

Suggested Audit Guidelines

Auditing involves following financial transactions through records to be sure that receipts have been properly accounted for and expenditures made as authorized in the minutes and in conformity with bylaws, standing rules, and budget limitations.

Bylaws indicate when an audit is to be made, its procedure, and when it should be reported to the membership. Record-keeping books should be audited at least once a year. Books should also be audited if a financial officer resigns, before the new officer assumes his or her duties, and at any other time deemed necessary.

The process for selection/election of individuals to serve on the internal audit committee or for retaining a professional firm (with nonprofit accounting experience) will also be found in the bylaws.

Laws in several states require 501(c) (3) organizations to hire a professional firm to complete the audit when the gross income exceeds a certain amount. Be sure to check the laws in your state.

The Purpose of an Audit

The purpose of an audit is:

- To certify the accuracy of the books and records of the financial officer, and
- To assure the membership that the organization's resources/funds are being managed in a businesslike manner within the regulations established for their use.

Preparation for an Audit

Financial records should be put in order for the auditing process shortly before the end of the term of office or the end of the fiscal year. The **outgoing** treasurer cannot pay bills after the books are closed for audit. Upon assuming office, the **incoming** treasurer may deposit funds in the PARENT GROUP bank account. During the audit process it is recommended that expenditures within an adopted budget be limited to those of an emergency nature. The audit should be completed as quickly as possible.

The treasurer shall deliver the following to the auditors:

- A copy of the last audit report
- Checkbook and cancelled checks
- Bank statements and deposit receipts
- Treasurer's book or ledger
- The annual financial report
- Itemized statements and receipts of bill paid

- Check requests
- Copies of board, executive committee, and organization minutes that would include an adopted budget, as well as any amendments that were approved during the year
- Current bylaws and standing rules
- Any other information requested by the auditor/audit committee

Audit Procedure

1. Start the audit with the records posted after the last audit. Check to see if the amount shown on the bank statement corresponds to the starting balance recorded in the checkbook and ledger.
2. Do a sample test of transactions. The size of this sample should be based on the size of the organization. For example, verify all transactions over \$50 or \$100 or \$500 depending on the number of samples the criteria would give you. If mistakes are found, the sample should be broadened to take in more transactions. At some point it may be deemed necessary to audit all transactions of the organization.

Some items to look for:

- Monthly bank reconciliation
 - Unexplained reconciling items
 - Unusual endorsements on checks
 - A match of check endorsement to payees
 - Disbursements not supported by invoices or other documentation
 - Blank checks secured in a safe place
 - Deposit ticket dates timely with dates received by bank
 - Timeliness of deposits based on known dates of events
 - All invoices paid by check and not cash
3. Make certain that money collected for a specific purpose (special projects, scholarship funds, dues, etc) has been so disbursed.
 4. Check treasurer's reports and annual report for accuracy.
 5. After any errors have been corrected by the treasurer and the president is satisfied that the financial accounts are correct, draw a line across the ledger where the audit concludes, and sign and date the ledger using a different color ink: "Examined and found correct. (name). (date)."
 6. If all is in order, the auditor or audit committee should prepare a statement, and each member of the committee or auditor should sign it.

A sample statement might read, "The auditing committee has examined the records of the treasurer of _____ (organization name) for a period of (time covered) and found them to be correct. Balance on hand \$ _____ (signatures of committee)."

7. A report must be submitted by the audit committee in the event that there are not adequate records available to conduct a proper accounting of the organization's funds.

A sample statement might read, "The auditing committee has examined the records of the treasurer of _____ (organization name) and finds that more adequate accounting procedures need to be followed so a more thorough audit report can be given." The auditing committee should indicate the information that is needed.

8. The audit report must be officially adopted by the organization and must be included in a completed annual report covering the organization's entire fiscal year. If the report reflects that additional information and verification is needed, it should be provided by the treasurer.
9. If the validity of the audit report is questioned, an independent certified public accountant should be engaged. At any time during the process, the PARENT GROUP may be contacted for information or assistance.