

Volume One, Number Four
June 2008

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Audits: One More Step Towards Transparency

Has your organization worked through the budget process several times and is confident about budget management? Is your organization ready to apply for larger funding opportunities? Do you have a solid board of directors that help guide the vision, but are removed from the day-to-day activities? If you said yes to any of these questions, your organization is ready for an audit.

An audit is a process that tests the accuracy and completeness of information presented in an organization’s financial statements. The result of the audit is an “opinion”, usually given by Certified Public Accountant (CPA), on how fairly the organization’s financial statements represent its position and whether they comply with Generally Accepted Accounting Principles (GAAP).

The Catch-22 of Audits

An audit follows the basic principle of spending money to make money. The audit is part of the growth of the organization. When an organization gets larger, its financials become more complex. An audit will help the organization and the board of directors develop appropriate financial systems to manage growth responsibly. Externally, as the organization grows and becomes known in the community, potential donors will be interested in the work you do. An audit will not only give those donors a picture of how the organization spends its money, it also opens up the doors for new funding opportunities as most larger funding organizations require applicants to have a current audit.

All this said, for small and medium-sized organizations, an audit can be an expensive undertaking. Most auditors charge between \$5,000 - \$15,000 for their services. While some auditing firms may have a reduced price for nonprofit organizations, very rarely will you find a firm that will donate their services.

Finding a Good Auditor

In response to the scandals of Enron, Tyco and others, the Sarbanes-Oxley Act was passed in 2002 and lays out strict standards for publicly-traded companies in regards to financial process and auditing practices. While most of the Act does not directly affect nonprofits, many have taken steps to integrate these changes into their organizations. The relevant suggestions regarding the audit process that come from the Act include:

- Creation of an Audit or Financial Committee that includes board members who have financial experience. Recruiting a board member who is a certified public

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accountant would be very beneficial. This committee manages the audit firm selection process.

- The person or people serving as the lead reviewer on the audit must rotate out of that position every five years. This does not mean you need a new firm, but that is the most obvious way to comply. The Act also prohibits the auditing firm from performing any other financial or bookkeeping duties for the organization.

With these recommendations, a basic process for selecting an auditor can be created for your organization. In general, a nonprofit wants to make sure the following things happen before selecting an auditor:

- Create an audit committee if one does not already exist. Board members are likely candidates, but qualified community members would also work.
- Recommend that the committee take the following into consideration when they are selecting an audit firm:
 - experience in the nonprofit sector
 - experience with other nonprofits in your community (talk to other organizations to see who they recommend)
 - Training in General Accounting Office (GAO) Standards
 - Fees (Remember that an expensive firm doesn't necessarily guarantee a good audit. On the other hand, an inexpensive firm could be missing important certifications and the resulting audit could be of little use to your organization)

Preparing for an Audit

It is important to always be preparing for an audit by following good financial practices and sticking to your budget, but once you have selected an audit firm and know when your audit will occur, create a checklist of schedules you will need to prepare for your auditor. Your auditor should also give you a list of details that the team will need to complete the audit. Some of the basics include:

- Assets
- Accounts Receivable
- Property and Equipment/Fixed Assets (including depreciation)
- Liabilities
- Payables
- Revenue (including grants and contributions, in-kind donations and income/expenses from special events)

Alaska Resources

The very best resource for guidance before, during and after your audit process is The Foraker Group. This uniquely Alaskan organization focuses on the various issues of nonprofit organizations and provides a full range of financial management services, including audit coordination and preparation. Organizations pay for membership on a sliding scaled based on budget and get a reduced rate for classes and other networking and educational opportunities. Check it out at www.forakergroup.org.

Next Month:
*Child and
Adult Care
Food Program*