

THE PTA AUDIT

An audit involves an examination of financial transactions and the procedures used to conduct those transactions. Its purpose is to assure both the membership and the executive board that the funds of the PTA have been properly administered and that good financial practices have been followed.

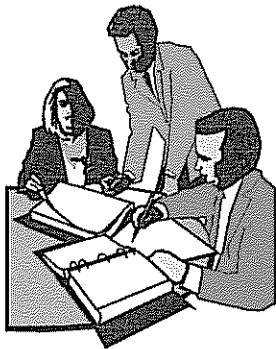
The books and records should be audited annually or at any time there is a change in the position of treasurer or any other officer with financial signature authority. Refer to the article on "Duties of Officers" in your local PTA unit bylaws.

WHO CAN AUDIT

Any PTA member with financial signature authority for the association should NOT be the auditor or a member of the auditing committee.

The Maryland PTA Bylaws Format allows the audit to be conducted by either an auditor or an auditing committee of no less than three (3) persons.

The treasurer is normally not present when the committee meets but should be available, either by phone or in person, to answer any questions the audit committee may have.



An auditor can be an accountant, a firm that is in the business of providing accounting services, or an individual with auditing experience.

An Auditing Committee should consist of not less than three (3) PTA members selected by the executive board. It should be noted that this is a committee of PTA

members. PTA is a private organization, and the books and records belong to the membership. Non-members do not have the right to examine these records.

AUDIT PROCEDURE

The treasurer should gather together all of the financial records for delivery to the audit committee.

The following should be delivered:

- A copy of the last audit report
- Checkbook and canceled checks
- Bank statements and duplicate deposit slips
- Annual Financial Report
- Income Ledger
- Expense Ledger
- Treasurer's reports
- Copies of all bills, invoices, or receipts for which a check was written
- Copies of general membership and executive board minutes, which would include an adopted budget as well as any amendments, approved during the year
- Check requests/vouchers
- Current bylaws and standing rules
- Other material/information requested by the audit committee

Audit procedure - page 8 of *Section II, Annual Resources for PTAs* provides a step by step process to follow in conducting an audit. A quick synopsis of the process can be summarized as follows:

1. Compare the starting balances with the last audit.
2. Check all documents for mathematical accuracy (including all ledgers, check-book, bank statements, canceled checks, deposit slips).
3. Check that all income and expenditures are allocated into the same categories that constitute the approved budget

and that they are accurately reflected in the annual financial report. 4. Prepare written report of findings, signed by all audit committee members and forward to the executive board.

The audit committee investigates, examines facts, draws conclusions from the facts, and presents a written report of its work to the executive board. The executive board receives the report and has the obligation to act upon the report. **An important part of the executive board's legal responsibility is to report the results of the auditing committee's report to the membership**

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“PTAs can work to improve schools by supporting efforts to secure adequate funding, by working with school personnel to strengthen curriculum, by promoting parent-teacher cooperation and by providing volunteer aid for activities and programs. In addition, PTAs can work with community organizations to promote community-wide development projects.”

- Money Matters, July '97
Annual Resources for PTAs

Charitable Solicitations

A charitable organization that solicits charitable contributions in Maryland must register with the Secretary of State. A PTA that raised more than \$25,000 per year is required to complete the full registration and pay the appropriate annual fee.

Proper Use of PTA Funds

There is a section in *Cash Encounters* that addresses the things PTA funds should be spent for and things PTA funds should not be spent for. This listing has been reviewed by the National PTA Executive Committee and their attorneys.

PTA Audit

An audit involves an examination of financial transactions and the procedures used to conduct those transactions. Its purpose is to assure both the membership and the executive committee that the funds of the PTA have been properly administered and that good financial practices have been followed. The books and records should be audited annually or at any time there is a change in the position of treasurer or any other officer with signature authority.

Missing Funds

All persons handling funds and all persons signing the PTA checks are liable for the use or misuse of the funds of the PTA. Responsible fiscal management is a must in any organization.

Whenever a PTA thinks (or is certain) that there is a problem with its funds, there are some very important, basic steps that must be taken.

Suspected mismanagement of funds should be handled in a tactful manner. You are encouraged to be sensitive to protect the person's reputation by being discreet in what is said. It is NOT, however, responsible to disregard the incident.

The local PTA unit has the responsibility to be accountable to its membership for all monies.

- ✍ The first and most important step is to audit the financial books and records of the association.
- ✍ The audit committee reports its findings to the executive committee.
- ✍ The executive committee receives the report of the audit committee and has the obligation to act upon the report. This is often a very difficult step because it may involve an accusation against a PTA member. If funds are missing, the executive committee must take every reasonable step to collect or recover the missing funds.
- ✍ Every action taken by the board must be done at a properly called meeting of the executive committee and all the actions must be recorded in the minutes of the meeting.
- ✍ The persons involved should have a private hearing with the executive committee of the PTA and have an opportunity to explain what has happened.
- ✍ The local unit should contact the Council and/or State president for assistance in resolving the situation.

It may be necessary to consult legal counsel and/or the bonding company at this point. Some situations can be handled through Small Claims Court; some may require other legal action.

Theft is breaking the law and should be handled as a serious offense. Embezzlement is the same as ordinary theft. The charges are criminal and need to be filed with the police department. It is important to know that it is the responsibility of any PTA leader who suspects embezzlement or fraud to report it to the proper authorities, otherwise, they may also be held liable. If the police department finds evidence enough to file criminal charges, the police department or the governmental attorney's office will pay the cost of the trial.

When Funds Are Missing

Determine in advance what steps will be taken if it is discovered that funds are missing. You might check with your insurance carrier to see what it recommends and to ensure the proper steps are taken for maximum coverage. Put procedures and internal controls in place that will uncover any discrepancies at the earliest incidence. Historically, when funds were missing, controls and procedures for safeguarding assets had become lax.

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 PTA 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 canceled checks
- Bank statements and deposit receipts
- Treasurer's book or ledger
- The annual financial report
- Itemized statements and receipts of bills 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 the transactions of a PTA.

Some items to look for:

- Monthly bank reconciliation
 - Unexplained reconciling items
 - Unusual endorsements on checks
 - A match of check endorsements 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 state and national portions of the membership dues have been kept separate from other receipts and forwarded immediately to the state office.
 4. Make certain that money collected for a specific purpose (special projects, Founders Day gift, scholarship funds, council dues, etc.) has been so disbursed.
 5. Check treasurer's reports and annual report for accuracy.
 6. 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)."
 7. If all is in order, the auditor or audit committee should prepare a statement, and each member of the committee or the auditor should sign it.

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

The committee or auditor might wish to use the sample included in the Appendix (Form #4, page 24).

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

A sample statement might read, "The auditing committee has examined the records of the treasurer of _____ PTA 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.

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

General Information

Contracts

In the course of a year, many PTAs enter into a variety of contracts. For instance, a PTA may contract for a band for a dance or may purchase supplies for a fund-raising venture. The PTA assumes the responsibility to comply with the terms and conditions of the contract and to pay the stated sum. The fact that an activity is not a financial success or that the PTA has insufficient funds to meet its obligation has no effect on the responsibility assumed.

Before entering into a contract on behalf of a PTA, the following points should be considered:

- Has the membership approved the project?
- Does the president have authorization from the board/executive committee to negotiate a contract?
- Have all contracts been received in writing?
- Are the terms and conditions of the contract understood, reviewed by legal counsel if needed, and agreed to by the board/executive committee?
- Is the length of the contract limited to the term of the participating officers, and does it not encumber future boards?

When entering into a contract, the president is responsible for the agreement and should clearly identify that it is the PTA entering into the contract and not the president as an individual. The signature on a written contract should read, "_____ PTA (or PTSA or council or district) by: John Doe, President."

It is preferable to require two signatures on a contract (the president's signature plus another officer's).

Remember, if there is any question about the terms or conditions of the contract, the proper time to seek advice is **before** the contract is signed.

Incorporation

PTAs involved in various activities must recognize the responsibilities and liabilities of the officers and members in conducting the affairs of the organization. PTAs may incorporate under state laws in order to establish protection for and limit the liability of individual members. Some state governments have passed volunteer protection laws that may also protect a PTA's members to a degree. Consult the state PTA office for assistance.

Bonding/Insurance

Although bonding may not be specified in the bylaws of the association, **it is in the best interest of the PTA for the treasurer and all other individuals authorized to handle funds and securities of the organization to be covered by a fidelity bond in the amount determined by the executive committee.** The expense of such insurance should be borne by the PTA.

A fidelity bonding policy covers losses sustained by a PTA through any fraudulent or dishonest act or acts committed by any of the employees or noncompensated elected officers and their successors or any noncompensated person who is authorized by an officer to handle PTA monies acting alone or in conspiracy with others. Such a policy should be secured from a reliable insurance company.

Liability Insurance

General

PTAs should consider their need for liability insurance when there are projects or activities that may result in potential hazard for PTA members, schoolchildren, or other third parties. Commercial general liability insurance provides coverage for your legal liability arising from bodily injury, personal injury (false arrest, libel, slander, and other defined injuries), advertising injury, and property damage to others arising out of your activities and operations. Such insurance coverage may be purchased on either a continuous, year-round, comprehensive coverage basis, or on a one-time basis for special events. Generally speaking, **school district liability insurance does not extend to PTAs or their activities.**

Auto

Before undertaking responsibility for transporting school children in private automobiles, PTAs should investigate the PTA and school district insurance policies, as they may apply to the liability of parent drivers on field trips/activities.

Copy of year-end Bank Statement (included 6/30/xx)	John Wisniewski, Treasurer
Bank Statements throughout the year	John Wisniewski, Treasurer
Copy of year-end Bank Reconciliation (included 6/30/xx)	John Wisniewski, Treasurer
Detailed General Ledger (Transactions by Account - Detailed) as of 6/30/xx	John Wisniewski, Treasurer
Check register 7/01/XX - 6/30/XX, sorted by check number	John Wisniewski, Treasurer
"Balance Sheet", Statement of Assets, Liabilities, and Owners' Equity	John Wisniewski, Treasurer
"Profit & Loss Budget vs Actual", Statement of Revenue and Expense	John Wisniewski, Treasurer
Copy of Approved Budget for current year.	Kathy Sexton, recording secretary
Current year General Meeting and Board minutes.	Kathy Sexton, recording secretary
Copies of all paid check requests with invoices (current year)	John Wisniewski, Treasurer
Cancelled checks for current year.	John Wisniewski, Treasurer
Original bank statement for month following year-end, including cancelled checks.	John Wisniewski, Treasurer
Copy of prior year audit report.	Terri Smith, prior year audit chair
Blank PTA Audit Form	Terri Smith, prior year audit chair
Random deposits	
Random disbursements	