

AMERICAN LEGION AUXILIARY
DEPARTMENT OF COLORADO



Audit Committee

Training Workbook

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Introduction

The intent of these materials and the corresponding training is to help develop a basic skill set for anyone who is interested in serving on the Audit Committee. To serve on the committee, one must be a member in good standing, may not be the current Secretary-Treasurer, may not be a current member of the Finance Committee or have signature authority for Department financial transactions, and must complete this training. To serve as Chairman, the training and the assessment test must be completed with a final score of 90%.

An audit report is an appraisal of an organization's complete financial status. Completed by an independent audit professional, or in our case, a committee, this document covers an organization's assets and liabilities, and presents the auditor/committee's educated assessment of the Department's financial position and future. While conducting an Audit, awareness of security and financial safeguards in place should be observed and tested, as well as mere accuracy of record keeping.

Audit reports are required by law if a company is publicly traded or in an industry regulated by the Securities and Exchange Commission (SEC). They are recommended for organizations seeking funding, as well as those looking to improve internal controls. Our National and Department Bylaws require regular audits and most units' bylaws require the same. A copy of Department Constitution and Bylaws should be reviewed for sections related to financial practices and guidelines.

Components of an ALA Audit

The Audit Committee should review a set of financials for a specific period, such as quarter to date or year to date. A set of financials generally refers to the Balance Sheet and the Profit and Loss (P&L) Statement (also known as the Income Statement). These reports are a summary of financial activities for the period being reviewed. A Chart of Accounts should be used to identify codes and categories of income and expenses used within the ALA organization for classifying financial records.

Profit and Loss

This represents transactions that have occurred during a specific period of time, both deposits (revenue) and payments (expenses). If deposits equal more than payments, then a profit is reflected; if payments equal more than deposits, then a loss is reflected. This report can be used as a tool to identify transactions that should be reviewed or "tested" as part of the audit.

Balance Sheet

The balance sheet represents the assets and liabilities of the Department. Essentially, what the Department has on deposit (assets) and what is owed (liabilities). This report can be used as a tool to identify what should be on deposit in each bank account.

Budget

The Budget reflects what income was expected as well as what expenditures and purchases were approved by the Department Executive Committee (DEC). Generally, financials contain a comparison of actual revenues/expenses as they relate to the budget. The budget can be used as a tool to confirm that expenses reflect what was approved by the DEC. It is important to identify if the DEC intended the budget to be a line item budget (one can only spend up to what is in the line item) or if it is a bottom line budget (one can spend up to the total amount approved with all line items combined).

Meeting Minutes

The minutes from DEC meetings identify what has been approved for expenditure. Generally, the ALA operates utilizing the budget approved by the DEC, but periodically the DEC may have approved extraordinary expenses. During the audit, it should be confirmed that extraordinary expenses were properly approved and that can only be done by including the minutes as part of the audit.

Source Documents - Definition

These are all the documents that support a transaction. Examples:

- Copy of deposited check
- Bank Deposit Slip – Department copy
- Bank Deposit Slip – bank copy
- Bank Statement
- Copy of check used to make payment
- Invoice
- Reimbursement request
- Membership transmittals
- Ledgers/Registers – Department record of checks, deposits, and transactions
- Tax Filings – 501(c)3 submittals
- Credit Card Statements

Source Documents - Tests

A key element of the audit is tracking source documents from initiation of a transaction through to the bank statement, or “testing” the transaction. Generally, a random number of transactions are selected from the period being audited; the number selected needs to be large enough to reflect properly the financial health of the organization. At least 20% of transactions would be a recommended number to select, spread between line items in the Budget, and representing some revenue and some expense items.

Audit Review

Bank Statements

All bank statements need to be reconciled to the appropriate ledger and/or the balance sheet. The following are the steps to do this for each bank account/CD.

- Define the period to be audited.
- Gather your materials
- Reconcile bank statement to corresponding ledger/register and document

Define Period to be audited

Determine the period to be audited. It is key that the starting date starts one day after the ending date of the last audit. For example, if the last period ended June 30, 2013, the next audit period must begin July 1, 2013. The end of the audit period should correspond with the end of an ALA Fiscal Year.

Gather Materials

To complete the bank review portion of the audit you will need:

- Bank statements for the audit period
- Corresponding ledger or bank register from QuickBooks. One method is to print a report with all receipts and print a report with all disbursements from the specific bank account
- Balance sheet for the period being audited
- Paper to prepare worksheets for reconciliation OR an Excel worksheet

Reconcile Bank Statements and Document

The bank accounts need to be reconciled to the corresponding registers in QuickBooks. This is done just as a monthly reconciliation would be done, but it is done for the entire year. This is done to confirm that all transactions were properly posted to QuickBooks and match what is reflected on the bank statements. Just as with a monthly reconciliation, there may be outstanding checks and/or deposits. These need to be accounted for just as they would be when a monthly reconciliation is done.

A sample of a blank worksheet and a completed reconciliation report are included for reference.

Submit anything found during the reconciliation to the Secretary Treasurer for review, explanation and/or correction and maintain a record of these requests to be included in the final Audit Report documenting activities of the Audit.

The actual reconciliation should be included as part of the final report to the DEC. Any response to items given to the Secretary Treasurer for correction should be included in the final audit report. If the committee has any recommendations based on the review, those should be included in the final report as well.

Expenses

It is unrealistic to expect an auditor to review every expense of an organization, so a sampling of transactions is selected and reviewed to get a snapshot of how expenses are handled.

Define Period to be audited

As noted in the Bank Statement section, you must first define the period to be audited. The period defined should be the same for all elements of the audit review.

Gather Materials

To complete the expense review portion of the audit you will need:

- List of expense transactions that includes:
 - Transaction type (e.g. travel, office, personnel, etc.)
 - Transaction amount
 - Transaction Date
- Expense Source Documents (time sheets, travel reimbursement, invoices, credit card statements, etc.)
- Bank Register for the audit period
- Bank Statements for the audit period including cleared checks (copies of cleared checks OK)

Review the list of expenses and select items to review. The selected items represent the sample for testing. Be sure that the sample has at least one transaction from each type of expense represented on the list. Once the sample has been selected, locate all the documents related to each transaction.

Test Expenses and Document

The test of an expense is the review of every element of the transaction from the initiating source document through to the expense appearing on the bank statement. The test should answer the following questions:

- Is there a source document? (an invoice, a request for reimbursement, etc.)
- If the source document is a travel reimbursement, was it properly completed?
- Is the source document properly approved, dated and coded by the Finance chair or her delegate? Use the Chart of Accounts to test coding into appropriate categories of expenditures.
- Does the expense fall in line with the approved budget?
- Was the expense posted to QuickBooks using the code approved by the Finance chair or her delegate?
- Was the expense posted to QuickBooks for the amount approved on the source document?
- Was the expense paid within established guidelines/timelines?
- Did the expense clear the bank for the amount posted to QuickBooks?
- If the source document was a check, did it have 2 signatures and was it properly endorsed?

A sample worksheet for reviewing each transaction is included in the appendix.

If the answer to any of these questions is anything other than yes, then the Audit Committee should try to determine why. It should also be included in the final audit report to the DEC.

Revenues

It is unrealistic to expect an auditor to review every deposit of an organization, so a sampling of transactions is selected and reviewed to get a snapshot of how revenues are handled.

Define Period to be audited

As noted in previous sections, you must first define the period to be audited. The period defined should be the same for all elements of the audit review.

Gather Materials

To complete the revenue review portion of the audit you will need:

- List of revenue transactions that includes:
 - Transaction type (e.g. membership, donation, etc.)
 - Transaction amount
 - Transaction Date
- Revenue Source Documents (checks, receipt (cash), etc.)
- Bank Register for the audit period
- Bank Statements for the audit period

Review the list of deposits (revenues) and select items to review. The selected items represent the sample for testing. Be sure that the sample has at least one transaction from each type of revenue represented on the list and represents both check and cash deposits. Once the sample has been selected, locate all the documents related to each transaction.

Test Revenues and Document

The test of a revenue is the review of every element of the transaction from the initiating source document through to the deposit appearing on the bank statement. The test should answer the following questions:

- Is there a source document? (a member's check, a receipt for cash received, etc.)
- Is the source document listed on a Department generated deposit slip?
- Does the Department deposit slip list what each item is for (e.g. membership, donation, etc.?)
- Does the Department deposit slip match the bank deposit slip in items, amount and date?
- Is the deposit posted to QuickBooks for the same amount and date as the bank deposit slip?
- Is the deposit posted to the correct code (e.g. membership, donation, restricted/non restricted)
- Does the deposit appear on the bank statement for the same amount and date as it appears in QuickBooks?

A sample worksheet for reviewing each transaction is included in the appendix.

Currently a monthly review of deposits is made and signed off by a member of the Finance Committee. This monthly review does not exclude deposits from being reviewed during the audit. If the answer to any of these questions is anything other than yes, then the Audit Committee should try to determine why. It should also be included in the final audit report to the DEC.

Audit Report

Once the reconciliation and tests are complete, the final piece is writing a report which is submitted for file and presented to the DEC and to membership.

Report Contents:

Introduction:

- Who did the audit
- The audit period
- Date(s) the audit was done
- What was included in the audit and a brief summary of what the audit covered
- Reference to the worksheets completed during the audit (should be submitted and filed with the audit report)
- A summary of any issues identified and if there are any recommendations related to those issues/findings

Previous Year's Comments/Recommendations:

The recommendations from the previous year's audit should be addressed and the steps taken to address those items. If they have been addressed, it should be noted. If they have not been addressed, a follow up recommendation should be made. If, over the course of several audits recommendation(s) are not addressed, the Audit Committee should identify why they have not been addressed and report their findings to the DEC and, if it is staff related, to the Compensation Committee.

Current Year Comments/Recommendations:

In this section any issues identified should be addressed. Each item found during the testing and/or reconciliation process should be listed and why it is an issue followed by a Recommendation to address the issue.

For example, on the sample reconciliation there was \$160 posted to QuickBooks as a donation then expended from QuickBooks but the deposit never appears in the bank statement. As it turns out, the volunteer thought that since it was cash, he/she did not need to deposit it in the bank, he/she could just hang on to it until it was time to spend it. This obviously falls outside of Generally Accepted Accounting Practices (GAAP) and although we like to think we all as volunteers are honest, practices like this open the door for theft and/or fraud. The Recommendation then would be that all items received by the treasurer must be deposited in the appropriate bank account and posted in QuickBooks to create an audit trail.

Closing Paragraph

This should summarize what happened during the audit, if the books are in good order, if recommendations from previous years have been addressed, any recommendations from the current year that the DEC and/or Leadership should give special attention, and anything else the Audit Committee thinks is important that the DEC, the Compensation Committee, Leadership and the membership should be aware of.

Closing

This should be:

Respectfully submitted by:

List the names of the Audit Committee who actually worked on the audit. If a member did not work on the audit, her name should not be listed.

American Legion Auxiliary,
Department of Colorado
Audit Committee

Things to Consider

The Audit Committee is the oversight committee who assures that the funds of the organization are being properly managed and that Generally Accepted Accounting Procedures (GAAP) are being used. In addition, the committee assures that guidelines set by the Constitution and Bylaws, Standing Rules and the approved budget are followed. Finally, the committee wants to assure no special treatment or consideration has been given to any one member or group of members or to any officer.

Since this is intended as a basic training, the Audit Committee should consider expanding this manual and training to incorporate a review of minutes from DEC minutes to assure that the budget was properly approved and any extraordinary expenses were properly approved. The committee should also consider requiring a review of the 990, documenting that they have reviewed it and verifying that the bottom line of the 990 accurately reflects what is in the financial statements.

APPENDIX

Sample Bank Reconciliation Summary

Bank Accounts

| XXXX CD | QuickBooks: | Bank Account | |
|--------------------|-------------------|--------------------|-----------------|
| Open Balance 10/8/ | 4,683.88 | Open Balance 4/13/ | 4,686.88 |
| Deposits | 0.00 | Deposits | 0.00 |
| Withdrawals | 0.00 | Withdrawals | 0.00 |
| Interest 11/9/ | 3.50 ¹ | Interest 4/8/ | 3.51 |
| Interest 4/8/ | <u>3.51</u> | Ending Balance | <u>4,690.39</u> |
| Ending Balance | <u>4,690.89</u> | | |

¹The interest posted with an 11/9/2013 appear to actually be interest posted prior to the close of the statement, 10/8/2014 because it does not appear on the statement. The balance, therefore, should be 4686.88 in QB as of 10/8/2014

| XXX Checking | QuickBooks: | Bank Account | |
|-------------------------|---------------------|-------------------|------------------|
| Open Balance 12/24/ | 15,106.63 | Open Balance 1/1/ | 15,106.63 |
| Deposits/Transfers | 10,775.75 | Deposits | 10,775.75 |
| Withdrawals | (14,886.56) | Checks | (14,642.21) |
| Outstanding Check #2698 | 150.00 ² | Ending Balance | <u>11,240.17</u> |
| Outstanding Check #2697 | 94.35 ² | | |
| Ending Balance | <u>11,240.17</u> | | |

² Check 2697 Cleared July; 2698 cleared August

| XXX Savings | QuickBooks: | Bank Account | |
|--------------------|--------------------------------|-----------------------|-------------------|
| Open Balance 1/01/ | 14,337.90 | Open Balance 1/01/ | 14,337.90 |
| Deposits | 162.19 ³ | Deposits | 2.19 |
| Withdrawals | <u>(3,160.00)</u> ³ | Withdrawals | <u>(3,000.00)</u> |
| Ending Balance | <u>11,340.09</u> | Ending Balance 11/30/ | <u>11,340.09</u> |

³ There is a transaction for \$160 on May 2, for Cash - Board Donations for President's Gift that does not appear on the bank statement

Transaction Test Worksheet - Expenses

Transaction Type: **Expense** For Audit Period _____ to _____ Date: _____

Expense Type _____ Paid to: _____

If check, Number: _____ If ACH, Transaction # _____

Is there a source document? Yes No If Yes, Type _____

If No, Comment _____

Is the source document properly approved, dated and coded? Yes No

If No, Comment _____

Does the expense fall in line with the approved budget? Yes No

If No, Comment _____

Was the expense posted to QuickBooks using the applied code? Yes No

If No, Comment _____

Was the expense posted to QuickBooks for the approved amount? Yes No

If No, Comment _____

Was the expense paid within established guidelines/timelines? Yes No

If No, Comment _____

Did the expense clear the bank for the amount posted to QuickBooks? Yes No

If No, Comment _____

If the source document was a check, did it have 2 signatures and was it properly endorsed? Yes No

If No, Comment _____

Did the test of this expense confirm that it was a proper expense, approved according to policy, properly posted to QuickBooks and cleared the bank for the amount approved? Yes No

If no, does the committee have a recommendation to better handle such expenses in the future?

Transaction Test Worksheet - Revenues

Transaction Type: **Revenue** For Audit Period _____ to _____ Date: _____

Revenue Type _____ Received from: _____

If check, Number: _____ If cash, Receipt # _____

Is there a source document? Yes No If Yes, Type _____

If No, Comment _____

Is the source document properly listed on a Dept. deposit slip? Yes No

If No, Comment _____

Is each item identified on the deposit slip (what it is for)? Yes No

If No, Comment _____

Does the amount and date on the Dept. deposit slip match the bank deposit slip? Yes No

If No, Comment _____

Is the revenue posted to QuickBooks for the same amount on the bank deposit slip? Yes No

If No, Comment _____

Is the deposit posted to the correct code (e.g. membership, donation, etc.)? Yes No

If No, Comment _____

Does the deposit amount on bank statement match the amount and date in QuickBooks? Yes No

If No, Comment _____

Did the test of this revenue confirm that a source document was generated (cash) or received (check/credit card), the amount was properly deposited and posted to the correct account in QuickBooks and appears on the bank statement for the correct amount? Yes No

If no, does the committee have a recommendation to handle such revenues in the future?

Sample Audit Report

American Legion Auxiliary Sample Audit Report For Training Only

The audit committee completed a review of the American Legion Auxiliary Department of Colorado (ALACO) books on March 1, 2014 for the period January 1, 2013 through December 31, 2013. This review included a sampling from all the financial records, both hard copy and digital, as provided by the Department Secretary for revenues and expenses. A reconciliation of all bank accounts was also completed.

Worksheets for the reconciliation of bank accounts and for expense/revenue tests are included as work documents of this review and should be filed with this report.

Any items identified during the testing and reconciliation review are listed in the Recommendations

The audit started with a review of the previous year's audit to confirm how recommendations were addressed.

Previous Year's Comments/Recommendations:

Credit Card Confirmation: A document was completed and faxed to Best Western to make the initial reservation for the midyear conference. The document includes the credit card number, expiration date, name on the credit card and the individual's signature. This signed document was placed in the file.

Recommendation: With the epidemic of identity theft, a document like this could provide someone with everything they need to empty the bank account. Debit cards do not have the protection that credit cards have of a delay between the transaction and the distribution of money. A stolen debit card can empty an account before the bank or the user would know what happened. It is recommended that if the Department wants to file a document such as this that the credit card number at a minimum be redacted so no one can read it.

Outcome: Another set of receipts was found in the file that included a copy of an officer's credit card and driver's license. Apparently, it was required for the payment, but it is strongly urged that nothing like this be filed with receipts. Since files are not kept in a secure location, should these files be lost/stolen, it makes it easy to steal this person's identity and possibly hit the Department with fraudulent purchases. Again, it is encouraged that such personal information not be filed with receipts.

DataOne 10% Withholding: On one check to Department from DataOne, per the transaction report from DataOne, an additional 10% was withheld for credit card transactions.

Recommendation: Upon reviewing all the other payments for transactions managed by DataOne, there were no other extraordinary withholdings. The notation on the transaction was 10% was withheld (\$687) for additional credit card transactions, yet the 2.9% per transaction fee had already been withheld, so close to \$892 and change was held back by DataOne. It did not appear on other transaction reports that the 2.9% processing fee was not withheld, so it did not appear that they had failed to charge the fee on previous transactions.

There should have been a better explanation from DataOne to the Department as to why they were making this extra deduction and that should have been noted on the transaction report. Unless this was defined somewhere in the contract (e.g. transactions in excess of \$X will be charged at a higher rate of Y%), the DEC should expect an explanation from DataOne for the additional charges of this type.

Outcome: There did not appear to be any extraordinary charges from the DataOne.

Comments and Recommendations:

The test of revenues and expenses identified that in general, all transactions are being generated, approved, processed and posted appropriately and appear on bank statements during the month they were completed.

The reconciliation of bank statements identified two issues that are noted below with recommendations to be addressed prior to the next regular audit.

Date in Interest Posted Account xxxx CD: Interest that appears to have been earned prior to October 8, 2013 was actually posted to QuickBooks November 9, 2013. This posting does not appear on the October bank statement but rather the April bank statement. It should be noted the account balanced.

Recommendation: verify interest dates and reflect accordingly in QuickBooks.

Posting Savings in QuickBooks that does not appear on bank statement: It is noted on the reconciliation that there is a deposit and with drawl in the savings account that is not reflected anywhere on the bank statement. It refers to cash, but I could not find a corresponding deposit on any of the accounts. Because it is an "in-out" transaction, the account balanced but the transactions cannot be verified on those dates.

Recommendation: Research and confirm the transaction.

The books are in good order as demonstrated in the attached worksheets. The DEC is encouraged to assure the recommendations that were not addressed from the previous year's audit be addressed and recommendations from this year's audit be addressed as well.

Respectfully submitted by:

American Legion Auxiliary
Department of Colorado
Audit Committee