

Audit Instructions

Worthy Grand Knights, Worthy District Deputies,

Last January I sent out detailed instructions on how to do the audit, and specifically how to fill out the form 1295 audit report. I have been asked by the state officers to send this out to everyone again. I know it is a little late and many of you have already done and sent in the audit, but in case you haven't yet please read and follow the directions below. Yes, this is a long message but a very important one. Please save it and read it full screen on a laptop or desktop computer. It will be difficult to read on a phone. Things are improving but we still see many errors on the 1295. **Please** pay close attention to the instructions for each line.

AUDIT

It is the duty and responsibility of every Grand Knight to arrange the date, time, and place of each audit meeting to be held as soon as possible immediately after the end of the audit period (December 31st or June 30th). The audit meeting should not be held in combination with any other meeting such as a business or officers meeting. Since the District Deputy is now required to be present at all council audits, he must be consulted when scheduling to avoid conflicts with other councils in the district.

Depending on the size of the council and the complexity of its financial transactions, a proper audit should take 1-3 hours in one sitting, not more. Those required to be present in person at the audit are the Grand Knight, District Deputy, and **all three** Trustees. The complete six months records of the Financial Secretary, Treasurer, and Recorder must be present, but these officers need not be present as long as they can be reached by telephone to answer questions. The audit should examine a representative sample of both income and expense transaction records (receipt, bank deposit, and voucher records) to ensure that proper K of C procedures are being followed. Because it is the actions and performance of the Financial Secretary and Treasurer that are being examined in the audit, it is **never** acceptable for either of these officers to prepare or complete the audit and present it to the "auditors" for rubber-stamp signatures. The Financial Secretary should run a detailed income and expense report from the Print Center for the audit period and give a copy to each auditor along with complete voucher and receipt records.

Only auditors actually present and participating at the audit meeting may sign the audit. Audits require the signature of the Grand Knight and at least two Trustees. The District Deputy if present may sign in the place of any Trustee but not in the place of the Grand Knight. The signatures must be dated with the date of the audit meeting. The audit is strictly for transactions taking place within the

Audit Instructions

exact six months of the audit period. Do not list anything that has happened after the audit period before the audit meeting.

I see all the council audit reports as they come to me for the state council. It is not an exaggeration to say that about 70% of them have errors of one sort or another. Some of these are basic math errors or figures that simply make no sense. Please use a calculator and double check all entries. Also please make sure that the council number, city, and state are legible and that the audit period dates (including year) are clearly shown (very important). In some councils there has been the practice of "fudging" the numbers in one way or another to "balance" in some way or to avoid "looking bad." There is no reason to do this as you are not judged in any way on the report entries. On the contrary, it only hurts your council when in the future you need to look back at your financial history. Please only enter true and accurate numbers, no matter what they say. The most common errors involve entries being made on the incorrect line on the audit report. Note that negative numbers are never used on the audit report. Please follow the instructions below for the audit report (form 1295).

AUDIT REPORT

SCHEDULE A

All Washington councils are required to fully use Member Management and Member Billing. Formerly, it was acceptable to "have a second set of books" for certain non-membership financial transactions and omit them from Member Billing. While you may still have additional means of financial record keeping, ALL financial transactions (income and expense) should now be entered and recorded in Member Billing, the official financial record of the council. Among other benefits, this will make future audits easier and more accurate. Please make no entries into Schedule A and check the box that you use MM & MB.

SCHEDULE B

Financial Secretary (Left Side)

The left side of Schedule B is for funds handled by the Financial Secretary during the audit period.

The first line is for council funds in the actual possession of the FS on the first day of the audit period. It does NOT include any money in the bank. Normally this entry will be zero, but in certain cases there will be a value for either: a) the FS has on his desk council funds that he received just before the end of the period that he has not yet been able to transfer to the Treasurer with a Receipt

Audit Instructions

form; or b) the council has entrusted to the FS a small (always under \$200) emergency or petty cash fund which would be shown here and in Schedule C (any such fund entrusted to a Grand Knight would be shown in Schedule C but not here).

The second line is for all member dues and mandatory assessments (not PFH) received.

The next three lines on the far left are for all funds received from all other sources. On the first two lines list your biggest fundraisers by name and amount received. On the third far left line list "miscellaneous" and the total of all other income from all sources. Total the three far left lines and enter on the line just to the right, on the third line of the left column.

The fourth line is the total of all three lines above, which will be total cash on hand or received by the FS.

The fifth line is the total transferred to the Treasurer using Receipt forms. This will normally be every penny on the fourth line.

The sixth line is for any council money still in the personal possession of the FS on the last day of the audit period. This is normally zero, unless there is one of the exceptions cited above for line 1.

Treasurer (Right Side)

The right side of Schedule B is where we see most of the mistakes and incorrect entries. First of all, the right side of Schedule B is **only** for the council checking account, **not** for any other bank accounts or assets. Please pay attention to the following.

On the first line enter the bank balance minus any checks that have not yet cleared the bank on the first day of the audit period. You may hear that this number must match the number for net balance on hand on the previous audit. This is **not true**. It is nice when these numbers happen to match, but it will only be the case if the previous audit was done perfectly. Please only go by the adjusted bank balance.

The second line is what the Treasurer reports that he received from the FS with Receipt records. If this number does not **exactly** match the "Transferred to Treasurer" line on the left side, stop the audit and find the discrepancy.

Audit Instructions

The third line is for money transferred into the checking account from savings or other accounts.

The fourth line is for **checking account** interest. **Checking account only!**

The fifth line is the total of all four liners above, including the first line. This is the total amount available for your council to spend in this audit period.

Disbursements (All spending and payments)

The sixth line is "Supreme Council - Per Capita" and it includes all payments made during the audit period to Supreme for per capita, Culture of Life, and Catholic Advertising (NOT Supplies, Knightsgear, or printing orders).

The seventh line is "State Council - Per Capita" and it includes all payments during the audit period to the State Council for per capita (NOT liability insurance, Pennies for Heaven, LAMB 1882 or other donations).

The eighth line is for General Council Expenses. This includes the cost of running the council and all of its events, activities, and programs. Some examples include postage, ink, paper, supplies, FS salary, travel expenses, liability insurance, bank & credit card fees, all costs and expenses including food of all programs, et cetera. It includes every expense of your council except per capita payments and all disbursements to charity.

The ninth line is for money transferred from the checking account to savings or other accounts.

The tenth line "Miscellaneous" is for all donations to charity. This should be what spending still remains after the above entries.

The eleventh line is the sum of lines 6-10, and it is the total of all spending during the audit period.

The twelfth line is Net balance on hand. Subtract line 11 (the amount you spent) from line 5 (the amount you had available to spend). This number should equal or very nearly equal your checking account balance minus any uncleared checks on the last day of the audit period. If there is a discrepancy, stop and find it.

SCHEDULE C

Liabilities (right side) Yes, do the right side first.

Audit Instructions

The first four lines are for unpaid bills still owed to Supreme on the last day of the audit period for per capita, suppliers, Catholic Advertising, and Culture of Life (Other). Do not make any entries here for amounts billed **after** the audit period, those belong to the next audit period. Because supplies orders have had to be prepaid for several years now, any amounts still owed would be several years past due. Per capita, Culture of Life, and Catholic Advertising are all billed in the first days of each audit period, so any such amounts still owed at the end of the audit period would be six months past due and in most cases would cause suspension of the council. These four lines will nearly always be zero.

The fifth line is for unpaid bills still owed to the State Council on the last day of the billing period. This includes both per capita and your liability insurance bill, but not Pennies for Heaven or LAMB 1882. Again, do not make any entries here for amounts billed **after** the audit period, those belong to the next audit period. Since these bills are also usually sent early in each audit period, it would be unusual for them to still be outstanding many months later, so this number would usually be zero.

The sixth line (Advance payments) is **ALWAYS** zero, no other value is correct or acceptable.

The next three lines (7-9) for miscellaneous liabilities are where we see frequent errors. **DO NOT** enter checks here that are outstanding and have not yet cleared the bank. **DO NOT** enter here any amounts budgeted or planned for future expenditures. **DO NOT** enter here any disbursements for or donations to charity. Entries here are **ONLY** for legal debts owed to companies or merchants that were billed to you so late in the audit period that a voucher has not yet been processed. (For our audit purposes, payments are considered to have been made on the voucher date.) An example would be bills for meat or liquor received on December 30th for a Christmas dinner. For each such debt, list the company you owe and the amount owed.

The tenth line is the total of lines 1-9, and it is normally zero.

Assets (left side)

The first line is for council funds in the actual possession of the FS or the GK on the first day of the audit period. It does NOT include any money in the bank. Normally this entry will be zero, but in certain cases there will be a value for either: a) the FS has on his desk council funds that he received just before the end of the period that he has not yet been able to transfer to the Treasurer with a

Audit Instructions

Receipt form; or b) the council has entrusted to the FS or the GK (not both) a small (always under \$200) emergency or petty cash fund.

The second line is the checking account balance minus any uncleared checks on the last day of the audit period. This should be the same value as on the bottom line on the right side of Schedule B.

The third line is the balance in all savings accounts on the last day of the audit period.

The fourth line is the balance in all money market accounts on the last day of the audit period.

The fifth line (Due from members) is **ALWAYS** zero, no other value is correct or acceptable.

The sixth line is the total of lines 1-5.

The seventh line is the tenth line on the right side (liabilities), normally zero.

The eighth line is Net Current Assets. Subtract line 7 from line 6.

The ninth line is for certificates of deposit.

The tenth line is for mutual funds.

The eleventh line is for all other assets, including real estate, stocks, valuable equipment, et cetera.

The twelfth line is the sum of lines 9-11.

The thirteenth line is the sum of lines 8 and 12.

Submit audit reports to Supreme Council Accounts with copies to me (for the state council) and your District Deputy within **30 days** of the end of the audit period to avoid being listed delinquent on the initial late report from Supreme. The official due date is 45 days after the end of the audit period, but if you wait that long you will be listed on the initial delinquency report.

Please save these instructions.

Please pass this message on to your Trustees, Treasurer, Recorder, and all council members involved.

Audit Instructions

**Fraternally,
Kevin Fraley
Director, Administration and Finance
Washington State Council
K of C**