

Four Controls You Can Implement Today To Make Your Auditor Happy

By David Piscorik

The number one question on most Executive Directors' minds is usually, "How do I make my auditor happy"? Staying up late baking cookies the night before, so that the auditor can be greeted with balloons, smiling faces and the scent of white chip macadamia nut cookies (my favorite) wafting through the air, ah. Sounds like a dream..... That's because it is. Most executive directors are very busy doing their best to be all things to all people. They do not have the luxury of baking cookies for their auditors. However, there are four things that you can implement into your organization that would be just as sweet to your auditor as that plate of cookies.

You hear it all of the time: "That won't happen to my organization," or "My bookkeeper would never do that". The truth is fraud happens. It happens all the time, even in our own town. Here is a brief sample of article headlines in the New and Observer over the past few years:

- ▶ "Volunteers accused of embezzling"
- ▶ "Rotarian accused of embezzling"
- ▶ "School embezzling case is resolved"
- ▶ "Worker charged with taking \$121,038"
- ▶ "Audit claims corruption at local University"
- ▶ "Ex-bookkeeper charged with stealing from fire department"
- ▶ "Church worker might face more embezzlement charges"
- ▶ "State alleges charity misused funds"
- ▶ "Two Ex Officials indicted"

Fraud has been occurring since the beginning of time and while the technologies used change, the reasons why people commit fraud hasn't. There are just different tools available today for them to commit their crime. Here are four tips to help strengthen your Association's internal control structure that are very affordable and easy to implement today!

1. Independent Review of Bank Statements

A person independent of the accounting cycle should receive and review the unopened monthly bank statements. This is a very easy step to implement in your



Association. I would recommend having a board member receive an official copy of the bank statements at his home directly mailed from the bank. This person should scan for unusual items, ACH debits and transfers, review cancelled checks or scanned images of the checks, noting proper signor of the check, review the endorsement, and scan the payee and check amounts for reasonableness. Document this process by having the reviewer initial and date the bank statements and submit them to the finance committee so that they may be entered into the minutes.

2. Independent Review of Bank Reconciliations

A person independent of the accounting cycle should receive and review the monthly bank reconciliations. This is a very easy step to implement in your Association. I would recommend having a board member receive the monthly bank reconciliations from your bookkeeper for review. This person should scan for unusual items and ensure that no adjustments were posted to "force" the reconciliation to balance. Review the outstanding check list for stale dated checks. Review the deposit in transit list for stale dated deposits. I don't know about you, but generally speaking there aren't many people who don't like to cash checks they've received. Document this process by having the reviewer initial and date the bank statements and submit them to the finance committee so that they may be entered into the minutes.

3. Utilize A Lockbox Service

A lockbox service enables your bank to become part of your internal control environment. The way a lockbox service works is that instead of dues payments, checks, etc. being mailed directly to the Association, the pay-

ments are mailed to a post office box address. This post office box address resides at your bank. Bank employees will prepare the deposit on behalf of the Association. The bank then prepares a daily summary report to the organization detailing the daily activity for recording and documentation purposes. This is a great feature in helping your Association with its segregation of duties issues as well as helping reduce dedicated staff time that can be better utilized focusing on your members.

4. Utilize A Positive Pay Service

A positive pay service also enables your bank to become part of your internal control environment. The Association prepares and uploads an approved disbursement file to the bank. This file includes the payee, amount and check date information. This file becomes a fraud detection tool and helps reduce the risk of tampered or unauthorized checks from being cashed. When a check is presented at a bank, the bank electronically compares the check to the approved list of transmitted checks. Any discrepancies would be investigated by the

bank. This is another great feature in helping your Association with its segregation of duties issues. Implementing these four tips at your Association, will not only help strengthen your Association's internal control structure, but also provide you with some additional piece of mind knowing that the risk of fraud occurring at your Association has been reduced. Now, about those cookies... ☘

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