



STCA STANDARD OPERATING PROCEDURES

Annual Internal Audit-Agreed Upon Procedures

General Procedures:

The internal audit function of a small nonprofit organization (NPO) is to perform limited reviews of the Club's financial statements. It is intended to help the Board of Directors better provide oversight of financial activities. Ideally, an internal audit should be performed annually. Common sense must be applied in considering the frequency, nature and extent of the internal audit function for a nonprofit organization that relies completely on volunteers and the activities do not involve contributions from nonmembers

1. The President of the Board of Directors shall appoint three (3) STCA members to an Audit Committee. The Treasurer will be present.

Consideration should be given to Club members with business experience, such as bankers, accountants, and current and former STCA officers who are not engaged in the actual transactions being reviewed

2. The Board of Directors should review and approve these procedures to be performed by the internal audit team
3. The members of the Internal Audit Committee should obtain and review the prior year's report of the Internal Audit Committee

Internal Controls and Compliance:

The adequacy of internal controls should be of primary concern to the audit team. Refer to Exhibit A for suggested internal controls for cash disbursements and cash receipts.

1. One member of the audit committee should inquire and review the procedures followed by the Treasurer. Identify internal controls in place to assure that transactions are properly authorized and recorded, including procedures for :
 - a. Check writing, signing and issuance
 - b. Collecting monies and making bank deposits
 - c. Bank reconciliations
 - d. Financial statements
2. Based on discussions with the Treasurer, the audit committee member should prepare a memo to describe the internal controls in place that should provide reassurance that Club assets are safeguarded from loss and that financial transactions are authorized and accurately reported. Also, the memo should include recommendations to add internal controls that could strengthen and better protect the Club.
3. Ascertain the Club's compliance with corporate legal and tax filings and liability insurance coverage as follows:
 - a. Determine the NJ corporate report was timely filed
 - b. Determine the Federal Form 990 and 990T (if applicable) was timely filed – usually due May 15th.

- c. Determine that Federal Forms 1099 were filed timely, usually January 31st
- d. Determine that the Club's liability insurance policy is current and that coverage levels are adequate
- e. Verify that bank signature cards on each bank account are current

4. Prepare a memo to document the compliance findings

Procedures to Review Activities and Expenditures:

1. Obtain a copy of the budget approved by the Board of Directors and any reports made to the Board to compare actual yearend financial results to the budget. Document if the comparison of budget and actual was presented to the board
 2. Obtain a copy of the Quickbooks file with the complete financial transactions for the current year and the prior year
 - a. Compare current year activity with prior year activity and review significant fluctuations for reasonableness
 - b. Review the transaction details for large and unusual transactions, such as nonrecurring payees, journal entry corrections. Review supporting documentation and discuss with the treasurer to determine propriety.
 3. Perform a reasonableness test of Membership Dues revenues.
 - a. Obtain a copy of the current membership roster or excel file from the corresponding secretary and determine the reasonableness of the membership fee revenue.
 - b. Multiply the number of members by the membership fee.
 - c. If the amount is not within 5% of the membership revenue recorded on the QB financial statement, inquire with the treasurer for possible explanation and follow-up
 4. Review the bank reconciliations for all bank accounts as of December 31
 - a. Obtain a copy of the bank statement as of December 31 and compare that the bank reconciliation is reasonable and that the balances agree to the year end financial statement. Review reconciling items that are large, unusual and stale-dated items for propriety
- 1) Outstanding checks should be dated within 6 weeks of year end
 - 2) Deposits in transit should be dated within 5 days of year end
 - 3) Obtain satisfactory explanation for reconciling items dated outside of these guidelines, especially since missing funds can be disguised as reconciling items
5. Select 2 or 3 bank statements for the operating account at random from the current year.
 - a. Make a random selection of 10 or 15 checks cleared on the bank statements. Obtain the supporting documentation for each of the checks, including:

- 1) Obtain a copy of the cancelled check and note the proper payee, authorized check signer and endorsement
- 2) Compare the cancelled check with the vendor invoice for evidence to support the expenditure
- 3) Trace the cancelled check to proper recording in the Quickbooks general ledger

6. Investments

- a. Obtain copies of the investment statements for each account as of December 31 and agree the balances to the Quickbooks general ledger and financial statement
- b. Review Quickbooks for investment transactions such as disbursements and transfers and determine the transactions were authorized by the Board
- c. Determine that investment income is properly recorded in the general ledger

7. Liability and Clearing Accounts

- a. Discuss with the Treasurer and review that the liability accounts to ascertain the nature of the liabilities and that the accounts are appropriately recorded. Note that, in general, STCA maintains its records on the cash basis, so liability transactions are unusual.
- b. Determine that the liability accounts are cleared timely by reviewing the supporting documentation , especially for the year end financial reports

8. Equity and Net Assets

- a. Review the transactions recorded directly to the equity accounts for propriety. Inquire of the treasurer and determine that the transactions are Board approved and appropriately reported

Report of the Findings of the Audit Committee:

At the conclusion of all procedures, the audit committee team should discuss the findings and conclusions reached. A written statement should be issued by the Audit Committee indicating the findings of the Internal Audit and presented to the Board of Directors. A sample statement of findings is as follows:

The Audit Committee appointed by the Board of Directors of the Scottish Terrier Club of America has performed the Board approved internal audit procedures for the Scottish Terrier Club of America for the year ended December 31, _____. The procedures performed are described in the attached STCA Procedures for Annual Internal Audit for the Audit Committee.

Based upon the procedures performed, we are satisfied that the assets, liabilities, net assets, cash receipts and expenditures are reasonably presented in the STCA's financial reports as of December 31, _____ that are attached.

Any findings and recommendations the Audit Committee suggests the Club or Treasurer address:

Dated and signed by members of the Audit Committee
