

## **Audit Committee Detailed Report — Earl Reynolds, Audit Chairman**

C-7A Caribou Association Audit Committee Report July 31, 2007

The Association at the Pigeon Forge appointed a committee of non-Board members to audit the accounting records of the Association. Discussion between the Board and the Committee was had as to how the audit would proceed. As a point of information, suggestions that the audit procedure should be approved by the Board was countered by the fact that normally audits are independent of the entity that is being audited. This procedure is used such that there can be no inference that the conclusions, opinions or recommendations of the Auditor has been influenced by the entity.

The Audit Committee requested the Board to adopt a fiscal year. The Board approved a fiscal year equal to the calendar year. The Board approved a motion to audit the accounting records of the Association for the fiscal year ending 12/31/2006. The Audit Committee formulated a procedure and checklist that was submitted to the President with a request as to who would answer the various questions. Most of the questions were to be answered by the Secretary, the Treasurer, the Merchandise Coordinator, the Reunion Planner and the President.

Members of the Audit Committee were assigned to audit and inquire into the merchandise activity of the Association, to audit and inquire into the reunion income and expenses, and to audit and inquire into the oversight of the Board and the accounting systems used in the accounting function.

Results of the Audit and Inquiry:

1. Balance sheets as of 12/31/2006, 12/31/2005 and income-expense statement covering the fiscal year 2006 were received. Attempts were made to generate a complete income-expense statement covering the fiscal year 2006. These records were presented in excel spreadsheets. The audit committee was not able to receive or create one an accurate statement. No account authorization resolutions were received by the audit committee. The SOP (Feb 2006, on the website) for issuing checks talks of members have check writing authority. The committee did not receive a list of those that had check writing authority. The Association accounts were setup for online activity. The audit committee did not receive a list of those authorized for which accounts.
2. Merchandise Inventory Accounting and Audit: Randy Smith accepted the task of during this portion of the Audit. The Committee received a year-end inventory statement for 2005. There were no records for the period from January 2006 and August 2006. A new Merchandise Coordinator (MC) volunteered in August 2006, He established a valid merchandise inventory. Non sellable merchandise was donated to charity. The Board adopted a new merchandise purchase Standard Operating Procedure (SOP) that is posted on the website. The Merchandise Coordinator and the Treasurer began supplying monthly inventory sales reports to the Board for the Association. Postage is paid by the Association for delivery. An account was established that would operate as a petty cash style of account that would be used by the MC for the postage, with the postage receipts being retained. When the account was depleted, the Treasurer reconstituted the postage account. The Merchandise Coordinator, Jim Meyer, and the Treasurer, Bill Buesking, are to be commended for their work in this aspect of the Association's activities. The merchandise records were standalone and not part of a general accounting system. The auditor for this function had recommendations that will be covered in the recommendations section.

3. Reunion Accounting and Audit: Pat Brooks accepted the task to perform this part of the audit. Since the Secretary and the Reunion Planner, Wayne DeLawter, had been assigned to respond to general questions about the Association and the 2006 Reunion, this portion of the audit proceeded between these members. The general materials request, such as the Charter, the By-Laws and some of the SOP's were received and made part of this report. The Board had authorized a separate account for the Reunion Planner into which advance sums were made to guard against overdrafts. Payments of members for the Reunion and some member dues were deposited into this account. Payments for the reunion and transfers of dues to the main account were made. Without detailed inquiry, the transfers were hard to track. The Reunion Planner paid for the vendors engaged for the reunion. Some refunds were received and room credits were assigned to those putting time and effort in for the association. A planned underwriting of the Reunion 2006 was estimated at \$1,000. Because of the refunds the underwriting loss was \$380.04. The Reunion Planner kept meticulous records. The accounting records were standalone and not part of a general accounting system. Board authorizations were obtained for major expenditures. No irregularities were noted by the assigned Auditor. The Auditor for this function had recommendations that will be covered in the recommendations section.
4. General Accounting Records: There were no general accounting records for the period before August 2006. After August 2006, excel spreadsheets were used by the Treasurer on a direct input basis. Check writing records in excel format from the previous treasurer were used to attempt a reconciliation. The Board determined that if most of the members could view the accounts online, this would act as a check and balance on the accounting function. The committee found it almost impossible to audit this type of procedure. The accounts did not have payees listed or what deposits were for or whether deposits were transfers of existing funds in accounts or otherwise. It was noted that the balance spreadsheets used a combination of accrual and cash methods in presentation. These did not reconcile and had internal errors. Without general accounting records, the accounting records could not be reconciled for the audit period. Because of this, the audit committee could not state whether there were any material variations between the accounting reports and the actual asset records of the Association. The auditor for this function had recommendations that will be covered in the recommendations section.

#### Recommendations:

1. It is imperative that the Association purchase a professional accounting package to be used to post all accounting transactions of the Association, regardless of the number of accounts maintained by the Association. All the accounts should be logged into this system. No accounts should be "off the books", including inventory transactions. If online transactions are used, they should still be posted to the general accounting system for audit trail.
2. The postage receipts should be delivered to the treasurer when the postage account is reconstituted. Additionally, whether a professional accounting system with an inventory feature is obtained or the excel approach continue to be used, a copy of such records should be provided to another Board member in addition to the Treasurer.
3. Possibly the lack of a general accounting system led to a finding that the Board had too much oversight on the accounting and merchandise function. Officers other than the treasurer tried to become involved in the day to day functions of accounting. The Board should allow the treasurer to do his job, write checks, receive deposits,

etc. . If there is a question about risk minimization, then a fidelity bond should be obtained. The check issuance policy SOP is no safeguard when multiple persons have access to association funds. The Board should be able to inquire of the person responsible for the account, whether the Treasurer for the main accounts, the MC for the postage account and the Reunion Planner for the Reunion account.

4. With the purchase of a professional accounting system, the fiscal year of the Association should be changed to 6/30, even though the tax year will have to remain at 12/31. This will allow the audit committee to review the accounting records for the period of time covering a reunion for the board still in office instead of reviewing the records after a new board has been elected. It is anticipated that should a 6/30 year be selected, that some of the same problems confronted this period may still be present. The following year would have a full year with the new accounting system.
5. The Board should establish accounting policies after input from the Treasurer. A true professional accounting package will force the Board to establish whether the books will be kept on an accrual or cash basis. The Board resolutions authorizing signature authority should be kept by the Secretary for submission to the Audit Committee. Beginning and ending Balance Sheets for the audit period and the income-expense statement covering the same period should be submitted to the Audit Committee at the beginning of the audit. This audit took over a year to complete. Except for testing records, the audit process for the association should not take over a day.