

Auditing the “PTA Way”

What is an Audit?

Auditing involves following financial transactions through the records to be sure that receipts have been properly accounted for and expenditures made as authorized in the budget, as approved by the membership, and in conformity with PTA bylaws and standing rules. The audit must review all accounts of the PTA.

Composition of committee: The committee is composed of not less than three members appointed by the president subject to the approval of the executive board at least 30 days before the last meeting of the year (Local PTA Bylaws, *Article XV).

No one who is an authorized check signer on any bank account can serve on the committee. Additionally, family members of signers on the account cannot serve on this committee due to the potential conflict of interest. It is recommended that the incoming treasurer should not be eligible to serve on the committee.

When an audit is performed:

- At the end of the fiscal year
- When any authorized check signer is added or deleted on any bank account
- At any time deemed necessary by the president or three or more members

Preparing for the Audit

The outgoing treasurer is responsible for putting the financial records in order for the committee. The outgoing treasurer should deliver the following to the Audit Committee:

1. A copy of the last audit report
2. The checkbook, cancelled checks and all unused checks for all accounts
3. Bank statements and deposit receipts
4. Treasurer's books and ledgers
5. The annual financial report
6. All receipts of bills paid
7. Copies of minutes from regular and executive board meetings
8. Adopted budget as amended
9. Sales tax returns filed
10. Form 990 (It is the responsibility of the **outgoing** treasurer to complete and file the appropriate Form 990.)
11. All correspondence with any taxing authority
12. Copies of all financial reports for the period to be audited
13. A report of all fundraising events held since the last sales tax return was filed. List dates held and if any were designated tax free days. It includes total sales, taxable sales and sales tax collected. This information is necessary for the incoming treasurer to accurately complete the next sales tax return.
14. A list of all dues-paying members and the executive board
15. Current bylaws and standing rules
16. Any other information requested by the Audit Committee Once the records are turned over to the committee the outgoing treasurer can no longer write checks. The treasurer must go to the bank immediately with the incoming treasurer and additional authorized check signers to change the signature cards. During the audit, checks should only be written in the case of an emergency and would be signed by the incoming treasurer.

Conducting the Audit

- Begin the audit with the first transaction posted after the last audit. Make sure the beginning balance agrees with the balance on hand per the last audit report.
- Make sure that each check written has proper substantiation, i.e., vendor invoice or check request.

- Ascertain the dates of fundraisers, and verify deposits are made timely. Check to see that two people counted cash. (Itemized receipt form should have been used and signed by two counters and treasurer.)
- Check all ledger entries back to the cancelled checks and validated deposit tickets. Verify that all income and expenses are allocated to the proper budget category and are within the approved budget.
- Verify that bank reconciliation's are done monthly and check their accuracy. Verify that a non-signer has reviewed, initialed and dated all bank statements. Verify all checks have two signatures and spot check endorsements.
- Check the accuracy of the math in the checkbook and ledgers if a manual system was used.
- Verify that financial reports presented to the membership and executive board are accurate representations of the transactions recorded in the books.
- Check the accuracy of the annual report and ascertain that it will be retained as a part of the permanent file.
- Check to see that checks are not being signed by the individual to whom they are made payable.
- Watch for checks with multiple handwriting (other than one of the signatures) or different inks. This would be an indication of blank checks being released.
- Checks should never be made payable to "Cash." Startup funds should be made payable to the person responsible for the cash until it is re-deposited.
- Make sure that the Texas and National PTA portions of dues are not recorded as income to the Local PTA but kept separate or recorded as a liability. Verify that the amount sent to Texas PTA agrees to the membership roster and is submitted on a regular basis.
- Determine which Form 990 is required to be filed and confirm that it was filed timely and accurately. The 990 for the past fiscal year as well as the 990 for the fiscal year being audited should be included.
- Determine if the Local PTA had an obligation to collect sales tax. If so, make sure returns were filed timely and accurately. If the Local PTA has a sales tax permit, returns must be filed timely even if no tax was collected during the period.
- Make sure that money collected for a designated purpose was spent only for that purpose.
- Check the minutes of the regular and executive board meetings to verify the following:
 - 1) The budget and all amendments were adopted by the membership.
 - 2) The membership approved all fundraisers either through approval of the budget that included them or through a special vote if added after the adoption of the budget.
 - 3) Financial reports were presented at all regular and executive board meetings for all accounts.
 - 4) Any tax-free fundraisers were so designated as such prior to the event. The membership or executive board can do this, as the Local PTA prefers.
 - 5) Verify the executive board approved all Plans of Work and contracts.
 - 6) Verify a quorum was present at all executive board and regular meetings.
- After the treasurer has corrected any errors and the committee is satisfied that the financial records are correct, draw a red line across the ledger and checkbook where the audit concludes. Write "Examined and found correct" and have all committee members sign and date the entry.

Irregularities in the Records

If the audit committee finds irregularities in the records of the treasurer, follow the steps listed below:

- Contact the treasurer to secure additional records or information.
- If the matter cannot be settled to the committee's satisfaction, contact the Local PTA president to work out what additional steps need to be taken.
- The Local PTA president should request additional guidance from the Council PTA president (if the Local PTA is in a Council PTA) or the Area PTA president (if not in a Council PTA).
- A Council PTA president can request additional assistance from the Area PTA president if the matter cannot be resolved at the Council PTA level.

Audit Report

A member of the Audit Committee makes a report to the membership at the first meeting held after the conclusion of the audit. The association adopts the report at that time. A copy of the annual report is attached

to the audit report, maintained permanently by the treasurer, and placed in the minutes. In the event a complete audit cannot be done due to the inadequacy or unavailability of the records, this fact is reported to the membership, as well, with a recommendation to adopt steps to correct the situation. In the event the validity of the audit report is questioned, Texas PTA can be contacted for assistance, or an independent CPA could be engaged. The president or three members sign the request for state assistance for Texas PTA to become involved. See the "Resources/Forms" section of the *Texas PTA Handbook* for instructions and the forms for requesting a state review. The membership approves any funds to be expended prior to engaging the services of a CPA.

In reporting an audit that finds inaccuracies in the records of the treasurer, the following statement should be given at the appropriate time:

"The Audit Committee has examined the records of the treasurer of _____ PTA for the period (____ dates____). The current balance on hand is \$_____."

The following irregularities have been found; (List all irregularities)

*The following steps were taken to correct the problems:
(List all steps)*

*To prevent these types of problems from occurring in the future, we recommend the following:
(List the recommendations)*

Remember, the treasurer is legally responsible for all the funds of the association. However, the officers of the association are elected by the membership and have a fiscal responsibility to keep the affairs of the association on a sound financial basis.

IMPORTANT: Any investigation by the Audit Committee must be kept confidential.