



Review of Financial Statements and Controls FY 2017-2018

Date: January 7, 2019

To: Alan Routh

From: Jennifer Rowland

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Report Distribution

Board of Trustees

Executive Summary

An evaluation of financial statement accounting as well as related processes and controls for the Chatham Education Foundation (“CEF”) was performed for the period July 1, 2017 - June 30, 2018. This included key controls within the following processes: recording of income and expenses, reconciliation of statements from third parties to financial statements, user access to accounting systems, and use of CEF debit card.

Details of specific work steps performed are included in Appendix A.

Details of expenses and specific observations identified, along with management responses are included in Appendix B.

With the exception of the detailed observations included in the report, financial statements appear to be reasonably stated and processes and controls are functioning as expected.

OBSERVATIONS AND ACTION PLANS

1. **Financial statements are currently reported by project/event and not by financial statement account.**

The general ledger accounts relate to events/projects rather than actual financial statement accounts. General ledger accounts are organized and recorded for CEF in order to facilitate preparation of the tax return, however, typically general ledger accounts are used according to the type of revenue or expense and on an annual basis, a book to tax reconciliation is performed in order to prepare the tax return.

Typical revenue accounts include Contributions/gifts; Revenue-Raffle; Investment Income, etc. Typical expense accounts include Contractor Services, postage, Office Supplies, Software/Internet Fees, Insurance, Interest Expense, Printing, Equipment Rental, etc.

Action Plan

Consider alternatives: 1) No change from current system, which is designed to be most efficient for our current business model and to facilitate tax return development; 2) upgrade Quickbooks product to allow use of "classes" of expense (\$300/year extra); 3) Create sub-accounts for major expense categories (see below)

- **Postage**
 - fall appeal, spring appeal, TOC/Casino Royale, Trivia Night, Annual fund, mailing tax, bank, regulatory documents;
- **Equipment Rental**
 - TOC/Casino Royale, Trivia Night;
- **Contractor Services**
 - Foundation Assistant, Tax accountant;
- **credit card processing fees**
 - teacher tribute holiday, teacher tribute year end, fall appeal, spring appeal, annual fund, TOC/Casino Royale sponsor, TOC/Casino Royale ticket sales, TOC/Casino Royale raffle, TOC/Casino Royale auction, TOC/Casino Royale chips, Trivia Night;
- **printing**
 - fall appeal, spring appeal, TOC/Casino Royale, Trivia Night, Annual fund;
- **Equipment Rental**
 - TOC/Casino Royale, Trivia Night;
- **Office supplies**
 - TOC/Casino Royale, Trivia Night;
- **Software/internet fees**
 - website maintenance and development, website hosting, email (constant contact), donor research, donor database/payment processing (Blackbaud/eTapestry), accounting (Quickbooks);
- **Insurance**
 - liability, directors and officers;
- **new expense category for government registration fees**
 - NJ corporation registration (NJ division or consumer affairs); NJ Legalized Games of Chance Controls Commission.

Owner: Alan Routh, Treasurer - CEF

Implementation Target Date: 1Q19

2. Descriptions of income and expenses should be entered into the 'Description of services' field in Quickbooks.

In order to facilitate the book to tax reconciliation as well as reporting by event, detailed descriptions should be entered on a line-by-line basis in the general ledger. For example, when reimbursements are paid to Board Members/Volunteers, the description should include what the items are and vendors if applicable. Descriptions would be helpful for other cash disbursements such as NJ Division of Consumer Affairs and State of New Jersey. Additionally, descriptions are helpful in the general ledger as it is easier to run reports from the Quickbooks system rather than referring back to actual check descriptions. Also, it is recommended to add Grant IDs (A-2018, B-2018, etc.) to Description of Services.

Action Plan

Foundation Assistant to implement suggestion.

Owner: Alan Routh, Treasurer - CEF

Implementation Target Date: 1Q19

3. Aged items are not researched and resolved.

It was noted that an outstanding check (\$200) aged greater than one year and prepaid expenses (\$751.25) aged greater than 3 years were included in the financial statements. Items aged greater than one year should be investigated and resolved prior to year-end.

Action Plan

Foundation Assistant to flag aged items for action.

Owner: Alan Routh, Treasurer - CEF

Implementation Target Date: 1Q19

4. Receipts and invoices for support of expenses include personal information and addresses rather than official CEF information.

It was noted that several expense receipts and invoices included personal information of the Board member procuring the product/service rather than including CEF information. This may give the perception that expenses are personal and not related to CEF and may also have PII (Personally Identifiable Information) privacy implications. Additionally, original receipts from third parties should be submitted wherever possible. Additionally, use of the debit card would alleviate some of these risks.

Action Plan

Trustees/Volunteers should: 1) list Chatham Education Foundation as name of customer on invoices, PO Box 81, Chatham NJ 07928, with invoice mailed to Chatham Education Foundation rather than being sent to address of Trustee or paid by Trustee; 2) Pay with Chatham Education Foundation debit card where possible (held by Treasurer); 3) try to ensure that receipts do not include personal items or clearly indicate which items are for Chatham Education Foundation; 4) delete/redact any Personally Identifiable Information before submitting for reimbursement.

Owner: Alan Routh, Treasurer - CEF

Implementation Target Date: 1Q19

5. Receipts and supporting documentation was not available for certain expenses.

Some supporting documentation was not available, i.e receipt for post office box rental. (See Appendix B for details). Additionally, some expenses that were for multiple items should be identified and coded to appropriate accounts.

Action Plan

Foundation Assistant to insure that expenses are separated, and that a receipt is uploaded to each QuickBooks expense record

Owner: Alan Routh, Treasurer - CEF

Implementation Target Date: 1Q19

6. Use of the financial statement account #8590 Miscellaneous Expenses should be minimized if possible.

Currently, the contractual bookkeeper fees are recorded in this account but should be recorded under 'Contractor Fees' or 'Contractual Services'. Additionally, payments to NJ Division of Consumer Affairs and State of New Jersey are also recorded in this account.

Action Plan

Foundation Assistant to implement suggestion.

Owner: Alan Routh, Treasurer - CEF

Implementation Target Date: 1Q19

APPENDIX A: DETAILED SCOPE

Below are detailed worksteps related to the areas in scope:

AUDIT WORKSTEPS	
I. PLANNING	
A. PLANNING	
1.	Obtain latest financial statements from Accounting system (Quickbooks).
2.	Obtain check register.
3.	Obtain donor listing (eTapestry system).
4.	Schedule process and risk discussions with relevant stakeholders, including Treasurer, Assistant Treasurer, Bookkeeper, etc.
5.	Validate integrity of reports received - tie to G/L or other reporting system.
6.	Obtain and review policies and procedures.
7.	Assess appropriateness of user access to systems and authorization matrix.
8.	For key spreadsheets, determine appropriate controls exist including locked cells, password protection, correct formulas, etc.
II. FIELDWORK	
A. CASH AND DISBURSEMENTS; INCLUDING INVESTMENT ACCOUNTS	
1.	Validate existing bank accounts.
2.	Understand signatory requirements and processes.
3.	Assess bank reconciliation process, including:
a.	Verify accuracy of trial balance and that it ties to bank statement.
b.	Verify that opening and closing balances roll forward.
c.	Determine that the appropriate review and approval has occurred.
d.	Trace amounts to check register.
e.	Assess reconciling items for aging and accuracy. Determine if any entries (write-offs, etc.) should be recorded.
4.	Verify cash disbursement processes and controls as follows:
a.	Verify that invoices are properly reviewed and approved prior to payment.
b.	Verify that checks have been issued sequentially and voided checks are properly tracked.
c.	Verify appropriate physical security over checks.

d. Determine that rebates were passed back in a timely manner, including non-cash passbacks.

e. Perform a historical lookback to verify prior years and understand current year expectations.

5. Understand and assess the process to add new vendors to the system.

B. ACCOUNTS RECEIVABLE

1. Review the Accounts Receivable aging and investigate any items aged > 60 days.

C. GRANTS

1. Verify that amounts per the schedule of Grants issued in a fiscal year ties to the general ledger.

D. CONTRIBUTIONS

1. Assess processes and controls related to solicitation, receipt and recording of contributions.

2. Reconcile the information in the accounting system to the information in the contribution system.

3. Obtain the endowment statements and verify amounts to accounting systems.

4. Assess the current valuation of the endowment (lower of cost or market; mark to market, etc.).

5. Select a sample of contributions and validate that they are recorded in the proper fundraising account.

E. FINANCIAL ACCOUNTING

1. Account Reconciliations

a. Review other balance sheet accounts and reconcile balances to source documentation (prepaid expenses, deferred expenses, capital accounts, etc.).

b. Assess any reconciling items and that they are explained and documented in adequate detail and appear reasonable.

c. Note that for unresolved reconciling items, an appropriate action plan is in place to resolve the item on a timely basis.

2. Profit & Loss Analysis

a. Perform a year over year analysis of General Expenses and validate unusual variances.

3. Accruals/Deferrals

a. Verify that transactions are recorded on the cash basis and that there are no accruals or deferrals at year-end.

III. REPORTING

A. REPORTING

1. Conduct closing meeting with stakeholders to validate findings and draft management action plans.

2. Revise report based on closing meeting and determine if there are additional open items.

3. Share final draft with relevant stakeholders.

4. Issue report as final.

APPENDIX B – Expense Detail

Ledger Date	Payee	Amount	Check Number	Account Code	Description of services
9/24/2017	Alyssa Koenig	400.00	1313	8580 Misc Expenses	Other expenses July/Aug
9/24/2017	Alan Routh	98.00	1311	8140 Administrative Fees	Reimbursement for Postage
10/2/2017	USPS	90.00	1310	8140 Administrative Fees	PO Box rental #81
10/18/2017		1,013.25		Split	Refund
4/18/2018	Kristen Panagakos	617.21	1351	7125 Fundraising Expenses	Spring Schools Appeal
4/23/2018	Diane Rooney	555.67	1356	7112 Fundraising Expenses	TCC

This should be under Contractor Fees - avoid 'Other'
 Postage should be charged to postage; Office supplies to supplies, etc.
 No supporting documentation
 Unclear what this relates to
 The description should include postage
 Should be separated-Click Bid is fees, then other is Fundraising

Appendix B - Expense Detail response

Ledger Date	Payee	Amount	Check number	Account Code	Description of services	Audit Comment	Response
9/24/2017	Alyssa Koenig	\$ 400.00	1313	8590 Misc Expenses	Other expenses July/Aug	This should be under Contractor Fees - avoid "other"	agree
9/24/2017	Alan Routh	\$ 98.00	1311	8140 Administrative Fees	Reimbursement for postage	Postage should be charged to postage; Office supplies to supplies, etc.	agree
10/2/2017	USPS	\$ 90.00	1310	8140 Administrative Fees	PO box rental	No Supporting documentation	Cannot locate USPS invoice in files, but could request from USPS.
10/18/2017		\$1,013.25		split	Refund	What is this?	A number of donors booked duplicate Trivia Night tables, and refunds were given (\$500/table). For this ledger entry, there were refunds given for three \$500 tables, partially offset by \$500 in income for a table purchased. For the purchased table, the credit card fee was \$13.25. See attached documentation.
4/18/2018	Kristen Panagakos	\$ 617.21	1351	7125 Fundraising Expenses	Spring Schools Appeal	The description should include postage	This expense was to pay Adams Addressing for postage to mail the Spring Appeal letter to Chatham residents. Agree that the description should include postage.
4/23/2018	Diane Rooney	\$ 555.67	1356	7112 Fundraising Expenses	TOC	Should be separated - click bid is fees, the other is fundraising	agree