

# **SERVAS INTERNATIONAL**

## **Report of the Audit Committee to Servas International Executive Committee (Exco)**

July 18, 2010

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### **1: Members of the Audit Committee**

Members of the Audit Committee Members of the Audit Committee as elected at the Mar Del Plata General Assembly (GA) on September 10, 2009:

- Phyllis Chinn, Arcata, California, USA
- Jonny Sågänger, Stockholm, Sweden
- L V Subramanian (Recused from the current report since he was treasurer during the year 2009)
- The two active members of the audit committee read and followed the duties of the Audit Committee as described in the “Financial Operating Procedures Package” (FOP) version 2.0, March 2005, to the extent possible.

The review was completed in July 2010 in Arcata, California, following extensive email consultation. Jonny Sågänger traveled to California at his own expense and the only cost to Servas International (SI) for this meeting to perform the audit was his travel expense from Santa Rosa to Arcata, California. It was very helpful to have the two of us together to discuss items and write the report. We look forward to having a full committee and meeting with all three of us plus the treasurer for the next audit report.

### **2: Bookkeeping and External Audit for the year 2009**

The bookkeeping for 2009 was done by K. Pramod on contract. Mr. Pramod is located in Bangalore, India.

The external auditing has not yet performed for 2009 but, as approved at the GA, will be done in years 2009 - 2013 by Certified Public Accountant Vasudev Pai who runs a

professional business as accountant and consultant (T Vasudev Pai and Company) located in Bangalore, India.

The Audit Committee inspected a set of documents for bookkeeping entries as presented by LV Subramanian, the Treasurer of SI during the year 2009.

The above-mentioned sources document expenses and the committee considers them to be accurate. Some additional explanations were supplied by the Treasurer. The committee considers the information submitted accurate and well documented. Any exceptions are mentioned below.

As agreed in previous years, the accounts for the year 2009 are based on the accrual concept.

The independent auditor's report from the years 2005, 2006, and 2007 was accepted at the 2009 GA. The external audit for 2008 was not finalized until December 28, 2009 and thus was not considered by the GA. The 2009 external audit has not yet been performed. The audit committee recommends that external audits be performed as soon as possible in the year following the closing of the books.

The list of decisions taken at the GA 2009 at the site [http://www.servas.org/siExco/index.php/General Assembly 2009](http://www.servas.org/siExco/index.php/General_Assembly_2009) > does not show that the combined three-year report from 2005, 2006, and 2007 or that of 2008 from the audit committees were submitted to and approved by the GA. The current audit committee recommends that the reports from the prior two committees, along with this report, be submitted for approval at the distance voting in Fall 2010.

### **3: Financial operating procedures**

The following procedures for expenses paid were reported by the treasurer:

- SI has no checking account.
- All payments are made online by preparing the payment instructions which are signed by two authorized signatories, namely the treasurer and the president.
- The treasurer approves the payment and sends the instruction to the president who co-signs and then the bank completes the transfer payment.
- All payments are made direct to the payee's accounts with details given by the payee including IBAN number, Account Number and Name of the beneficiary.
- All payments have EXCO approval.

### **4: Basis for the Audit Committee report for 2009**

The Audit Committee has considered the following, among other sources:

- a. The Balance Sheets and the Income Statements for the year 2009.
- b. Source documentation delivered by post in a photocopy and digital forms. Source documentation delivered by post in a photocopy and digital forms. The treasurer copied thousands of pages for members of the audit committee. The committee members found these copies useful, but suggest that that audit process would have been more efficient, more thorough and less paper-consuming if we could have been meeting face-to-face with the treasurer and other members of the audit committee. While there was minimal expense to SI for the 2009 internal audit, it is because one member travelled at his own expense to California, USA. The internal audit for 2010 will require more financial support from SI.
- c. The on-line 2009 SI budget which is shown at [http://www.servas.org/siExco/index.php/Treasurer\\_materials](http://www.servas.org/siExco/index.php/Treasurer_materials).

The weblink labels the budget as a draft, although the attached Excel document is called Budget\_2009\_final\_version.xls. The audit committee assumes this budget was approved by Exco, per FOP item 2.3.

### **5: General items related to the SI budget**

The budget 2009 shows an anticipated deficit of 68000 CHF. By contrast the audit committee is pleased to note that the year finished with a surplus of approximately 74000 CHF according to the document “Income & Expenditure from 1<sup>st</sup> January 2009 to 31<sup>st</sup> December 2009”.

The audit committee will attempt to explain the large positive difference in income over expenses below.

The audit committee compliments all the Argentine organizers of a very successful GA 2009. It appears that the success of the conference contributed to the surplus for the year. The 2009 budget initially projected 60 delegates at Mar del Plata. In fact over 100 people attended. The budget projected 54000 CHF from 60 delegates. The participants produced a net gain of 29365 CHF, according to the document “Income & Expenditure from 1<sup>st</sup> January 2009 to 31<sup>st</sup> December 2009”.

*Was there less income from more people?* It would have more informative, if the 29365 CHF is indeed net income, for the “Income and Expenditure” list for 2009 to have included all the income from the conference and then the expenses as part of the overall 2009 expenses. *The audit committee was further confused by the note c), stating that the expense incurred for GA 2009 exceeded the amount recovered by 66765 CHF, an amount that had been set aside in prior years towards the expense of the GA.*

Further savings occurred in categories that were budgeted for more than the actual expenses, and some budgeted events that did not occur.

Sample items costing less than expected (budgeted/actual in CHF):

- The auditor (2000/778)
- Bookkeeping (1500/519)

- ICT (12000/5415)
- Servas 60<sup>th</sup> anniversary (3000/0)

## **6: Detailed comments on particular 2009 budget items**

6a) The committee is concerned that neither Britain nor Italy has yet paid their full stamp fees for 2009.

6b) In the reports submitted by the treasurer to the audit committee it appears that some people were issued advances to attend the GA and they did not do so and thus owe SI money (Kevin Newham, Roberto Boranstain, Henna Blanker, Jose Roberto Montes, Hector Peralta). *EXCO either needs to clear these expenses (if they were transferred to a different delegate from the same country) or otherwise begin proceedings to recover the funds.*

6c) To avoid unused and not repaid advances in the future, the committee recommends that SI engage the services of an international travel agent to make all reservations for SI subsidized delegates and not give any advances to GA attendees. SI would probably want to pay cancellation insurance to be sure that tickets were refundable; this would likely cost less than the non-recovered funds from prior years – e.g. Micheal Johnson, Hilda Burer, Nandasena Amarsingh. According to notes from the bookkeeper Pramod, these people still owe money from advances issued in prior years. Having only one travel agent who was paid would greatly simplify the record-keeping as well.

An additional possible advantage would be that non-subsidized travelers might be able to get discount fares from the official travel agent if they chose to use that person's services.

6d) It would have been good to have a list of who was approved for travel by EXCO and how much money was allotted to each so that the audit committee could compare authorized amounts to actual amount.

6e) It is important for EXCO to decide soon where the next GA will be held and to work to have earlier notification to delegates as to who is receiving subsidies so that people can take advantage of advance purchase discount prices of tickets – whether or not EXCO decides to engage the services of a single travel agent.

6f) The audit committee thanks Jane Giffould for her years of working as the editor of SI newsletter. The editor started the year 2009 with an opening balance of 5725 CHF and ended the year with a balance (credit) 3132.79 CHF. The audit committee reminds the new treasurer to make sure that Jane Giffould has returned the balance of her advance.

6g) Journal register page 14 –six items are crossed out and listed (again) on page 14 – was this reflected in the ledger?

6h) Journal register receipt JV-48: The letter from Dr. Sharma, national secretary of Servas India, says something might be a “miscalculation on our part”.

Was he given any response to that?

Was there any miscalculation?

What were the cancellation charges and for what event?

6i) JV-59. The \$1000 US that was given to Pablo Chufeni by Mary Jane Miruriya does not have any airfare receipts nor conference registration fee. It would have been better to know what Mary Jane Miruriya was actually reimbursing. This is a type of payment that is convenient in terms of saving foreign exchange fees, but should have the same level of back-up as any other reimbursements.

6j) JV-70. A youth team expense claim says at top “not to be paid” but all 7 invoices seem to have been paid. Some names are not visible; if things are written in pencil, it would be good for the treasurer to also write them darker on invoices, so that the audit committee can see who receives money and be able to check that all the people actually attended the SI GA or any other claim.

6k) In Gary Sealey’s ledger account there is a memo dated April 23, 2009, indicating he overpaid Hector Peralta by \$61.56 – an amount that was to be returned at 2009 GA; however, Hector Peralta did not attend, so this is likely still owed. It is unclear whether the amount overpaid by Gary Sealey is in USD, CAD or some other currency.

6l) In the document “Cash – LVS Treasurer Book” the first item (voucher 37) indicates an expenditure of 13.53 CHF, prior to the first income item. The auditing committee is curious about:

- i) how it is possible to start an account with a deficit?
- ii) who provided the initial cash?
- iii) was the expenditure repaid?

## **7: Concerns about future budgets**

On September 11 2009, the GA approved the following:

“Adopt a four year budget, with a GA planned in the 3<sup>rd</sup> year, with cuts to the following budget line items:

EXCO Expenses 25 % over 4 years.  
AC Conference 25 % over 4 years  
Youth Meetings 26% over 4 years  
GA Expenses 25% over 4 years

To reduce the deficit after 4 years to about 25,000 CHF. Deficits to be funded from SI reserves. And that this budget be reviewed and updated each year to actually reflect actual income and expenses. The updated budget to be approved by distant vote.

**Explanatory Note:** The GA appointed a Budget Group, which prepared and presented a draft budget. The cuts as stated above were applied to the respective line items in this draft budget. The budget as approved (after applying the cuts) is attached as Appendix – 1 on page 12 of this document.”

*The appendix was not attached to the on-line document so that the audit committee was unable to review it.*

The audit committee considers that the process of the GA approving individual supplements to the budget for various items, all of which are within the purview of SI and each good in itself, without overall consideration of the total budget led to deficit spending and was not an optimal procedure. *The committee recommends that at distant voting or at the GA, any proposals for increases in budget categories be accompanied by proposals for increasing revenue and/or decreases in other budget categories.*

### **8: Summary recommendations from the audit committee**

- EXCO must decide soon where the next GA will be held and begin preliminary planning for the event. In the future, the committee recommends that offers to host the 2015 GA be available in time for delegates at the 2012 GA to approve the site.
- The audit committee is charged with monitoring the relation of actual to budgeted expenses (per FOP item 2.2); since no overall budget was approved at the GA, this is not possible, although it will be highly desirable as soon as a distant voting has approved a 3-year (or 4-year) budget.
- The committee strongly recommends that annual budgets, in addition to the budget for 2010 - 2014 be approved by the Fall 2010 distant voting. The four-year budget process was approved at the GA 2009.
- In order to pursue the philosophical goals of SI, the audit committee recommends that some of the SI surplus be used to continue to support a budget in which expenses slightly exceed the projected income.
- Each year of the 3-year budget must include money earmarked for the next GA.
- In distant voting and at the GA, any proposals for increases in budget categories should be accompanied by proposals for increasing revenue and/or decreases in other budget categories.
- Additions to the budget need to be considered in the context of the entire budget.
- All external and internal audit reports that have not yet been approved by GA should be submitted for approval by distant voting. While the FOP specifies

that such approvals be submitted and approved by the GA, we believe this is suitable for distant voting.

- The committee recommends that the audit committee members participate in the developmental discussion as new budgets are proposed. This is important so that the audit committee can carry out its financial duty item 7: “review the modified three year budget plan and verification of its adherence to the guidelines agreed at the general assembly on an annual basis.”
- It looks like there was approximately 100,000 CHF plus interest accrued that was placed in the bank on January 6, 2009. Clearly much of this money was used for the GA but as more accumulates from stamp fees for 2010, we recommend that some money be put into an interest-bearing certificate of deposit (CD) account to mature before the large expenses of the next GA. At the end of 2009 there was over 200,000 CHF in the current account, earning less than 1% interest. Some of this money should be earning at a higher rate in a CD.
- As part of transparency of financial procedures for SI, the committee recommends posting current auditor’s reports, audit committee reports and budgets, the SI website. Perhaps on the “shortcuts” list, a link to financial information regarding SI would be appropriate. EXCO could choose whether this information would be only available with a password or generally open to everyone.
- The audit committee also recommends that minutes of Exco meetings or reports of what Exco members are doing to implement decisions of the GA be posted on the SI website.
- Even though there was little expense for the audit committee meeting for reviewing the 2009 accounts, future budgets need to include funding for a face-to-face meeting of the audit committee and the treasurer.

We wish to offer heartfelt thanks to the outgoing treasurer as well as all members of Exco for their tireless work on behalf of SI.

This report is prepared and approved by audit committee members

Phyllis Chinn

Jonny Sägänger

Arcata 17-6-2010