

Colfax PTO Financial Audit Report

Date conducted: September 3, 2006
Period of Time covered: January 1, 2006 to June 30, 2006
Auditor: Terry Kennedy
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Summary: Overall I think Barbara Litt did a good job. She has a good paper trail backing the transactions, and is able to explain anything out of the ordinary. This audit was performed at Jeff Mukogosi's house, since he is the present treasurer. Barbara was also present since she was the treasurer during the period of time covered by this audit.

I chose to make this report an update of my report from my Audit of the 2004-2005 fiscal year, performed September 10, 2005 and my Audit of the July 1, 2005 to December 31, 2005 period, performed March 14, 2006. My new comments are in italics after my previous comments, and are preceded by the audit date of 9/3/06, and are highlighted in yellow.

I am listing my comments in no specific order of importance. Please note that some of them will be necessary in case the PTO is ever audited by the IRS.

Please feel free to ask me any questions.

Respectfully submitted,
/s/ Terry Kennedy
September 17, 2006

1. A budget needs to be approved prior to disbursement of funds. Meeting minutes need to document the approval. Any item in the budget when it is approved does not require further approval via a vote during the year before funds are disbursed. *3/14/06: People are now more aware of this need. For example, Ice Skating was approved via a vote prior to the PTO spending the money. 9/3/06: N/A for this audit period.*
2. Any item not in the approved budget must be approved at a PTO meeting and documented in the minutes. No one should ever ask the Treasurer to write a check for anything not covered in the approved budget without a motion covering the expense being passed at a PTO meeting. If something is needed before the next scheduled meeting, an email vote is needed. The Treasurer will need to include a copy of each person's vote to the files to show the expense was approved. *3/14/06: This documentation exists, but the information still needs to be added to the file. I am not sure if a hard copy is necessary, or if electronic versions are sufficient for an IRS audit. 9/3/06: This area improved. There were no such requests during this audit period.*
3. An IRS corporate audit may involve meeting minutes. (This PTO is a 501(c)3 corporation.) Since the minutes were outside the scope of the financial audit (in my opinion), I did not ask to review them. I recommend keeping an archive of minutes. I'm not sure if it is necessary to actually keep them in hard copy as long as they are producible. (I have never sat through

an IRS corporate audit, so I do not know the requirement here. E.g., do you need to produce a hard copy with a signature???) 3/14/06: N/A for this audit period. 9/3/06: The official minutes are placed on the PTO website, so a hard copy can easily be provided if needed. However, the minutes need to be approved, preferably at the next meeting.

4. Reimbursement forms must be completed by anyone wishing to have an expense paid. It is not acceptable to hand the Treasurer the receipt with a name scribbled on it, and have the Treasurer complete the form. The submitter needs to have the committee or event chair to approve the request. The PTO officer approval can be the Treasurer, or can be any other officer. This method avoids unauthorized reimbursements. Barbara is planning to revise the form to allow for the committee or event chair to approve the expense along with a PTO officer instead of requiring two officers. 3/14/06: This area has seen significant improvement since my last audit. Barbara is not accepting anything that is not forwarded by the expense approver. 9/3/06: N/A for this audit period.
5. The By-Laws are not clear in the audit requirements. Specifically, the state that an audit will be conducted in December and May, but they do not state the period covered by each of these audits. I recommend the first half of the year (July through December) be audited in late January or early February, and the second half of the year (January through June) be audited in late July or early August. The time lag between the end of the audited period and the actual audit allows time for the bank statement covering the last month to arrive, and provides the Treasurer time to perform the reconciliation. 3/14/06: Changes have been recommended and will be presented for a vote this spring. 9/3/06: N/A for this audit period.
6. Advertisement money must be paid in advance or an advertisement is not included. Payment after the fact is not acceptable. 3/14/06: All advertisement money is now paid in advance. 9/3/06: No problems in this area during this audit period.
7. There needs to be a deadline for all reimbursement requests. Barbara still knows of one person who has not yet submitted their Carnival receipts. They should have been submitted long ago. I agree with her thought of 45 days, after the event and suggested she specify calendar days to avoid any ambiguity between school days and weekdays. One thing that I forgot to mention to Barbara but is apparent to me now is expenses that occur near the end of the year need to have receipts turned in less than 45 calendar days. In order to close out the books on the fiscal year in July, she cannot receive Carnival receipts on the 44th and 45th day after the event. Anyone spending money on behalf of the PTO in May and June needs to submit their reimbursement requests as soon as possible, but certainly no later than one week before the end of June. (Note: If a Treasurer is going on vacation in late June, she or he will need to work out something with the PTO regarding late year reimbursements.) 3/14/06: These time periods are being followed. In most cases, receipts are submitted soon after the expense is incurred. The people who do not follow the deadline usually do not request reimbursement and instead “donate” the item(s) that they purchased. Some times, but not all of the time, receipts are provided for the donated items. 9/3/06: Reimbursement for goldfish purchased for Carnival, without approval by the committee chair, was offered by a PTO officer without prior approval by the committee chair and the treasurer. The offer created an awkward situation. The subsequent reimbursement request was submitted after this

reporting period without the required approvals. Jeff is not paying it until it is discussed by the PTO Executive Board.

8. The current approved budget is not a budget in my opinion, but is a spending plan. It does not show any projected income. I realize it is difficult without a history to analyze. It certainly helps to set goals for fundraising events. In general I do not like to see deficit budgets. If an organization has a reasonable reserve, it is okay periodically to have a deficit budget provided that the board understands the ramifications (decrease in cash reserves, etc.) but cannot occur every year. Your budget is already approved, so I would not worry about it now. (Remember, as an organization, you are learning.) However, I urge everyone on the board along with event chairs to be cognizant of expenses and income in their areas. Yes, Barbara should have this information as well, but it will help all of you when discussing future budgets if you understand the revenue and expenses of each budget category. *3/14/06: A new budget was completed in the fall. I recommend a budget committee to draft next year's budget, with the committee members being the incoming and outgoing Treasurers and Presidents. Due to changes in the school, it is recognized that the budget will most likely need to be revised in the fall. E.g.: The budget for teacher stipends may change if the estimated number of teachers ends up being different than the actual number of teachers. 9/3/06: A new budget for 2006-2007 was approved. Jeff is revising it, and will submit the changes for approval.*
9. If a service or item is being donated this year, still determine the value of it as if the PTO needed to pay for it. Why may you ask? I can provide two reasons. First, it provides guidance for budgeting in future years when it may not be donated. Second, as a 501(c)3 organization, you can provide a receipt that provider can use for an income tax deduction. *3/14/06: According to Barbara, it is still an issue but improvements have occurred. See also the comments under item 7. 9/3/06: Some people are submitting information but not everyone. I understand the difficulty. Perhaps we can ask committee chairs to provide a rough estimate of the value of donated goods/services to help in planning for future years in the case that the donations do not occur.*
10. Some supplies are used by multiple officers, but are kept at home instead of at the school. For example, postage stamps. I recommend that one person buy such supplies, and split them among the people who need to use them so that too much is not purchased. You do not want three people buying stamps in a quantity that would be sufficient for all three, and at the same time, you do not want to have to buy a stamp each time one is needed.) *3/14/06: N/A. All items in this category were donated during the period covered by the audit. 9/3/06: Stamps were purchased by Ellen Rubin and distributed as needed.*
11. I understand the teacher grants are new, and there is no way of knowing how well they will be used, and if the teachers will actually turn in the receipts that are needed for the records in the event of an audit. I urge David May-Stein and Donna McCartney to help in this area by encouraging the teachers to turn in their receipts. If necessary, they may need to talk to teachers who do not complete this requirement. I applaud the PTO's efforts in helping all of the teachers. Barbara also mentioned that you plan to evaluate this activity at a later date since it is the first year you are doing it. *3/14/06: Only one teacher did not provide receipts.*

Next year the plan is to provide each teacher with a \$50 PTO gift certificate with a reimbursement form. The teachers will need to return it with the completed form and receipts to receive their \$50. I believe this method is a good idea. 9/3/06: N/A for this audit period.

12. Janitor Tips: I agree with tipping them. Instead of just tipping them at the end of the year for the whole year, I recommend tipping them on after each event in which they help beyond their normal duties. A janitor may be reassigned to a different school during a school year, so she or he may have helped but may not receive the tip. Also, if you tip by event, the expense is charged to the budget covering that event. The past Treasurer of Minadeo PTO told me that we tip more for messier events than easy clean up events. I will provide Barbara with information on tips by the Minadeo PTO last year to use as a guideline. Remember, you do not have to use the amounts used by Minadeo. 3/14/06: N/A during the period of time covered by the audit. The PTO will tip once a year with Gift Certificates. 9/3/06: The tip occurred after Carnaval.
13. Vendors/Suppliers cannot be paid from the cash box at an event. A check from the PTO or a personal credit card must be used. (The owner of the credit card needs to file for reimbursement.) A receipt is also needed. At one event last year, someone paid for pizza out of the cash box. There is no paper trail to document it. It also does not allow for an accurate count of the money collected during the event. For items such as pizza, I recommend someone pay via credit card or check in advance at the pizza parlor so that you do not have to find the person responsible for payment at the event. Trust me, they do not want their delivery folks driving with a lot of money (cash or checks), so they will be very happy to have the order pre-paid. 3/14/06: My advice is being followed. The issues from last year no longer exist. 9/3/06: This area has improved. For example, the pizza supplier for Carnaval submitted a bill. If a Carnaval vendor did not have an invoice, he or she was given a sheet of paper on which to write an invoice before Barbara paid the fee.
14. The checkbook ledger is a spreadsheet, but there is no way to show which transactions have already been reconciled with a statement. Barbara has agreed to either change the color or make an item bold or italicized so that we can easily determine what has and has not appeared on a statement. 3/14/06: Barbara fixed this issue by using italics in the spreadsheet. 9/3/06: N/A for this audit period.
15. The checks should not be pre-signed by two people. It is okay to have one signature on it in advance. But the second signature should not occur until after the check is written. It prevents problems if the checkbook is lost or stolen. I did not see evidence of two people pre-signing the same checks, but I am including this comment to avoid this issue in the future. 3/14/06: N/A during the time period covered by the audit. 9/3/06: The checks are not pre-signed by anyone.
16. 3/14/06: Deposits are now being counted by two people even if it delays the deposit. 9/3/06: In addition to having two people count money, cash was removed from the cash boxes every hour during Carnaval, and counted at that time. This action helped to keep large amounts of

cash from accumulating in each cash box, and also simplified the end of the night final money count.

17. *3/14/06: The holiday gift money for non-homeroom teachers/staff members did not come through the treasury. Action has been taken by Barbara, but the amount collected and spent on these gifts in December 2005 is not documented. The people who collect money on behalf of the PTO (for any reason) need to make sure the money is given to the treasurer, even if it is a "pass through". The treasurer can then reimburse for the expense incurred when spending the amount that was collected. 9/3/06: N/A for this audit period.*
18. *9/3/06: \$2000 was used for a good behavior reward field trip. This type of trip will not be funded in the future since it did not benefit everyone.*
19. *9/3/06: No invoice was provided from the Storyteller or the Carnival musicians. Both were paid based on verbal amounts.*
20. *9/3/06: There were leftover prizes after Carnival. What happened to them? They should be used next year, and a significantly smaller prize order should occur. The significant amount of leftover prizes and the multiple receipts for prizes indicate to me that more coordination and planning is needed in the future before prizes are purchased.*
21. *9/3/06: An invoice for the Carnival drinks was not provided. (A janitor helped to deliver the drinks, and walked away with it.) Therefore, the leftover drinks could not be returned. The PTO is using these drinks for other events such as the open house before school started.*