

Internal Auditing Procedures

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GENERAL

This practice is intended to help the members of the chapter's Audit Committee conduct thorough, efficient audits of financial records. The recommended constitution and bylaws that all chapters should adhere to provides that there shall be an Audit Committee. All members of the Audit Committee should have previous accounting or financial experience. This committee should perform an audit of the chapter and all subordinate unit accounts at least once a year.

The annual examination should be for a complete year, preferably the fiscal year January 1 through December 31. However, the financial records of the chapter and subordinate units should be ready and available for an audit at any time, either announced or unannounced (surprise audit). It is also recommended that sponsor company internal auditors assist in the audit of all chapters, if at all possible, in the company's area at least once every three years.

In addition, TelecomPioneers Headquarters shall perform periodic process reviews of chapters to insure that chapters are adhering to proper procedures and to assure the validity of information being reported on annual TelecomPioneers Annual Chapter Report forms. TelecomPioneers shall arrange in advance for regular reviews. Follow-up reviews may be conducted without advanced notice.

In June 2004 the TelecomPioneers Board of Directors (national organization) voted to impose the following strict penalties and procedures upon any chapter (including its councils & clubs) that did not adhere to Pioneer Practices as may be determined by a TP HQ process review. The imposition of these Penalties & Procedures requires the advice and consent of the Group Vice President to which the chapter belongs.

- 1. Upon the occurrence of an unsatisfactory Chapter, Council, Club Review by a HQ designated Auditor, the offending unit shall have 6 months to take corrective action; to be followed by another complete audit.**
- 2. The second unsatisfactory audit, either in follow-up or at a later time, will result in a penalty of \$2,500, or at the discretion of the Group Vice President, the chapter operations as TelecomPioneers may be suspended; and an additional 6 months to take corrective action; to be followed by another complete audit.**
- 3. A third such infraction shall result in a \$5,000 penalty, or at the discretion of the Group Vice President, the chapter operations as TelecomPioneers may be suspended; plus the loss of delegates and/or votes at the next succeeding Annual Meeting.**

In addition, Chapter Annual Reports received more than 15 days after a due date shall be evaluated as the equivalent of an unsatisfactory audit.

INTERNAL CONTROLS

The term internal controls refers to the overall operating framework of **policies, practices, systems, management philosophy**, values and actions which exist in an organization to ensure that

- essential organization objectives are met;
- assets are protected and risks are managed;
- legal requirements are met;

- information used to report to the IRS or Revenue Canada is accurate.

Each chapter's management has the responsibility to devise and maintain an adequate system of internal control for its operations. Internal controls are the overall means whereby management ensures that objectives are met, risks are assessed and managed, appropriate reviews of the operation's performance are made, and that information sharing and communications occur in a timely, accurate and appropriate fashion, with due regard for protection of valuable information.

However, internal controls can only provide reasonable assurance that a chapter's objectives are met. As such, each chapter must consider the relative costs and benefits of objective established. Association Headquarters, satisfies an internal control requirement by providing an operating framework for the chapters to follow with regard to policies and practices.

AUDIT GUIDELINES

The audit is one of many effective controls that the chapter should use to administer the Pioneer operation. However, to judge its effectiveness it is necessary to ask the following questions:

1. Does the chapter have a **functioning** Audit Committee?
2. Is the audit made on a surprise basis rather than scheduled in advance?
3. Is an audit also performed when there is a change of officers?
4. Are records of the audit documented and the results kept in the chapter's files?
5. Is the scope of the audit comprehensive rather than just a financial reconciliation?

The Audit Committee will be functioning correctly if each question can be answered yes.

GENERAL INFORMATION

Throughout the audit it must be remembered that different rules apply to the Charitable and General funds.

Audit Purpose

The purpose of auditing the Pioneer Chapter is to determine that:

1. Chapters have established adequate internal controls over their operations.
2. Their financial statements and other reports are accurate.
3. Chapters in the U.S. are operating within Internal Revenue Service (IRS) regulations and other federal, state and local laws established for tax exempt 501(c) (3) non-profit organizations and the Chapters within Canada are operating within Revenue Canada regulations and other federal, provincial, and local laws as applicable.
4. The Association and sponsor company procedures and policies are being followed.

Audit Scope

The audit should consider reviews of the following items:

- Operating procedures
- Record keeping
- Receipts and deposits
- Review and approval of expenditures
- Disbursements

- Advances
- Use Charitable funds
- Records retention

AUDIT STEPS

Audits typically include reviews of the following practices and materials.

Minutes

Copies of the minutes from executive board meetings should be supplied to and retained by the Treasurer and in any centralized regional accounting office. Minutes are the single most important document, in that they describe operations and approve expenditures from Charitable funds, fundraising activities and special events.

Record Keeping

Financial records of the TelecomPioneers chapters and sub-units are maintained on the cash basis of accounting for two primary reasons:

1. This method is functional to all organizations, regardless of size, yet simple enough to be understood by treasurers with little or no accounting background.
2. A single method of accounting must be used to maintain uniformity of reporting throughout the Association, and to expedite preparation of the Chapters IRS Form 990 (Return of Organization Exempt from Income Tax), that the Association headquarters Finance department prepares

The chapter's records must be reviewed to determine whether the required reports are being accurately and promptly prepared. Answer the following questions:

1. Are receipts and disbursements of cash and remittances posted accurately and on a daily basis to the correct account classification for the transaction? (See Account Classification Numbers, section on Procedures for Handling Funds.)
2. Are the Receipts Journal and Disbursements Journal summarized on a monthly basis? Do they include the financial information for all subordinate units (councils, clubs and Life Member clubs)?
3. Is the Income and Expense Statement and Balance sheet prepared accurately on a monthly basis?
5. Is the Annual Chapter Report, Balance Sheet and Income and Expense Statement prepared as of December 31 and forwarded to the Association headquarters Finance department by March 1 each year? Is it a consolidation of the chapter and all its subordinate units (councils, clubs and Life Member clubs)?

Receipts and Deposits

Receipts in the form of cash and remittances are mostly from dues, fees, contributions (company and other) and proceeds from fund-raising activities. Satisfactory answers to the following should be obtained:

1. Are funds received promptly deposited in an interest-bearing account?
2. Is interest and other income generated by restricted funds retained in the Restricted Account
3. If subordinate units (councils, clubs and Life Member clubs) are allowed to have bank accounts:

- a. Are they approved by the chapter executive committee?
- b. Are the accounts designated *TelecomPioneers*, (name of subordinate unit, plus the chapter Federal I.D. #, U.S. only)?
4. Are funds that have not yet been deposited adequately protected?
5. What record is kept of members' dues?
6. If dues are collected through payroll deduction, how are they collected from regular members not on the payroll during that period (i.e., on leave of absence, temporary transfers, etc.)?
7. Are proceeds from fund-raising activities promptly deposited and properly accounted for?
8. Immediately after an affair is over, does the chairperson of the Activity Committee prepare the *TelecomPioneers*, Activity Report?

Expenditures: Review and Approval

At least one year's bills presented for payment should be reviewed and the following verified:

1. Are bills made out to the *TelecomPioneers* rather than to individuals or to the company? Are those bills legitimate Pioneer expenses and are they dated?
2. What controls are in effect to prevent duplicate payments?
3. Are discounts taken where appropriate?
4. Is the arithmetic on the bill correct?
5. If corrections are made to a bill, are the incorrect figures ruled out (not erased or obliterated) and the corrections signed by the person approving the bill?
6. Are all bills certified correct by the person who knows that the expenses are authentic?
7. Are all bills properly approved by the chapter president, vice president or immediate past president or appropriate designee?
8. Are all paid bills, statements and expense vouchers kept for 10 years?
9. Does each bill and expense voucher paid show the check number, payment date, to whom paid, and the correct account classification code for the expense?
10. Are any individuals approving their own expenses?

Disbursements

Monies from bank accounts used during ordinary business activities are to be spent only on the basis of approved bills and expense vouchers. At least one year's activity should be reviewed as follows:

1. Are monies withdrawn from Charitable account used strictly for religious, charitable, scientific, literary or educational purposes or for the prevention of cruelty to children or animals, or as seed money for fund-raising from which all receipts will be posted to Account 3.2?
2. Have any checks or withdrawal slips been signed by the same officer who approved the expenditure or withdrawal?
3. Are all checking accounts (including those of subordinate units) reconciled with the bank statements promptly each month?
4. What is the procedure if discrepancies in the reconciliation are uncovered or if there are unusual or suspicious circumstances about disbursements or authorization for payment?

The auditor should reconcile the bank accounts on a random basis during the audit.

Advances

With proper approval, chapter administrators may advance funds to Pioneer members, subordinate unit treasurers and activities chairpersons. Outstanding advances should be reviewed as follows:

1. Are advances to subordinate unit treasurers and activities chairpersons approved by the president, vice president or immediate past president?
2. Are such advances made for periods normally not exceeding one month and only for Pioneer purposes?

Disaster Funds

Occasionally during a natural disaster, a local chapter will be the center of activity with Pioneers and telephone people all over the United States, Canada, and aboard volunteering aid to unfortunate victims of the catastrophe. If the chapter is being audited is or has been in the last year the center of activity for helping victims of a catastrophe, it is necessary to review how the chapter's participation was handled. (Refer to the sections on Guidelines for Handling a Major Disaster, Procedures for Handling Funds, and Procedures for Fund-Raising.)

Records Retention

Chapters are required by law to keep records that support items reported on their books or tax returns until the statute of limitations for the return expires. It is, therefore, necessary to verify that all financial and tax records are kept for 7 years.

Fund-Raising Activities

The audit committee must be aware of the guidelines in connection with fund-raising activities and the associated accounting for monies received. The section on Procedures for Fund Raising of the TelecomPioneers practices should be reviewed and questions regarding the proper procedures directed to the Association headquarters Finance department.

Fund-raising may take many forms, but care should be taken to avoid unrelated business income, since this would be taxable and may jeopardize the tax exempt status of the chapter.

The auditor must determine that certain legal requirements are being met, including:

1. Were any licenses or permits required for an activity duly obtained?
2. If **special taxes** (property taxes, use taxes, excise taxes, etc.) were due, were provisions made to remit them?
3. If sales taxes apply, were they collected and paid to the appropriate government agency?
4. Were questionable activities cleared with the sponsor company's tax and legal departments or through the Association headquarters Finance department?
5. Does the Sponsor Company approve of the activity?
6. The audit should pay special attention to money-handling procedures in relation to fund-raising activities because of the number of individuals and locations involved.

Internal Audit Program - Summary

TelecomPioneers Chapters have operated under long-established standards called TelecomPioneers PRACTICES. The 3 significant & pertinent parts are:

- a. Section V. A. "Handling of Funds"
- b. Section V. B. "Fund Raising"
- c. Section V. D. "Internal Auditing"

While these have been updated in July 2003, the fundamentals did not change. These establish operating standards – including Internal Audit and oversight audit by the TelecomPioneers Headquarters. Any audit program necessitates a standard of comparison from which to evaluate and in essence is merely a review of process, more than a checking of arithmetic.

The Internal Audit Program will be TelecomPioneers reviewing the records of the Chapters. Over time, some laxity in adhering to the Internal Auditing standards has appeared and in 2004 the HQ Board of Directors enacted penalties to ensure adherence. While the apparent benefit is to TelecomPioneers, every incoming new leader should desire an audit to certify that they are starting with a clean slate and no worries of carry-over problems. A TelecomPioneers based internal audit program should replicate itself downward in the organization and will hopefully “jump-start” the established standard.

Our optimal target is to have every chapter (which includes councils and/or clubs) reviewed at least once every three years. Some Groups have, in fact, sustained the internal audit practice either with their own staff (as suggested by our Practices) or with Sponsor Company Audit Dept. programs. In these instances we will ask for copies of the audit and utilize these in the achievement of our goal.

Following is the (previously provided) checklist of items that we will be particularly careful in checking. After that you will find a copy of the Pioneers Audit checklist.

TelecomPioneers AUDIT PROGRAM

1. Verify that proper accounting reports are presented to Officers & Exec. Councils and included in Chapter Minutes
2. Verify proper voucher approval procedures.
 - a) Determine if routine expenses receive less than full scrutiny and approval
 - b) Test a sample of expenditures, especially those to individuals
 - verify proper approval obtained for expenditures
 - test for reasonableness of expenditures
 - verify that goods or services were received
3. Verify proper booking of all receipts
4. Determine and verify applicable use of state sales tax reporting
5. Verify proper safeguards of accounts, including “1 up” signatories on bank accounts (“1up” means regional signor on chapter and chapter signor on council or club accounts) and that all Bank Accounts are in name of chapter (or council/club) with chapter ID number
6. Verify proper designation of funds Charitable funds
7. Verify that all councils and clubs are reporting on a regular basis and that their data is included in annual TelecomPioneers Annual Reports
8. Verify that all significant expenditures are properly covered in Chapter Minutes
9. Determine that proper procedures are followed on fund raising and handling of income.
10. Reconcile unit record with bank statements
11. Review necessary insurance coverage's and sources

TP INTERNAL FINANCIAL REVIEW
RECORDS REQUESTED

For all 12 months of Pioneer Year Ended 12/30/XX

REQUESTED

RECEIVED

TP 1-ACTIVITY REPORTS	_____
TP 2 EXPENSE VOUCHERS	_____
TP 3 REQUESTS FOR ADVANCE (Separated and grouped)	_____
TP 4 RECEIPTS FOR CASH	_____
TP 5 RECONCILEMENTS OF CHECKBOOK RECORDS	_____
BANK STATEMENTS	_____
DEPOSIT SLIPS	_____
SEQUENTIAL LISTING OF ALL CHECKS BY NUMBER	_____
TP ANNUAL CHAPTER REPORTS	_____
TP 15 RECEIPT JOURNALS	_____
TP 16 DISBURSEMENT JOURNALS	_____
TP 17-1 INCOME & EXPENSE STATEMENTS	_____
TP 17-2 BALANCE SHEETS	_____
MINUTES OF EXECUTIVE BOARD MEETINGS	_____
MINUTES OF SUB UNITS MEETINGS	_____
COPY OF LAST AUDIT (if available)	_____
COPY OF ALL STATE, LOCAL, COUNTY APPLICABLE TAX RETURNS.	_____
COPY OF MOST CURRENT TP PRACTICES	_____
COPY OF VENDOR / SUPPLIER AGREEMENTS	_____

COMMENTS: _____

