

**TRANSATLANTIC COUNCIL, BOY SCOUTS OF AMERICA**

**AUDIT RESULTS AND COMMUNICATIONS**

**April 29, 2011**

**TRANSATLANTIC COUNCIL, BOY SCOUTS OF AMERICA  
AUDIT RESULTS AND COMMUNICATIONS**

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To the Board of Trustees,  
Transatlantic Council, Boy Scouts of America, Inc.:

As part of our audit of the Organization's financial statements for the year ended December 31, 2010, auditing standards generally accepted in the United States of America, ("professional standards"), require that we make certain communications to management and the Board relative to the Organization's internal control over financial reporting, (hereafter "Internal Control").

These professional standards differ from prior professional standards in the following regard:

- Internal control communications are required to be made in writing.
- Two types of internal control matters, which are required to be communicated to management and those charged with governance under professional standards, are material weaknesses and significant deficiencies. These two categories of internal control deficiencies are defined in this letter:

#### **Objectives, Responsibilities and Limitations Regarding Internal Control and this Letter**

##### ***Our Responsibility Regarding Internal Control***

- To consider the Organization's internal control over financial reporting.
- To use this consideration solely to design audit procedures. These procedures support our expressed opinion regarding the financial statements.
- To communicate to management and the Board matters that come to our attention during the audit that we considered to be either a significant deficiency or material weakness. These terms are specifically defined by the standards of the profession.

##### ***Limitations of Our Assessment of Internal Control***

- Our consideration of internal control is not designed to express an opinion on its effectiveness. Accordingly, we express no such opinion.
- Our consideration would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. Accordingly, we have only communicated such matters that came to our attention during the audit.



To the Board of Trustees  
Transatlantic Council Boy Scouts of America, Inc.  
April 29, 2011

***Who Should Rely on this Letter?***

- This letter is intended solely for management, those in charge of governance of the Organization and others within the Organization.
- This letter should not be used by anyone other than the aforementioned specified individuals.

**Key Terms and Definitions Used in This Letter**

The following are the key terms and definitions used in the body of this letter:

***Internal Control***

Internal control is a process, effected by those charged with governance, management and other personnel, designed to provide reasonable assurance about the achievements of the entity's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and with compliance with applicable rules and regulations.

***Control Deficiencies***

- Identified conditions that do not allow management or employees in the normal course of performing their assigned functions to prevent or detect misstatements on a timely basis.
- There are two types of control deficiencies that can exist:
  - Deficiency in design- A control that is not adequately designed in that is either not properly developed or missing a control objective
  - Deficiency in operation- A control that is adequately designed but not operating appropriately or the person performing the control does not possess the necessary authority or competence to perform the control effectively.
- There are three categories of deficiencies in internal control:
  - Material weaknesses
  - Significant deficiencies
  - Other matters- Less severe control deficiencies
- The severity of a deficiency is based on its potential for material misstatement and not just on actual identified misstatements.

***Material Weaknesses  
(identified with an "m")***

- Professional standards define a material weakness as a significant deficiency or several significant deficiencies that collectively have a "more than remote likelihood" that a material misstatement to the financial statements will not be prevented or detected timely.
- Indications of material weaknesses in internal control include:
  - Identification of fraud, whether or not material, on the part of senior management
  - Restatement of previously issued financial statements to reflect the correction of a material misstatement due to error or fraud
  - Identification by the auditor of a material misstatement on the financial statements under audit in circumstances that indicate that the misstatement would not have been detected by the entity's internal control; and
  - Ineffective oversight of the entity's financial reporting and internal control by those charged with governance



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***Significant Deficiencies  
(identified with an “s”)***

- A significant deficiency is a deficiency or a combination of deficiencies in internal control, that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

**Matters Identified During the Audit**

The following is a summary of the matters identified during our audit that are being reported to management and the Board pursuant to professional standards:

**Pound Sterling Account Activity (o)**

The activity for 2010 in the Pound Sterling bank account was recorded in summary form during 2010 in the general ledger. While this satisfies the basic accounting requirements, it would provide a better audit trail if all transactions for this account were recorded in the general ledger using the same methodology as any other bank account. Receipts must be documented as to source and all disbursements identified in the ledger in detail. Invoices and receipts should be forwarded and maintained in the council files. This would provide transparency of all activity and ensure that the details are fully and completely recorded in the accounting records.

**Recommendation**

All activity for the transactions in this bank account should be recorded in detail in the general ledger and should be subject to the same system of approvals and control procedures as all other transactions with in the Council. While the location of the activities and account requires the use of volunteers in the process, the current approval process that utilizes email correspondence could be continued with the formal approval process documented after the source documents are received at the Council. Cash receipts would need to be entered into the SellWise system, which would require copies of deposits and checks being provided in a timely manner to the office to ensure complete and proper recording of revenue. Bank reconciliations would be done in the regular manner throughout the year. This system would provide the same system of checks and balances that exist for all payments made at the Council.

**Management Response**

Management will implement the suggested procedures into our internal controls.

**Contribution acknowledgements**

Contribution acknowledgement letters must be net of the value of goods received. For FOS, the contributions over \$100 receive one commemorative item, contributions over \$500 receive commemorative coins and those over \$1,000 receive the coins and a TAC jacket. The value of each item given must be netted against the contribution and the acknowledgment letter must include the value of the item received and the net contribution. Contribution acknowledgement letters were sent during 2010, however, the value of the goods received were not netted against the gross contribution.

**Recommendation**

The software system does have a field that allows for the value of the goods received to be entered for all donation acknowledgement letters. This should be utilized for all letters where the value of goods received by the donor are other than de minimis in order to comply with the Internal Revenue Service guidelines for receipt of contributions.

**Management Response**

Management will ensure that the IRS contribution statements accurately reflect the value of the recognition items presented to our contributors.



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April 29, 2011

### **Expense Reports**

Expense reports submitted by all Scout professionals must be thoroughly documented and should be easily verifiable. We noted that there were some missing invoices during our testing of expense reports and that some of the source documents were difficult to identify as many were in a different currency. Conversion of the foreign currency to US dollars on the invoice would greatly aid in the review and approval of these reports. While the policy does allow for late submission of invoices that support expenses claimed, these need to be attached to the proper expense report. Additionally, the auto allowance that has been established for each professional is claimed on the monthly reports. For two of the professionals, the miles driven for the month tested were below the amount needed to ensure that the reimbursement was not a taxable fringe benefit. This must be calculated annually to determine taxability to an employee.

### **Recommendation**

As noted in the Council policy for expense reporting, expenses claimed for reimbursement should be completely documented and easily traced to the supporting documentation or invoice. While not a formal element of the policy, we are suggesting that conversion of all expenses that occur in foreign currencies should include the exchange rate used and final conversion to US dollar. Additionally, an annual computation of auto allowance payments for each employee to actual costs must be done to determine if there are any taxable benefits that must be included in wage reporting.

### **Management Response**

Management will implement the suggested recommendations into our internal controls.

The matters summarized in this letter have already been presented to management for their consideration during the conduct of our audit engagement. If you should have any questions, or require any clarification regarding anything discussed in this letter, we would be pleased to meet with you to discuss these matters.

Respectfully submitted,

A handwritten signature in blue ink that reads "Withersmith &amp; Brown, PC". The signature is written in a cursive, flowing style.



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April 29, 2011

To the Board of Trustees  
Transatlantic Council Boy Scouts of America, Inc.

We have audited the financial statements of Transatlantic Council Boy Scouts of America, Inc. as of and for the year ended December 31, 2010, and have issued our report thereon dated, April 29, 2011. Professional standards require that we provide you with the following information related to our audit.

#### Our Responsibility Under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated February 11, 2011, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Transatlantic Council Boy Scouts of America, Inc.. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed test of the Organization's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

#### Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Transatlantic Council Boy Scouts of America, Inc. are described in Note 2 to the financial statements. We noted no transactions entered into by the Organization during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.



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April 29, 2011

#### Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were accounting estimates recorded in 2010 financial statements including, the valuation of the donated facilities, depreciation expense, and allowance for uncollectible accounts.

#### Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Organization's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, the adjustments we proposed, which are attached, indicate matters that could have a significant effect on the Organization's financial reporting process. All adjustments proposed during the audit were agreed to by management and recorded in the financial statements.

#### Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

#### Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.



To the Board of Trustees  
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April 29, 2011

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

This information is intended solely for the use of the Board of Trustees and management of Transatlantic Council Boy Scouts of America, Inc. and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

*Withum Smith & Brown, PC*

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**CONSIDERATION OF FRAUD IN A FINANCIAL STATEMENT AUDIT**

In October 2002, the Auditing Standards Board of the AICPA issued Statement of Auditing Standards ("SAS") No. 99, *Consideration of Fraud in a Financial Statement Audit*. SAS 99 places additional emphasis on auditors to plan and perform their audit, establishes standards and provides guidance on the auditor's responsibility to consider the risks of fraud and to design the audit to provide reasonable assurance of detecting fraud that result in the financial statements being materially misstated.

The significant elements of SAS No. 99 are as follows:

- **Importance of Exercising Professional Skepticism**
  - Because of the characteristics of fraud, we exercise professional skepticism when considering the risk of material misstatement due to fraud. Professional skepticism is an attribute that includes a questioning mind and a critical assessment of audit evidence. We conducted the engagement with a mindset that recognizes the possibility that a material misstatement due to fraud could be present regardless of our belief about management's honesty and integrity. Furthermore, professional skepticism requires an ongoing questioning of whether the information and evidence obtained suggests that a material misstatement due to fraud has occurred.
- **Discussion among engagement audit team members**
  - The discussion among the audit team members about the susceptibility of the Organization's financial statements to material misstatement due to fraud included consideration of the known external and internal factors affecting the Organization that might (a) create incentives/pressures for management and others to commit fraud, (b) provide the opportunity for fraud to be perpetrated, and (c) indicated a culture or environment that enables management to rationalize committing fraud. The discussion also included how we might respond to the susceptibility of the Organization's financial statements to material misstatement due to fraud.
- **Obtaining information needed to identify fraud risks**
  - We are required to gather information necessary to identify risks of material misstatement due to fraud through inquiries of management, others within the Organization and the audit committee about the risks of fraud; applying analytical procedures and considering fraud risk factors.
- **Evaluating audit evidence**
  - Our assessment of the risks of material misstatement due to fraud is ongoing throughout the audit. Conditions may be identified during fieldwork that change or support a judgment regarding the assessment of the risks, such as; (1) discrepancies in the accounting records; (2) conflicting or missing evidential matter; (3) problematic or unusual relationships between the auditor and management.
  - We noted no such matters during the course of our audit.
- **Communicating about fraud to management, the audit committee and others**
  - In addition to our communication of matters raised during the planning and performance of our audit, management and other personnel interviewed have informed us that they have no knowledge of any fraud or suspected fraud within the Organization.