

Annual Audit: How and Why

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A yearly audit is a key safeguard for your money and a planning tool for the year ahead. Think of it as a "year in review" for your finances.

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Do you cringe when you hear the word "audit"? Perhaps it brings to mind accountants with green eye shades, sharp pencils, and large ledger sheets. Or maybe you think of a surly IRS agent poring over your books to find a 20-cent tax error so he can fine you thousands of dollars.

But it doesn't have to be that way. The audit is one of those misunderstood, often-frightening terms that can make PTO treasurers quiver. In fact, an annual audit is an important and irreplaceable tool to keep your financial house in order. And in practice, it is not at all as bad as you might think.

Every year, thousands of dollars likely move in and out of your PTO's bank account. The treasurer oversees all of this activity, but the entire executive board is responsible for the care of the money and to ensure that it is being handled properly. At the end of every school year, you all can ease your minds by facilitating an audit of your PTO's financial records. In this context, an audit is simply a detailed review of your financial records rather than the formal legal certification of books that major corporations run.

The primary benefit of an annual audit is the confidence it gives you and your members that the PTO's financial house is in order. Basically, the audit verifies the numbers, ensures accuracy, and assesses procedures. A comprehensive audit also identifies internal controls that should be implemented to improve the integrity of your financial systems. Furthermore, the audit gives closure to the treasurer and sets a starting point for the new year's activity. An audit is also the primary tool for uncovering financial mismanagement. Hopefully you won't need to conduct an audit for this reason, but an annual audit can uncover problems before they become significantly more serious. Your PTO might also choose to include in your audit a review of how closely your group's income and expenditures matched the year's budget. This type of review can be a strong planning tool.

Who Does The Audit?

There are several options for who might conduct your audit. Some PTOs form an audit committee, some recruit a volunteer from the parent community, and some groups hire a professional certified public accountant. When using volunteer labor, it is important that the executive board communicates clearly the requirements, responsibilities, and time commitment expected of the volunteers so they are prepared for the task ahead.

Audit Committee. An audit committee should consist of three to five people who have not had access to the PTO checkbook or bank account. Because questions might arise about the details of PTO operations, it can be helpful to include an officer, perhaps the vice president or secretary, as a member of the audit committee. The others should be volunteers from the general PTO membership. The treasurer should be available to answer questions but should not sit on the committee.

As a group, the volunteers must be willing and able to meet at least twice during the "off season," usually summer. While individual audit tasks can be delegated, the committee will need to discuss the objectives and conclusions as a group.

The audit can also be done by a single volunteer, especially if your group has tight financial controls and good records that will streamline the audit process.

CPA. Some large PTOs choose to hire a CPA to conduct their annual financial review. The professional will have insight, ideas, and experience that the typical volunteer does not. When considering hiring a professional, be prepared to spend \$200 or more. Search for a firm that specializes in nonprofit organizations.

Regardless of who conducts your PTO's audit, you should organize the year's financial records. This preparation alone can highlight areas for improvement in record-keeping and reporting. If you use good financial controls throughout the year, you should be able to gather the necessary information rather easily. On the other hand, if recordkeeping has not been a priority this year, be prepared to spend some time organizing your files.

Here is a checklist of records that are typically used for a comprehensive annual review. Providing these records makes the auditor's job easier. However, don't avoid an audit just because you don't have any of these.

- Bank statements for the year
- Bank account reconciliation reports
- Check register (remove it from your checkbook and keep the blank checks in your possession)
- Canceled checks
- A list of transactions (the transactions journal if you use a computer-based bookkeeping system)
- Reimbursement and check request forms, including receipts/invoices for all expenditures
- Deposit slips
- Monthly treasurer reports and annual budget
- IRS Form 990 if your PTO has formally registered as a 501(c)(3) organization
- Any written treasurer procedures or training materials

If the scope of your review includes the PTO's performance to budget, then you should also include your current bylaws, minutes from all meetings at which spending decisions were approved, and your budget category balances at year's end, which are typically included in the monthly treasurers report.

When To Audit

Your regular annual audit should be conducted at the end of the PTO's fiscal year, after the bulk of the school years activity has been completed. For most PTOs, that is in mid- to late summer. Inevitably, you may still have a few checks outstanding, but there should be very little other financial activity at this time. Even if your current treasurer will continue in the position next year and even if she has done a stellar job and even if the task of auditing seems too difficult, complete the audit anyway. It is an essential step in managing the groups financial resources and should be taken seriously, even when everything is obviously in order. Set the precedent now and the audit will become a must-do into the future.

An audit should also be considered when the office of treasurer changes mid-year. In this case the audit is conducted as of a specific cut-off date. The audit will give your new treasurer confidence that she is taking over a clean house.

Finally, if there is ever the suspicion that there has been financial mismanagement, an audit should be conducted immediately.

What the Auditor Does

You can facilitate the audit by providing a checklist of steps and a worksheet for the auditor. These guidelines can make the whole process much easier to grasp, especially if your auditors are volunteers unfamiliar with public accounting. These are the basic audit steps.

- Verify that all checks written during the year are accounted for, approved, signed, substantiated, and not defaced, and that they have been posted to the proper budget category.
- Verify that all deposits made during the year have been logged accurately and assigned to the proper budget category.
- Review the bank statements for any unusual fees or withdrawals (check printing fees, for example). Verify proper recordkeeping for these items. Ensure the account was reconciled each month.
- Verify that IRS Form 990 and any state forms (incorporation renewal or state tax forms, for example) have been filed as necessary.
- Verify that the treasurer reports add up from month to month.
- Complete a worksheet that summarizes the year's financial activity, including beginning cash balance, total receipts during the audit period, disbursements, and ending cash balance, among others. This is often called the financial review worksheet.
- Suggest improvements to internal controls such as record-keeping and cash-handling, if needed.
- Assess the group's performance against its budget, if requested.

The Auditor's Report

The report from the auditor will mark the completion of the review. If you are using volunteers, you should clearly itemize what you expect back, so your auditors know when they have completed their job.

At minimum, the auditor should submit a signed statement that the review has been completed and the books have been found to be in order. If the auditor found any exceptions during the course of the review, such as an unrecorded check or a mathematical error, those should be noted and included in the report, along with the steps taken to correct the exception. The report should also include the completed financial review worksheet.

A more robust report would also include a list of financial control recommendations. Your auditor might recommend that all PTO checks be signed by two officers, for example. Finally, the auditor's report might also highlight unusual financial risks the PTO is taking and suggest ways to mitigate the risk. For example, your auditor might recommend that the PTO use a locking cash box for collecting fundraising checks rather than an open, unsecured basket.

Ensure that your auditor has returned the files you provided, and file the original report in the PTOs permanent archives. At the first meeting of the new school year, you should present the auditors report and move that it be adopted. According to Robert's Rules of Order, once the annual report of the auditor is adopted, it is no longer necessary to move to adopt each month's treasurer's report. The reports are presented and then simply filed for next year's audit.

Making Things Easier

If your PTO implements basic financial controls, your annual audit can be almost automatic. Simple things like keeping your paper files organized, using only pencil in the check register, sequentially ordering your canceled checks, and stapling receipts to the authorizing forms can ease the workload on the auditor.

With poor controls, it is difficult for an auditor to determine that all transactions have been properly substantiated and recorded. If you expect your volunteers to dig through stacks of crumpled receipts, boxes of disorganized bank statements, and pages of messy transaction journals, you probably are expecting too much. The audit will be compromised and its reputation as a difficult and unwelcome activity will persist, to the detriment of the PTO. In that case, you should make the commitment to hire a professional auditor.

Getting your books audited is an important step. Don't put it off.

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