

## **Preparing For The Annual State Preneed Audit**

By Carl Mark Barker

An individual TFDA member, Carl Mark Barker has been involved in funeral service for more than sixty years. A John A. Gupton College graduate, he is a licensed funeral director, embalmer, preneed sales agent and insurance producer. A long-time TFDA member and supporter, he has served as a district governor and sergeant-at-arms. A resident of Kingston, Tennessee, he is now semi-retired and helps a nearby funeral home occasionally.

Having had several state preneed auditors mention their frustration at so many funeral homes being unprepared for the annual audits, one's suggestion that a class be taught to funeral homes prompts me to share with you some pointers for better audit preparation.

### **Prepare a document folder for the auditor.**

Copy of Preneed Funds report  
License copies: Preneed Seller (establishment), Preneed Sales Agent, Insurance producer  
General Price List(s) in effect during year being audited  
List of preneeds written during audit year  
List of preneeds serviced during audit year

### **Prepare files of preneeds serviced during audit year.**

Arrange contents as follows, front to back:  
Copy of ledger sheet (check to see if debits and credits balance)  
Payment voucher from insurance company  
Copies of family check(s) for funeral items not covered by insurance  
Copies of receipts for cash payments, if any  
Copies of refund checks for overpayment (if any); Copies of canceled refund checks  
At-need statement of goods and services  
Photocopy of certified copy of death certificate  
Documents and other items pertaining to original preneed arrangement (usually not examined, but could be if a problem surfaces)  
Miscellaneous other items (will not be examined by auditor)

### **Prepare files of preneeds written during audit year:**

Arrange contents as follows, front to back:  
Policy or trust agreement  
Insurance Application  
Preneed agreement (statement of goods and services)  
Copy of purchaser's check (payable to insurance company or trust)  
Copy of payment remittance form (If any)  
Copy of purchaser's identity card  
Miscellaneous other items not to be examined by auditor



Organizing the folder contents in this manner enables the auditor to do his/her work without having to thumb through irrelevant papers, such as obituaries, photos, correspondence, etc. This means the auditor can finish the audit in less time than otherwise, which can mean less cost to the funeral home.

Organizing this way cannot be done properly by waiting until just before the audit to do it. This is a year-round operation, requiring the folders be prepared as soon after the transaction as possible. The to-be-audited folders need to be marked for easy finding among other folders. For the serviced preneeds, attention needs to be given at each transaction step after the death. Someone needs to keep checking them to be sure all is in order. Attaching a checklist to the front of each folder helps. The day before the audit, all the folders should be gathered into two boxes, stacks or whatever. They should be arranged alphabetically, conforming to the lists submitted with the preneed funds report earlier.

Providing the auditor with a comfortable, private, and efficient workspace is important. A private room, with a desk or table, a comfortable chair, and a power strip for the auditor's devices are basic. The auditor may need to make cell phone calls, so the space should permit that to be done. Do not disturb the auditor or enter his/her workspace, unless you are summoned.

The auditors are thorough in the examination, but there are three items for which you can expect them to look.

Discounts.....they will compare the line items on the preneed contract with your GPL to make sure no discount was given when the account was set up.

Balanced ledger sheet.....debits and credits must balance out. Make sure you have documentation for every ledger entry. If a family member, for instance, makes a payment on the account, make a copy of that check. If paid by cash, put a copy of the receipt in the folder.

Overpayments.....if this has occurred, make sure you keep a copy of your check for the refund. Also, if possible, obtain from your bank a copy of the canceled refund check.

Should you discover any problem that would be a red flag to the auditor, tell the auditor upfront about it. Don't remain silent and let the auditor discover the problem.

A lot of work is involved, especially if you have a large number of preneeds, but close attention to these details will make the audit easier for everyone.