

PLAIN LANGUAGE GUIDE TO FINANCIAL AUDITS AND REVIEWS

DEPARTMENT OF INDIANA

1. **BACKGROUND** In order to improve financial accountability and reduce the opportunity for errors or misappropriation of Detachment funds, Department of Indiana membership voted to require detachments to provide the department with a “Report of Financial Audit” on an annual basis. This requirement, approved at the 2022 Department of Indiana Convention, was entered into the bylaws as such:

Section 7.10 FINANCIAL AUDITS

All detachments will conduct a financial audit annually. This audit may be conducted by the officers of the detachment or in a manner consistent with the respective detachment’s bylaws. Contracting of external entities to conduct audits for detachments with complex financial dealings is allowable however the officers of the detachment are solely responsible for the financial health and ethical stewardship of the detachment resources.

If contracted external agencies conduct said audit the agency or firm that conducts the annual audit is to include a statement or comment advising of deficient procedures and/or, based on experiences of other business practices, include such recommendations for improvement in techniques, practices, or general management as may be appropriate.

Upon completion of the annual audit, detachments will make a written report providing the following: (1) Date Audit was completed, (2) Names of members/entities that conducted the audit, (3) Statement of either no discrepancies found or a list of discrepancies found and corrective action taken. (4) Signatures of Commandant and Paymaster.

Audits may be scheduled to coincide with turnover of officers after elections (preferred) or with the end of the fiscal year. In all cases, the report of the audit will be forwarded to the Department Paymaster no later than 31 July annually.

Failure to provide financial audits as indicated above would remove the Detachment’s status as being in “good standing”, and therefore subject the Detachment to the punitive provisions of these bylaws.

2. **Terms and Definitions**

- a. **Audit** – For the purposes of this document, the term refers to the layman’s sense of the word “Audit” and not necessarily the accounting definition of audit. The audit must accomplish the following:
 - i. Provide an accounting of all assets, both monetary and physical. Does the detachment have in fact what has been reported during meetings?
 - ii. Provide an oversight of expenditures. Were monies spent in a manner consistent with bylaws and approvals made during meetings? Are there minutes to back up approvals of expenditures?

iii. Provide clarity of accounting practices to achieve i. and ii above. Are registers and statements available for review.

b. **Report of Audit** – This is a statement containing the following:

- i. Date of audit(Review)
- ii. Names and titles of persons or entities that conducted the audit
- iii. What was reviewed – e.g. account statements, paymaster reports, registers, receipts, etc
- iv. Either no discrepancies or
- v. If discrepancies were found, what corrective action was taken to cure the discrepancies and prevent repeat discrepancies of the same nature.
- vi. Signatures of Paymaster and Commandant

3. **Practical Application**

- a. If your bylaws already spell out how the audit should be completed, then you're on good footing as long as you follow those procedures.
- b. If your bylaws don't spell out how the audit should be completed, then please consider doing so. The Department Bylaws contain the Department audit requirements as follows:

For Example (This is how Department conducts its audits)

Section 5.12 AUDIT COMMITTEE

The Audit Committee shall consist of the three immediate Past Department Commandants. It will be their duty to audit all books of a financial nature annually. It is mandatory that all books of a financial nature be audited at the Department Convention by the Audit Committee.

- c. Designate the following at a meeting
 - i. Time and location of audit
 - ii. Persons to conduct the audit. If this coincides with a change in officers it is recommended to include outgoing and incoming commandants and/or paymasters. If not specified in bylaws, it is recommended to have at least 3 members in addition to the paymaster being audited assigned to the audit committee. For larger detachments, an outside entity such as an accounting service may be used. In this case, attached the report to a cover sheet with signatures by the Commandant and Paymaster.
- d. The paymaster must prepare documents for review. At a minimum, this should include:
 - i. Account statements from all banking, investment, or financial accounts to include CD's. Reconciliation of all accounts must be present either on the back of the statements or as a separate attachment.
 - ii. A detailed register for all accounts. This register may be kept electronically or manually as long as details of when, who to/from, and amounts are clearly recorded. For expenditures, the purpose of the expenditure should be recorded.

- iii. A copy of all paymaster reports made during meetings since the last audit was completed. If no audit has ever been performed, the Detachment Board of Trustees must designate the period to be looked at.
 - iv. Receipts for all expenditures
 - e. Additional items that should be considered
 - i. A detailed profit and loss statement covering the period since last audit.
 - ii. Minutes of meetings authorizing expenditures
 - iii. Budget, if one was made and voted upon.
 - iv. Any record of expenditure authorizations not covered already
 - f. Members conducting the audit (review) should satisfy themselves that:
 - i. Assets are what they have been reported to be. For example, if the paymaster has been reporting that you have \$12,000 in the checking account but the statement says \$1,250, there is a problem.
 - ii. Expenditures are proper and authorized. Example: Monthly checks to a lawn care service if you don't have a building could be suspect.
 - iii. Proper and complete accounting practices are in place to provide fiduciary security and clarity. Example: If there are no registers or reconciliations being kept, there is a problem.
 - g. After the audit is complete, in addition to signatures of the Commandant and Paymaster, it is recommended that audit members also sign the report.

4. **Benefits of the Audit**

- a. **Retention of Insurance Benefits** – Insurance claims for lost funds are likely to be paid out quicker and without resistance if the detachment shows that they have been doing their due diligence to reduce losses.
- b. **Public Trust and Confidence** – Discovering a loss during a routine audit is less traumatic to the confidence that donations to your donation will be spent properly. Having a system in place increases not only the public's trust in your detachment but also the membership's trust in their leadership.
- c. **Accountability and reduction of losses** – Having a good audit system and oversight process in place dramatically reduces the likelihood of misappropriated funds. In cases where theft or unauthorized expenditures have happened, it is likely that the prospect of an audit reduces the amounts lost.

5. **When to conduct an audit**

- a. **Change of paymaster** - New paymasters should receive the benefit of starting with a clean slate. If problems exist, the new paymaster should be given a clear list of repairs to be made, practices to change, as well as direction and assistance. Change of paymasters for any reason is a good time to conduct an audit.
- b. **Election of officers** – This is the typical time to conduct an audit. This provides the outgoing officers a clean departure and the incoming officers assurance that all is well.
- c. **Claims of improper expenditures or misappropriation** – These should always be handled by an audit committee with a report that speaks to the claims or charges.

Claims of improper expenditures are not carte blanche to open the books to the public but must be addressed in a professional and timely manner.

6. Filing the report

- a. The report of audit is just that. A report that an audit was conducted. Do not include bank statements, cancelled checks, or financial information to the department. As long as the report contains what is required by the Department Bylaws, it is acceptable.
- b. Send the report, typically, one page to the Department Paymaster. Scanning and emailing the report is acceptable and preferred.
- c. For a typical detachment (50-100 members), the time to complete an audit is:
 - i. Preparation of documentation by an organized paymaster: Less than 1 hour
 - ii. Review of documentation by audit committee: Less than 45 minutes
 - iii. Preparation of report: 30 minutes for first timers.

7. "We have a problem"

- a. One refrain that's been heard too often – "We thought we could trust our paymaster"
- b. "It" happens. During an audit, you may find that there were unauthorized expenditures or outright theft. Depending on the extent of the crime, it will be up to your board of trustees to resolve it. Sometimes someone makes an honest mistake and pays for their McDonalds order with the wrong card. On the other end of the spectrum, your paymaster has stopped answering the phone, moved without a forwarding address and you're getting overdraft notices. Handling the first instance could be as simple as a repayment of the misspent funds. Handling the second instance must always include a visit to your local authorities to provide a statement of charges. AFTER the civil authorities begin action is the time to start filing for insurance and chapter 9 charges. ALWAYS keep the chain of command aware of what's happening in this case.

8. Looking for advice? Talk to the Department Paymaster and/or the Department Judge Advocate