

# PTA Audit

## Overview

Auditing involves examining financial records and transactions to ensure that receipts have been properly accounted for and expenditures have been properly authorized and recorded in minutes in conformity with PTA bylaws, standing rules and budget limitations.

PTA bylaws indicate when an audit is to be made, its procedure, and when it should be reported to the membership. Financial records should be audited at least once a year—some state PTAs require two or more audits annually (check your bylaws). Books should also be audited if a financial officer resigns (see **Final Steps before Leaving Office Checklist** in the additional resource section), before the new officer assumes his or her duties, and at any other time deemed necessary.

The process for selecting/electing 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 of the PTA.

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 provide reasonable assurance that an organization's financial statements are free of material misstatement and to ensure that receipts and expenditures, as authorized in the minutes, are in conformity with PTA bylaws, standing rules and budget limitations.

An audit with a "clean" opinion assures the membership that the association's resources/funds are being properly accounted for and managed within the regulations established for their use.

## Compiled Financial Statements

Compiling financial statements is the most basic level of service provided by CPAs, is less expensive, and takes less time. The CPA receives financial information from the client, reviews it for obvious errors without verifying the facts or tracing the transactions, and prepares financial statements using the information provided. The CPA might have to perform additional accounting services, such as creating a general ledger or assisting with adjusting entries, before the financial statements can be presented. Upon completion, a report is issued that states a compilation was performed in accordance with the American Institute of Certified Public Accountants (AICPA) professional standards, but no assurance is expressed on the statements.

## Reviewed Financial Statements

- Reviewed financial statements require that the CPA perform inquiry and analytical procedures in addition to the procedures described above for a compilation.
- Reviewing financial statements is in-between compiling financial statements and a full audit, in time, expense and assurance.
- Upon completion, a report is issued stating that a review has been performed in accordance with AICPA professional standards, that a review is less in scope than an audit, and that the CPA did not become aware of any material modifications that should be made in order for the statements to be in conformity with generally accepted accounting principles.

## Audited Financial Statements

- Auditing financial statements is the most expensive and most complete auditing service CPAs provide. This would be most appropriate for state PTAs, very large PTAs or PTAs that are required to obtain external audits due to requirements from grantors.
- This type of service provides the highest level of assurance.
- In an audit, the CPA performs all of the steps indicated above regarding compiled or reviewed statements, but also performs confirmation, verification and substantiation procedures.
- When the audit is complete, the CPA's standard audit report states that an audit was performed in accordance with generally accepted auditing standards, and expresses an opinion that the financial statements present fairly the entity's financial position and results of operations in conformity with GAAP. This would be considered a "clean" opinion.

## Preparation for a Financial Review/Internal Review

For clarification purposes, a financial review represents an internal process performed by two or more members of the financial review committee or their designees. An audit represents an extensive external process performed by a certified public accounting (CPA) firm for a fee.

The first step in the financial review process should be the appointment of a financial review committee. This committee should be made up of members who do not have signature authority over the bank account nor are a relative to a person with signature authority. Check with your local bylaws for any additional requirements.

Financial records should be put in order for the financial review 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 financial review. Upon assuming office, the incoming treasurer may deposit funds in the PTA bank account. It is recommended that during the financial review process, expenditures within an adopted budget be limited to those of an emergency nature. The financial review should be completed as quickly as possible.

**The treasurer shall deliver the following to the reviewer:**

- A copy of the last financial review 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 association 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 financial review committee

## **Financial Review Procedure**

1. Start the financial review 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. Complete a sample test of transactions. The size of this sample should be based on the size of the association. If mistakes are found, the sample should be broadened to take in more transactions. It may be deemed necessary to review all the transactions of a PTA. You should consider retaining the services of an external auditor if nearly all of the transactions are reviewed due to errors or concerns regarding accuracy.

**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, gifts, scholarship funds, council dues, etc.) has been so disbursed.
  5. Check the 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, sign and date the annual report using a different color ink:  
"Examined and found correct. (Name), (Date)"
  7. If all is in order, the financial review committee or auditor should prepare a statement, and the auditor, or each member of the financial review committee, should sign it.

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

The committee or reviewer might wish to use the sample financial review form.

8. The financial review committee also must submit a report 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 financial review committee has examined the records of \_\_\_\_\_ PTA and found that more adequate accounting procedures need to be followed so a more thorough financial review can be given." The financial review committee should indicate the information that is needed.

9. The financial review 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 states that additional information and verification is needed, the requested information should be provided by the treasurer.
10. If the validity of the financial review is questioned, an independent certified public accountant (CPA) should be engaged. At any time during the process, the state PTA may be contacted for information or assistance.