

## **Audit Committee Guidelines for the District Midyear and Year-end Audit Reports**

### **Overview**

All district funds, regardless of the source of these funds, are Toastmasters International Funds. Members of the audit committee have a fiduciary responsibility to determine if district funds have been spent according to the district budget and whether the funds were used to carry out the mission of the district.

The midyear and year-end audits are very important documents. The information reported on the year-end audit is tabulated and included in the Toastmasters International annual Federal and California nonprofit organization tax returns. These returns and the sources of information on these returns are subject to review by taxing authorities. In certain cases, we can be asked to provide financial information for prior years, as far back as seven years. The information on the audit reports, as well as the records used to compile the audits, may be necessary to prove the accuracy and completeness of the returns.

The purpose of the audit committee is to confirm that district funds were spent appropriately. The committee reviews the district's financial transactions twice during the year and provides reports for the six-month period ending December 31, and for the year ending June 30. The reports must be submitted to World Headquarters by February 15 and August 31, respectively. World Headquarters has created a checklist the audit committee can use. The Audit Procedure Checklist found at the end of this document, is to be used by the audit committee in performing the testing and review of the district financial controls.

### **Membership on the District Audit Committee**

The district administrative bylaws restrict who can serve the audit committee:

“Each year the District Governor shall appoint an Audit Committee consisting of at least three (3) individual members who are not members of the District Executive Committee.”

This means that the committee must have at least three members and no person on the committee is allowed to be a district governor, lieutenant governor, immediate past district governor, secretary, treasurer, public relations officer, division governor, or area governor.

The audit committee should be composed of members who have basic accounting training or accounting experience. Having audit committee members without accounting experience will make the task of conducting an audit more difficult.

### **Audit Committee Fiduciary Duties**

The audit committee has a fiduciary duty to ensure that the audit accurately reflects district income and expenses. All district expenses must be documented with proper approvals and receipts. Accuracy and appropriateness are essential. The year-end audits are included in the World Headquarters tax information filed with the Internal Revenue Service every year. Incorrect or inappropriate expenses could result in the loss of Toastmasters International's tax-exempt status.

Any use of district funds that is not authorized and is not consistent with the district's mission is a violation of the California Charitable Trust Act and is illegal. Even though your district may not be in California, a diversion of charitable trust funds puts the organization at risk because districts worldwide are administrative arms of Toastmasters International and are subject to the same laws and guidelines.

If the audit committee becomes aware of any financial irregularities, it has a legal obligation to act. Failure to do so could make the members of the audit committee liable. If the audit committee becomes aware of a diversion of funds, you are required to contact World Headquarters immediately.

## Preparing for the Audit

The auditors must obtain from the district treasurer:

- ▶ Monthly Treasurer's Reports
- ▶ Midyear or Year-end Audit

### **Special Note:**

Toastmaster's International policy requires that the district treasurer complete a treasurer's report within 45 days following the end of each month. It is recommended that the audit committee chairman receive copies of the monthly treasurer's reports throughout the year.

## Performing the Audit

For the period under audit, the audit committee should obtain the monthly treasurer's reports, midyear or year-end audit report, bank statements, cash receipt documents and cash disbursement documents. The committee should then review the midyear or year-end audit report to obtain an overview of the income and expenses. The district is required to provide on the midyear or year-end audit narrative an adequate explanation of income, expenses, and any significant deviations from the budget. If the narrative is not present or incomplete, ask the district treasurer to complete it before the audit can proceed. A thorough review of Toastmasters International policies and procedures Section VI D6 "District Financial Management," district financial controls (at the end of this document) and the audit procedure checklist prior to beginning the audit. The Audit Procedure Checklist found at the end of this document, is to be used by the audit committee in performing the testing and review of the district financial controls.

### **Procedures to be performed by the audit committee**

Cash receipts should be traced to source documents. For example, district reserve revenue would be traced to the monthly district reserve statement. For cash receipts deposited in the bank, the cash receipt record would be traced to the deposit slip and the bank statement. Also review that all receipts were deposited in the bank in a timely manner. This can be done by tracing cash receipts to deposit slips and then to the bank statements noting the dates on the receipts and comparing to the deposit slip. In addition, the audit committee should verify that the beginning and ending balances for local bank accounts and for the district reserve account at World Headquarters agree to the amount on the financial reports. Bank reconciliations are to be obtained and reviewed.

Verify with district officers that all area, division and conference funds have been properly included and accounted for in the financial statements.

The Audit Committee should also check to make sure the total cash available at year-end on the second page of the audit matches the Funds Available line on the first page. This ensures that the financial report is in balance.

### **Auditing expenses and disbursements**

On the midyear or year-end audit report, trace the totals in the detail of expenses section to the expenses section on the first page (summary page) of the audit form.

If practicable, all disbursements are to be tested for the following attributes:

- **Proper classification**  
Expenses should be recorded under the same line item (description) where the expense was budgeted. It is important to ensure that the expense is correctly classified per policy and was budgeted. Toastmasters International policy requires that every check issued must be assigned to a line item or line items on the district budget.
- **Authorized signatures on check**  
All checks should be signed by both the district governor and district treasurer. Checks made payable to the district governor or district treasurer should be signed or approved in writing by the lieutenant governor education and training or the lieutenant governor marketing.
- **Endorsement agrees with the payee**  
If the district is receiving their cancelled checks from the bank, review the checks to ensure that the checks were cashed or deposited by the payee. This is a good fraud prevention step.
- **Proper approval of expenses of \$500 or more**  
Any individual expense in excess of \$500 must be authorized verbally or in writing, in advance, by the district governor and at least one lieutenant governor, in consultation with the district treasurer. For all disbursements, there should be an approval on the documentation or a note explaining when the expense was approved. An e-mail approving the expense would be acceptable.
- **Invoices and reimbursement requests are calculated correctly**  
Review the quantity and prices on bills and or invoices for mathematical accuracy.
- **Requisitions for reimbursements are properly approved**  
All district expenses must be supported by receipts or documentation. If a receipt is lost, a detailed explanation of the expense is required. Each check issued by the district must be assigned to a budget line item at the time the check is written. All reimbursement requisitions must be approved by the district governor.
- **Mileage reimbursements have been authorized as part of the district budget**  
The mileage reimbursement must include an explanation detailing the date, miles traveled, and reason for the trip(s).
- **Narrative page of the audit report**  
The narrative page of the audit report must accurately and completely explain any significant expenses, variances from the district budget, and unpaid bills or obligations.

## Recommendations Supplementing the Audit Report Form

The audit committee may wish to attach any recommendations or commentary that it feels is necessary as a result of the audit. These are some of the common areas that are reviewed and reported by the audit committee:

- ▶ Assessment of the audit compared to the budget
- ▶ Controlled access to district financial records
- ▶ How the financial records are organized
- ▶ Any problems encountered by the district in preparing the financial information
- ▶ Adherence to appropriate financial controls by the district governor, district treasurer, or other district officers
- ▶ Evaluation of the district's adherence to financial controls as outlined in the District Leadership Handbook and Toastmasters International Policies and Procedures Section VI D6 "District Financial Management"
- ▶ Recommendations for improvement

## Presenting the Audit Report to the District Council

The midyear audit report must be presented to the district council by the audit committee during the district annual meeting. The year-end audit must be presented at the first district council meeting held after the International

Convention. The written report should be given to the district council before the meeting. It can be included in a regularly scheduled mailing announcing the district council meeting. If this is not feasible, then it can be distributed at the credentials desk or given to council members before the meeting begins. Any amendments to the audits must be submitted to World Headquarters within 30 days after the council meeting.

The presentation to the district council should include the following information:

**Income/Funds Available (Section I)**

- ▶ Describe the total funds with which the district started the year (total funds in local bank accounts and in the district reserve account at World Headquarters).
- ▶ Describe income from dues renewals and the reason for any variance
- ▶ Describe any other significant income.
- ▶ Provide the total funds available (through December 31 or June 30).
- ▶ Point out that the total cash at the end of six months or year-end matches the Total Cash Available line in Section V (page 2) of the audit.

**Expenses/Disbursements (Section II)**

- ▶ Describe the amount spent in each expense category and note any significant expenses or significant variances from the budget, providing an explanation for each over-or under- budget amount.
- ▶ Announce the total expenses for the period under audit.
- ▶ Announce that the audit committee determined that expenses audited were appropriately classified and included in the category that best described each expense. If expenses were not appropriately classified on the initial report form reviewed by the committee, the audit report will need to be corrected before audit committee approval and presentation to the district council.
- ▶ If there were any problems with financial controls which significantly affected reporting of expenses, these can be noted during this portion of the presentation.
- ▶ However, any minor problems are best reported as part of the audit committee's recommendations.

**Leadership Institute (Section III)**

- ▶ Describe the various expenses and any donations or other income from the events.

**District Store (Section IV)**

- ▶ Describe income from district store sales.
- ▶ Describe amount spent in purchases from WHQ.
- ▶ Describe and explain any other district store expenses.
- ▶ Identify and summarize the reason(s) for any variances from the budget.

**Outstanding Obligations (Section V)**

- ▶ Describe any outstanding obligation or unpaid bills, if any, and, indicate why these were not paid or included in the period covered by the audit.

**Net Funds Available (Section VI)**

- ▶ Identify the net funds available at December 31 (for the midyear audit) or the net funds available to the next administration (for the year-end audit). It would be appropriate to identify variance from the budget and summarize the reason(s) for the variance (e.g., less income than anticipated or fewer expenses than anticipated)

**District Funds Analysis and Total Cash Available (Section VII)**

- ▶ Briefly explain the activity for the District Reserve Account at World Headquarters and for local accounts. Again note that this figure agrees with the net funds available in Section IV on page 1.

## Recommendations Supplementing the Audit Report

- ▶ If the Audit Committee has any recommendations, they can be reported at the end of the presentation.

## District Financial Controls

Because district funds are Toastmaster International funds, the district must have in place the following financial controls to ensure proper use of these funds:

- ▶ The estimated district budget must be signed by the district governor, Lt. governor education and training, Lt. governor marketing, and treasurer.
- ▶ All district checks must be signed by both the district governor and the district treasurer. Checks made payable to the district governor or district treasurer should be signed or approved in writing by a Lt. governor.
- ▶ District treasurer's reports, showing variances with explanations, must be provided as follows:
  - a. Monthly reports to the district governor and Lt. governors.
  - b. A treasurer's report presented at each executive committee meeting and district council meetings.
  - c. Quarterly reports to World Headquarters for the end of September and March. All reports are due within 45 days following the end of the month.
- ▶ All district expenses must be supported by receipts or documentation. Each check issued by the district must be assigned to a budget line item at the time the check is written.
- ▶ All expense reimbursement claims must be approved by the district governor.
- ▶ A single expense in excess of \$500 must be authorized verbally or in writing in advance by the district governor and at least one Lt. governor, in consultation with the district treasurer. Failure to obtain proper authorization could be cause for non-reimbursement by a district to a district officer or individual Toastmaster.
- ▶ Receipts are required for all reimbursements. If a receipt is lost, a detailed explanation of the expense is required. Mileage reimbursements authorized as part of the district budget require an explanation detailing the date, miles traveled, and reason for the trip(s).
- ▶ Reimbursement by a district should be made within 60 days after receipt of an authorized reimbursement request. At year end, reimbursement claims should be made by July 31 for expenses incurred in June. If a district officer or other individual Toastmaster fails to submit a reimbursement claim within 60 days, this could be cause for non-reimbursement by a district.
- ▶ No district, division or area officer shall receive a salary or other compensation except a return for expenses incurred for the benefit of the organization and only to the extent provided for in the adopted district budget.
- ▶ To avoid the appearance of bias or impropriety, it is recommended that the district treasurer not have a significant personal or professional relationship with the district governor.

*Beginning on the next page is a checklist that is to be used as a tool during the audit process. Using the checklist will ensure that all major areas of the audit reports were reviewed.*

## Audit Procedures Checklist

- The district treasurer completes the Midyear and Year-end Audit Report forms including the Narrative.
- The district treasurer and district governor sign the statement:  
*We, the undersigned, certify that all district financial records have been made available to the audit committee for inspection and that any unpaid bills or other outstanding obligations for the year or period have been reported to the audit committee for inclusion in Section III of this audit. We further certify that there are no other outstanding district obligations incurred for the district administrative period July 1, \_\_\_\_\_ to December 31, \_\_\_\_\_ or year July 1, \_\_\_\_\_ to June 30, \_\_\_\_\_.*
- The district treasurer gives to the audit committee the report, checkbook(s), all financial records—including TI monthly reserve statements and district account reports, list of accounts, paid bills, monthly bank statements, canceled checks, etc.
- The audit committee reviews all the items (see attached check list). Questions or requests for additional information may be referred to the treasurer or district governor. Where possible, any items requiring clarification should be reviewed and discussed prior to finalization of the audit. The audit report may be changed by the district treasurer and district governor prior to distribution if the audit reveals mathematical error, posting error, etc.
- If desired, the audit committee can attach a written its report of findings and recommendations to the Midyear or Year-end Audit Reports
- The audit committee signs the statement:  
*We, the undersigned members of the audit committee, have examined the records of District \_\_\_\_\_ for the period of July 1, 20\_\_\_\_ to December 31, 20\_\_\_\_ or from July 1, 20\_\_\_\_ to June 30, 20\_\_\_\_ and believe that this report, prepared by the District \_\_\_\_ Treasurer, properly reflects the operation for that period.*
- The report and all items are returned to the district treasurer and district governor. Copies of the Midyear and Year-End Audit are provided to the district executive committee at its next meeting for review.
- The audit committee chairman or member will provide a verbal report to the district executive committee and district council. The district governor and/or district treasurer will be available at these meetings to answer questions posed by committee or council members.

**Audit Procedures Checklist (contd.)**  
**Items Reviewed**

- District Budget
- Monthly Treasurer's Reports for the year
- Listing of Account Codes/Categories for posting as budget line items.
- Bank statements for the year Checking Account Bank and Account Number \_\_\_\_\_
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- TI District Reserve statements for the year
- District Equipment/Supplies Inventory List for the year
- District Bookstore Inventory List for the year
- District Expense Reimbursement/Request forms for the year with paid bills attached
- District Fall Conference Budget, final registration list of attendees showing events purchased and amounts received, registration forms completed by attendees (to include early bird registration and payments), final report, paid bills
- District Spring Conference Budget, final registration list of attendees showing events purchased and amounts received, registration forms completed by attendees (to include early bird registration and payments), final report, paid bills
- Toastmasters Leadership Institute (TLI) Educational Event Budget, final registration list of attendees showing events purchased and amounts received, registration forms completed by attendees (to include early bird registration and payments), final report, paid bills

## **Audit Procedures Checklist (contd.)**

### **Audit Committee verified**

- Financial records complete, appropriate filing system, use of spreadsheet software or accounting journal
- Requisition for District Funds made appropriately
- All incoming funds presented timely to district treasurer and deposited timely
- The appropriate posting of income and expenses to budget accounts
- Accurate addition and subtraction in all records
- Accurate addition and subtraction on Budget, Monthly Treasurer's Reports, Midyear and Year-end Audit
- District governor - at least one lt. governor and district treasurer are authorized signatures on all accounts
- All District-issued checks signed by both the district governor and district treasurer
- Checks made payable to the district governor or district treasurer signed or approved in writing by a lt. governor
- Monthly Treasurer's Reports show variances with explanations
- Monthly Treasurer's Reports prepared within 45 days following the end of the reporting month
- Monthly Treasurer's Reports provided each month to district and lt. governors
- Monthly Treasurer's Reports presented at each executive committee meeting
- Monthly Treasurer's Reports presented at each district council meeting
- Quarterly Treasurer's Reports sent to World Headquarters for the end of September and March
- All district expenses supported by receipts or documentation
- Mileage reimbursements have explanation detailing the date, miles traveled, and reason for the trip(s)
- If district officer moved out of the geographic boundaries of the district from which he/she was elected, reimbursement was based on the residence of the officer at time of election or the officer's current residence, whichever is less.
- Each expense reimbursement or request approved by the district governor
- Reimbursement by a district is made within 60 days after receipt of an authorized reimbursement request. At year-end reimbursement claims should be made by July 31 for expenses incurred in June.
- Each check issued is assigned to a budget line item at the time the check is written
- Revenue derived from fund-raising activities was found to be from activities within guidelines and policy
- Revenue derived from fund-raising activities was used to offset costs of educational sessions and to raise funds to further the purposes of Toastmasters International: training club and district officers, for the purchase of supplies and educational program materials

- No commingling of district funds with funds in personal accounts, club accounts, or any other accounts
- District funds not used for new club charter, club or member renewal fees
- Single expenditures in excess of \$500 authorized verbally or in writing in advance by the district governor and at least one lt. governor, in consultation with the district treasurer
- District funds used only for:
  - \_\_\_ District and club officer training
  - \_\_\_ Club extension
  - \_\_\_ Club rescue
  - \_\_\_ Membership growth
  - \_\_\_ Promotion of educational programs within clubs
  - \_\_\_ Communication within the district, including bulletins, directories, newsletters
  - \_\_\_ Administrative supplies and district management materials
  - \_\_\_ Awards and recognition
  - \_\_\_ Authorized district officer travel to officially recognized conferences and meetings inside the district
  - \_\_\_ Authorized travel for the top three district officers travel to officially recognized conferences and meetings outside the district (midyear regional meetings, regional conference and international convention only)
  - \_\_\_ District conferences, other district meetings, and speech contests