

Conducting an Annual Investment Club Audit

DOUG GERLACH • MYICLUB.COM • NOVEMBER 2024



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All-World Investors

Club Portfolio What's this? Expiration Date
Your myICLUB subscription is good through October 27, 2024. Renew club subscription

LVMUY	DTECY	TM
BIP	CASH	BP
ORCL	RABA	PETS

Club Sentiment Index
September 2023: Where is the stock market headed in the next 12 months?
 Bullish
 Neutral
 Bearish
Vote

Recent Blog Posts
• Visit with Doug Gerlach at the MoneyShow Orlando
• What Does the Bread-to-Quack Ratio Tell Us About Interest Rates?
• New Feature & Changes to myICLUB Club Performance & Benchmark Report
• As the Market Churns, Focus on Warren Buffett's Advice to Stock Investors
• Is Generative Artificial Intelligence the Next Big Thing?

Club Web Links
No external web links have been added to the club's website by its Administrators.

Total Securities: \$804,066.00
Total Portfolio: \$853,842.36
Cash: \$49,776.36
Unit Value: \$19.101

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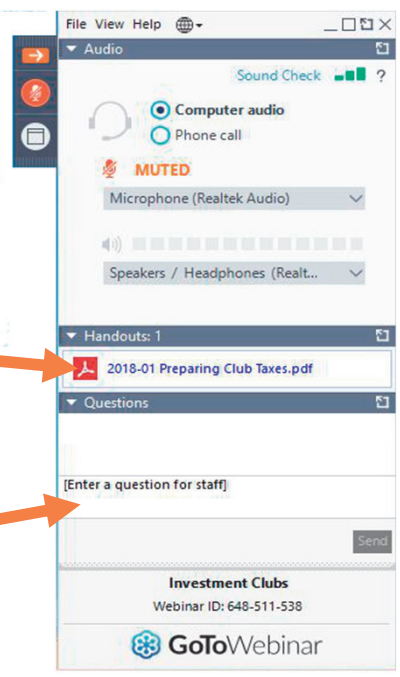
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www.myICLUB.com

Handout & Questions

Handout in PDF format is available in Handouts tab.

Type questions in Questions box.



AUDITING THE CLUB'S BOOKS



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What Is Club Audit?



- Annual review of all of club's entered transactions & records for year.
- Looks at accuracy of club's records & practices utilized in managing club's books.
- Attempt to catch problems that don't show up in monthly account reconciliations.
- Recommended for all investment clubs to undertake annually.

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Why Audit Books?



- Intended to **discover errors** or **potential problems**, including mis-entered dates or amounts of transactions entered in club's books (typos).
- Primary aim is to **catch errors before they compound**.
 - Older errors will grow in significance, & become **more difficult to find & correct**.
- Can catch errors made by club's bank or brokerage.

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Other Benefits of Audit



- Experienced treasurers **welcome club audits.**
- Can provide feedback on how treasurer can work more effectively.
- Can educate members about treasurer's job so they are better equipped to serve in future.
- Can provide confidence in club's performance figures.

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When Should Audit Be Completed?



- Should be done at **beginning of every new tax year.**
 - Ideally before state & Federal tax returns are filed.
 - Provides double-check that tax returns are accurate.

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Annual Audit Is Required for Fidelity Bond



- Club Fidelity Bond offered through BetterInvesting provides **insurance coverage for malfeasance**.
- One of its requirements is that annual audit of club's books be conducted.
- Fidelity Bond is offered once year from BI; contact them for more information.

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HOW TO AUDIT THE CLUB'S BOOKS

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How to Audit Club's Books



myIClub.com INVESTMENT CLUB AUDIT CHECKLIST

Published by:
myIClub.com
570 Kirtz Boulevard, Suite 237
Troy, Michigan 48064
1-877-33-ICLUB
www.myIClub.com

- Use “myIClub Investment Club Audit Checklist.”
- Can be downloaded:
 - With handouts from this webinar, or
 - From myIClub.com Club Hub, or
 - From your myIClub club's File Storage.

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Convene Audit Committee



- In December/early January, create Audit Committee made up of (typically) 3-5 club members.
- Treasurer may be available for questions but **should not** be member of committee.
- Past treasurers can be helpful members.

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Scheduling Audit



- Committee may choose to meet:
 - **After all 1099s received** (preferred, since provides double-check of data before tax returns are filed).
 - **However**, Feb 15 1099 deadline means time is short before Mar 15 tax deadline.
 - **After year-end statements received.**
 - These are usually available soon after Dec 31, so more time is available for committee, **but** 1099s may not be received.

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Online or In-person Committee Meeting?



- In past, traditional method has been for members to **meet in person** for couple of hours, reviewing all printed reports & documents.
- Today with electronic document availability, committee can **meet in single online meeting**, or **handle tasks individually on their own schedule** & share results with committee chair.

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Conducting Audit Online



- Can delegate tasks to committee members in various ways:
 - Each member could review all transactions in **certain number of months**.
 - Each member could review all transactions **of certain type (cash, securities, members)**.
 - Depending on size of club & committee, **subdivide tasks as necessary**, such as having 1 member review all security dividends & 1 member review all security buys/sells.

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Choose Audit Method



1. Small clubs with fewer members & transactions might have committee review **all transactions in year**.
2. Mature clubs with lots of members, lots of transactions, complex transactions might **review subset of transactions in year**, such as:
 - All transactions in selected random months from year, OR
 - Random assortment of all kinds of transactions.

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Always Review “Material” Transactions



- Always pay special attention to larger or more complex transactions.
- Compare these transactions closely to make sure entries in club's books match financial institution statements & Form 1099s.

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REQUIRED DOCUMENTS

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From Banks & Brokerages



- For each account open in year, committee should have PDFs or printed:
 - ❑ Trade confirmations.
 - ❑ Monthly statements.
 - ❑ Year-end statements.
 - ❑ Form 1099s.
- *If club changed brokerages in year or have multiple brokerages, make sure to have documents from all.*

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From myICLUB



- ❑ All **Valuation Statements**, including for 12/31.
- ❑ **Allocation of Income & Expenses** for 12/31.
- ❑ All **Member Status Reports**.
- ❑ **Member Deposits Report** for full year.
- ❑ **Complete Journal** for full year.
- ❑ **Cash Journal Report** for full year.
- ❑ **Individual Security Ledgers** for all securities owned in year.
- ❑ **Realized Capital Gains Report**.
- ❑ **Gain/Loss Report**.
- ❑ **Transaction Summary Report** for full year, w/dividends sub-totaled by security.
- ❑ **Withdrawal Reports** for all members with partial or full withdrawals in year.

** All reports & transactions are viewable to all members on myICLUB.com. Not all reports may be required depending on type of transactions that occurred in club's tax year.*

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From Treasurer/Secretary



- Receipts for cash expenditures.
- Monthly minutes, with security buys/sells & withdrawal approvals.
- Current operating documents (partnership agreement and/or bylaws).

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PRELIMINARY TESTS

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Valuation Statements & Allocations



- Valuation Statement was created & saved on consistent interval according to club's operating agreement (such as at end of every month, on last market close before club meeting, etc.).
 - No more than one per month + year-end.
- Year-end Valuation Statement was created as of 12/31.
- Allocation of Income & Expenses was generated as of 12/31.
 - Regenerated after *any* changes were made to year's transactions.

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Cash & Security Balances Match



- Cash balances at start of year agree with financial institution statements.
- # of shares of securities at start of year agree with financial institution statements.
 - Do not worry about minor differences in **value** of securities between myICLUB & brokerage.
- Ending year cash balances on 12/31 Valuation Statement agree with year-end financial institution statements.
- Ending year # of shares of securities owned on 12/31 Valuation Statement agree with year-end financial institution statements.

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Member Paid In Plus Earnings



- ❑ “Paid In” on year-end Member Status Report is different from “Paid In Plus Earnings” (PIPE).
 - Should be different except in new club that has not done first Allocation of Income & Expenses.

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AUDITING TRANSACTIONS

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TIP: Searching for myI CLUB Transactions



- As needed, search for transactions in myI CLUB: **Accounting > Summary > View/Edit Transactions.**
- Can search by Transaction Date range, type (Securities, Cash, Member), Date range when transaction was entered, Account, or matching amounts or text.

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View/Edit Transactions

Show/Search transactions

Search for transactions meeting the following criteria:

Transaction Date

From To

Transaction Type

[Show Advanced](#)

Date	Transaction	Member	Amount	Units	Changes in cost basis
10/2/2024	Withdrawal	Dogfish Headly	(\$2,155.32)	(20.421893)	(\$2,715.91)
9/18/2024	Withdrawal	Hally Halibut	(\$100.00)	(0.947509)	(\$99.98)
9/18/2024	Withdrawal	Hally Halibut	(\$100.00)	(0.947509)	(\$99.98)
1/1/2024	Withdrawal	Lake Perch	\$0.00	(1.034077)	\$0.00

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Cash Transactions: Income



- ❑ Month-end “money-market dividend” is entered in books in “Cash” section as cash dividend or money market dividend.
- ❑ No dividends entered as “Cash” except for Money Market Fund.
 - Money markets managed as securities have interest entered as Money Market Dividends in myICLUB Securities.
- ❑ Month-end “interest” in brokerage account is entered as “interest.”
- ❑ Money paid in by members recorded as “member deposits” (**not** “income”).
- ❑ Money paid to withdrawn members recorded as “member withdrawal” (**not** “expense”).

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Cash Transactions: Expenses



- ❑ All expenses are authorized & appropriate.
- ❑ All expenses are correctly recorded as non-investment or investment.
- ❑ Receipts are available for all cash expenses.
- ❑ Expenses are allocated by percentage ownership of partners (unless otherwise specified in partnership agreement).
[MYICLUB BEST PRACTICE]

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Cash Transactions: Transfers



- Money transferred between bank, broker, DRP, or other financial institution accounts is recorded as “cash transfer” (not as offsetting expense & income transactions).
- Amounts match in both financial institution accounts.

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Security Transactions: Corporate Actions



- All stock splits, mergers, & spinoffs are properly recorded.
- For mergers/spinoffs, make sure basis is adjusted correctly according to IRS-accepted method.
 - Note: Basis may legitimately differ if brokerage uses different method for calculating basis of shares in merger or spinoff.
 - See myICLUB support page for help with these.

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Security Transactions: Buys & Sells



- Security, date, amount of all buys/sells on Transaction Summary Report match trade confirmations & brokerage statements.
- Acquisition & sale dates, cost basis, gain/loss of sold securities in myICLUB match brokerage, Capital Gains Report, Gain/Loss Reports.
- If specific lots were sold, lots in brokerage account & myICLUB records match.
- For securities that have been completely sold, no fractional shares remain on Individual Security Ledger.

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Security Transactions: Dividends



- All security dividends are assigned to proper security (& not entered as Cash Transactions).
- All security dividend transactions have correct ex-dividend dates.
- On Transaction Summary Report, total dividends reported for each security under Cash & Reinvested Dividends match amounts shown on Form 1099s.

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Member Transactions: Payments



- Value of single unit on Valuation Statements changes from month to month.
- All member payments are properly credited to paying members.
- All members contributing same amount in any month are credited with same number of units.
- All member payments deposited into brokerage/bank accounts.

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Member Transactions: Fees



- Fees are assessed (by percentage ownership or per person) only in accordance with club operating documents.
- Fees are assessed only for penalty situations (late fees) & not to recoup expenses. **[MYICLUB BEST PRACTICE]**
- Penalties, late fees, etc., or reimbursement for bounced check charges paid in by members are entered as “member fees” (not income or member deposits).

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Member Transactions: Withdrawals



- ❑ All withdrawals processed in timely fashion & according to provisions in club operating documents.
- ❑ For each full or partial member withdrawal, Valuation Statement reflects number of shares of securities (if any) that were transferred to member.
- ❑ Withdrawal fees & cash values for each full or partial member withdrawal have been calculated & paid properly.
- ❑ No fractional units remain for fully-withdrawn member on Member Unit Ledger.

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FINALIZING AUDIT

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If Errors Are Found



- Errors could be simple typos or mis-entered numbers, OR deviations from best practices.
- Report to club & treasurer who will correct in books & re-generate any affected reports (especially year-end valuation & allocation of income & expenses).
- Committee should confirm any corrections.
- Committee should make recommendations about better procedures.

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When Audit Is Completed



Annual Verification Report

We, the undersigned members of the Audit Committee, have reviewed the club's records and find that (check one):

- All records are complete and correct, or
- Discrepancies were found and actions were taken to correct them, as detailed below:

The members of the Committee have (circle one) (a) / (b) the following recommendations for improving procedures:

Submitted to the club this date, _____ by the following members:

- Committee members sign & submit “Annual Verification Report” to club.
- Keep Report with club's permanent records.

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Don't Forget to Say Thanks!



Be sure to thank your
Investment Club Treasurer
for another great year of
helping your club members
to find financial success!

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QUESTIONS?

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Thank You!

CONTACT ME AT GERLACH@ICLUB.COM

