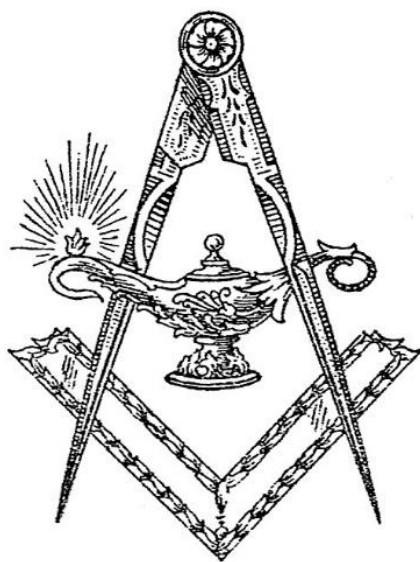


**Grand Lodge of Mississippi F. & A. M.**



**Promoting a deeper understanding  
of the Auditing Process in Mississippi Masonry**

**Grand Lodge of Mississippi Education Committee**

**March 2023**

***An Educated Mason is a Dedicated Mason***

## **How to Conduct a Lodge Audit Committee**

This publication is designed to offer guidance and direction to Lodge Officers and prospective members of a Lodge Audit Committee. The following information is offered from the perspective of the Education Committee of the Grand Lodge of Mississippi F. & A.M. It is of note that other Grand Jurisdictions may perform these duties similarly or differently. For example, in some jurisdictions this responsibility may be under the purview of the Lodge Finance committee, Senior Warden, etc. However, in most instances, the Lodge Audit Committee does not include specifically, the Secretary, the Treasurer, or the Worshipful Master, as their activities are part of the components under review. Specially, in the Grand Jurisdiction of Mississippi, these officers are not eligible to serve on the Audit Committee. (See Williams Digest of Laws, §19-19.19 TREASURER and §19-19.21 SECRETARY and §19-23.7 AUDITING, WHEN APPOINTED; DUTIES Annotation 1).

Therefore, we will start by looking at the end of the audit process and address the information needed from the Worshipful Master, Treasurer, and Secretary, as it is applicable. By doing so, it will allow us to focus on the expected outcome: a successful audit of the financial affairs and records of the Lodge at the end of a Masonic year. Use of this approach will also allow the Lodge to follow better processes and procedures throughout the year instead of wishing things were different at the end of the year. The adage, “woulda, coulda, shoulda” done a better job all year long applies to administrative record keeping. The adage is used to express the overcoming of regrets, mistakes, and missed opportunities. This phrase is defined in one instance as “an expression of dismissiveness or disappointment concerning a statement, question, explanation, course of action, or occurrence involving hypothetical possibilities, uncertain facts, or missed

opportunities.”<sup>1</sup> It is to this definition that the Education Committee desires to offer some forward-looking guidance about the auditing process. Every local Lodge is required to comply with the requirements of each Lodge officer, Worshipful Master, Treasurer, and Secretary, as well as members of the audit committee in this process as set forth in Williams Digest of Laws.

This publication reviews the components of auditing the Lodge’s books and accounts of the Treasurer and Secretary from three perspectives: Ritualistic, Mississippi Masonic Law, and a few recommended practices in the Grand Lodge of Mississippi F. & A. M on how to best accomplish the requirements. We will also offer additional resources for review at the end.

Before beginning, it is suggested to review the duties of the Treasurer and Secretary in the Grand Lodge of Mississippi Lodge Officer’s Guidebook.<sup>2</sup> The latest version of Williams Digest of Laws should also be reviewed, including the citations and annotations. At the time of this publication, the Twenty-First Edition of Williams Digest (2022) is the operative version.<sup>3</sup> Additionally, if applicable, a review of the Lodge By-Laws may offer insight into expected practices as relates to the financial goals and concerns of the Lodge.

The purpose of the Auditing committee is two-fold; first, it is to follow Mississippi Masonic Law, and second, to follow the better practices of maintaining the finances of the Lodge. The Audit committee also helps to ensure that the Worshipful Master, Treasurer and Secretary follow any applicable by-laws while ensuring that the Lodge’s finances are accurate.

In some Lodges there may be a Finance or Budget committee that will offer invaluable assistance and support to the functions of the Lodge and the three officers responsible for the finances and records of the Lodge: Worshipful Master, Treasurer, and Secretary. This committee

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<sup>1</sup> Woulda, coulda, shoulda: see citation at [https://en.wiktionary.org/wiki/woulda,\\_coulda,\\_shoulda](https://en.wiktionary.org/wiki/woulda,_coulda,_shoulda)

<sup>2</sup> <https://www.msgrandlodge.org/wp-content/uploads/LODGE-OFFICERS-GUIDEBOOK.pdf>

<sup>3</sup> <https://www.msgrandlodge.org/wp-content/uploads/2023/02/2022-WILLIAMS-DIGEST.pdf>

or committees can assist the Worshipful Master in developing and maintaining an annual budget. The practice of a Lodge having an annual budget is **highly recommended**.

In our adopted ritual, contained in the Blue Lodge Textbook, *Installation of Lodge Officers*, the duties are enumerated and expounded upon for the Master, Treasurer and the Secretary of the Lodge. It states the Treasurer is “*to receive all moneys (sic) from the hands of the Secretary, make due entries of the same, and pay them out by order of the Worshipful Master and consent of the Lodge.*” What is not contained in this description is “how to” properly make “*due entries of the same, and pay them out.*” It is also clear in our ritual the duties of the Secretary are to, “*...receive all moneys (sic) due the Lodge, pay them over to the treasurer (sic), and take his receipt for the same.*” We will address specifics of how these duties are accomplished.

Next is the law addressing both the Treasurer and the Secretary, which is highlighted for educational purposes only and does not represent the whole of the law. As such, reading the entirety of each section is **highly recommended**. It is provided here as a courtesy and educational objective only.

### **§19-23.7 AUDITING, WHEN APPOINTED; DUTIES**

“The Master shall, at the Stated Communication for the election of officers, appoint a committee to examine and audit the books and accounts of the Treasurer and Secretary. The committee shall make its report, including a statement as to the condition of the treasury, on or before St. John’s Day (December 27<sup>th</sup>), and prior to the installation of the officers-elect. Bylaws §10 (1854-91, 1961-139)”

### **§19-19.19 TREASURER**

“The Treasurer shall report his receipts and disbursements at the Stated Communication for the election of officers; have his accounts ready for settlement at the expiration of this term of office,

or whenever required by the Lodge; and shall deliver to his successor all monies, accounts, vouchers, documents, and other property in his possession belonging to the Lodge. Bylaws §14B (1871-111) DIGEST AND JUDICIAL DECISIONS 1. The Treasurer cannot serve on the auditing committee. (Digest 1958-59) The Treasurer may resign. (1898- 74) 2. Also see next last decision under Secretary, §19-19.21 below.”

### **§19-19.21 SECRETARY**

The following from the DIGEST AND JUDICIAL DECISIONS section, #5 “Regardless of who collects Lodge funds, they must be turned over to the Secretary. The Secretary then makes “due entries” of the same in his books of accounts. He then pays the funds over to the ‘Treasurer, (sic) together with a Warrant for the same. The Treasurer thereupon issues a receipt to the Secretary for the proper amount turned over and Warranted for. With the exception of certain direct payments for charity that can be made on order of the Master, the disbursement of all Lodge funds must be approved by the Lodge in Stated Communication held previously, be so recorded in the Lodge minutes by the Secretary and paid out by the Treasurer on order of the Worshipful Master. All Lodge funds, both as to receipt and expenditure, must pass through the hands of the Secretary, as well as those of the Treasurer and no other officer or member is authorized to deposit funds into or withdraw funds from the bank account of the Lodge. (1976-58)”

What is not clear is the “how to” aspect of doing it properly. The “how to” do it” is left unexplained in large measure. This educational publication is to share ideas on better practices on how to best accomplish the obligations and the law more effectively and efficiently.

The report of the Audit Committee of a Lodge Audit is required before installation of Lodge Officers every year. ( §19-19.13 INSTALLATION, RULES RELATING TO) One common issue that many have but nobody wants express is fear that they “don’t know the correct

way to do it.” A short review is needed for Mississippi Masons, old and new, to do a better job of performing the annual audit. It would be beneficial for most Lodges to get away from the “that’s the way we’ve always done it” mindset and take a little time to review both the required (as contained in Williams Digest of Laws) and the recommended practices, as contained in the Lodge Officer’s Guidebook.

When assigning to the Lodge Audit Committee, some think “Everybody knows how to do it.” It is wrong to assume an ability to perform a task, especially such an important and required task of the Lodge each year, by members not having some form of instruction or guidance document to follow. The Williams Digest of Laws provides guidance on the Laws of Freemasonry in the Grand Jurisdiction of Mississippi F. & A.M. However, it is anticipated that the following sections will assist in a more complete understanding of the duties of the Lodge Officers and members of the Auditing Committee. The following represents simple guidelines to help get your Audit Committee started collecting the necessary documents needed to complete an audit, preferably at the beginning of the year and immediately before the Installation of Officers.

**NOTE:** It would be a better practice to do auditing reviews monthly or quarterly to address any potential issues and be able to correct them in near to real time, as opposed to the end of the year when there is not much that can be done to correct it. Additionally, in some Lodges, not all, appointment of a Lodge Finance committee may assist the Worshipful Master, Treasurer and Secretary in the processes addressed in this publication and serve as members of an audit committee at the appropriate time, as noted in the above section of Law cited.

There are three levels of review:

- ❖ Basic compilation of all deposits (credits) and expenses (debits) to check to see if the numbers are added and subtracted correctly in each category.

- ❖ Financial review which checks the numbers and make appropriate comments.
- ❖ A comprehensive audit which reviews not only the numbers but the processes to determine the accuracy of the numbers.

The latter is certainly the most extensive of the three options, as each of the outlined processes introduced present differing levels of transparency and the necessary work involved in completing it. The procedures used can be as simple as a note in the Lodge's minute books to that of being included in a Lodge ledger of some type, a cash receipt book, or use of computer software. The latter allows assistance with automatically totaling accounts and contributing to the development of a Lodge budget. It is suggested that a system of preparing a voucher to be countersigned by the Master and provided the Treasurer for payment.

The background of the need for an Audit Committee is simple.<sup>4</sup> There must be a proper accounting of three (3) things:

- 1) How much money comes into the Lodge's account(s)?
- 2) How much money is paid out of the Lodge's account(s)?
- 3) How much money is remaining in the Lodge's account?

Simple enough, right? Wrong. The Audit Committee's work is simply looking at those three things and confirming that they happened, but in today's world nothing is simple anymore. Fortunately, most Lodges' financial transactions are few and simple, with some of them possibly electronically drafting out of the bank. But it is still not a simple task as oftentimes the payee may not even be something readily identifiable, and as a result, it cannot be done quickly at the last minute.

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<sup>4</sup> Williams Digest Section 19-23.7 includes an audit of the Secretary's "books," which would separately consider a review of whether minutes are properly recorded, in addition to his financial records.

- **To begin, develop a complete list of all the Lodge accounts, including account number, location:**
  - Bank accounts
  - Savings accounts
  - Investment accounts
  - Petty cash accounts
  - These are then added up to get a total income and should include all sources of income; Certificate(s) of Deposit, Money Market Accounts, Savings Accounts and Bank Accounts for any purpose.
- **The Committee is now ready to begin the audit:**
  - Use monthly statements to confirm the beginning balances. Make sure they are the closing balances from the prior year.
  - Confirm the monies paid into the account(s) and confirm the source(s).
  - Confirm the monies paid out of the account(s) and confirm the vouchers are properly completed (subtraction). Vouchers should include a paper trail, including a receipt and what it was for. Not that payees and amounts on check stubs are not sufficient verification, and actual copies of checks should be reviewed.
  - Be sure your Lodge by-laws have no additional requirements, such as a Finance Committee review or that the Lodge must approve each payment.
  - Use monthly statements to confirm the ending balances.



- **Draft a report for each of the accounts.**
  - Determine that the balances agree, or
  - If the balances don't agree, provide an opinion why they don't agree.
- **Presentation of the Committee's Audit Report**
  - Confirm whether the findings agree with the balance(s) of the Treasurer.
  - List of checks without a receipt.
  - List of any discrepancies (credits, debits, transfers of any kind).
  - Thoughts on whether the Treasurer and Secretary have followed any recommendations made during the last year's audit.
  - Recommendations if the Audit committee is not satisfied with the findings to include employing a third-party auditing firm to review.
  - Do not feel that it is important to provide glowing reports to the officers, simply state the accuracy of the accounts.

### **Points to consider when assigned to this special and required committee**

An Audit Committee member does not need an accounting degree or financial background to do a good job for the benefit of the Lodge. There is no need to pay for an expensive outside audit unless the Lodge has multiples of investments or income over Internal Revenue Service guidelines that can be fulfilled by completion of an IRS Form 990 online. Normally a Lodge does not need special software to track credits (income) and debits (bills). This has been an issue with people creating their own spreadsheets with special characters and functions only the person who created it can possibly begin to unravel.

**There are some common pitfalls that may be encountered and avoided if possible**

- **Checks received.** The Lodge should have a systematic means of depositing checks or cash. The members knowing when checks are to be deposited and for what purpose they were received. These deposits should be made in an earnest effort for both the Lodge and the member to receive maximum benefit and transparency. The Lodge has an accurate accounting of its available funds, and the member has an accurate accounting of his personal financial means and is not several weeks (or even months) waiting for it to clear their account.  
  
\*Checks not having been deposited in a timely manner have no value to the Lodge and represent a source of concern should they be misplaced or lost by both the Lodge and the member.
- **Cash received.** The primary problems related to “cash” receipts is that these transactions can lead to questions. To ensure that no one is accused of irregularities it is much easier to document transactions with a non-cash paper trail. Have members write checks if at all possible as it will give both the Lodge and the member a paper trail should there be any issues.
- **Cash paid out:** Avoid cash disbursements completely. Write a Lodge check for reimbursements unless the Lodge has a petty cash fund. It would be a better financial practice to require amounts over a certain amount, for example, \$50.00 be paid via Lodge check (or debit card as outlined below).
- **Receipts not paid by original person(s):** Receipts or vouchers should reflect who paid for something and how it was paid for. It is very difficult to follow a paper trail

that travels among multiple people, more especially if it is a month or a year after the transactions.

Additionally, receipts do not always have any details other than to document the total payment and not the items purchased.

**Keys takeaways:**

- **Avoid cash.** Keep the payment system simple. Suggestions included are personal checks, U.S. Post Office Money orders, Western Union transfers, Bank Cashier's Checks, or the use of third-party electronic payment systems (PayPal, Square, Venmo, Cash App) if your Lodge is set-up to accept them.
- **Avoid cash.** Make monthly or quarterly reviews (reconciliation of accounts, a mini audit), rather than waiting until the end of the year and avoid a possibility of honest or rushed errors being made to be in compliance with the Williams Digest and the expectations with the Lodge by-laws, if applicable.
- **Avoid cash.** If you don't understand the answer given in response to a question, ask it again until you understand the response. Some people use different terms when it is something in most instance a simple misunderstanding.
- ***Finally, avoid cash***

In some instances, cash transactions are unavoidable, such as with receiving dues payments. When conducting an audit, the committee should not lose sight of the big picture and only pay attention to what is recorded in ledgers or in statements. For instance, a Lodge can easily estimate and cross-reference their expected annual income by multiplying their number of dues-paying-members- (those without Lifetime Memberships or exempt) by the dues rate. Annual income and deposits should, at a minimum, equal this amount minus any consideration for members "carried" on the

books by the Lodge. This is an effective way to verify cash dues payments did not go missing. Conversely, check expenditures should be verified with actual checks to make sure the payee and amounts match what is recorded in the Lodge minutes.

### **Suggested Secretary practices**

All money collected should be recorded and transferred to the Treasurer for deposit.

- Obtain a ledger book or create a system that can be reviewed effectively and efficiently for receipt of all funds, cash or check or direct deposits.
- Issues such vouchers as are supported by the expenditures authorized by the Worshipful Master and appropriately signed.
- Lodge minutes should be available and be legible as to the type of expenditure with supporting approval of the Lodge.
- Any deposit receipts from financial institutions should be available for review in a hard copy.
- It should be clearly delineated as to who is responsible for making any deposits and ensuring that a proper receipt is in possession of the Lodge.
- Maintenance of the statements to allow for review of interest or income statements from CDs and bank accounts from CDs and bank accounts. If not a duty of the Secretary this should be performed by the Treasurer.
- A monthly reconciliation of checkbooks and financial institution statements and the originals or a copy be made available for review.
- Copy of last IRS Form 990 or equivalent (the latter is uncommon for most Mississippi Lodges).

- Recruit an assistant and request the Lodge to make a recommendation and then train them how to do the job.

### **Suggested Treasurer practices**

- All money received or spent should be recorded in a ledger or a book of transactions for debits and credits using a check register or an electronic banking system. There are several commercially available (Quick Books, Quicken, Microsoft Money).
- Copies of all vouchers received from the Secretary if the Lodge uses such a system.
- Financial institution statements, bank accounts, investment accounts cancelled checks (as some banks do not return cancelled checks, an electronic version will be available).
- All paid billing statements.
- Billing statements which include any outstanding balance(s).
- Recruit an assistant and request the Lodge to make a recommendation and then train them how to do the job.

### **Suggested Worshipful Master practices**

- Appoint the necessary committee(s) (Audit, Finance, Budget) at the beginning of the year to allow adequate time for the tasks to be completed throughout the year and potentially avoid unnecessary stress and aggravation at the end of your term of office.
- Ensure that the Treasurer and Secretary have the necessary support to conduct the duties of their respective offices. As the Master can appoint any special committees necessary to conduct the business of the Lodge, it would do well to consider the appointment of “Assistants” for both Treasurer and Secretary. This would

accomplish two key goals, 1) having adequate current human resources for timely completion of tasks, and 2) begin a Lodge training program for members to provide for the future of the Lodge.

- Explore acquiring a Lodge debit card to minimize use in lieu of cash or checks for payment of certain items. Consider having all anticipated and expected expenses approved by the Lodge at the beginning of the year. Examples are electrical service, gas, water/sewer, commercial insurance, any expenses that are most usually standard monthly expenses. This will allow for all “normal” expenses to be approved and the Lodge informed only of any aberrations or abnormal charges to save valuable time.
- One option to streamline transparency is for the Lodge Secretary to circulate a financial report to all members via e-mail, with a copy of the bank statement, in the stated meeting reminder.

It is offered that this educational guidance and direction is for a Lodge’s or for an individual Mason’s perusal to become better acquainted and aware of the need to provide a better means of ensuring the local Lodge’s continued existence by having information available and as a tool to protect the Lodge’s financial resources.

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