

Report on Year-End Audit: FY2019-2020, Colfax PTO

This audit was prepared at the request of President Ross Ingram and the Colfax Board members. I met with the 2020-2021 Colfax PTO Treasurer, Natalia Duarte on April 7, 2021 to audit the organization's practices and procedures for the fiscal year ending June 30, 2020.

We conducted this audit based on guidelines of the Checklist of Nonprofit Organizational Indicators (The Twin Cities United Way, 2021) with modifications to make it suitable for the Colfax PTO. The Categories excluded from this audit were either not relevant or within the scope of this audit. We believe that our audit provides a reasonable basis for our opinion.

We reviewed the financial policies from the information provided from ex-treasurer, Mitch Franzos. Also, we randomly selected audit samples of cash disbursements and expenses, and cash receipts, through the FY 2019-2020 journal entries to check the organization's internal control function. The comments to the audit checklist provide the current organization's financial operations and suggestions for possible improvements. The Colfax PTO has maintained appropriate financial practices but needs to have existing policies and procedures updated to fit into the current environment.

After the audit report is reviewed by the Executive Board, we recommend this report to be posted on the PTO website for the public, and the Treasurer and Secretary to keep copies in their files.

Sincerely,

Kuei-O Lin, MAcc
Assistant Treasurer, Colfax PTO FY 20-21
April 14, 2021

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Rating	Legal Indicator	Met	Needs Work	N/A
	1. All relevant filings to the Secretary of State are current. These filings might include: Annual Registration, Articles of Incorporation with all amendments, Change of Corporate Name, Change of Corporate Address. (The particular state office that processes these filings depends on which state you live in.)			X
	2. The organization is registered with and has filed its annual report with the Attorney General's Office. (The particular state office that processes these filings depends on which state you live in.)			X
E	3. The organization has filed the IRS form 1023 (application for 501(c) status, if applicable) and has received a letter of determination. If the Form 1023 was either filed after 7/15/87 or was in the organization's possession on this date, it is made available for public inspection. (This requirement applies to tax-exempt organizations.)	X		
E	4. IRS form 990 and 990T (unrelated business income) if required, have been filed and copies of the 990 are available to the public. (This requirement applies to tax-exempt organizations.)	X		
	5. Federal and state payroll tax withholding payments are current. (This requirement applies organizations with employees.)			X
	6. Quarterly and annual payroll report filings are current. (This requirement applies organizations with employees.)			X
	7. The organization has filed with the Minnesota Department of Economic Security and complies with all filing requirements of the Minnesota Unemployment Fund. (This requirement varies among states. Readers are encouraged to contact their Attorney General's or Secretary of State's office for any filing requirements in their state.)			X
	8. If the organization has qualified employee health and welfare and retirement benefit plans, they meet with all the federal laws, including: COBRA; initial IRS registration; plan documents; annuals filings of the 5500 C/R with copies available to employees. (This requirement applies to organizations with employees.)			X
	9. Organization acknowledges and discloses to their board and auditor any lawsuits or pending legislation which may have a significant impact on the organization's finances and/or operating effectiveness.			X
E	10. When the Board of Directors makes decisions, a quorum is present, and minutes are maintained.	X		
	11. If the organization is subject to sales tax, State and City filings and payments are current.			X
	12. Organizations that participate in grassroots or direct lobbying have complied with all filings and government regulations.			X
	13. Organizations that conduct charitable gambling have complied with government regulations.			X
	14. Organizations with employees represented by a union must have copies of the union contracts on file.			X
	15. Organizations that operate in a fiscal or host-organization relationship with another organization or social service group have a written agreement on file.			X
Indicators ratings: E=essential; R=recommended; A=additional to strengthen organizational activities.				

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Notes about Legal Indicator:

The Colfax PTO is organized for the charitable and education purpose in Section 501 (c) (3) of the Internal Revenue Code of 1986. This organization is tax-exempt. Colfax PTO filed 990-EZ for FY 2019-2020 as the gross receipts are less than \$200,000 and total assets are less than \$500,000 during this fiscal year. The Board meetings were held monthly and the minutes were recorded and saved in the PTO online archive. There is no hiring of employees in this organization. All the board members are volunteers.

Rating	Financial Indicator	Met	Needs Work	N/A
E	1. The organization follows accounting practices which conform to accepted standards.	X		
E	2. The organization has systems in place to provide the appropriate information needed by staff and board to make sound financial decisions and to fulfill Internal Revenue Service requirements.	X		
E	3. The organization prepares timely financial statements including the Statement of Financial Position and Statement of Financial Activities which are clearly stated and useful for the board and staff.	X		
E	4. The organization prepares financial statements on a budget versus actual and/or comparative basis to achieve a better understanding of their finances.	X		
E	5. The organization develops an annual comprehensive operating budget which includes costs for all programs, management and fundraising and all sources of funding. This budget is reviewed and approved by the Board of Directors.	X		
E	6. The organization monitors unit costs of programs and services through the documentation of staff time and direct expenses and use of a process for allocation of management and general and fundraising expenses.	X		
E	7. The organization prepares cash flow projections.	X		
E	8. The organization periodically forecasts year-end revenues and expenses to assist in making sound management decisions during the year.	X		
E	9. The organization reconciles all cash accounts monthly.	X		
E	10. The organization has a review process to monitor that they are receiving appropriate and accurate financial information whether from a contracted service or internal processing.	X		
E	11. If the organization has billable contracts or other service income, procedures are established for the periodic billing, follow-up and collection of all accounts, and has the documentation that substantiates all billings.			X
E	12. Government contracts, purchase of service agreements and grant agreements are in writing and are reviewed by a staff member of the organization to monitor compliance with all stated conditions.			X
E	13. Payroll is prepared following appropriate State and Federal regulations and organizational policy.			X
E	14. Persons employed on a contract basis meet all Federal requirements for this form of employment. Disbursement records are kept so 1099's can be issued at year end.			X
A	15. Organizations that purchase and sell merchandise take periodic inventories.		X	

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R	16. The organization has a fiscal policy and procedures manual and follows it.		X	
R	17. The organization has documented a set of internal controls, including the handling of cash and deposits, approval over spending and disbursements.		X	
R	18. The organization has a policy identifying authorized check signers and the number of signatures required on checks in excess of specified dollar amounts.		X	
R	19. All expenses of the organization are approved by a designated person before payment is made.		X	
	20. The organization has a written policy related to investments.			X
	21. Capital needs are reviewed at least annually and priorities established.			X
E	22. The organization has established a plan identifying actions to take in the event of a reduction or loss in funding.	X		
E	23. The organization has established, or is actively trying to develop, a reserve of funds to cover at least three months of operating expenses.	X		

E	24. The organization has suitable insurance coverage which is periodically reviewed to ensure the appropriate levels and types of coverages are in place.	X		
E	25. Employees, board members and volunteers who handle cash and investments are bonded to help assure the safeguarding of assets.	X		
E	26. The organization files IRS form 990 in a timely basis within prescribed timelines.	X		
	27. The organization reviews income annually to determine and report unrelated business income to the IRS.			X
	28. The organization has an annual, independent audit of their financial statements, prepared by a certified public accountant.			X
	29. In addition to the audit, the CPA prepares a management letter containing recommendations for improvements in the financial operations of the organization.			X
	30. The Board of Directors or an appropriate committee, is responsible for soliciting bids, interviewing auditors and hiring an auditor for the organization.			X
	31. The Board of Directors, or an appropriate committee, reviews and approves the audit report and management letter and with staff input and support, institutes any necessary changes.			X
E	32. The audit, or an organization prepared annual report which includes financial statements, is made available to service recipients, volunteers, contributors, funders and other interested parties.	X		
R	33. Training is made available for board and appropriate staff on relevant accounting topics and all appropriate persons are encouraged to participate in various training opportunities.		X	

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Rating *	Policies & Procedures Indicator	Met	Needs Work	N/A
E	1. The organization's budget is approved annually and is documented in organization's minutes.	X		
E	2. All expenditures which are not in the approved budget are approved at board meetings and documented in the organization's minutes.	X		
E	3. The organization's budget and minutes are kept either in an archive file available for public inspection or on the organization's web site.	X		
E	4. Expense reimbursement is via signed expense form and is approved either by a Board member or a designated committee chair accountable to a board member.	X		
E	5. The organization has a policy that ensures the timeliness of reimbursement requests.	X		
E	6. The organization records all gifts received and issues a receipt or letter to the donor.	X		
E	7. Where possible, all vendors and suppliers are paid by check, and written invoices are kept as documentation. Verbal invoices are not accepted.	X		
E	8. In the rare case where a cash disbursement to a vendor is necessary (e.g., pizza), a receipt is obtained for documentation.	X		
R	9. All checks are signed either by the Treasurer or President, plus one other Board member.		X	
E	10. Only the Treasurer handles cash deposits.	X		
E	11. No deposits are made without the prior knowledge and approval of the treasurer.	X		
R	12. All cash receipts are counted by two people, preferably by the Treasurer and a Board member, who sign a deposit notice documenting the amount of cash received.		X	
E	13. Cash receipts are stored in a locked safe or deposit box prior to deposit.	X		
R	14. Leftover inventory is accounted for by a Board member or committee chair and reported to the Treasurer and Board.		X	
E	15. Where e-mail is used for documenting expenditures or invoices, the Treasurer maintains a paper copy of the e-mail as written documentation.	X		
Indicators ratings: E=essential; R=recommended; A=additional to strengthen organizational activities				

Notes about Financial, Policies & Procedures Indicators:

The Colfax PTO Treasurer produces the monthly budget performance and balance reports and presents them at PTO Board meetings. The PTO budgets are reviewed and approved by the Board members per Colfax PTO Bylaws.

The PTO Treasurer has followed appropriate accounting practices keeping the financial transactions together and has performed regular reports during monthly PTO meetings. Monthly PTO financial reports are posted on the PTO website for the public to review. The ex-treasurer posted financial policies and procedures on the PTO wiki, and reinforced the importance of documentation, such as keeping invoices and providing expense receipts.

However, we discovered some insufficient financial documents in our randomly selected invoices/expenses study. For example, we observed that there are not two authorized emails or signatures for the check/e-checks. Clearly, there is no e-check issuing policy due to the new method of payment. Also, some of the expense reports had no authorized personnel signature. “Internal controls are important to put in place within any organization, because they serve as the first line of defense in safeguarding assets and detecting and preventing errors, fraud and impropriety” (Jon Osterburg, 2018). We would recommend that the incoming PTO Treasurer revise the details of financial policies and procedures, regarding the regular review of inventory, establishing the e-Check procedures and providing more details about the cash distribution policy to strength the internal control of the organization. After that, the PTO Board can review and approve them.

References

Jon Osterburg, J (2018). *Why internal controls should matter to your nonprofit*. Retrieved from <https://trust.guidestar.org/why-internal-controls-should-matter-to-your-nonprofit>

The Greater Twin Cities United Way (2021). *Checklist of nonprofit organizational indicators*. Retrieved from <https://managementhelp.org/organizationalperformance/nonprofits/index.htm>