

THE MOST WORSHIPFUL GRAND LODGE
OF ANCIENT FREE AND ACCEPTED MASONS

OF THE STATE OF CONNECTICUT

POLICY AND PROCEDURES MANUAL

CONSTITUENT LODGE AND BUILDING ASSOCIATIONS INTERNAL AUDIT

GUIDANCE

Examination of financial accounts of Masonic lodges and other affiliated entities

Applicability and Responsibility:

This document applies to the Grand Lodge of the State of Connecticut, all subordinate Lodges and the building association controlled by one or more lodges.

Responsibility for maintenance of this document rests with the Grand Treasurer and Committee on Legal Matters, and with the approval of the Grand Master.

Discussion:

An audit of the lodge finances, or those of the building association are specified in the by-laws and typically a matter reported on at the Annual Meeting. The lodge or Directors of the building association are not restricted to conducting only an annual audit. By vote of the lodge or the Directors of the building association, they may request an audit of the finances at any time and specify the scope and the period covered by the audit as the brothers deem necessary.

What is the purpose of an audit? It is to provide assurance to the Lodge that the assets they believe they own actually exist, liabilities they have incurred are known, funds they believe they have or should have collected have been and expenses they approved have been paid and nothing more. As part of that assurance, the persons performing the audit need to be independent of the individuals who are in control of those assets, receipts and disbursements. For the lodge to get a clear picture of what they own they need to consider not only the financial accounts but other property.

Accordingly, these suggestions are provided to help those individuals, selected to examine the financial books and records of their Lodge and building associations, undertake an annual review and accounting of the financial assets

and the receipts and disbursements of the respective organizations. The result of such an effort will be to improve reporting, disclosure and transparency of a Lodge's financial condition and financial transactions undertaken by members of the Lodge entrusted with Lodge assets. Attached, as an exhibit to this Procedure, is a recommended financial reporting format for a Lodge and building association.

Who should be appointed to an Audit/Finance Committee?

It is helpful to select members of the committee who have a background in accounting/finance. They need to understand the difference between a balance sheet (listing of assets and liabilities on a specific date) and an income statement (the activity occurring during a period of time in the form of income receipts and disbursements) and accounting for investments.

In the audit process, independence is importance. As such, members of the committee should not be the Treasurer, Secretary, Worshipful Master, Trustee or any other brother having access or control over lodge funds. It is also advisable to not have a person related to the officers listed above serving on the committee. If the lodge does not have qualified brothers, consider asking a neighboring lodge for assistance.

What is the deliverable by the Audit/Finance Committee at the end of the audit process?

The committee should refer to the lodge by-laws or review the directive from the lodge or the Worshipful Master. In general the committee will prepare a written report summarizing the findings of the audit which will be presented to the Lodge, as specified in the by-laws. The most common meeting at which the report is presented is the Annual Communication of the Lodge or annual meeting of the building association. The report must be retained in the files and archives of the Lodge and should be open to inspection by any member of the Lodge upon request.

Getting started

What is the audit period?

The audit is at the direction of the Worshipful Master, Lodge or as required in the Lodge By-laws. That directive should instruct the committee as to what is needed. In most instances the committee is undertaking an audit of the fiscal year just ended for purposes of reporting to the Lodge at the Annual Communication. For lodges, this is commonly the twelve months ending on November 30th. For example, if the lodge year-end is November 30, 2011, the audit period would be from December 1, 2010 to November 30, 2011.

What documents you will need to receive from the Treasurer, Trustee, Secretary, etc.

The audit shall include a review of all financial records including but not limited to;

- Secretary and Treasurer's receipts and disbursement ledgers
- Lodge minutes
- Original invoices for all expenses paid during the audit period
- Accounting(s) prepared by the Treasurer, Trustees and other committees
- Copy of the reports of the Treasurer, Secretary, Trustees, and Committees having control over funds.
- Checkbook and check registers
- Monthly bank statements, bank account reconciliations and all cancelled checks
- Monthly brokerage and investment statements
- Copy of last year's report and accounting(s)
- If the accounting is maintained in QuickBooks or Quicken, request a copy of the data file.

Make a Preliminary Review of documents

Minutes - Typically the committee is reviewing financial information covering a twelve month period. Due to the lapse of time it is difficult to recall all the activities that have occurred. Taking a few minutes to review the minutes of each meeting will help identify approved expenditures, reports from various committees that may impact receipts or disbursements and other extraordinary events such as the receipt of a gift or bequest.

Reports to the Lodge or Board – Obtain all written reports submitted during the year. These reports should be noted within the minutes. Reports to focus on will be those committees receiving or disbursing funds or having oversight over designated funds such as the Charity Committee, Scholarship Committee, Junior Warden's Fund, etc.

Budgets – Some lodges and building associations adopt an annual budget and, once adopted by the Lodge, the Officers may disburse funds unless the expenditure exceeds a dollar threshold or the budgeted amount. The adopted budget should be noted in the minutes. The approved budget should be compared to actual expenditures and notation should be made if expenses were misclassified to avoid exceeding a particular budgeted item which would have required approval of the lodge.

Bank Statements – Look over each bank statement and confirm that documentation of all Lodge bank accounts in existence have been provided for review, including those in existence as of the end of the prior year. Confirm that

each account is properly titled in the name of the lodge. While reviewing the monthly bank statements confirm whether the account was overdrawn at any time and if it has, make an inquiry why that occurred and how was the shortfall covered. Look for unusual deposits and identify the source (could be transfer from another bank account, funds from the trustees, a gift or bequest, proceeds from the sale of assets). Regarding unusual withdrawals; inquire as to the reason for the particular transaction and request the supporting documentation and authorization. Look for wire transfers, even-dollar withdrawals, ATM or ETF transactions, and trace the disbursement to its disposition and authorization. Transfers should correspond to a deposit in another bank account or investment account; transfer to trustees (with a corresponding deposit into an investment account). Payment of expenses should be substantiated by an invoice authorized as noted in the minutes or the order from the Secretary.

Review the monthly bank reconciliations for outstanding deposits and checks. You should also review the bank statements for the month following the end of the reporting period for deposits and disbursements clearing the account. If there are items that have not cleared make further inquiry as to the status of the item.

Analyzing cash receipts

The objective of reviewing cash receipts is to confirm money received is deposited into the bank or investment accounts in a timely and accurate manner.

- Secretary's record of funds received.
 - You should test total dues received by reviewing the membership list and multiply the number of members by the lodge dues. Any variance should be reconciled by the Secretary.
 - Identify other sources of funds received such as prior year dues, donations or gifts received.
 - Compare the Secretary's record of funds received to the Treasurer's record of funds received from the Secretary. This would also include comparing the date received to date deposited, as denoted on the bank statement or receipt, for unusual delays.

Analyzing cash disbursements

The objective of reviewing cash disbursements is to confirm money disbursed was authorized by the lodge for the expenses approved. If there are numerous transactions, the committee should consider utilizing a sample approach. For example, if there are 200 disbursements, select 10% of the disbursements on a random basis or all disbursements over a specific dollar threshold.

- Review bank statements for sequencing of bank checks. Inquire about checks used that are not within the normal numerical sequence of the checks used for the year.
- Compare the listed disbursements to the actual check and original invoice/receipt(s).
- Compare the endorsement on the back of the check to match the payee on the front of the check (where original checks are returned or both sides are imaged on the bank statement).
- Look for payments to vendors the lodge would not normally pay, such as a bank/lender, credit card company, jewelry store, etc.
- Look for payments to lodge members or to businesses or individuals related to lodge members.
 - The concern for the lodge and Committee in these situations is whether the transaction is appropriate and payment is not more than for fair value.
- Look for possible unpaid expenses.
 - Inquire as to the status of outstanding bills.
 - Review schedule of disbursements for patterns. For example, if there should be twelve months of utility bills, but the Committee only identifies ten payments, inquire as to the status of the other two.

Analyzing savings accounts, certificates of deposit, mutual fund and brokerage statements

The objective of analyzing investment accounts is to confirm the source of funds deposited into the account during the year; that funds transferred out of the account are deposited into the correct lodge bank account, and that investments purchased or sold have been authorized by the Lodge or Trustees.

- Confirm that each account is properly titled in the name of the lodge.
- Confirm that whoever currently has authority over the account has been properly authorized by the lodge.
 - Over time brothers with responsibility over the account change and mutual funds companies and brokerage firms do not follow-up on changes in authorized individuals.
- Ask if the lodge has an investment policy statement and obtain a copy of the statement.
 - Review holdings reported on the monthly statement to confirm compliance with the investment policy statement.
- Confirm that the investment holdings reported in the first monthly statement agree to the holdings on the last day of the preceding year.
 - Confirm security and number of shares owned.
- Review each monthly mutual fund and brokerage statement and identify any purchases; reinvestments, sales and transfers of funds.
- Review the monthly statement that includes the end of the fiscal year.

- Reconcile the value reported on the mutual fund and brokerage statements to the report prepared by the Treasurer and Trustees.
- Reconcile the holdings from the beginning of the fiscal year through to the end of the fiscal year.
 - Shares will increase due to purchases, reinvested dividends, and corporate reorganizations and decrease due to sales.
- Trace distributions from the funds to lodge bank accounts.
- Confirm the classification of income/ expenses from these accounts are properly segregated and reported:
 - Interest and dividend income.
 - Gains and losses due to sale of investments.
 - Unrealized gains and losses due to change in market value during the reporting period.
 - Investment expenses such as asset management fees and account activity fees.

Restricted funds

Periodically a lodge will receive a donation from a brother or a bequest from his estate. These donations are often subject to a requirement that the funds be segregated and the use of the funds restricted.

- Review the documents creating the restriction.
 - Do the funds received need to be segregated?
 - If yes, has that been done?
 - Are there special terms or conditions required to access principal or income?
 - If only income can be disbursed, has that occurred?
 - If principal was disbursed, was the disbursement consistent with the conditions of the bequest or gift?

Fundraising activities

Your lodge may engage in a fundraising activity during the year. The audit committee must review the receipts and disbursements as part of the annual audit.

- Obtain a copy of the report presented to the lodge at the end of the event.
- Review the report for the details of receipts and disbursements.
 - Do the receipts reported agree to the admission/ticket price for the event times the number of reported attendees?
 - Are the expenses consistent with the nature of the event?
 - Compare original invoices to the listed expenses.
 - Review canceled check to the invoice/reimbursement request.

- If payment to vendor was by cash, review the invoice.
- Were the net reported proceeds deposited in the lodge bank account?

Liabilities

Most lodges and building associations will not have liabilities of the nature of bank loans. Lodges and building associations may have credit cards and possibly loans from members.

- As the disbursements are reviewed, look for payments to banks, other lenders or credit card companies.
 - If there is a known liability confirm the opening and ending balance reported in the lodge records to the monthly statements received from the creditor.
 - If loan balance increases during the year, trace loan proceeds to lodge financial accounts.
 - If there is a credit card, review each monthly statement.
 - Review all charges to the credit card and match to original invoice.
- Inquire whether there are unpaid invoices at the end of the fiscal year.
 - Review disbursements in the month following the end of the fiscal year.
 - Unpaid invoices may be an indication of mounting financial problems for the lodge or building association.
- If the building association is not tax-exempt.
 - Has the corporation filed Form 1120 and Connecticut form CT-1120?
 - CT imposes a minimum corporate tax of \$250 each year.
 - If the building is sold, has the sale been reported and corporate taxes paid?
- Inquire whether the building association has filed the Secretary of State annual report and paid the annual fee; as the annual report records are now available online, recommend that a printout be retained for audit purposes if it is not already available.

General comments / recommendations

The following are supplemental matters to consider during the audit and as recommendations to the lodge as part of your audit report.

- One of the most challenging aspects of the reporting and audit of the finances is the timing between the end of the lodge fiscal year and the Lodge annual meeting. Most lodges use a fiscal year ending November 30th with the financial reports and audit committee report due at the lodge annual meeting in December. That often leaves little time to assemble the

information from outside sources, complete the accounting and then complete the audit. To address this problem, some lodges are considering changing their fiscal year from November 30th to September 30th. Doing this gives those responsible for lodge finances enough time to complete their work and the audit committee time to complete their duties. If a lodge is considering a change to September 30th for their financial reporting, this may or may not require a by-laws change and the lodge will need to notify the IRS of the change and file a short-year return reflecting the change. Consulting with the Legal Matters Committee or the tax advisor for the lodge is recommended before proceeding.

- Financial accounting and reporting.
 - This is the most challenging responsibility for those involved partly due to varying skills but also due to the segregation of functions within the lodge. To have comprehensive financial reporting requires an accounting system. Many small organizations, with simple record keeping needs use Quicken rather than QuickBooks or some other business accounting software. The trustees and other committees need to work with the Treasurer and provide him with the financial activity in order to prepare a comprehensive financial report of the lodge or building association. This comprehensive accounting is also needed to complete the annual Form 990 for the lodge and a tax-exempt building association.

- Financial records.
 - All financial account statements of the lodge or building association, including those of the trustees and committees, should be mailed to the lodge or an officer other than the Treasurer or controlling person. If the lodge cannot maintain a mailbox at the building, the lodge should maintain a mailbox at the Post Office.
 - This provides a consistent mailing address for all correspondence whether it is bank statements or notices from the IRS. Having one lodge mailing address also ensures opportunity for oversight, awareness and control of exiting assets.
 - All financial accounts must be titled in the name of the lodge or building association.
 - Even with oversight of a particular fund by a committee, trustees or Treasurer, the assets belong to the lodge or building association and in all events correct ownership of the account must be noted on the accounts.
 - Eliminates risk of lodge assets titled in the name of a brother “for convenience” and becoming lost or having confusion over ownership of an account by family members should a brother become ill or deceased.

- Bank and financial account records should be retained for no less than 7-years. This would include the receipts for disbursements. The records should be kept at the lodge building in a fire proof file cabinet or if space is lacking, at an offsite facility accessible by the officers. It is not recommended lodge records be maintained at the home of a brother due to limited access and risk of loss.
- Confirm the IRS Form 990 has been filed.
 - Request to see a copy of the most recently filed Form 990.
 - If the electronic 990-N was filed request to see the email confirmation accepting the filing.
 - Ask if there has been any correspondence received from the IRS concerning the Form 990 or tax-exempt status of the lodge or building association.
 - The IRS will impose significant financial penalties due to a failure to file the Form 990.
- Determine if the lodge or building association is in compliance with IRS and CT Form 1099 reporting requirements.
 - An individual or other entity that is not a corporation must be issued a Form 1099 if the lodge payments during the calendar year are \$600 or more. Note an LLC is generally not a corporate entity and should be issued a Form 1099. Payments requiring a Form 1099 would typically be for services but could include rent (other than rent paid to your building association). Significant financial penalties will be assessed for each failure by the IRS and CT DRS.

Reporting financial irregularities

The committee is charged with reviewing the financial accounts and assets of the lodge or building association and rendering a report to the lodge. Problems encountered during the audit process may require disclosure to the lodge.

If problems or issues do arise, the audit committee must bring the matter to the attention of the WM. Examples of matters that should be brought to the attention of the WM would be:

- Failure to respond to requests for information
- Incomplete records
- Bank account overdrafts
- Use of an ATM card issued to the lodge
- Payments without authorization or without original receipts for the expenditure
- Payments to related parties or vendor controlled by a lodge brother
- Unexplained delays depositing funds into bank or financial accounts
- No confirmation Form 990 was filed

- Failure to issue Form 1099's as required

Examples of matters requiring immediate discussions with WM and DD would be:

- Missing financial accounts that were in existence the prior year
- Transfer of funds to personal accounts
- Missing deposits
- Withdrawals and subsequent redeposit
- Payments to unexplained payees
- Transfers of funds that cannot be accounted for

Report to the Lodge

The following is an example of a report to a Lodge by the audit/finance committee with no matters noted:

ABC Lodge #XXX, A.F. & A.M.
1 Main Street
Anytown, CT 06000

To the brothers of ABC Lodge,

As directed by the lodge, we have examined the assets and liabilities, and the cash receipts and disbursements for ABC Lodge #XXX, AF & AM, and its Trustee and Charity Funds, for the year ended November 30, 2011. By reference to supporting invoices, bank and brokerage accounts and other documentation as we deemed necessary, we have satisfied ourselves that the assets and liabilities as of November 30, 2011 and the statement of receipts and disbursements for the year then ended, as reported to the lodge present the financial activity of ABC Lodge #XXX, A.F. & A.M., in all material respects for the period since the last review.

No matters came to our attention requiring reporting to the lodge.

Respectively submitted,

ABC Lodge #XXX, A.F. & A.M. – Audit (Finance) Committee

The following is an example of a report to a Lodge by the audit committee with a matter noted:

ABC Lodge #XXX, A.F. & A.M.
1 Main Street
Anytown, CT 06000

To the brothers of ABC Lodge,

As directed by the lodge, we have examined the assets and liabilities, and the cash receipts and disbursements for ABC Lodge #XXX, AF & AM, and its Trustee and Charity Funds, for the year ended November 30, 2011. By reference to supporting invoices, bank and brokerage accounts and other documentation as we deemed necessary, we have satisfied ourselves that the assets and liabilities as of November 30, 2011 and the statement of receipts and disbursements for the year then ended, as reported to the lodge present the financial activity of ABC Lodge #XXX, A.F. & A.M., in all material respects for the period since the last review.

During the course of our examination we identified a bank account, ABC Bank, account no 1231523, titled in the name of Brother M, held for the purpose of our Charity Fund. The Committee recommends the account be titled in the name of the Lodge with a mailing address of the Lodge.

Respectively submitted,

ABC Lodge #XXX, A.F. & A.M. – Audit (Finance) Committee

Summary

The work of the committee charged with reviewing the finances and reporting to the lodge their findings is a critical responsibility. Their efforts provide assurance to the brothers who are not privy to the financial dealings within the lodge or building association that all is in order. The discussions contained in this procedure are general guidelines and the methodology used by the committee may need to be modified to fit the needs of the lodge.