

# **ACCOUNTING, AUDITS, TAXES & OTHER MONEY MATTERS**

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Judge Richard W. Carter (Ret.)  
P.O. Box 614  
Arlington TX 76004-0614

Re: "Audits" of Crime Stoppers Programs

Dear Judge Carter,

Attached is a position paper on the CSI Certification Standards regarding a certified financial audit. We took a step by step approach to this. First, we have explained the different levels of reports a CPA can issue. Next, there is a brief discussion about the cost of an audit. We have then discussed procedures all Crime Stoppers Programs should follow to establish minimum financial controls and oversight. This includes discussion of the use of internal and external audit committees to review the organizations' financial controls. We conclude with recommended changes to the CSI Certification Standard.

The recommendations include that every Crime Stoppers Program have written financial policies that meet minimum standards. Each program would be required to have an internal or external audit committee to review the organizations' financial controls. Audits or reviews of the financial statements for Crime Stoppers Programs are based upon the annual level of revenues or expenses.

The proposed break points on the different levels of reporting are based upon current standards used by State regulatory agencies and Federal regulatory provisions covering government grants. The Federal requirement for Audited Financial Statements is currently \$100,000.

In Hawaii, at our Region IV meeting, all programs present objected to the Audit section of the Certification Standards. As Region IV representative, Willet has received some concerns from other programs regarding the audit cost. We believe that the proposal, as we have presented it, will alleviate most of the concerns.

We believe that Canada has a law that sets standards for their nonprofit organizations. It was our understanding that some Crime Stoppers Programs in Canada are required

to have an audit. If this is indeed factual, the audit issue may only be a United States issue.

I hope your committee will reconsider the audit requirement and adopt a more flexible approach. If the committee still requires an audit, it may be beneficial to start with our proposed standards and phase in the audit requirement over a four to six year period. The phase in would allow programs to improve their financial controls and would allow CSI to readdress the audit issue later.

We have attempted to write this paper so it would be useful to you and your committee. If the committee agrees with the proposal, and then submits the change to the CSI executive board, we could easily modify the paper for publication in the Caller. The paper also contains items that would be of use to programs even if you do not change the audit requirement.

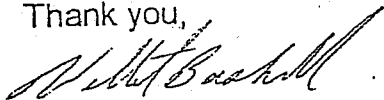
We have reviewed the current CSI bylaws and do not understand why the Certification Standards did not require membership approval. If the current Certification Standards were taken to a vote of the membership, the audit clause will affect the vote.

We have also received letters of concern regarding training. Some programs are reading the training clause to mean that they must attend the annual CSI conference. As time and space allow, each of the Certification Standards should be discussed and explained in the Caller.

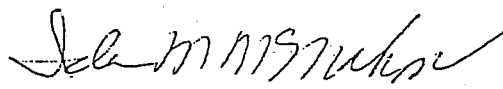
Attached are brief resumes showing our professional backgrounds.

Please call us if you have any questions or comments concerning our proposal.

Thank you,



Willet Bushnell



Ida M. McMahon

Encl.

## Financial Reporting for Crime Stoppers Programs

### Current Certification Standards

The Certification Standards and Procedures for Crime Stoppers Programs contain the following requirement.

**Section II. E.** The program must have a certified financial audit by an independent accounting firm that has been conducted within the twelvemonth period preceding application for certification, and must have additional audits conducted no less frequently than every twenty-four months thereafter. By "independent" audit it is meant that the auditing firm or office shall not have any member of their firm or office currently serving as a Director or Officer of the program's Board of Directors, or that has served in such capacity within the fiscal period that is audited.

The Certification Committee reported to the CSI Board in April 1994, that there is fear that the requirement of a certified financial audit is too expensive. The committee recognized that this was an issue, however, financial integrity is necessary and the committee concluded that an audit is the best method to achieve such financial integrity. The committee report stated that if the CSI Board reconsidered its position on an audit that "any exception to this requirement be requested on a case-by-case application with the burden being placed upon the applicant seeking exception to show undue hardship and provide details of its alternate method of securing financial integrity and proof of a performance or surety-type bond guaranteeing and protecting the program's funds."

**Background:** What is a certified financial audit and what other types of reports can a CPA issue?

Every organization whether it's a small business, a publicly owned corporation, or a nonprofit organization must prepare reports on its financial performance. Such reports help owners and managers make operating decisions. In the United States the American Institute of Certified Public Accountants (AICPA) recognizes that different entities have different accounting needs. CPAs' in the United States may provide a client three distinct reports involving financial statements. A *Compilation report* is useful to small, privately held companies that need help in preparing their financial statements. A *Review report* may be adequate for entities that must report their financial positions to third parties, such as CSI. Reviewed financial statements may also be useful to board members who are not actively involved in managing their organization. An *Audit* is the third and most extensive service. An audit is appropriate for an organization that must offer a higher level of assurance to outside parties. An unqualified opinion from a CPA after an audit provides reasonable assurance to

outside parties that the organization's financial statements fairly present its financial position and results of operation in accordance with certain accounting principles.

## Compilation

The Compilation report is the most basic report. The CPA offers no assurance as to whether material, or significant changes are necessary for the statements to be in conformity with generally accepted accounting principles. During a compilation, the data is simply arranged into conventional financial statement form. No probing is conducted beneath the surface unless the CPA becomes aware that the data provided is in error or incomplete. The CPA does take a common sense look at the organization's accounting system to decide whether the organization needs other accounting services, such as adjusting the accounting records.

The CPA issues a standard report that says, in effect, that the financial statements were compiled, but because they were not audited or reviewed, no opinion is expressed. A CPA that is not independent of the client may issue a compilation report. Because a Compilation has no opinion and does not require independence it may not by its self, provide the financial integrity that the Certification Standards Committee needs.

## Review

A review provides limited assurance that material changes to the financial statements are not necessary. With respect to reliability and assurance, a review falls between a compilation and an audit. To perform a review the CPA must remain independent of the client. A review with its limited assurance may be adequate for a Crime Stoppers program or CSI.

This is what a review entails:

- ▶ The CPA obtains a working knowledge of the industry in which the entity operates and acquires information on key aspects of the organization, including operating methods, products, services, and material transactions with related parties.
- ▶ The CPA makes inquires concerning such financial statement related matters as accounting principles and practices, record keeping practices, accounting policies, actions of the board of directors, and changes in business activities.
- ▶ The CPA applies analytical procedures designed to identify unusual items or trends in the financial statements that may need explanation. A review is

designed to see whether the financial statements "make sense" without applying audit-type tests.

- ▶ The CPA does not confirm balances with banks or creditors, nor does the CPA test selected transactions by examining supporting documents.
- ▶ The CPA issues a report that provides limited assurance that material changes to the financial statements are not necessary.

## Audit

In an audit a CPA examines financial statements by conferring with outside parties, completing physical inspections and observations, and testing selected transactions by examining supporting documents. An audit provides the highest level of assurance that the financial statements fairly represent the organization's financial position and results of operation in accordance with generally accepted accounting principles. The CPA must be independent of the client.

This is what an audit entails:

- ▶ The CPA performs verification procedures to gather evidence on the reliability of the financial statements.
- ▶ The CPA generally confirms balances with banks or creditors and tests selected transactions by examining supporting documents.
- ▶ The CPA contacts sources outside the organization to gather information. For example, the CPA usually obtains written confirmation from a client's customers about amounts owed to the client at a specific date.
- ▶ The evidence gathered is to reduce the risk that the financial statements will be materially misstated.
- ▶ The CPA then issues a report stating that the financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles.
- ▶ An audit is planned and performed with an attitude of professional skepticism. The auditor designs the audit to provide reasonable assurance that significant errors or fraud are detected. However, irregularities or fraud concealed through forgery or collusion may not be found because the auditor is not trained to catch forgeries, nor will customary audit procedures detect all conspiracies.

- ▶ An audit provides a reasonable level of assurance that the financial statements are free of material errors and fraud. An audit does not, however, provide a guarantee of accuracy.

### **Problems: Cost vs. Benefit**

Most complaints regarding the CSI audit requirement have been regarding cost. When a Crime Stoppers Program decides to have an audit, a major consideration will be the cost of the audit versus the benefits. The cost will vary from community to community. The activities of the Crime Stoppers Program, the number of transactions, and the dollar amount of the transactions will affect the cost of the audit. The size of the Community that the program serves, does not determine the cost. The major effect on the cost of the audit will be the condition of the financial records. Crime Stoppers Programs have mentioned proposed costs of \$1,000 to \$4,000 for an audit. There is no average cost for this. In some large communities, CPA organizations provide a service to help defray the cost of an audit to small nonprofit organizations. This service is generally not available in smaller communities.

A program can reduce the cost of financial reports by being prepared. The treasurer can prepare the financial statements and footnotes for the CPA. The treasurer should also reconcile all accounts and prepare any workpapers needed by the CPA. If an audit is performed every two years, it would be more cost effective if the audit report covered the operations for the twenty-four month period and the current period balance sheet. A balance sheet would not be provided for the twelve month midterm period.

What benefits can a Crime Stoppers Program obtain from an audit? The program will receive a report that states the programs financial statements fairly represent the programs financial position. An audit does not provide a guarantee of accuracy. The auditor will generally provide a management letter to the board. The management letter would contain recommended improvements to the programs accounting system and controls. These recommendations would help the program in assuring the financial integrity of the program.

### **What can a Crime Stoppers Program do to improve the financial integrity of its program?**

A Crime Stoppers Program that does not oversee its finances and have adequate controls will find that their records are not auditable by a CPA or that an audit will be very expensive. Lack of controls will lead to records that cannot be audited because of lack of information or documentation.

## **Minimum Financial Standards**

Each Crime Stoppers Program should have written policies for its Minimum Financial Standards. These standards should require at a minimum the following:

- ▶ All bank accounts must require two signatures for checks and transfers.
- ▶ An annual Budget should be prepared to anticipate funding needs and to monitor expenditures.
- ▶ A written monthly financial statement containing a Balance Sheet and a Statement of Income and Expenses compared to Budget should be reviewed by the Board of Directors.
- ▶ A procedure for approving expenses of the program before the expense is incurred.
- ▶ A procedure for approving reward payments.
- ▶ A procedure for reviewing compliance with these minimum financial standards.

## **Internal Audit Committee**

The Crime Stoppers Program should appoint an internal audit committee. The internal audit committee would be charged with the duty to review the Programs financial records and insure that the records meet the Programs financial standards. The internal audit committee would consist of board members or be chaired by a board member. Board members who can sign on the bank accounts or prepare the financial records would not be eligible to be on the internal audit committee.

The committee would develop written procedures to be used by the committee to audit the records. The committee would audit the program's records periodically during the year and at year-end. Some steps the committee could perform to audit the records would be to check the bank reconciliations for accuracy, review canceled checks for two valid signatures and proper endorsement by the payee, compare board minutes to reward disbursements, verify paid invoices have been approved and match them to the check, and match receipts to source documents such as membership lists or cash receipts. The internal audit committee would prepare a written report to the board of its findings. The committee would make recommendations for proposed new procedures and improvements to the internal controls of the organization.



When the committee is first formed, the Crime Stoppers Program should request the assistance of a CPA. These services generally could be donated to the program. A member of the board who is a CPA would be a good candidate for this position.

### **External Audit Committee**

A Crime Stoppers Program could form an External Audit Committee. The committee's task would be to review the organization's financial standards and records. The committee would perform the same tasks as described for the internal audit committee. The external audit committee would contain no board members. The committee could be volunteers from other nonprofit organizations or other Crime Stoppers programs. All information gathered by the committee would belong to the Crime Stoppers program and the members of the committee should be advised as to the confidentiality of the information. The appointment of a CPA would benefit this committee. The benefit of an External Audit Committee is that the program has a review of its records and procedures performed by a third party. An External Audit Committee may see things that the Crime Stoppers Program has overlooked or taken for granted.

### **Recommendations**

A Crime Stoppers Program must have minimum financial policies and must establish a procedure to insure that the financial policies are carried out. The Board of Directors is ultimately responsible for the financial integrity of the Crime Stoppers Program and cannot delegate this responsibility. Even when a CPA is involved in preparing the financial statements, the financial statements are the program's statements, not the CPA's. The Board of Directors must have a sufficient understanding of the financial statements to assume responsibility for them.

### **Proposed Financial Requirements for Certification**

All Crime Stoppers Programs would be required to meet minimum financial standards. These standards would include written policies for financial standards and an internal or external audit committee. Programs would be required to have a financial statement, with varying levels of reports from a CPA, based upon the dollar amount of the Programs annual revenues or expenses.

Crime Stoppers Programs with either annual revenues or expenses under \$25,000 would be required to have compilation report prepared by a CPA. The CPA must be independent per standards set by the AICPA or International Accounting Standards.

Crime Stoppers Programs with either annual revenues or expenses over \$25,000 and under \$100,000 would be required to have a review report prepared by a CPA.

Crime Stoppers Programs with either annual revenues or expenses over \$100,000 would be required to have an audit prepared by a CPA.

The term CPA refers to Certified Public Accountant in the United States. This could be a Chartered Accountant, or equivalent designation in the country where the Crime Stoppers Program is located. In nations where compilation or review reports are not a standard, then an Unaudited Financial Report prepared by a CPA would be considered equivalent.

A Program that has a sufficient oversight of its finances and adequate controls established via its financial policies would be best served by having Reviewed Financial Statements prepared by a CPA. Smaller programs should be encouraged to have Reviewed financial statements. Depending on the activities of the Crime Stoppers Program and its financial complexity, a Reviewed financial statement may be more cost effective. Generally a review performed by a CPA will be 50 to 75 percent of the cost of an audit. A review would provide limited assurance by the CPA that no material changes to the financial statements are necessary. A program can ask the CPA to review the system of internal controls and issue recommendations. This review of the internal controls would assist the program in assuring the financial integrity of the program.

Prepared by: Willet Bushnell, CPA  
Ida McMahon, CPA

## **RETENTION SCHEDULES FOR GENERAL RECORDS**

### **Crimes Stoppers of the Lowcountry, Inc.**

#### **Introduction**

Retention Schedule for Crime Stoppers of the Lowcountry to list those records that need to be protected for future use and to supply a timetable that will allow records to regularly and legally be disposed of that are no longer of value.

#### **Purpose**

The schedule is designed for the following:

- to provide uniform guidelines for the retention and destruction of records
- to retain records for as long as state and federal laws, regulations, policies, and procedures require
- give legal authorization to dispose regularly of obsolete records

#### **Board Minutes**

**Description:** Record of proceedings at meetings of the Crime Stoppers Board of Directors, which include written descriptions of the financial and administrative business conducted. Information includes dates of meetings, meeting times, members in attendance, rewards presented and approvals, proposals and other matters discussed by or brought to the attention of the board members.

**Retention:** Permanent

#### **Audit Reports**

**Description:** Printed reports documenting the annual audit of Crime Stoppers funds. These reports, prepared by an outside accounting firm, are classified by accounts to which they relate. This will also include special audits. Information includes the auditor's report, balance sheet, statement of activity and changes in net assets, statement of cash flow and notes to financial statements.

**Retention:** Permanent

#### **Accounts Payable Check Registers**

**Description:** Record of check payments to vendors, reward payments, all other business related services. Information includes: date, check number, vendor information, reward payment information, account number and amount.

**Retention:** 5 years, then destroy

#### **Paid Invoices**

**Description:** Filed copies of invoices submitted by various vendors supplying goods and services to Crime Stoppers. These invoices may be filed together with copies of checks. Information includes: invoice, vendor name, address, date of purchase/service, invoice number, item(s) or service(s) purchased, amounts and totals. Check copy if attached: vendor name, address, date of check, amount of check and check number.

**Retention:** 3 years, then destroy

#### **Banking Records**

**Description:** Cancelled checks and deposit slips written by Crime Stoppers along with the statements issued by the bank. Information includes: (1) checks: date, to whom paid, amount, check number, authorized signature; (2) bank statements: list of checks for one month period, dates, beginning balance, ending balance; (3) deposit slips: date, amount of deposits, and total deposit.

**Retention:** 3 years, then destroy

#### **Personnel Files (Active and Inactive)**

**Description:** Forms and material relating to Crime Stopper employee(s). Files include: applications, salary information, attendance and leave records, performance evaluations and complete employment history.

**Retention:** 5 years, after termination of employment, then destroy

**Application File (Not Hired)**

**Description:** Application forms submitted by persons applying for jobs with Crime Stoppers who were not hired. Information includes: name, address, education and work experience.

**Retention:** 2 years, after rejection of application, then destroy

**Payroll Register**

**Description:** Documents employment and wages paid to Crime Stoppers employee(s) for services rendered. Information includes: name of employee, social security number, date of check, hourly or salaried amount, overtime, number of hours worked and other deductions.

**Retention:** 1 year, then destroy

**Payroll Check Registers**

**Description:** Record of payroll checks issued. Used for balancing accounts, internal fiscal control and external audits. Information includes: employee name, social security number, amount of check, state and federal income tax deductions, other deductions and year to date totals per pay period.

**Retention:** 3 years, then destroy

**Deduction Registers**

**Description:** Summarization of information on deductions from payroll checks. Used for balancing accounts, internal fiscal control and external audits. Information includes: employee name, social security number, state and federal income tax deductions and year to date deductions per pay period.

**Retention:** 3 years, then destroy

**Individual Taxpayer Report of Withholdings (W-2 Forms)**

**Description:** Employer's copy of employee's total earnings and withholdings for the calendar year reported to the Internal Revenue Service. Information includes: employer's identification number, employer's name and address, employee's social security number, federal income tax withheld, FICA taxes withheld, total FICA wages and state income tax withheld.

**Retention:** 5 years, then destroy

**Time Sheets**

**Description:** Verification of the number of hours worked by the Crime Stoppers employee(s). Information includes: employee name, date and hours worked.

**Retention:** 2 years, then destroy

**Grant Files**

**Description:** Background application information and action taken on federal, state and local government grants awarded to the Crime Stoppers program. Information includes: guidelines, grant applications, contracts, correspondence, reimbursement requests, progress reports and final reports.

**Retention:** (1) Applications, Grant Contract Agreements, and Annual and Final Grant Reports for significant projects. Permanent

(2) Other Records: 3 years, after completion of grant project, then destroy

**Contracts**

**Description:** Contractual agreements between Crime Stoppers and another party. Information includes: date, parties involved, type of contract, explanation of agreement, signature of parties and notarization.

**Retention:** 3 years, after the expiration of the contract, then destroy

**Scrapbooks**

**Description:** Scrapbooks of Crime Stoppers events including newspaper clippings, announcements, photographs, special programs and other related information.

**Retention:** Permanent

### **Case Files**

**Description:** Documentation regarding an incident that has been reported (including crimes, misdemeanor and felony, wanted person(s), illegal narcotics, stolen property, etc.) which has occurred within the five counties that Crime Stoppers manages.

This information includes the incident number, date the call was received, person receiving information, location of incident, information regarding incident, action taken, disposition of case, amount of reward to be paid and date reward approved.

**Retention:** 5 years, or until no further legal or administrative value - whichever comes later, then destroy

### **General Correspondence and Subject Files**

**Description:** Copies of incoming and outgoing correspondence to and from the office with businesses, other government offices and citizens, reports, technical papers, studies, reference materials, and other records created or received in the general administration of a program or in the management of the office.

For the purpose of retention scheduling, the files are broken down as follows:

- (1) **Policy and Program Records:** These records document the formulation and adoption of policies and procedures and the implementation or management of the programs or functions of the office. Included are such records as correspondence with citizens and government officials regarding policy or procedures development or program administration; annual or *ad hoc* narrative or statistical reports on program activities, achievements or plans; organizational charts and mission statements; studies regarding office operations; circular letters, directives or similar papers addressed to citizens, staff or governmental agencies concerning policies, procedures or programs; and records related to significant events in which the office participated. Records may include photographs, published materials, audio and/or video tapes, or other record forms.
- (2) **General Administrative Records:** These records are of a general facilitative nature created or received in the course of administering programs. Included are such records as correspondence of a routine or repetitive type, such as requests for information; reference materials, sometimes of a technical nature, used, but not created by the office; daily, weekly, or monthly office activity reports which are summarized in annual reports or which relate to routine activities; personnel data on office staff; purchase orders, travel expense statements or similar financial papers; daily or weekly office assignments; suspense or follow-up files which duplicate copies of papers filed elsewhere; circular letters, directives or similar papers received from other offices; and rough drafts or notes created in compiling reports or studies.
- (3) **General Housekeeping Files:** These records are of general "housekeeping" nature created or maintained by the office, which do not relate directly to the primary program responsibility of the office. Included are such records as: charitable fund raising drive materials; custodial services request; emergency evacuation procedures; notice of holidays; telephone installation requests; and lists showing the distribution of keys.

### **Retention:**

- (1) Policy and Program Records: Permanent
- (2) General Administrative Records: 5 years, then destroy
- (3) General Housekeeping Files: Until no longer needed for reference, then destroy.