**AUDITS OF LOCALS AND REGIONS**

**IEA BUSINESS SERVICES DEPARTMENT**

The IEA Business Services Department is occasionally asked to provide audit services to locals and regions. Audits are performed by the IEA Director of Business Services, subject to the parameters and limitations discussed below. Also discussed below are the types of audits performed, the scope of activities that are examined as part of a “normal” audit, scheduling/process issues, and the documentation that is required. Questions about this material can be addressed to the Director of Business Services.

**Parameters**

An audit performed by the IEA Director of Business Services is not an “audit” as defined by what the accounting profession refers to as “generally accepted auditing standards.” If you need such an audit you will have to engage a local CPA for that purpose (see further discussion under “Limitations”). An audit performed by the Director of Business Services is a focused review designed to assess compliance with the accounting and internal control standards described in the IEA’s ***Financial Procedures for Locals & Regions*** handbook. See further discussion under “Scope of Activities.”

**Limitations**

The first priority of the IEA’s Business Services Department is the organization’s day-to-day financial operations, as well as periodic activities such as the annual external audit and the budget process. This means that the time available for local/region audits is necessarily limited, both in the amount of time available and the seasons of the year in which audits can be completed in a reasonably timely manner.

Because of this, it is normally not possible to devote the time and resources to complete a full-scale audit of a large local. The definition of “large” is a gray area because of the difference in complexity of our locals. Some relatively large locals have one bank account and engage in little or no activities. They can be audited much more easily than a smaller local with multiple bank accounts and many transactions. A general rule is that if your local has more than 1,000 members it is probably too large for us to audit, and due to the large amount of dues revenue flowing through your local, you should probably be contracting for an audit or a “review” by an outside CPA each year as a matter of course. If a local has between 500 and 1,000 members it can possibly be audited but this would have to be determined through discussion between the local and the Director of Business Services. Most locals with less than 500 members can be audited, subject to the time constraints discussed below.

If your local needs or wants an audit by a professional CPA, you can contact the Director of Business Services for suggestions on how to go about finding one.

Audits are generally handled on a first-come first-serve basis. However, if a local/region has a suspicion of improper financial activity, it goes to the top of the list. Other audits may be prioritized based on logistical considerations. Also, the IEA Executive Committee has established a procedure whereby regions are audited on a rotating basis; these audits may take precedence over other requests.

The most time is available for audits during the months of April through July. After July, the Director of Business Services is tied up with regional training sessions, the IEA’s annual audit, the IEA’s budget process, and other operational and regulatory requirements and deadlines. A few audits can be performed during August-March but these are generally those where fraud or other malfeasance is suspected.

**Types of Audits Performed**

Generally the requested services fall into three categories:

1. Potential malfeasance (“foul play” audit). If a local/region leader suspects that financial malfeasance has occurred, they can request an investigation through their UniServ Director, the IEA Secretary-Treasurer, or the IEA Director of Business Services. This review will take precedence over audits that may already have been requested by other locals/regions. The scope of the review will depend on the individual circumstances. It is the responsibility of the local/region leadership to provide whatever documentation is needed in order to complete the review. Confidentiality is essential during this process. **Please refer to the sections of the *Financial Procedures* manual that discuss the topic of “Fraud” for further information on how to deal with this sensitive situation**.
2. “Normal” audit. Most audits fall into this category, where the local/region is just looking for assurance that financial matters are being handled appropriately. The audit is performed per a standardized checklist that is based on the financial and accounting requirements outlined in the ***Financial Procedures*** handbook.
3. “Specific Purpose” audit. Occasionally a local/region has concerns about one or more specific areas of its bookkeeping process. These audits are customized to address those concerns.

**Scope of Activities Examined in a “Normal” Audit**

The following operational/accounting areas are examined and tested.

Internal controls

Adequacy/Accuracy of the bookkeeping and financial reporting process

Documentation for funds received and disbursed

Compliance with external regulations (IRS, State Board of Elections, etc.)

Compliance with applicable IEA requirements

Other financial and administrative “best practices”

**Documentation Required for a “Normal” Audit**

Ideally, an audit will cover a one-year period that coincides with the natural operational period of the local/region. For regions this is easy to determine, since all regions have a “fiscal year” that begins on September 1 and ends the following August 31. For locals, their natural operational period would coincide with the school year. This could mean either June 1- May 31, July 1- June 30, August 1- July 31, or September 1- August 31. The audit period can be longer than this but should ideally cover at least one entire school year. Among other things, this allows us to review at least one full year’s dues receipts and transfers to IEA.

Once the audit period is determined through discussion between the local leader and the Director of Business Services, the following documentation is needed for **all** bank accounts and **all** months in the period.

Bank statements Copies of checks (see below)

Documentation supporting all disbursements Documentation supporting all receipts (see below)

Minutes of meetings of the governing body Treasurer reports

Budget Any other financial information maintained by the local

If some of the above does not exist (e.g. the local does not prepare an annual budget), the audit can be completed and one of the audit recommendations will be that the deficiency be corrected.

It is essential for a “normal” audit that bank-provided check copies be available. While we realize that some small banks and credit unions do not provide these copies, without them it is not possible to do a complete review of the disbursement process. Carbon copies are not useful as they can be altered or manipulated.

Another key item of documentation is something from the employer to substantiate the dollar amount of checks mailed to the local for dues withholding. This usually takes the form of the check stubs that accompany the dues checks. If for some reason the check stubs are not received or maintained, we like to have the employer send a list of checks written to the local during the period under review. This documentation is necessary in order to determine whether the dues checks were deposited intact and in a timely manner.

While it is possible to complete an audit without one or both of the two above items, the assurance that can be provided as a result of the audit is seriously diminished if they are not available.

Documentation required for a “foul play” or “specific purpose” audit will be determined on a case-by-case basis.

**To Schedule an Audit**

When financial malfeasance is suspected, you should contact your UniServ Director if possible, and ask that he/she contact the Director of Business Services. If for some reason this is not possible, you can contact the Director of Business Services (217/321-2203 or welch.randy@ieanea.org), or the IEA Secretary-Treasurer (800/252-8076). Other types of audits can be scheduled directly with the Director of Business Services.

As discussed above, depending on the backlog of requests and the time of year, there may be a considerable lag time between your request and when the audit can be performed.

**Audit Process**

When a “normal” or “specific purpose” audit is performed, the usual practice is for the local/region to deliver all of the necessary documentation to the local IEA office before the audit date, along with a contact name, e-mail address and telephone number. The Director of Business Services completes the audit, usually in one day, and leaves the material at the office. If there are questions, the Director will call the contact person. There is usually no need for anyone from the local/region to be physically present.

The Director will ask for clarification on any open items and will then send an audit report to the contact person. This usually is in draft form and when any questions or misunderstandings are clarified, a final report will be sent to the contact person, the UniServ Director and the IEA Secretary-Treasurer. If the audit is fairly straightforward, the “draft” step may be eliminated.

The audit report will discuss any cases where the local/region is not following the ***Financial Procedures*** standards, and will make recommendations for improvement. Suggestions for changes that can be made in order to conform to accounting/administrative “best practices” may be included also.

The process for a “foul play” audit is totally different and depends on the individual circumstances. This process is worked out between the local leader(s), the UniServ Director, and the Director of Business Services.