

Audit Report

USA Diving

July 30, 2019

Prepared by: United States Olympic & Paralympic Committee,
Audit & Organizational Advancement Department



EXECUTIVE SUMMARY

Background and Audit Scope

The United States Olympic and Paralympic Committee (USOPC) Audit and Organizational Advancement Department completed an audit of USA Diving (Diving). The purpose of the audit was to determine if Diving complies with select requirements of the Ted Stevens Olympic and Amateur Sports Act, 36 U.S.C. § 220522 et seq (the Sports Act) and USOPC Bylaws. The audit period focused on activities conducted in 2017 and 2018 and USOPC funds received from January 1, 2017 through December 31, 2018.

Audit Objectives

The objectives of the audit were to determine:

- Previous audit recommendations status,
- Compliance with select requirements in funding agreements,
- Compliance with select USOPC documents which are applicable to National Governing Bodies (NGBs),
- Internal control environment promotes managerial and financial capabilities, and
- Compliance with NGB internal documents.

Audit Summary

Based on the audit procedures performed, the application of select policies and procedures were reviewed to determine alignment with USOPC requirements. The conclusion within each area was based on the risk level of each recommendation and number of recommendations. Appendix B includes explanation of each conclusion type. Appendix C includes detailed audit procedures.

Audit Rating

Audit Rating			
NGB	Current Audit Rating	Prior Audit Rating	Current Average Rating
Diving	66	1	27

The audit rating is an open-ended rating, with zero being the optimal rating. To calculate the current average rating, we compared Diving to NGBs with comparable annual revenue. The audit rating is explained in more detail in Appendix A.

Audit Summary	
Audit Area	Conclusion
Governance/Managerial	Unsatisfactory
Financial Capabilities	Unsatisfactory
Due Process	Unsatisfactory
Athlete Representation	Satisfactory
Athlete Safety	Marginal

We would like to thank all NGB staff who assisted us throughout this audit.

EXECUTIVE SUMMARY (CONTINUED)

The following is a summary of the opportunities for improvement identified during the audit and are detailed on subsequent pages. The level of risk was determined based on the potential impact it could have to Diving’s athletes, Diving, the managerial and financial capabilities of Diving, and any mitigating controls noted during the audit. Definitions of the risk levels are included in Appendix D.

Recommendation by Risk Level		
Recommendations	Audit Area	Risk Level
Revise the Conflict of Interest Policy Disclosure Form and Proper Application	Governance	High
Adopt a Formal Conflict of Interest Review Process	Governance	High
Compliance of Finance and Audit Committee Composition	Governance	High
Improvement of Internal Controls	Financial	High
Improve Controls over Payroll Process	Financial	High
Follow Financial Policies and Procedures for Approval of Purchase	Financial	High
Repayment of Improper Grant Year Expenses	Financial	High
Provide Fair Notice to Respondents	Due Process	High
Provide an Opportunity for a Hearing	Due Process	High
Review Finance and Audit Committee Responsibilities per Diving’s Bylaws	Governance	Medium
Improve Financial Capabilities	Financial	Medium
Review and Approval of Budgets	Financial	Medium
Review and Approval of CEO and Board Expenses	Financial	Medium
Improvements to the Grievance Document Collection, Retention and Written Decision Process	Due Process	Medium
Review Background Check Expiration Dates	Athlete Safety	Medium
Improve Finance and Audit Committee Quality of Minutes	Governance	Low
Improve Controls over Petty Cash	Financial	Low

Recommendation by Risk Level

Update Financial Policies and Procedures

Financial

Low

PRIOR AUDIT

Summary of Prior Audit Recommendations

Diving’s previous audit report from the USOPC, dated June 12, 2014, resulted in one recommendation in the audit area of governance. The recommendation is included below as a repeat issue and recommendation.

CURRENT RECOMMENDATIONS

Risk Level: High

Audit Area: Governance/Managerial

#1	Revise the Conflict of Interest Policy Disclosure Form and Proper Application	Recommendation	Management’s Action Plan
	<p>Diving has two types of Conflict of Interest Forms, one for the employees and one for the Board members. Both forms require that disclosures be made to the Chief Executive Officer (CEO) in writing. However, these forms do not provide space for these disclosures. Also, the USA Diving General Assembly, committees, subcommittees, and other entities within the Corporation do not complete Conflict of Interest forms. There were no other documents submitted to the CEO disclosing any potential or actual conflicts. Further, the form contains a provision that permits Diving’s resources to be used for a private benefit if the CEO provides proper authorization. Lastly, there is no requirement to submit the completed form on an annual basis.</p> <p>Diving’s Conflict of Interest Policies provide that employees and Board members are required to disclose to the CEO, in writing, any actual or potential conflict of interest. Also, Article 4.7 of Diving’s Bylaws provide that “at all meetings of the USA Diving General Assembly, and all other boards, committees, subcommittees, and other entities within the Corporation, it is necessary to avoid not</p>	<p>Diving must revise its conflict of interest disclosure form and process. It is strongly suggested that Diving revise the Conflict of Interest Forms to remove the provisions that allows for the CEO to authorize the utilization of Diving’s resources for a private benefit and provide an area of disclosure for individuals to explain the current potential or actual conflicts. Also, in accordance with recognized best practices, it is recommended that this form is completed on an annual basis and completed by all individuals identified in Diving’s Bylaws.</p>	<p>Diving has revised its conflict of interest policy, using the template and feedback provided by the USOPC. The new template addresses the concerns noted in the previous form and has been approved by the USOPC.</p> <p>Due to other bylaw changes involving voting, Diving no longer conducts a General Assembly.</p> <p>The new COI form will be completed annually by the Board of Directors, staff, committees and subcommittees.</p> <p>Responsible Party: Acting CEO</p> <p>Target Date: COI form update is</p>

	<p>only the existence of impropriety, but the appearance of impropriety," which implies these individuals are required to complete conflict of interest forms and enter a process of formal review. It is a best practice to have the form completed on an annual basis because an individual's interests may vary year to year.</p> <p>Of the nineteen staff and board members that submitted completed conflict of interest forms, sixteen individuals have potential or actual conflicts that were not disclosed. Potential or actual conflicts were identified by a general internet search on the staff and board members. This creates a risk of decisions on behalf of Diving by an individual that could have an interest adverse to the organization or in the benefit of the individual.</p>		<p>complete. It is currently being disseminated to above referenced parties for annual submittal, which will occur in the Fall of 2019.</p>
#2	Adopt a Formal Conflict of Interest Review Process	Recommendation	Management's Action Plan
	<p>Diving does not have a formal conflict of interest review process. Currently, a form is given to the staff member or Board member, signed by the individual, and returned to a staff member. The staff member collects the forms and places them in a file. The forms that are collected by the staff member are not reviewed for disclosures of conflicts on the forms or persons that have not correctly disclosed conflicts on the form; or does not have an attachment that identifies actual or potential conflicts. A sample of twenty-six staff members or board members were selected to verify the conflict of interest process. Of the twenty-six individuals tested, nine did not complete a Conflict of Interest form; sixteen individuals did not disclose an actual or potential conflict of interest; and none of the forms were reviewed for disclosure of an actual or potential conflict. There is currently no process in place to review the CEO's conflicts.</p> <p>The Employee and Board of Director Conflict of Interest Policies at Diving provide that each Diving employee disclose to the CEO, in writing, any actual or potential conflict of interest. There is no process for the CEO to disclose conflicts. It is a best practice that there is a formal review of these disclosures conducted by a staff member, Board member and/or a Committee and determinations to whether the actual or potential conflict</p>	<p>Diving must adopt a formal process of review for the Conflict of Interest Forms, including the CEO conflicts, to prevent conflicted staff and Board members from making decisions on behalf of the organization.</p>	<p>The new COI form will be completed annually by the Board of Directors, staff, committees and subcommittees.</p> <p>Completed COI forms will be sent to the Ethics Committee for review, with the exception of the COI forms complete by the members of the Ethics Committee, which will be reviewed by the Governance and Elections committee.</p> <p>Responsible Party: Acting CEO</p> <p>Target Date: The new COI form is complete and is currently being disseminated to the above referenced parties. Upon completion, they will be immediately sent to the Ethics or G&I committee for review. This will occur whenever we have a new person work for the organization in one of the</p>

	<p>is disabling to the CEO's, staff members', or Board members' ability to make a decision.</p> <p>As a result of the lack of a formal review process, forms were not completed, and potential conflicts were not disclosed. This creates a risk of the CEO, staff, or Board member making decisions on behalf of Diving with the possibility of a personal or business benefit.</p>		capacities noted above, and then annually in the Fall.
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#3	Compliance of Finance and Audit Committee Composition	Recommendation	Management's Action Plan
	<p>Diving's Finance and Audit Committee does not currently consist of a second athlete as required by the bylaw amendment in April 2019. Although the Committee does have twenty percent athlete representation, due to the vacancy, the composition of the Committee does not meet the requirements as outlined in Diving's Bylaws as it does not consist of all required members.</p> <p>Diving's Bylaws require that the Committee consists of "no more than seven members, including the Treasurer (who shall serve as Chair of the Committee), one coach member of the Corporation, two athlete elected representatives, and one member appointed by the Treasurer with the approval of the Chair of the Board members. The Committee also includes the Chair of the Board of Directors and the past Treasurer (for 12 months following the end of their term) as Ex officio members."</p>	Diving must fill the vacant athlete position on the Finance and Audit Committee to comply with Diving's Bylaws.	<p>Diving has added a second athlete to its Finance and Audit Committee.</p> <p>Responsible Party: Acting CEO & Treasurer</p> <p>Target Date: Complete</p>

Audit Area: Financial Capabilities

#4	Improvement of Internal Controls	Recommendation	Management's Action Plan
	<p>The Director of Finance (DOF) has too much control over the cash receipts and disbursements processes. The lack of controls over these processes provides an opportunity for unidentified errors or misappropriation of funds and manipulation of the accounting system to conceal the missing funds.</p> <p>For the cash receipts process, the DOF receives the mail, endorses checks and prepares the deposit slip, enters the funds received into the accounting system and takes the funds to the bank. She also receives the bank statement and prepares the bank reconciliations on a monthly basis.</p>	Diving must follow its financial policies and procedures as it relates to the cash receipts and disbursements processes; including detailed reviews of bank reconciliations and general ledger transactions which contains journal entries.	<p>The previous Director of Finance is no longer employed by Diving. Her duties are now split and/or shared between Diving's CEO, Treasurer and bookkeeper.</p> <p>The cash/check receipt process is being revised to include receipt by an office manager, who will make a list of the checks before passing them off to the bookkeeper for</p>

This process does not currently align with Diving's policy and procedures that requires a different staff member to open the mail, stamp "For Deposit Only" and enter funds received into a check log.

For the cash disbursement process, the DOF prepares the checks, has access and utilizes a check signature stamp of the Acting CEO's signature and is responsible for mailing the checks. There is no dual control in place for checks over a certain threshold requiring a second signature. She has online access to bank account transactions, initiates wire transfers and receives the bank and credit card statements. This process does not comply with Diving's financial policies and procedures as the CEO should be reviewing and signing checks and checks over \$20,000 require a second signature.

There are four general categories of duties or responsibilities which are examined when segregation of duties is discussed: authorization, custody, record keeping, and reconciliation. No one person should have control of more than two of these responsibilities. The more negotiable the asset, the greater the need for proper segregation of duties - especially when dealing with cash, negotiable checks, and inventories. Currently, Diving's DOF has all four of these functions and responsibilities as it relates to cash receipts and disbursements.

In situations where duties cannot be fully segregated, mitigating or compensating controls must be established. Mitigating or compensating controls are additional procedures designed to reduce the risk of errors, fraud or irregularities. Compensating controls can include independent reconciliation of accounts, a signature on checks by someone without access to the accounting system, and reviews of transactions by staff.

Currently, Diving is not performing mitigating controls such as a review of bank reconciliations or journal entries. The purpose of reviewing a bank reconciliation is to detect any discrepancies between the accounting records of the organization and the bank. Without a review process of journal entries, errors could remain undetected for an

deposit. The list of cash and checks received is then send to the CEO for review.

The cash disbursement process has been revised to incorporate multiple checks and balances to ensure no one person has too much control over the disbursement process.

Current payables are reviewed by the CEO, our staff bookkeeper, the Treasurer, and one other board member prior to being approved for payment. Additionally, HP disbursements are reviewed and approved by the High Performance Director.

Upon review and approval, disbursements are typically handled electronically, either through bill pay, EFT or wire transfer. In these cases, Diving's bookkeeper will enter the transaction into the banking website, and the CEO will authorize the transaction. In the rare cases where a wire must be completed via paper request, the bookkeeper will complete the paperwork, the CEO will sign the paperwork, the bookkeeper will send the paperwork to the bank and the bank will contact the CEO via phone to verify the details of the transaction.

On occasion, paper checks are cut and handed out at events. In this

	<p>extended period of time. The external auditors review journal entries on an annual basis which could result in possible misstatements not being detected and corrected in a timely manner. Reviews help strengthen internal controls because there's more than one person involved in the process.</p> <p>Furthermore, Diving's financial policies and procedures require that the CEO review the bank reconciliations and general ledger transaction detail which would include a detailed review of journal entries.</p>		<p>case, the approval process is the same as above, but the bookkeeper will print the checks for the CEO to sign instead of entering online. The CEO then signs the checks before disbursement. Diving no longer uses a signature stamp.</p> <p>Diving is currently in the process of implementing monthly budget to actual reports, to be reviewed by the CEO and Treasurer. Additionally, Diving is currently producing quarterly budget to actual reports, with review by the Finance and Audit committee and the Board of Directors. Diving currently completes mid and end of year grant reports for the funds received by the USOPC. Diving is in the process of completing the same mid-year and end of year reports for funds received from the US Diving Foundation and the Ray Rude Foundation.</p> <p>Furthermore, Diving is currently producing individual reports for each event conducted by the corporation, which are reviewed by the Director of Events, the CEO, the Treasurer and the BoD.</p> <p>The Financial Policies of the Corporation are in the process of being adjusted to include these changes.</p>
#5	Improve Controls over Payroll Process	Recommendation	Management's Action Plan
	Segregation of duties over the payroll process needs to be strengthened. The DOF has too much control over payroll as she has access to make changes in the payroll system	Diving must improve controls over the payroll process by requiring a second person to review payroll prior	The previous Director of Finance is no longer employed by Diving. Her duties are now split and/or shared

	<p>and is the only person reviewing payroll prior to distribution. As noted above, proper segregation of duties requires that no one person has authorization, custody, recordkeeping, and reconciliation responsibilities. Currently, the DOF has all four functions and responsibilities over the payroll process.</p> <p>The lack of an independent review of payroll could allow for errors that are not caught in a timely manner. Restricting payroll responsibilities to one individual creates an opportunity to misappropriate funds through payroll by changing salary information or adding unauthorized individuals and manipulating the accounting system. Requiring a second person to review payroll would improve the controls over payroll and possibly protect Diving from potential compliance violations.</p>	<p>to distribution. Diving should then update its financial policies and procedures in order to reflect the new practice.</p>	<p>between Diving’s CEO, Treasurer and bookkeeper.</p> <p>Payroll is handled by a third party payroll service. Only the CEO has the authority to modify the payroll disbursed by this service. Diving’s bookkeeper has been authorized by the CEO to process recurring disbursements, like payroll, on a pre-set timeline (every other Friday in the case of payroll). However, he is not authorized to adjust the amount of the payroll.</p> <p>Review of payroll takes place in the quarterly budget to actual review mentioned above. Moving forward, Diving will be completing monthly budget to actuals, which will allow for even more timely review of expenses, including payroll.</p> <p>Responsible Party: Acting CEO</p> <p>Target Date: Complete, Monthly budget to actuals expected Fall of 2019</p>
#6	Follow Financial Policies and Procedures for Approval of Purchases	Recommendation	Management’s Action Plan
	<p>Diving is not following its financial policies and procedures regarding approval of purchases, including expense requests, travel reimbursements, and corporate credit card transactions. The financial policies and procedures outline that staff shall sign the invoice/check request and communicate via email to approve payment. Therefore, invoices and check requests without appropriate approval should not be paid. Travel expenses should be documented</p>	<p>Diving must follow its policies and procedures for approvals of expenditures, including expense requests, travel reimbursements and corporate credit card transactions.</p>	<p>Diving is in the process of updating its Financial Policies and researching online expense processing systems.</p> <p>No expense reports are paid without proper support.</p>

	<p>on a staff travel expense form, including original receipts for all expenses except meal per diems, and approved by supervisors. In respect to corporate credit cards, the policy outlines that staff shall submit receipts with detailed descriptions of the charge as well as what account to charge on a monthly basis with the credit card statement. However, out of 41 expenses sampled during testing, 39 were missing documented approvals. By not following the financial policies and procedures surrounding the expense approval process, there is no supporting documentation verifying that expenses are reviewed or approved, and errors and inappropriate expenditures could go unnoticed.</p>		<p>Responsible Party: Acting CEO, Treasurer</p> <p>Target Date: Fall 2019</p>
#7	Repayment of Improper Grant Year Expenses	Recommendation	Management's Action Plan
	<p>In accordance with the USOPC's Performance Partnership Agreement (PPA), funds awarded are to be spent during the PPA term. Funds spent outside of the PPA term should not be included in the corresponding final grant report. During testing of the 2018 PPA, Audit identified four out of the forty expenses tested that were recorded in the improper grant year. Three out of four of the expenses related to the Junior Elite Mentoring Initiative and the remaining expense related to the Australian Grand Prix approved project. Although the Junior Elite Mentoring Initiative project was expected to be completed in 2018, the majority of the work was performed in 2019. The Australian Grand Prix project included a request for travel reimbursement that was made in 2018, however the service was provided in 2017. In accordance with generally accepted accounting principles, expenses should be recognized when incurred and there should be procedures in place to ensure expenses are recorded in the proper period. The Junior Elite Mentoring Initiative expenses should be recorded in 2019, as the majority of the work was performed in 2019. The Australian Grand Prix expense should have been recorded in 2017, as the flight was purchased and occurred in 2017. As such, these expenses, in the amount of \$15,234, were disallowed from the 2018 final grant report.</p>	<p>Diving must work with USOPC's Sport Performance Department to determine the course of action for the disallowed funds of \$15,000.</p>	<p>Diving will work with USOPC's Sport Performance Department to determine the course of action for the disallowed funds of \$15,000.</p> <p>Responsible Party: Acting CEO and High Performance Director</p> <p>Target Date: Fall 2019</p>

Audit Area: Due Process

#8	Provide Fair Notice to Respondents	Recommendation	Management's Action Plan
	<p>At the time of audit, Diving was not following its Bylaws as it relates to fair notice. The Auditor tested nine complaints filed with Diving. Of the nine tested complaints, one respondent was not provided with notice of the charges and the remedy requested within the required 5 days, but instead two and a half months later; and two respondents were not provided notice until the attorneys for the respondents formally requested an amended complaint from Diving. Diving amended the complaints to contain the required notice of the charges and the remedy requested. It is important to note, that these individuals were suspended from membership which impacts their ability to participate.</p> <p>Diving's Bylaws provide that the complaint shall clearly set forth the alleged violation, the remedy requested, and will be delivered to the Respondent within 5 days of receipt. Also, the Sports Act requires that Diving provide fair notice before declaring a member ineligible to participate.</p> <p>Diving's application of the complaint proceedings is inadequate and results in individuals not receiving proper due process rights as provided by Diving's Bylaws, and the Sports Act.</p>	<p>Diving must ensure fair notice is provided. It is recommended that Diving consult with outside counsel to review the procedures in its Bylaws and the requirements outlined in the Sports Act to ensure that fair notice is provided.</p>	<p>Starting in 2019, Diving is following its Bylaws and provides fair notice of charges within five days.</p> <p>Complaints clearly set forth the alleged violation, the remedy requested, and are delivered to the Respondent within 5 days of receipt. Also, in accordance with the Sports Act, Diving provide fair notice before declaring a member ineligible to participate.</p> <p>Responsible Party: Director of Athlete Safety</p> <p>Target Date: Complete</p>
#9	Provide an Opportunity for a Hearing	Recommendation	Management's Action Plan
	<p>Diving does not provide an opportunity for a hearing such that the respondent will be heard at a meaningful time and a meaningful manner after a complaint and response is filed but before a decision is rendered. Of the nine complaints tested, one respondent was not provided with the facts and charges presented to the decision maker during a hearing; and three respondents were not provided an opportunity for an in-person or telephonic hearing where all parties to the complaint proceeding were present prior to a decision rendered by the Board of Review. Also, Diving suspended three individuals on a provisional and/or permanent basis prior to providing the</p>	<p>Diving must provide an opportunity for a hearing prior to declaring an individual ineligible to participate as required by the Sports Act. It is highly recommended that Diving consult with outside counsel to review the procedures in Diving's Bylaws and the requirements outlined in the Sports Act to ensure that the application of the opportunity for a hearing process is adequately followed.</p>	<p>Diving provides an opportunity for a hearing prior to declaring an individual ineligible to participate as required by the Sports Act.</p> <p>Diving will be using interim measures unless a suspension is called for. In the case of suspensions, individuals will be given the opportunity for a hearing as required by the Sports Act. This hearing may not be evidentiary,</p>

	<p>opportunity for a hearing.</p> <p>Diving's Bylaws provide that the facts and charges presented to the decision maker should be taken in the presence of the Hearing Panel Chair and all the parties. Also, all parties shall be given a reasonable opportunity to present and examine evidence, cross-examine witnesses, and to present argument at a hearing conducted by teleconference or in person. Lastly, the Sports Act provides that members receive an opportunity for a hearing before declaring an individual ineligible to participate.</p> <p>Diving's application of the opportunity for a hearing process is inadequate and results in a risk of individuals not receiving proper due process rights as provided by Diving's Bylaws and the Sports Act.</p>		<p>but rather to resolve whether steps are required to potentially protect the safety of the members of the organization.</p> <p>Responsible Party: Director of Athlete Safety</p> <p>Target Date: Complete</p>
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Risk Level: Medium

Audit Area: Governance/Managerial

#10	Review Finance and Audit Committee Responsibilities per Diving's Bylaws	Recommendation	Management's Action Plan
	<p>Diving's Finance and Audit Committee met a total of four times during 2018. During these meetings, the Committee did not meet the expectations outlined in Diving's Bylaws as the Committee did not review Diving's financial capability or financial reports, review and approve external auditors, or review and approve the audited financial statements. Rather, the Committee discussed matters outside of the scope of the Committee's responsibilities as outlined in Diving's Bylaws, such as compensation decisions and marketing campaigns.</p> <p>Diving's Bylaws outline that the Finance and Audit Committee is expected to hold meetings to discuss the financial capability of Diving, recommend any changes in accounting policies per review of Diving's financial reports, and review and approve the external auditors and the audited financials. By not meeting the expectations as outlined by Diving's Bylaws, the Committee is not able to make the necessary financial decisions to strengthen the financial capability of Diving.</p>	<p>The Finance and Audit Committee should review all financial aspects of Diving's financial capability by adhering to the responsibilities as set out by Diving's Bylaws. Additionally, although it is not outlined in Diving's Bylaws, due to the historical and present financial instability of Diving as referenced below, it is recommended that the Finance and Audit Committee meet on a more frequent basis to make the necessary financial decisions to strengthen the financial capability of Diving.</p>	<p>In 2019, so far, the F&A Committee has met three times to review financial aspects of the Corporation, including the 2019 budget.</p> <p>Moving forward, the F&A Committee will meet at least quarterly and will review quarterly budget to actual reports, annual budgets, review and approve external auditors, and review audited financial statements.</p> <p>Responsible Party: CEO, Treasurer and F&A Committee</p> <p>Target Date: Complete</p>

Audit Area: Financial Capabilities

#11	Improve Financial Capabilities	Recommendation	Management's Action Plan
	<p>Diving's financial condition is declining. Analysis of the audited financial statements shows that over the past five years, Diving's change in net assets has been negatively trending with net operating losses for three of the past five years.</p> <p>Additionally, program service expenses are approximately up by an average of 5% from 2013 while administrative expenses are approximately up by an average of 8% from 2013. The increase in expenses, with revenue remaining relatively the same, has led to a low to negative operating margin. This means that Diving is spending too much on expenses relative to the revenue volume it is generating.</p> <p>Furthermore, Diving has seen a significant decrease in its cash balance and unrestricted net assets over the past five years. The balance of cash on hand and unrestricted net assets are both down by an average of approximately 9.5% from 2013. This means that Diving has been depleting its cash reserves to cover its expenses and liabilities.</p> <p>More importantly, Diving spent more on expenses year over year. Normally, this would be acceptable if revenue increased. It is expected that costs will rise over time as Diving continues to grow its mission; this is certainly the case when revenue increased. However, since revenues declined from 2016 and the operating margin is low, Diving should be careful about increasing expenses. In short, it is critical for Diving to manage expenses if revenues continue to decline (or even stay at this level) in the future.</p> <p>The Sports Act requires that an NGB have the managerial and financial capability to plan and execute its obligations. Continuous operating losses and depletion of cash reserves calls into question the financial capability of Diving.</p>	<p>Diving should increase its financial capabilities, manage its cash flow, and reduce debt to be sustainable and continue operating as an NGB.</p>	<p>The Board of Directors and the Acting CEO of USA Diving take this matter very seriously. Significant steps have been made to reduce overhead in 2019 and additional steps are in process to further reduce overhead in 2020.</p> <p>From a budget management process, Diving has moved from an annual budgeting process to a monthly budgeting process, with the goal of producing monthly budget to actual reports moving forward. Quarterly budget to actuals are presently being produced and will be disseminated to the F&A Committee and the BoD.</p> <p>Diving is also working to increase revenue by providing more membership services, especially through education offerings, and by cultivating relationships with our Alumni and Masters in anticipation of expanding our fundraising efforts to include an annual campaign. Diving is also pursuing additional sponsorship opportunities at the local level, specific to high profile events, as we have seen more success with this than national level sponsorships since the Nassar tragedy. Diving does, however, believe that national level sponsorships will eventually return</p>

			<p>and it intends to continue cultivating relationships in these areas as well.</p> <p>Responsible Party: Board of Directors, Acting CEO</p> <p>Target Date: In Process, expected completion Fall 2019</p>
#12	Review and Approval of Budgets	Recommendation	Management's Action Plan
	<p>Although Diving has an annual Board-approved budget, the budget-to-actual or any other financial reports are not being reviewed throughout the year by the department heads and the CEO. Additionally, there is currently no process in place to approve deviations from the budget. In accordance with Diving's financial policies and procedures, department liaisons should be performing a detailed transaction review, including budget to actual, on a monthly or at least quarterly basis. Without timely review of financial reports, including the budget-to-actuals and approval of budget deviations, Diving cannot adequately manage finances or sufficiently review financial activities within the operating budget.</p>	<p>Diving should ensure that there is an approval process in place going forward to appropriately account for any deviations from the annual approved budget for all expected expense categories.</p>	<p>Diving has moved from an annual budgeting process to a monthly budgeting process, with the goal of producing monthly budget to actual reports moving forward. Quarterly budget to actuals are presently being produced and will be disseminated to the F&A Committee and the BoD.</p> <p>Monthly budgets will be reviewed by the CEO and CFO, and respective department heads. Variances from monthly budgets will be addressed by the CEO and CFO on a monthly basis. Quarterly variances will be reported to the F&A Committee and the BoD by the Treasurer.</p> <p>Responsible Party: Acting CEO, CFO/Treasurer</p> <p>Target Date: In process, expected completion Fall 2019</p>

#13	Review and Approval of CEO and Board Expenses	Recommendation	Management's Action Plan
	<p>During the course of the audit, it was unclear as to whether the Acting CEO's expenses were being reviewed or approved. The Board Chair's expenses were reviewed and approved by the Acting CEO, who was a previous Board Member. The Acting CEO currently reports to the Board. It may be difficult for someone to question expenses or request additional documentation of their direct report.</p> <p>The organization could be reimbursing for expenses that are not appropriate. Having a Board member review each other's and the CEO's expenses keeps spending transparent. The review could be done on a monthly or quarterly basis as a back-up procedure after the Board member or CEO has already been reimbursed. This way, payments are not delayed, but an appropriate review procedure is in place.</p>	Diving should designate a Board member to review the CEO's and other Board members' expenses on a regular basis and document when the process was done.	<p>The Treasurer reviews and approves all Board expenses. The Treasurer and VP, Admin reviews all CEO expenses. The Chair reviews and approves all Treasurer expenses.</p> <p>This process is now documented through e-mail.</p> <p>Responsible Party: Acting CEO and Board of Directors</p> <p>Target Date: Complete</p>

Audit Area: Due Process

#14	Improvements to the Grievance Document Collection, Retention and Written Decision Process	Recommendation	Management's Action Plan
	<p>Diving provided various documents for review during the audit process. Of the documents provided, one final resolution could not be provided to the auditor. The process for document collection and review of the complaint proceedings begins with the National Board of Review. The National Board of Review collects documents from the parties. After the decision is rendered an order is sometimes formally written. Other times it is provided in a brief email. The decisions and miscellaneous documents are sometimes kept on file by a staff member. At the time of request of these items, the staff member was charged with piecing the information together. Diving's Bylaws provide that the hearing panel's decision shall be in writing and shall be distributed to all parties. This distribution may be by email with a receipt confirmed.</p> <p>The process for document collection is inadequate because there is not a procedure in place to ensure that all documents are received, tracked, and distributed to all</p>	It is recommended that Diving adopt a formal process to manage complaint proceedings that include document retention by Diving.	<p>Diving is adopting a formal process to manage complaint proceedings. This process will include document retention by Diving.</p> <p>Responsible Party: Director of Athlete Safety</p> <p>Target Date: Fall 2019</p>

parties. Also, there is a lack of oversight by Diving to the National Board of Review with regards to document collection and distribution of decisions rendered by the committee which causes the inability to produce documents when requested. The inadequate process results in Diving not following its Bylaws. There is not a process for Diving to follow where documents can be easily located and retrieved as needed.

Audit Area: Athlete Safety

#15	Review Background Check Expiration Dates	Recommendation	Management's Action Plan
	<p>Diving tracks background checks using its membership system. The membership system automatically pulls the date of a completed background check. Previously, background check expirations corresponded to Diving's membership cycle. However, in 2018 the Board of Directors voted on an immediate change to the membership cycles which extended all membership expirations from August 31 to December 31, 2018. Upon review, Audit identified that background checks were extended beyond the permissible time frame to correspond with the changed membership cycle.</p> <p>The NGB Athlete Safety Policy required by the USOPC provides that an NGB's policy must require "criminal background checks, at least every two years, for those individuals the NGB formally authorizes, approves or appoints (a) to a position of authority over, or (b) to have frequent contact with athletes."</p> <p>After the Board of Directors voted to change the membership cycles, the background checks resulted in a one to four-month lapse. As a result, covered individuals without current background checks were formally authorized, approved, or appointed to a position of authority over athletes, and to have frequent contact with athletes.</p>	<p>It is suggested that Diving conduct a review of the membership system and ensure that background check expiration dates correspond to the date of clearance through the background check process and expire at two-years. Additionally, Diving must immediately restrict responsibilities when an individual is not in compliance and ensure Diving does not authorize, approve, or appoint these individuals to positions of authority or to have frequent contact with athletes. Responsibilities can resume when they have successfully completed the required background check and Education & Training.</p> <p>Diving will be subject to verification within 90 days to ensure these recommendations have been implemented.</p>	<p>Unfortunately, the change in the membership year extended background checks for up to five months. USA Diving will be running a report to determine which members were impacted. Those members will receive information instructing them to log in to their membership account and go through the background check process.</p> <p>Responsible Party: Director of Athlete Safety</p> <p>Target Date: Fall 2019</p>

Risk Level: Low

Audit Area: Governance/Managerial

#16	Improve Finance and Audit Committee Quality of Minutes	Recommendation	Management's Action Plan
	<p>Diving's Finance and Audit Committee met a total of four times during 2018. Only three of these meetings documented and retained minutes. Of the meeting minutes that were retained, the minutes do not give sufficient detail of the matters discussed during the Committee meetings. The meeting minutes that were retained resembled outlined agendas.</p> <p>Diving is incorporated in the State of Ohio with its principal place of business in Indianapolis, Indiana. As such, Diving is responsible for following the Nonprofit Corporation Laws in the State of Ohio. The State of Ohio's Nonprofit Corporation Law requires Diving to keep accurate and complete records of accounts, "together with minutes of the proceedings of its incorporators, members, directors, and committees of the directors or members." By not keeping detailed minutes of Committee proceedings, the Finance and Audit Committee is in violation of Ohio's Nonprofit Corporation Laws.</p> <p>This is a repeat recommendation from the prior USOPC audit in 2014.</p>	<p>The Finance and Audit Committee should appoint a member or request a staff liaison to document and maintain formal minutes of all its meetings. Additionally, it is a best practice that the minutes should be reviewed and approved by the Committee members at the subsequent Finance and Audit Committee meeting and documented as such in the meeting minutes.</p>	<p>The F&A Committee has appointed a member to document formal minutes from its meetings. The F&A Committee will review and approve these minutes in subsequent meetings and the Treasurer will keep a record of the minutes for future reference.</p> <p>Responsible Party: Treasurer</p> <p>Target Date: Complete</p>

Audit Area: Financial Capabilities

#17	Improve Controls over Petty Cash	Recommendation	Management's Action Plan
	<p>The DOF has too much control over petty cash as she is the only person with custody of the petty cash and reviews petty cash transactions. This is the current process that is outlined in Diving's financial policies and procedures. This creates an opportunity to misappropriate the petty cash funds and manipulate the accounting system to conceal the missing funds. There could also be errors that are not caught in a timely manner without an independent review of the petty cash transactions.</p> <p>As noted above, proper segregation of duties requires that</p>	<p>Diving should consider implementing a review process or eliminate petty cash. Diving should then update its financial policies and procedures in order to reflect the new practice.</p>	<p>The former Director of Finance is no longer with Diving. Diving is eliminating petty cash and is in the process of updating its financial policies and procedures to reflect the new practice.</p> <p>Responsible Party: Acting CEO</p>

	<p>no one person has authorization, custody, recordkeeping, and reconciliation responsibilities. Currently, the DOF has all four functions and responsibilities over petty cash.</p> <p>In situations where duties cannot be fully segregated, mitigating or compensating controls must be established. Mitigating or compensating controls are additional procedures designed to reduce the risk of errors, fraud or irregularities. Compensating controls can include independent review of transactions. Currently, there are no compensating controls in place for petty cash.</p>		<p>Target Date: Fall 2019</p>
#18	Update Financial Policies and Procedures	Recommendation	Management's Action Plan
	<p>Diving's financial policies and procedures contains a matrix that is outdated. Additionally, the financial policies and procedures do not reflect the current staff titles at Diving. Without a complete and current Financial Policies and Procedures manual, policies may not be adequately communicated, and procedures might not be completed, resulting in difficulty in achieving goals and objectives. This is especially important when an organization is experiencing turnover in key financial positions, as Diving has.</p>	<p>Diving should update its Financial Policies and Procedures to reflect the current staff titles at Diving.</p>	<p>Diving is in the process of updating its Financial Policies and Procedures to reflect the changes in this report, current staff titles, and other policies to increase transparency and financial controls over the organization.</p> <p>Responsible Party: Acting CEO</p> <p>Target Date: Fall 2019</p>

CONCLUSION

Diving was determined to be satisfactory in athlete representation as there were no recommendations in this area; marginal in athlete safety with one medium risk finding; and unsatisfactory in governance/managerial, financial capabilities, due process. The governance/managerial area resulted in three high, one medium, and one low-risk recommendations. The financial capabilities area resulted in four high, three medium, and two low-risk recommendations. The due process area resulted in two high and one medium-risk recommendations. Overall, the audit resulted in eighteen recommendations and an overall audit rating of sixty-six.

We wish to thank Diving's staff for being cooperative during the audit.

APPENDIX A — AUDIT RATINGS

Audit ratings are determined by the number of audit recommendations multiplied by the risk level. The higher the number of recommendations and the higher the risk level of each recommendation, the higher the audit rating. See Appendix D for guiding principles of risk levels. For comparability purposes, audit work performed may vary annually.

APPENDIX B — AUDIT SUMMARY SCALE

Audit Area Conclusions	
Conclusion	Explanation
Satisfactory	Recommendations in each audit area are limited to only low-risk recommendations identified or medium-risk recommendations that are not systemic in nature.
Marginal	Recommendations in each audit area include medium-risk recommendations or a combination of high-risk and medium-risk recommendations, which collectively may be systemic.
Unsatisfactory	Recommendations in each audit area include medium-risk recommendations or a combination of high-risk and medium-risk recommendations, which are collectively systemic, significant, and may impact NGB status.

APPENDIX C — DETAILED AUDIT PROCEDURES

During the course of the audit, we performed the procedures described below to complete the objectives and scope of the engagement:

- Review of prior USOPC Audit recommendations to determine full implementation of processes and/or procedures which are still applicable to the NGB.
- Detailed review of a sample of up to 40 expenses charged to USOPC funded projects during the audit period, for compliance with the NGB's financial policies and USOPC's sport performance final funding reports.
- Ensured compliance with NGB Performance Partnership Agreements, USOPC Bylaws, and the Ted Stevens Olympic and Amateur Sports Act.
- Examination of internal control environment utilizing walk-throughs, examination of policies and questionnaires.
- Detailed review of grievances and reports of misconduct submitted to the NGB by members or covered individuals, and the organization's ability to follow the stated grievance processes outlined in its Bylaws or procedural documents.
- Review of the NGB's Athlete Safety Program utilizing walk-throughs, examination of policies and questionnaires.
- Detailed review of a sample of up to 100 individuals required to complete background checks and Athlete Safety Education & Training to determine if the individuals have a current background check and current Athlete Safety Education & Training. Appendix E details the Athlete Safety requirements.

APPENDIX D — RISK LEVEL DEFINITIONS

Risk Level Definitions	
Rating	Definition
Low	<p>Minor infractions include but are not limited to:</p> <ul style="list-style-type: none"> • Minor future impact to the athletes, NGB or USOPC • Documentation clean-up • NGB’s Athlete Safety Policy and/or procedures have minor improvements needed • NGB’s Athlete Safety Policy is followed appropriately but does not have a process owner • Grievance policy and procedures have minor improvements
Medium	<p>Ted Stevens Olympic and Amateur Sports Act, or USOPC Bylaws infractions which are more than minimal and less than significant and may impact 501(c)3 or NGB status. These infractions include but are not limited to:</p> <ul style="list-style-type: none"> • Funding owed back to the USOPC or reallocated to a different project is less than 5% or \$50,000 of each year's total funding • General internal control breakdowns • NGB’s Athlete Safety Policy and/or procedures are partially out of compliance with USOPC NGB Athlete Safety Policy requirement • Execution of the NGB’s Athlete Safety Policy is partially out of compliance • NGB does not consistently provide for prompt and equitable resolution of grievances • NGB does not consistently provide fair notice and opportunity for a hearing
High	<p>Ted Stevens Olympic and Amateur Sports Act, USOPC Bylaws, legal violations, or a combination thereof significant enough to impact 501(c)3 or NGB status. Violations that may constitute as significant include but are not limited to:</p> <ul style="list-style-type: none"> • Funding owed back to the USOPC or reallocated to a different project is greater than or equal to 5% or \$50,000 of each year's total funding • Significant internal control breakdowns or multiple related control breakdowns • NGB’s Athlete Safety Policy and/or procedures are substantially out of compliance with the USOPC NGB Athlete Safety Policy requirements • Execution of the NGB’s Athlete Safety Policy is substantially out of compliance, such as non-current background checks or non-current Athlete Safety Education & Training for required individuals • NGB does not provide for prompt and equitable resolution of grievances • NGB does not provide fair notice and opportunity for a hearing • Less than 20% athlete representation where required

APPENDIX E — ATHLETE SAFETY PROGRAM

The USOPC recognizes that each NGB is different and has not mandated specific language or total uniformity in policies or practices. Instead, USOPC has provided the USOPC's Athlete Safety Policy (ASP). All NGBs must implement and maintain compliance, including at least the following components: define prohibited conduct, conduct criminal background checks, require Athlete Safety Education & Training, reporting processes and procedures, and enforcement. Compliance with the USOPC's ASP does not ensure an NGB's program is effective. Nothing in the USOPC's ASP limits or replaces an NGB's responsibilities under applicable laws and regulations. All NGBs should consult with legal counsel, not only to ensure compliance with the NGB ASP, but also to create a compliance strategy that best meets the organization's needs and is reasonable in terms of its size, structure, resources and athlete population.