Independent Annual Audit/Review

An annual audit of your association’s financial records and activities by an Independent Certified Public Accountant (“CPA”) or CPA firm is advisable. The U.S. 3rd Circuit Court of Appeals ruled that unions collecting fees from non-member public-sector employees (agency fee payers) must have their financial statements independently audited. A CPA will objectively verify your financial information before issuing an opinion on the annual audited financial statements and appropriate IRS Forms.

An Audit is a spot check of information, not an exhaustive review of all financial transactions. Auditors are charged with determining the accuracy of the financial statements only “in all material respects.” It does not guarantee 100% accuracy. Auditors are not charged specifically with uncovering fraud. Since they rely heavily on management to provide information and documentation, small-scale fraud is extremely difficult for auditors to detect, particularly where misdeeds involve collusion.

An important part of the audit is the written opinion that is always prepared by the CPA regarding the financial statements. A favorable “unqualified” opinion gives credibility to the financial information contained in the statements and makes the information more reliable to parties having an active interest in the association’s finances (e.g. executive officers, board of directors, members, IRS auditor, and local banker). It also tends to reassure members and new officers that their funds are being appropriately recorded and used.

Financial statements can also be reviewed by a CPA with less time and cost than a thorough audit. This process is known as a Review. A review consists of inquiries of company personnel and analytical procedures applied to financial data. A review requires less time, hence incurs less cost; however, it results in a lesser degree of assurance by the CPA. Instead of saying that the financial statements “present fairly”, the CPA does only enough work to be able to say, “I am not aware of any material modifications that should be made in order for the financial statements to be in conformity.” This is called “negative assurance” and does not give as much credibility to the financial statements as an audit does. Nevertheless, a review may meet the needs of some smaller associations. A Compilation is limited to compiling financial information and presenting it in the form of financial statements.

**Selecting an Accounting Firm**

* Is the firm formally licensed to practice public accounting in your state?
* Obtain and review a copy of the firms Peer Review Report
* Is the firm a member of the following organization?
	1. American Institute of Certified Public Accountants?
	2. State Society of Certified Public Accountants?
* Is the firm able to provide the following references?
1. Three Not-for-Profit Clients of similar size to your association?
2. At least one Union client?
* The firm should provide formalized documented responses to the following questions:
1. How can the firm demonstrate its familiarity with the accounting and audit issues affecting unions?
2. What separates this firm from other audit providers in the area?
3. How is the firm able to show its commitment to provide service to the Not-for-Profit sector?
4. How do the firm and its staff stay on top of audit, tax and regulatory issues affecting unions/not-for-profits?
5. By what means will the audit firm add value to the audit process?
6. If you need to consult with the firm for advice throughout the year, what is their policy on determining when they would and would not charge for those services?
* Does the firm have a niche-based expertise in the Not-for-Profit area?
* Is the firm familiar with the following tax issues?
1. Unrelated Business Income
2. Contribution Reporting
3. Form 990 Reporting Issues
4. Form LM2 Reporting Issues

**Interview Questionnaire for Audit Firms**

* You have provided some information in your proposal about your experience with other not-for-profit organizations. Is there any other information that you can give us about this experience, especially as it relates to membership associations in general and unions in particular?
* How would you measure the financial success or health of a not-for-profit organization?
* What do you believe is the appropriate level of cash/investment reserves for a not-for-profit entity to maintain?
* Please describe your style in performing field work.
* Would your audit fees change if your personnel incurred either more or less than the number of hours included in your proposal?
* How would your firm balance the client’s needs for continuity of audit staff with a desire for a fresh perspective during each audit cycle?
* While our organization does not fall under the provisions of the Sarbanes-Oxley Act, please tell us how this legislation has affected your firm’s approach to providing audit and other services.
* If we needed to consult with your firm for advice throughout the year, what is your policy on determining when you would and would not charge us for those services?
* Do you provide professional development opportunities to clients (i.e. accounting updates, etc.)?

Internal Audit Committee

Small associations that decide they cannot afford a CPA should at least establish an Internal Audit Committee to perform an internal review annually, preferably quarterly. However, if your association has agency fee payers, the U.S. 3rd Circuit Court of Appeals ruling applies and an independent audit is required. The Audit Committee should review all payments made during the year to verify that expenditures were made for properly approved purposes. Each payment should be checked for an authorization signature by an association officer or designee, and for adequate supporting documentation that clearly indicates what the payment represents. The Audit Committee should also examine bank reconciliations, payroll records, bookkeeping records and procedures, and all other financially related areas. Upon completion of the internal audit, the Committee should file a written report to be approved by the association directors and included with the permanent records. The Audit Committee can play a critical role in maintaining the integrity of the association’s financial reporting. Members should be selected from the board or general membership and should exhibit the following qualities:

* A familiarity with how association activities are reflected in financial statements
* Some understanding of the auditing process
* Lacking the above, at least a natural curiosity and an inquiring mind

Consideration should be given to individuals with previous experience in business such as bankers, internal auditors, retired CPAs, corporate officers, etc.

The Audit Committee should be concerned with the following things, at a minimum:

* The verification of the physical existence of assets
* The accuracy of the records and the reports to the board of directors
* Ascertaining that payroll taxes, licenses, sales taxes, other taxes and corporate reports are properly filed in a timely manner
* The adequacy of internal control (a system in which the operating or recording function can be broken down into elements that are performed by different people, each check the work of others)
* The proper authorization of activities and expenditures
* A review of the tax-exempt status and identification of any activities that may endanger it

Audit Committee Review of the Association’s Financial Transactions and Records

The purpose of this section is to provide certain tools and procedures which will give a local association’s audit committee a reasonable basis for expressing limited assurance on the financial statements of the association. These procedures are restricted in their scope and are not intended to replace an audit of the association by outside independent accountants if presently performed or contemplated. Rather, they are intended to establish certain agreed upon procedures that will provide a reasonable oversight and uniform approach to financial management, thereby safeguarding the assets of the association that do not have outside audits or reviews of their financial statements.

To accomplish these objectives we are providing you with a “Checklist for Review of Quarterly Financial Record”. *Refer to Section X – Sample Forms, Journals & Policies, Specimen V(a).*  Upon the completion of these procedures, the committee will have performed sufficient analytical review and record inspection to file the following report.

Audit Committee’s Report on Applying Agreed-Upon Procedures

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ President

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Education Association

We have performed the procedures enumerated in the checklist for review of quarterly financial records as contained in the \_\_\_\_\_\_\_\_ Education Association Treasurer’s Handbook. Based upon completion of those procedures we have satisfied ourselves that the Association’s cash basis transactions for the \_\_\_\_\_\_ month period ending \_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_, 20\_\_, as reflected in the accompanying financial statements, are accurately and reasonably recorded in the books and records of the Association.

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Audit Committee Chair

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Date