

## **Annual Audit Process for Honeywell Retiree Social Club of Arizona (HRSC)**

Approved 28-Sep-2016, Updated 22-May-2017, 13-Jun-2017

A yearly audit is a key safeguard for the Honeywell Retiree Social Club's money and a planning tool for the year ahead. An annual audit is an important tool to keep the organization's financial house in order. The audit verifies the numbers, ensures accuracy, and assesses financial procedures. An audit provides the highest level of assurance that the HRSC's financial statements are fairly presented and free of misstatements.

### **Audit Committee**

The HRSC's Board of Directors will designate an audit committee to perform a financial audit at the end of each fiscal year. Ideally, the committee is chosen before the end of each fiscal year (i.e., before April 30) and the audit is performed in the May time frame.

The audit committee should consist of three to five people who have not had access to the HRSC's checkbook or bank account.

Because questions might arise about the details of HRSC's operations, it can be helpful to include an officer, perhaps the vice president or secretary, as a member of the audit committee. At a minimum the committee should include one board member and two volunteers from the general membership. The treasurer should be available to answer questions but should not sit on the committee.

### **Records to Assemble for Review**

Here is a checklist of records that are used for a comprehensive annual review.

- Treasurer's reports, which include
  - Monthly listing of income and expense transactions, categorized
  - Summary of assets and liabilities each month
  - Monthly and end of year income and expense totals; annual budget or projections as available.
- Bank statements for the year
- Deposit slips and any income detail listings
- Vouchers for all expenditures
- Check register
- Proof of appropriate IRS registration (IRS Form 990-N) since the organization is registered as a 501(c)(7) organization; and proof of appropriate registration with the AZ Corporate Commission
- Any written treasurer procedures or training materials

## Audit Tasks

1. Verify that the appropriate check signing authorities (treasurer and president, per the bylaws) are current with the bank.
2. Verify that IRS Form 990-N is updated and filed as required by the IRS.
3. Verify that the Arizona Corporation Commission forms are accurate and updated as needed.
4. \*Verify, via the bank statements, that the physical assets exist. Verify existing Certificates of Deposit (CDs) and dates associated with them.
5. \*Review the bank statements for any unusual fees or withdrawals (check printing fees, for example). Verify proper record keeping for these items.
6. Verify funds received from members for membership in future years are accounted for appropriately (e.g., as liabilities on the balance sheet).
7. Complete or review and approve the financial review worksheet (sample attached) that summarizes the fiscal year's financial activity, including (but not limited to) beginning cash balance, total receipts during the audit period, disbursements, and ending cash balance, as well as reconciliation of the HRSC book balance(s) with the bank account balance(s).
8. \*Verify that the treasurer's reports add up from month to month. Verify that correct ending balances on one month's report are the starting points for the next month's report.
9. \*Verify that all deposits made during the year have been logged accurately and assigned to the proper category.
10. \*Verify that all checks written during the year are accounted for, approved, and that they have been posted to the proper category.
11. Prepare an Audit Report for the HRSC Board of Directors indicating the accuracy of the records and the reports. The Audit Committee should submit a signed statement that the review has been completed and the books have been found to be in order. Make any notes or recommendations as seen fit, such as suggested improvements to internal controls like record-keeping and cash-handling. If the audit committee has found any exceptions during the course of the review, such as an unrecorded check or a mathematical error, those should be noted and included in the report, along with the steps taken to correct the exception.
12. Return the documents used in the audit to the Treasurer to be included in the permanent archives.

\*At the discretion of the audit committee, Steps 4, 5, 8, 9, and 10 may be performed on a subset of randomly selected months.

## HRSC Audit Committee: Process for Audit Tasks

13-June-2017, DPM

	Audit Tasks	Method
	<b>Housekeeping</b>	
	<ol style="list-style-type: none"> <li>1. Verify that the appropriate check signing authorities (treasurer and president, per the bylaws) are current with the bank.</li> <li>2. Verify that IRS Form 990-N is updated and filed as required by the IRS.</li> <li>3. Verify that the Arizona Corporation Commission forms are accurate and updated as needed.</li> </ol>	<ul style="list-style-type: none"> <li>• The treasurer and president are registered with the credit union for signing checks.</li> <li>• The treasurer will provide printouts of the IRS and AZ Corporation Commission filings on the web.</li> </ul>
	<b>Asset Statements</b>	
	<ol style="list-style-type: none"> <li>4. *Verify, via the bank statements, that the physical assets exist. Verify existing Certificates of Deposit (CDs) and dates associated with them.</li> <li>5. *Review the bank statements for any unusual fees or withdrawals (check printing fees, for example). Verify proper record keeping for these items.</li> <li>6. Verify funds received from members for membership in future years are accounted for appropriately (e.g., as liabilities on the balance sheet).</li> </ol>	<ul style="list-style-type: none"> <li>• For the steps that follow make three stacks of key records from the last month of the previous fiscal year (April) to the last month of the current fiscal year (April) – a stack of monthly bank statements, one of monthly treasurer’s reports, and one of deposit slips and check vouchers. Assign an audit committee member to each stack.</li> <li>• Look over the monthly bank statements. Note the CD was renewed in May 2017 for two years, per agreement by the HRSC Board. Review for unusual fees.</li> <li>• Look at the Balance Sheets – first page of the treasurer’s reports. Note how the dues paid for the future are treated as liabilities.</li> </ul>
	<b>Audit Report and Income and Expense Details</b>	
	<ol style="list-style-type: none"> <li>7. Complete or review and approve the financial review worksheet (sample attached) that summarizes the fiscal year's financial activity, including (but not limited to) beginning cash balance, total receipts during the audit period, disbursements, and ending</li> </ol>	<ul style="list-style-type: none"> <li>• Review the proposed audit report, with the summary of this year’s income and expenses. Review how the numbers come from the April 2016 and April 2017 treasurer’s reports.</li> <li>• Validate the reconciliation numbers on the bottom half of the sheet, by looking at the bank statements for credit union assets and the</li> </ul>

## HRSC Audit Committee: Process for Audit Tasks

13-June-2017, DPM

	Audit Tasks	Method
	<p>cash balance, as well as reconciliation of the HRSC book balance(s) with the bank account balance(s).</p> <p>8. *Verify that the treasurer’s reports add up from month to month. Verify that correct ending balances on one month’s report are the starting points for the next month’s report.</p> <p>9. *Verify that all deposits made during the year have been logged accurately and assigned to the proper category.</p> <p>10. *Verify that all checks written during the year are accounted for, approved, and that they have been posted to the proper category.</p>	<p>April treasurer’s reports for HRSC book assets. This validates the recorded HRSC book assets for the beginning and end of the fiscal year on the audit report.</p> <ul style="list-style-type: none"> <li>• Note how the “<i>Income and Expense by Activity</i>” sheet shows the expenses and income spread over the months, organized by event or activity. Select a month with a representative amount of activity. For that month: <ul style="list-style-type: none"> <li>○ Validate that the Total Assets for that Month (at the bottom of the “<i>I&amp;E by Activity</i>” sheet) cross-checks with the Total Assets on the “<i>Balance Sheet</i>”, and that the individual account balances on the “<i>Balance Sheet</i>” match the monthly Bank Statement.</li> <li>○ (Note also that the Total Assets for the Month (on the “<i>I&amp;E by Activity</i>” sheet) is calculated from the previous month by adding the Current Month Net Income; which also matches the Current Month Net Gain on the month’s “<i>Income and Expense Statement</i>”, which lists the detailed transactions. This validates month to month continuity.)</li> <li>○ Now, working from the “<i>Income and Expense Statement</i>” sheet review deposit slips and attached information to validate that the source of each deposit on the Bank Statement is identified and properly categorized to one or more Board approved activities.</li> <li>○ Review the vouchers for each check written and validate that it is assigned appropriately to a Board-approved activity on the “<i>Income and Expense Statement</i>”.</li> </ul> </li> <li>• As time permits, select one or more other representative months and repeat the above validations for that month.</li> </ul>

## HRSC Audit Committee: Process for Audit Tasks

13-June-2017, DPM

	Audit Tasks	Method
<b>Conclusion</b>		
	<p>11. Prepare an Audit Report for the HRSC Board of Directors indicating the accuracy of the records and the reports. The Audit Committee should submit a signed statement that the review has been completed and the books have been found to be in order. Make any notes or recommendations as seen fit, such as suggested improvements to internal controls like record-keeping and cash-handling. If the audit committee has found any exceptions during the course of the review, such as an unrecorded check or a mathematical error, those should be noted and included in the report, along with the steps taken to correct the exception.</p> <p>12. Return the documents used in the audit to the Treasurer to be included in the permanent archives.</p>	<ul style="list-style-type: none"> <li>• The audit committee chair should solicit questions from the committee members for the treasurer or other board members, as well as comments and any further follow-up items that committee members may have. Any changes or corrections to the Audit Report that have been identified should be duly incorporated into the report.</li> <li>• The audit committee should decide if there is any other information that should be put into a Recommendations and/or Exceptions report.</li> <li>• Audit committee members sign the report.</li> <li>• All documents are returned to the treasurer, and the audit report is submitted to the HRSC Board.</li> </ul>

\*At the discretion of the audit committee, Tasks 4, 5, 8, 9, and 10 may be performed on a subset of randomly selected months.

**Sample Financial Worksheet and Audit Report:**

**Honeywell Retiree Social Club**  
**Fiscal Year 2017 Financial Audit -- May 2016 through April 2017**

	Receipts	Disburse- ments	Net Gain (Expense)	Balance
<b>Total HRSC Book Assets, End of April 2016</b>				<b>15272.02</b>
<b>Dues and Interest</b>				
Membership Dues	2510.00		2510.00	
Interest <sup>1</sup>	25.68		25.68	
Total Dues and Interest	<u>2535.68</u>		<u>2535.68</u>	
<b>Events<sup>2</sup></b>				
Christmas Dance & Dinner	5.25	300.00	(294.75)	
Day at the Races	1056.00	1056.00	0.00	
Oktoberfest	542.00	550.31	(8.31)	
Spring Picnic	171.00	558.89	(387.89)	
Event totals	<u>1774.25</u>	<u>2465.20</u>	<u>(690.95)</u>	
<b>Other Projects</b>				
Corp Comm Fee (Annual Rqmnt)		10.00	(10.00)	
Office Supplies & Misc.		66.15	(66.15)	
Website		286.35	(286.35)	
Fix It Guys		200.00	(200.00)	
HRSC Contribution to Scholarship fund		1500.00	(1500.00)	
Schol Fund Donation Passthru <sup>3</sup>	3970.00	3980.00	(10.00)	
Other Projects Totals	<u>3970.00</u>	<u>6042.50</u>	<u>(2072.50)</u>	
Fiscal Year Totals	8279.93	8507.70	(227.77)	<b>(227.77)</b>
<b>Total HRSC Book Assets, End of April 2017</b>				<b>15044.25</b>

<sup>1</sup>Includes Interest from May 1, 2016 and May 1, 2017 due to bookkeeping change.

<sup>2</sup>Other HRSC events were net zero expense and did not use HRSC treasury.

<sup>3</sup>Includes \$3000 from Honeywell Inc. and the remainder with membership dues.

**Reconcillation of HRSC Book Assets with Credit Union Assets**

	End April 2016	End April 2017
Credit Union Share (Savings)	4614.89	4619.50
Credit Union Checking (Share Drafts)	2462.12	2818.06
Credit Union CDs	7860.01	7879.36
<b>Total Credit Union Account Assets</b>	<u>14937.02</u>	<u>15316.92</u>
Undeposited Assets (undep membership dues)	335.00	
Checks not posted at end of year (See April Rpt)		(272.67)
<b>Total HRSC Book Assets</b>	<u>15272.02</u>	<u>15044.25</u>

**Reviewer Statement:**

To the best of our abilities, we have examined the books of the Treasurer and have found that the Reconciled Asset Balance presented above is correct and that all receipts and disbursements during the period are in accordance with this organization's mission, as directed by the HRSC Board.

A separate Recommendations and/or Exceptions Report noted during this review is attached: **Yes or No**  
 (circle one)

Board Members

Non-Board Members

\_\_\_\_\_  
 Name

\_\_\_\_\_  
 Name

\_\_\_\_\_  
 Name

\_\_\_\_\_  
 Name