

## Audit Procedure for 4-H Organizations

All 4-H clubs, Advisory and Program Councils should audit the group's financial records on a regular basis. This audit should be conducted by an Audit Committee (adults) appointed for this purpose.

This plan for how to do the audit is called the "Audit Program". The focus is on the following steps in the Audit Program. These steps primarily look at the internal control system of the organization and having an annual audit is a very important internal control.

1. Add up the receipts from the receipt book to see if that amount matches the bank deposits. Determine reasons for differences, if any. Is there a pattern of overages or shortages that suggest less than really good handling of money? Do receipts show no sales tax on exempt purchases?
2. Were there events that took in cash? If so, is there evidence of a "witnessed cash count" by individuals other than the person making the deposit. Did they fill out a Cash Count Form? Does the witnessed cash count equal the amount of the deposit and does the deposit show up on the bank statement?
3. Compare the bank deposit amounts to the amounts that show up on the bank statement for each month. Determine reasons for differences, if any. (There are extremely few legitimate reasons for variance here.)
4. Has the bank account been reconciled each month? This is usually found on the reverse side of the monthly statement. Can you compare the reconciled bank account balance to a figure in the check register? It should be an obvious match.
5. Have there been any cash withdrawals from the bank account? If so, is there documentation as to why this is legitimate? Are there any other transactions in the bank account that need further explanation?
6. Review the expenditures and how they were approved. Are there expenditures that seem out of place?
7. Sales taxes and permits: Were permits obtained for events, if required by the state or local government? For example, raffles and the sale of food require a permit. If sales tax was collected, was it remitted to the Department of Revenue in a timely fashion? Was the 5% raffle tax remitted to the lottery commission?
8. Federal income tax reporting: on hold at this time; wait for further instructions.

OK, this is a pretty simple audit. Now, what do you do if you find a problem? For instance, if the group is not using pre-numbered receipt books, items 1-3 above cannot be completed, and no one can prove that all the money raised found its way to the bank. Look for a solution to that problem. If you could not find witnessed cash count forms, you would recommend use of the forms in the future. If more money showed up in the bank than there were receipts for, then the audit committee would naturally recommend that receipts always be used when cash is collected. A critical judgment here is if many problems show up or there is a pattern of problems over time, it may be time to seek outside counsel.

A forensic auditor can be brought in to consult or start an investigation, should there be questions of wrongdoing. Public organizations are entitled to the assistance from the public lawyer or the county prosecutor, should there be evidence of wrongdoing. Typically, the audit responsibility and cost is born by the group, while the prosecutor bears the other costs of investigation and prosecution.

Be sure to contact your local 4-H Educator if you have questions.