assessment of an organization's controls and ensuring their continued efficacy to address the risks of the organization
- ii. Recognize the limitations inherent in not-for-profit governance structures as they relate to:
1. Personnel – high turnover, limited qualifications, experience, training, and time.
 2. Lack of arms-length transactions – tacitly accepted.
 3. Internal Controls – circumvented, ignored, overridden.
- 4) Understand the role of nonprofit regulation and the relationship between law enforcement and the Internal Revenue Service.