

JUN 20 2011

STATE OF WASHINGTON
GAMBLING COMMISSION

GAMBLING COMMISSION
COMM & LEGAL DEPT

In the Matter of the Suspension of the)	No. CR 2010-01333
Licenses to Conduct Gambling Activities of:)	
)	
Seattle Junior Hockey Association)	SETTLEMENT IN LIEU OF
Mountlake Terrace, Washington,)	ADMINISTRATIVE CHARGES
)	
Licensee.)	

I.

The licensee, Seattle Junior Hockey Association, and the Washington State Gambling Commission enter into this Settlement in Lieu of Administrative Charges to resolve the administrative charges currently pending against the licensee, but not yet issued. Rick Day, Director, and Melinda Froud, Lead Staff Attorney, represent the Gambling Commission. John Beadle, President, represents the licensee.

II.

The Washington State Gambling Commission has issued Seattle Junior Hockey Association, Organization Number 00-04339, the following licenses:

- Number 01-01670, authorizing Class "I" Bingo activity;
- Number 02-00875, authorizing Class "F" Raffle activity;
- Number 03-00801, authorizing Class "A" Amusement activity; and
- Number 05-02334, authorizing Class "M" Punchboard/Pull-Tab activity.

These licenses, which expire on December 31, 2011, were issued subject to the licensee's compliance with state gambling laws and regulations.

III.

There are sufficient grounds for the Gambling Commission to charge the licensee with violations of the Washington State Gambling Act, 9.46 RCW, and WAC Title 230 based on the following:

SUMMARY

The licensee failed to develop and maintain an independent management control system and have a separation of duties regarding payroll services. As a result, an employee allegedly embezzled approximately \$53,321 of Seattle Junior Hockey Association's money. Previously, the licensee failed to protect and safeguard all the assets of the organization from misuse or embezzlement on four other occasions.

FACTS

- 1) In March 2010, the licensee notified a Commission Special Agent (agent) that a former employee allegedly embezzled money by manipulating payroll records. The agent determined that from July 2008 to December 2009, the Administrative Assistant for Seattle Junior Hockey Association allegedly embezzled approximately \$53,321 from the licensee's payroll account.
- 2) The Administrative Assistant was the sole employee responsible for all the payroll duties and was the only employee with access to the payroll system. The Administrative Assistant also had custody of the payroll checks. No other employees knew how the payroll services were run and no other employees reviewed the payroll records.
- 3) The Administrative Assistant made extra payments to herself through payroll direct deposits and by issuing manual checks. The checks, which the Administrative Assistant signed, were made out to the Administrative Assistant. The Administrative Assistant would then alter payroll records to show that the extra pay she gave herself was instead paid to other employees. The Administrative Assistant also failed to distribute payroll stubs; this meant that employees were not able to see alterations made to their payroll data.¹
- 4) Because the licensee failed to develop and maintain an independent management control system and have a separation of duties regarding payroll services, the Administrative Assistant was able to embezzle approximately \$53,321 of Seattle Junior Hockey Association's money, in violation of WAC 230-07-060 and WAC 230-07-065.
- 5) As a result, the licensee failed to protect and safeguard all the assets of the organization from misuse or embezzlement and failed to ensure gambling proceeds were used solely to advance the purposes of Seattle Junior Hockey Association, in violation of WAC 230-07-060 and WAC 230-07-065.
- 6) Therefore, under RCW 9.46.075(1) and WAC 230-03-085(1) grounds exist to suspend Seattle Junior Hockey Association's licenses.
- 7) The licensee has the following history of failing to develop and maintain an independent management control systems and failing to protect all assets from embezzlement:

CR 2007-01783

In November 2007, the licensee notified a Commission Special Agent (agent) that an employee allegedly embezzled money by altering raffle ticket sales logs. The agent determined that from March 2006 through October 2007, the licensee's raffle record keeper allegedly embezzled \$14,200 from the licensee's raffle sales. The raffle record keeper would alter the raffle ticket distribution sales log and take raffle sales money. There was no separation of duties between the record keeping and the accounting for the cash from the raffle sales. The licensee failed to have an independent review or comparison of the raffle ticket sales log to the beginning and ending ticket numbers for the actual ticket sales.

¹ The licensee made corrections to the altered payroll data and reissued accurate W2 tax forms to the employees.

CR 2008-00577

In February 2008, the licensee notified a Commission Special Agent (agent) that an employee allegedly embezzled money by failing to make bank deposits and then altering accounting records to cover up her actions. The agent determined that from July 2007 through January 2008, the licensee's Gambling Account Manager allegedly embezzled \$20,250 by failing to make 87 deposits. Although the licensee did have procedures for separation of duties, the licensee failed to ensure the Gambling Account Manager followed the separation of duties. The Gambling Account Manager and made the deposits and reconciled them in QuickBooks.

CR 2008-01841

In November 2008, the licensee notified a Commission Special Agent (agent) that an employee allegedly embezzled money by issuing fraudulent bingo prize receipts. The agent determined that from June 2006 through November 2008, a bingo employee allegedly embezzled \$44,860 by issuing fraudulent bingo prize receipts. The licensee did not have a separation of duties between the bingo prize records, the prize receipts, and the cash used to pay out the prizes.

CR 2009-00318

While the agent was investigating case report 2008-01841, the agent determined that from 2005 through 2006, the Bingo Manger allegedly embezzled \$24,000 by issuing fraudulent bingo prize receipts and taking the money for his personal use. The Bingo Manager also altered the prizes recorded on the bingo daily records and the amount of the bingo deposits. There was no separation of duties between the bingo prize records, the prize receipts, and the cash used to pay out the prizes.

VIOLATIONS

RCW 9.46.075 Denying, suspending, or revoking an application, license or permit

The commission may deny an application, or suspend or revoke any license or permit issued by it, for any reason or reasons, it deems to be in the public interest. These reasons shall include, but not be limited to, cases wherein the applicant or licensee, or any person with any interest therein: (The following subsection applies.)

(1) Has violated, failed or refused to comply with the provisions, requirements, conditions, limitations or duties imposed by chapter 9.46 RCW and any amendments thereto, or any rules adopted by the commission pursuant thereto, or when a violation of any provision of chapter 9.46 RCW, or any commission rule, has occurred upon any premises occupied or operated by any such person or over which he or she has substantial control.

WAC 230-03-085 Denying, suspending, or revoking an application, license or permit

We may deny, suspend, or revoke any application, license or permit, when the applicant, licensee, or anyone holding a substantial interest in the applicant's or licensee's business or organization:

(The following subsection applies.)

(1) Commits any act that constitutes grounds for denying, suspending, or revoking licenses or permits under RCW 9.46.075.

WAC 230-07-060 Independent management structure required.

(The following subsection applies.)

(2) Organizations must develop and maintain an independent management control system that ensures they... (c) Protect all assets of the organization from misuse or embezzlement; and (d) Use gambling proceeds solely to advance the purposes of their organization.

WAC 230-07-065 Group III, IV, and V management control system.²

Charitable or nonprofit licensees assigned to Groups III, IV, and V must develop and implement a management control system that:

(The following subsections apply.)

(3) Includes affirmative management and accounting controls to ensure that all funds and other assets directly or indirectly obtained with gambling proceeds are protected from misuse, are dedicated solely to the purposes of the organization, and do not inure to the private use of any person. For purposes of this section, we do not consider the following uses of gambling proceeds inurement: (a) Providing program services to members or the public; or (b) Costs for necessary expenses, including salaries or wages for services to perform the purposes of the organization. Salaries or wages paid to members, officers, board of directors, or their direct relatives, are not inurement if they are necessary, reasonable, and an independent management system makes the decision to pay them.

(5) Includes a system of internal accounting controls designed to reduce errors, minimize the risk of embezzlement, and safeguard assets. The licensee's officers or board of directors must implement procedures to monitor established controls for compliance. The internal accounting control system must include at least:

- (a) Management approval for expenditures; and
- (b) Access to assets is restricted to those individuals management authorizes; and
- (c) Recording procedures for all transactions in accordance with generally accepted accounting principles (GAAP). Licensees must record transactions with enough detail to maintain accountability for assets; and
- (d) Periodic comparison of recorded assets to physical assets and reconciliation of all differences. "Reconcile" means the licensee must compare the two balances, resolve any differences, and document the comparison and the differences in writing. Licensees must keep the reconciliation as part of their records.

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² The licensee is considered a Group V charitable or nonprofit licensee with combined annual gross receipts over five million dollars.

IV.

The licensee acknowledges that it violated Commission rules, and has indicated its willingness to comply with gambling rules and regulations. In lieu of formal proceedings, the parties agree to settle this matter under the following terms:

1) The licensee has developed the following independent management control systems to ensure that that all assets of the organization are protected from misuse or embezzlement:

- a) Each pay period, payroll stubs will be provided to all employees.
- b) The Office Manager will review all bank statements. The Office Manager will reconcile the bank statements in QuickBooks and when complete will initial the bank statements.
- c) The President reviews and initials the bank statements for the hockey operation and reviews each check written that month. The Director of Gaming will review the bank statements for the bingo operations.
- d) Each pay period, the President will review the hockey operations pay stubs and direct deposit reports from Intuit (the payroll service used for payroll direct deposit). These documents will be reviewed and initialed, then put in a binder for easy access. The licensee will keep the documents in the binder for at least three years.
- e) Each pay period, the Director of Gaming will review the bingo operation timesheets and payroll stubs for each pay period. Then either the Director of Gaming or the Office Manager will sign the paychecks.
- f) Each quarter, the Office Manager will request an Intuit direct deposit payroll report. This report will be kept by the licensee and a copy will be sent to the licensee's accountant.
- g) Every two weeks, the President will review and approve the accounts payable list for the hockey operation. Also, the Director of Gaming will review and approve the accounts payable list for the bingo operation. The Office Manager will print the checks needed and match them to the approved items. Then the President, Director of Gaming, or Office Manager will sign the checks. The Office Manager will mail the checks. After payment has been made, the payment stub will be attached to the vendor's invoice and returned for review.
- h) Once a quarter, the President will meet with the Board of Directors and give them a summary of revenue and expenses.

2) **A Commission Special Agent (agent) will conduct a follow-up inspection within six (6) months.**

- During the inspection, the agent will determine if the licensee has followed the independent management control systems put into practice to ensure that assets were protected from misuse or embezzlement.
- The agent may recommend additional changes to internal controls, policies, and procedures. The licensee will make these changes and continue to follow procedures to protect assets from misuse or embezzlement.

*Revised
See attached*

FOR FINAL VERSION ABA #23773

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- h) Once a quarter, the President will meet with the Board of Directors and give them a summary of revenue and expenses.

2) **A Commission Special Agent (agent) will conduct a follow-up inspection within six (6) months.**

- During the inspection, the agent will determine if the licensee has followed the independent management control systems put into practice to ensure that assets were protected from misuse or embezzlement.
- The agent may recommend additional changes to internal controls, policies, and procedures that fall within the requirements of WAC 230-07-065 for implementing a management control system. The licensee will make these changes and continue to follow procedures to protect assets from misuse or embezzlement.

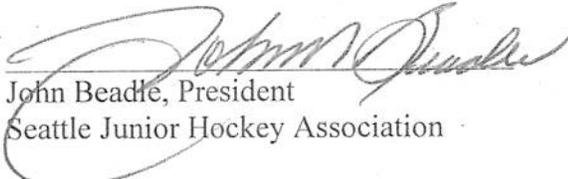
3) The parties agree that **Seattle Junior Hockey Association's** licenses are suspended for a period of **fifteen (15) days**, provided that:

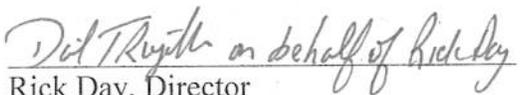
- a) **Ten (10) days** of the suspension shall not be currently served, but shall be deferred for a period of two (2) years from the date of entry of this Settlement, subject to the following: Seattle Junior Hockey Association must not violate Washington's gambling statutes or rules during the two (2) year term, and must follow the independent management control systems put in place to prevent embezzlement.
- b) If, after the follow-up inspection, the agent determines that the licensee failed to follow the independent management control systems put in place to prevent embezzlement, or if the licensee violates any other statutes or rules, and if the violation is the type that warrants the filing of administrative charges, then the Director may impose the ten (10) days of the deferred suspension on the current gambling licenses, and any subsequently acquired gambling licenses.
- c) The parties agree that the Director of the Washington State Gambling Commission, pursuant to this Settlement, has sole discretion to determine whether the licensee has violated any term of this Settlement, including failure to follow the independent management control systems put in place to prevent embezzlement. In the event the Director determines a violation has occurred, he may suspend the licenses issued to Seattle Junior Hockey Association by mailing or delivering a Notice of Order of Administrative Charges to the licensee. In addition to the consequences of the new violation, the licensee shall serve all, or part, of the deferred sentence. The licensee shall have the opportunity to request an adjudicative proceeding, which includes a hearing on the alleged violations.
- d) Pursuant to RCW 9.46.077, the licensee shall vacate the remaining **five (5) days** of the suspension by **reimbursing the Commission for all reasonable costs incurred in conducting a follow up inspection of the licensee's internal controls** within thirty (30) days after receiving notice of the costs of such inspection.

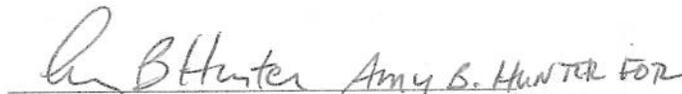
4) The licensee must distribute a copy of this Settlement to every present and future Board Member, President, and Director of Gaming for the next five (5) years.

DATED this 16th day of JUNE, 2011.

AGREED TO BY:


John Beadle, President
Seattle Junior Hockey Association


Rick Day, Director
Washington State Gambling Commission


Melinda Froud, Lead Staff Attorney #23773
Washington State Gambling Commission