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INTRODUCTION

Every successful business has good practices and procedures for financial management. This includes an accounting system, a structured budget process, and regular internal and external audits. Your chapter should do its best to get the most out of every dollar it earns and spends. This resource will help your chapter manage its finances, establish policies, procedures, and internal controls to optimize its financial resources, and ensure that your chapter has taken appropriate measures to protect its assets.

The following self assessment can help identify areas in which to improve chapter operations. Count how many times you answer "YES" to the statements listed below. Any areas where you answer "NO" are areas where improvements are possible.

FINANCIAL MANAGEMENT CHECKLIST

<table>
<thead>
<tr>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
<tbody>
<tr>
<td>1)</td>
<td>The chapter uses a computerized accounting system.</td>
</tr>
<tr>
<td>2)</td>
<td>The chapter utilizes a checkbook requiring the signatures of the president and a second officer, preferably someone other than the chapter treasurer. Additionally, the face of the check has two separate signature lines and states that two signatures are required.</td>
</tr>
<tr>
<td>3)</td>
<td>The chapter has a savings account.</td>
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<tr>
<td>4)</td>
<td>Each officer and committee chairperson prepares a budget for his or her office each term.</td>
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<tr>
<td>5)</td>
<td>Each officer and committee chairperson keeps track of his or her actual expenses throughout the term for future reference.</td>
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<tr>
<td>6)</td>
<td>The chapter approves the chapter budget at the end of the previous term. This budget is reviewed initially by the executive board before being submitted to the chapter for a vote.</td>
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<tr>
<td>7)</td>
<td>Each member receives a copy of the approved chapter budget each term.</td>
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<tr>
<td>8)</td>
<td>The chapter enforces a policy of reimbursing members only if they have original receipts and completed expense reports or check request forms.</td>
</tr>
<tr>
<td>9)</td>
<td>The chapter distributes written receipts for all monies received from members and non members.</td>
</tr>
<tr>
<td>10)</td>
<td>At each chapter meeting, the treasurer reports the balance of the checkbook, any additional accounts, and all receivables and payables. He or she also reviews the immediate cash flow position of the chapter.</td>
</tr>
<tr>
<td>11)</td>
<td>Members expect and regularly ask for financial updates and hold chapter officers accountable for monies received and distributed by the chapter.</td>
</tr>
<tr>
<td>12)</td>
<td>Each term, the treasurer presents an analysis of the percentage of money spent on each area of chapter programming. For example, 30% of chapter expenses went toward recruiting, 40% for professional programming, 20% on travel/attendance at fraternity-wide events, and 10% on social activities.</td>
</tr>
<tr>
<td>13)</td>
<td>The chapter files IRS Form 990, Return of Organizations Exempt from Income Tax, by August 15 every year to the Internal Revenue Service.</td>
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<tr>
<td>14)</td>
<td>The chapter has an external audit performed annually.</td>
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<tr>
<td>15)</td>
<td>The chapter has an internal audit performed annually.</td>
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<tr>
<td>16)</td>
<td>The chapter submits copies of internal audits, external audits, and tax forms to the chapter advisor and the Heritage Center, and keeps a copy for chapter files.</td>
</tr>
<tr>
<td>17)</td>
<td>The chapter maintains each year’s financial records for at least seven years.</td>
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<tr>
<td>18)</td>
<td>The chapter has one successful fundraising project which is repeated each year.</td>
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</tbody>
</table>
INTERNAL CONTROL GUIDELINES

A very important aspect of chapter financial stability is the implementation and documentation of internal controls. The audit team should review those controls. Suggestions for implementing new or improving current controls should be made by the auditors upon completion of the audit. The internal controls listed below can provide a starting point and help prevent the occurrence of fraud in the chapter.

- Separate the financial responsibilities. Do not let the same person handle cash receipts and also make bank deposits. Have members that do not sign the checks or make deposits reconcile the bank accounts.
- Require two signatures on each check, the president and another elected officer who is not the treasurer.
- Consider using accounting software with check writing capabilities such as Quick Books, Peachtree or something similar. Only authorized officers should have access to passwords and the software.
- Checks should only be signed when an approved invoice accompanies it. The signers should compare the payee name and amount to the invoice. Signers should also make sure the invoice is appropriately authorized.
- The invoice should be marked “Paid” with the date and number of the check written on the invoice. This will help prevent duplicate payments.
- Use only pre-numbered checks and store unused checks in a secure place where only authorized members have access.
- Keep all cancelled checks and voided checks to account for each pre-numbered check.
- Have the bank statement sent to an officer that does not have any control over the account or money (if possible). The officer should review the statement for any signs of unusual activity.
- Prepare monthly bank reconciliations shortly after the bank statement arrives. The reconciliation should be completed by someone that does not write or sign the checks or make deposits.
- Send a copy of the check register to the chapter advisor every month for review.

BANK ACCOUNTS

Each chapter should have at least a checking account to pay its bills. A savings account is a good idea to accumulate funds for special events such as the Success Institute, Biennial Convention, or trips to other chapters. Some colleges and universities require school organizations to operate all bank accounts through the school. Be sure to follow all fraternal and school requirements.

Checking Account

- Select a bank and account that does not require a minimum balance.
- Select an account that does not charge for transactions such as writing checks and cash transfers between accounts.
- Get an interest-bearing account if it does not charge fees. Some interest-bearing accounts charge fees that may be more than the interest earned.
- Require two signatures for checks, president and another elected officer that is not the treasurer.
- Do not obtain an ATM card.

Savings Account

- Select a bank account that meets the above criteria.
- Require two signatures for withdrawals, president and another elected officer that is not treasurer.
- For large cash balances, consider investing in a money market account or certificate of deposit (CD) to earn more interest. Make sure the chapter’s cash needs can be met if there are penalties for withdrawals before the established maturity date. For example, do not buy a six month CD if you will need the money to pay dues next month.
- Some accounts charge fees if the balance is below a minimum amount.
- Compare the fees to the interest that will be earned to determine if it is beneficial open this type of account.
General Guidelines for Cash Accounts

✓ Do not mix funds with other organizations’ or individuals’ funds.
✓ Follow school and fraternal policies.
✓ A reconciliation of each account should be performed monthly by someone that does not have access to the cash or accounts.
✓ Do not allow cash withdrawals from the accounts. The only withdrawals should be through checks and transfers to other chapter accounts.
✓ Update the signature cards at the bank when new officers are elected. Banks normally require the latest authorized signers to authorize new and/or replacement signers on your account(s). Some banks may require a copy of your election minutes.
✓ Bank fees can sometimes be waived if you ask the branch manager.
✓ Minimum balances are sometimes waived for non-profit organizations.
✓ Many banks have a certain style of check that can be ordered for free provided you have a minimum balance.

REIMBURSEMENTS/RECEIPTS

Every business has policies for reimbursement of expenses, payment of invoices and cash receipts. Each chapter should operate with the following guidelines to help ensure chapter funds are used only for chapter expenses. You may choose to include purchase procedures and reimbursement policies in your chapter’s operations guide, or prepare the procedures so each member is aware of chapter practices.

Reimbursements and payment of invoices

✓ Always require original invoices and receipts. Copies can easily be changed without being detected.
✓ Use a check requisition form or approved expense report prior to any cash expenditure.
✓ All invoices must be approved for payment by the responsible chairperson and chapter president.
✓ Reimbursement of expenses to a chairperson must be approved by the president. No member may approve his or her own reimbursement.
✓ Check requisition forms must be submitted to the treasurer at the chapter meeting immediately following the date the expense was incurred. Prompt submission and payment allows the chapter to better evaluate its cash flow.
✓ The treasurer is responsible for ensuring appropriate documentation and approval is attached to each check requisition form.
✓ The treasurer is responsible for comparing the expenses to the budget submitted for that event. By signing the check requisition form, the treasurer is providing the final approval for payment (after all other approvals have been made).
✓ Any unbudgeted expenses must be presented to the chapter for approval. If an unbudgeted expense is anticipated, the chapter should approve the additional expense before the expense is incurred.
✓ If a chairperson exceeds his or her budget by a stated amount or percent without prior approval, full reimbursement may be denied.
✓ Avoid paying cash for expenses out of any cash proceeds. Writing checks for all expenses provides better documentation for future reference.
✓ If the chapter pays mileage to attend outside events (SI, Convention, etc), establish at the beginning of the academic year criteria for reimbursement and the mileage rate per mile to be reimbursed.
✓ A positive cash balance must be maintained at all times and should allow for incidental expenses. The treasurer is responsible for maintaining a positive cash balance.

Cash Receipts
The chapter shall enforce a policy which requires a written receipt to be given to all members and non-members who submit money to the chapter. The receipt must include the dollar amount, the type of payment, check number (if applicable) and reason for payment.

Pre-numbered receipts shall be utilized. Receipt books can be purchased at an office supply store.

All receipt copies must be maintained for entry into the accounting system and for filing in the chapter records.

The chairperson responsible for collecting money must give the money to the treasurer as soon as possible after the event. If cash is being collected over several days, daily receipts must be given to the treasurer at the end of each day.

The treasurer must deposit all funds collected in the chapter's bank account the day it is received. Money should never be stored in the chapter office or held by any member. If money is collected during non banking hours, the deposit should be made the next banking day, preferably in the morning.

The treasurer must keep a copy of the deposit ticket with all items listed separately and indicate who the money if from.

ACCOUNTING SYSTEM

It is recommended that each chapter maintain its financial records on accounting software. Computerized accounting systems will greatly enhance the ability to easily keep track of all expenses paid, cash receipts, and revenue earned. It will also enable the treasurer to produce customized reports to present to the chapter at each meeting. Software also allows for an easier audit and better record keeping. Software such as Quick Books and Peachtree can be purchased inexpensively by the chapter. If the chapter purchases any software, ensure that copyright laws are not violated by allowing copies to be made.

FINANCIAL REPORTING AND RECORDS

Reporting

It is essential that each member is informed of the chapter's financial information. At each chapter meeting, the treasurer must report the following to the membership:

- Checkbook balance, including all outstanding deposits and checks.
- Additional account balances, including savings, investment, scholarship and university accounts.
- Receivables and payables, including the balance and nature of any outstanding accounts receivable and payable. Additionally, the names and balances of all members who have outstanding financial obligations to the chapter.
- Summarized income statement.
- Actual results versus the approved budget, including explanations for variances, both positive and negative.
- Any immediate financial issues.

The treasurer should present additional information to the chapter at least once during each term. The following information shall be presented during a chapter meeting:

- Income/Expense analysis by percentage and total dollar amount. For example, prepare two pie charts, one for income and one for expenses.
- Functional programming analysis of money budgeted and spent on the major functional areas of chapter programming by percentage and total dollar amount. Major functional areas may include: recruiting, membership education, professional, social, athletic, scholarship, community service, fund-raising, communications, alumni, faculty, publicity, chapter management and fraternity-wide events.
- A dues breakdown analysis of what each dollar of a member’s dues is used for, by percentage and total dollar amount. For example, of the $100 each member pays for dues each semester with $45 for student member
dues billed by the Heritage Center, $15 for recruiting, $11 for insurance, $10 for professional events, $8 for social activities, $4 for publicity, and $5 for awards and recognition, and $2 for general administrative expenses.

- Results of any internal or external audits.
- Year-end financial results.

Visual charts should be used, as they are visually appealing and easy to understand when presenting financial data. The charts present a quick overview and will help prepare members for the corporate environment where charts are commonplace. Using charts also helps keep their interest. Charts can be prepared in most accounting software, spreadsheets and word processors.

**Records**

Financial records must be kept by the chapter. Historical records are extremely helpful when preparing budgets. Records are also required to be maintained for seven years in case of an audit conducted by the Internal Revenue Service.

Records should be kept in a filing cabinet in the chapter office (if available). The data for each year should include the following:

- Accounting ledgers and journals
- Financial statements
- Approved budgets, committee and chapter, including variance reports
- Expense receipts and invoices
- Receipt books
- Check requisition forms with approvals
- Cancelled and voided checks
- Tax forms
- Audits and reviews
- Monthly bank statements with reconciliations
- Treasurer’s financial reports presented at each meeting

**AUDITS: INTERNAL, EXTERNAL AND IRS**

**Internal Audits**

Just as companies conduct annual external audits, many also perform their own internal audits. Internal audits are usually performed mid-way through the fiscal year (April 1 to March 31) and offer the organization an opportunity to detect their own financial control weaknesses. Since Alpha Kappa Psi chapters offer a “fail safe” environment and should be run like a business, conducting an internal audit of chapter financial records is an excellent opportunity for members to apply classroom skills. Most chapters have several accounting or finance majors who have taken at least one auditing course. The president should appoint a chairperson to form an audit committee to review financial records and submit a written report with recommendations to the chapter. The chapter may ask an accounting instructor or faculty member to assist the chapter in this process. Internal audits should test all established controls to ensure they are working properly. For example, all written checks should have proper documentation and authorization, “Paid” stamped or written on the invoice with the check number included on the invoice or receipt. A random, thorough sample can be selected if there was a lot of activity for the period under review. After the internal audit is completed, a report should be prepared that summarizes the testing performed and the results. Recommendations should be identified and implemented to improve the controls or procedures. This report should be shared with the chapter during a business meeting. Additionally, copies should be given to the CA, Chapter Advisory Board, RD and the Heritage Center.

**External Audits/Reviews**
An annual audit/review of an organization’s financial records gives validity to the numbers representing the organization’s financial status. It also gives confidence to the members that the chapter is performing well. Again, as a professional business fraternity with the goal of teaching sound business principles to our members, it is important that chapters plan for audits, both external and internal. External audits are typically conducted at the end of each fiscal year (March 31). Annual external audits or reviews should be conducted by a local CPA, an accounting instructor or an alumnus CPA. Since most chapters’ records are not complex, chapters are usually able to find one of these persons to volunteer his/her services. It is important to properly extend your appreciation of his or her services with a thank you letter and possibly a certificate of appreciation or a gift card. The person reviewing the chapter books does not necessarily issue an “opinion.” The terms audit and review are used interchangeably here. The purpose of the audit is to experience the review process. The recommendations of the auditor will not be used outside of the chapter.

General Guidelines for External Audits
If the chapter follows these guidelines, the audit will go smoothly and will not be a burden on the chapter or the auditor.

✓ The executive committee should identify an accounting instructor or CPA who is willing to perform the audit.
✓ The treasurer should contact the auditor approximately two months prior to the desired dates for the audit to be performed. This will allow the chapter and the auditor ample time to compile information and arrange schedules.
✓ The treasurer must make sure the books are closed prior to the start of the audit. All material transactions must be recorded. Minor cash transactions can be recorded in the following year to prevent delaying the audit.
✓ Collect all financial information and records for the audit year. Good organization skills throughout the year will make this task much easier.
✓ Have all reports requested by the auditor completed prior to the audit start date.
✓ All suggestions for improvement shall be documented and reported to the membership at the next chapter meeting, and implemented as soon as possible.
✓ Copies of the audit should be given to the CA, the Heritage Center and the chapter files.

Internal Revenue Service (IRS) Audits
Although an audit of a chapter by the IRS is not common, it has happened. Notification of an IRS audit generally comes by telephone and is always followed by written documentation. The agent assigned to the audit will provide available dates for the audit. However, there is flexibility in scheduling, within reason. The IRS will specify the documents needed for the audit in the confirmation follow-up letter. In general, the returns filed for the years under examination and the related minutes and financial records are requested. Dependent upon the financial size of the chapter and/or scope of the examination, the audit will take place either at the local IRS office or at the chapter campus. During the actual audit, the agent should have one contact person from the chapter. The contact should be familiar with the records under audit (preferably the treasurer or president) and should be available before, during and after the audit. Financial records must be maintained for seven years. Financial records subject to audit include the accounting system, checkbooks, bank statements with reconciliation and meeting minutes. If an entity has failed to file a tax return since it’s inception, an IRS audit may go back into financial records indefinitely. The IRS also has the right to assess back taxes and penalties for a three-year period. IRS audits occur for several reasons, including the non-filing of Forms 990 or 990-T. When contacted by the IRS about an audit, contact the director of finance at the Heritage Center. In complex tax situations, the chapter will also want to involve a tax accountant in the process.

OVERVIEW OF TAX STATUS

Alpha Kappa Psi Fraternity, Inc. operates under the IRS tax-exempt classification defined in Section 501(c)7 of the Internal Revenue Code. This classification is commonly known as the “social club” category. The Fraternity has maintained a ‘group exemption’ with the IRS for a number of years so that each of our chapters (“subordinate groups” in IRS terminology) need not go through the rigorous and time-consuming task of filing with the IRS for exemption
from federal income taxes. To remain a part of the group exemption, each chapter must meet IRS requirements that vary depending on the financial situation of each chapter.

The term “tax-exempt” can be misleading for some people. While the fraternity and its subordinate units (chapters) have been granted an exemption from federal income taxes, the fraternity or any of its subordinate units can be taxed for “unrelated business income” (UBI) or it can lose its exemption entirely. The term UBI refers to income received from non-members, investments and business activities not directly related to the exempt purposes of the organization. When UBI exceeds specified percentages of total revenues, taxes are due and, in the case of excessive UBI, the exemption may be totally denied and the organization can be placed on a totally taxable basis like any other corporation.

The most common area of concern for chapters in the area of UBI is fund-raising. Large fundraising projects have the potential to generate significant amounts of UBI and related taxes. Since the IRS bases its UBI formulas on gross revenue, rather than profits, each significant activity that may produce UBI should be reviewed in light of the overall financial and tax position of the chapter. Whether the activity produces a profit or a loss is immaterial in evaluating UBI and the exemption status of an organization. The exemption from federal income taxes provided to Alpha Kappa Psi does not provide an exemption from all types of taxes. Employee-related taxes such as federal withholding, FICA and federal unemployment must be paid. Though most Alpha Kappa Psi chapters do not have employees, chapters with employees are required to meet all federal, state, and local employment laws and regulations and reporting requirements.

State and Local Taxes
The exemption provided by the IRS to the fraternity and its chapters is totally unrelated to state and local taxes. There are as many different regulations regarding these taxes as there are states. In many states, a non-profit organization like the fraternity is exempt from sales tax only on certain types of purchases. The Heritage Center has sales tax exemption in the state of Indiana only, and can only be used for purchases relating to activities related to the ordinary business of operating the Heritage Center. Many chapters inquire as to how to obtain sales tax exemption. Sales tax is a state/local issue. Consult with your state and local officials for their specific requirements. If you don’t know where to begin, the state Department of Revenue should be able to point you in the right direction. Sometimes states request documentation about the status of Alpha Kappa Psi. There are several pieces of documentation that can be provided by contacting the director of finance at the Heritage Center.

Federal Employer Identification Number
Each chapter, both collegiate and alumni, is responsible for obtaining its own federal employer identification number (EIN). The EIN is effectively a social security number for businesses regardless of whether or not it has employees. The EIN is also required by banks to open an account. If a chapter is unsure of its EIN, the treasurer should contact the director of finance at the Heritage Center, where a master list is maintained. **A chapter should never apply for a new EIN without first contacting the Heritage Center.** Several chapters have applied for a new EIN when one already existed for that chapter. This caused much confusion among the chapters, the IRS and the fraternity. Once a chapter receives an EIN, the chapter will always operate under that same EIN. This is true even if the chapter is closed for a period of time. If your chapter has verified that the chapter does not have an EIN, please obtain a copy of IRS Form SS-4 which is available at [www.irs.gov](http://www.irs.gov). This form allows the chapter to apply for an EIN. Once obtaining the EIN, report it to the Heritage Center immediately to be added to the master list for future reference. Keep a copy of the letter that the IRS sends in your chapter files. A chapter may not, under any circumstances, use the EIN of Alpha Kappa Psi Fraternity, Inc. Use of the fraternity’s EIN has resulted in misdirected mail on employment tax matters and penalties and fines being levied by the IRS.

Federal Income Tax Return Requirements
The income tax return requirements for chapters of Alpha Kappa Psi vary depending on the financial status of each chapter. The IRS provides a monetary test to determine whether or not a return must be filed and which form should be used. It is essential that each treasurer perform this test on the financial records of the chapter after the close of each fiscal year.
✓ If the annual gross receipts (all monies received) of the chapter are more than $25,000, there is a filing obligation. If gross receipts are less than $100,000 and total assets are less than $250,000, the Form 990EZ may be used. Form 990 can also be used if this dual test is passed. Form 990 must be used if gross receipts or assets are above these limits.

✓ Chapters with gross receipts of not more than $25,000 do not need to file a tax return unless a Form 990 or a Form 990EZ package has been received from the IRS. If your chapter has received a tax package and gross receipts are less than $25,000, complete the form and return it to the IRS.

✓ If a chapter has unrelated business income (UBI) in excess of $1,000, it may be necessary for Form 990-T to be filed. All chapters should obtain tax assistance from a CPA or other qualified tax accountant especially in cases where gross receipts exceed $25,000 or UBI exceeds $1,000. The director of finance at the Heritage Center may also be contacted for assistance.

Each chapter is responsible for maintaining accurate and well documented financial records. Chapters are subject to IRS audits and incomplete or inaccurate records can cause significant problems.

All chapters required to file income tax returns with the IRS of any type must do so by August 15 of each year, unless an extension is filed. File the appropriate IRS forms even if your chapter has failed to do so in the past. As mentioned previously, the IRS may assess back taxes and fines for up to three years. Regular reminders are sent to officers through various channels. However, tax awareness and planning are continual chapter responsibilities.
<table>
<thead>
<tr>
<th>Topic/Item</th>
<th>Description</th>
<th>Timing</th>
<th>Hints</th>
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<tbody>
<tr>
<td>Audit Committee</td>
<td>Small group of two or three students, faculty or alumni that are responsible for reviewing the financial records held by the treasurer. If the chapter can afford it, a CPA can be used as well (an alumnus CPA could donate his or her services).</td>
<td>At a minimum, an external audit must be performed annually before the ACR is submitted to the Heritage Center. The external audit should be performed immediately after the close of the fiscal year (April 1 – March 31). An internal audit should be completed when transitioning to new chapter officers. This alleviates former officers of fault when auditing at the end of the fiscal year and ensures that the new officers receive correct information.</td>
<td>Assign committee members that are not members of the exec board. Members of the team should be accounting majors, or have experience in accounting or finance. If the committee is comprised of all students, a faculty representative or chapter advisor must have an oversight role.</td>
</tr>
<tr>
<td>Income Statement Audit</td>
<td>Treasurer is required to submit an income statement to the audit committee. The statement must show all revenues, expenses and profit for the chapter. Audit committee must review this statement and all supporting detail (invoices, billings, receipts, reimbursement reports, check registers, etc.) for accuracy. If adjustments are necessary, work with the treasurer so all records can be updated.</td>
<td>At a minimum, an external audit must be performed annually before the ACR is submitted to the Heritage Center. The external audit should be performed immediately after the close of the fiscal year (April 1 – March 31). An internal audit should be completed when transitioning to new chapter officers. This alleviates former officers of fault when auditing at the end of the fiscal year and ensures that the new officers receive correct information.</td>
<td>If guidelines are followed on budgeting, monthly reporting, A/R, A/P, and large projects, this is a simple exercise. The committee must report its findings to the executive board as well as the chapter membership.</td>
</tr>
<tr>
<td>Balance Sheet Audit</td>
<td>Treasurer is required to submit a balance sheet statement to the audit committee. This statement shows all assets (cash, A/R, Inventory, equipment, property), liabilities (A/P, loans, deferred revenue), and equity (retained earnings) for the chapter. The committee must review this statement and all supporting detail (invoices, bills, mortgages/loan documentation, A/P and A/R reconciliation, etc.) for accuracy. If adjustments are necessary, work with the treasurer so all records can be updated.</td>
<td>At a minimum, an external audit must be performed annually before the ACR is submitted to the Heritage Center. The external audit should be performed immediately after the close of the fiscal year (April 1 – March 31). An internal audit should be completed when transitioning to new chapter officers. This alleviates former officers of fault when auditing at the end of the fiscal year and ensures that the new officers receive correct information.</td>
<td>If guidelines are followed on budgeting, monthly reporting, A/R, A/P, and large projects, this is a simple exercise. The committee must report its findings to the executive board as well as the chapter membership.</td>
</tr>
<tr>
<td>Management Letter</td>
<td>Report filed by the committee that lists all findings, recommendations on improving reporting, documentation and control.</td>
<td>Report filed once the audit is completed. Ensure that this is done before the ACR is submitted.</td>
<td>The report should be concise, kept to one or two pages. Recommendations should be inserted using bullets for easy review. Make sure to sign the letter. Copies should be distributed to all members and kept in the chapter files.</td>
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</tbody>
</table>