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**Silver Springs Master Homeowners'  
Association**

**FINANCIAL SYSTEMS UNOFFICIAL AUDIT**

**AUDIT REPORT**

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July 7, 2010

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TO: Board of Directors, SSMHOA

**SUBJECT: Financial Systems Audit**

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**Introduction:**

The books and records of the Silver Springs Master Homeowners' Association (SSMHOA) have never been reviewed or audited. In 2009, the Board of Directors sought estimates to have a CPA firm that specializes in audit work provide a bid for a limited scope audit; that being a review of monies flowing into and out of the SSMHOA's savings account and checking account. Three estimates were obtained but the firms required that a full audit be conducted in order to certify the audit. The bids were deemed by the Board to be cost prohibitive and it was determined that an unofficial review of the books by Board members and a qualified outside party could be conducted. Based upon those findings, further study or a full outside audit may be warranted. A detailed audit plan was devised in late 2009 and presented to the Board. An unofficial audit for the period of January 1, 2003- December 31, 2009 was completed for the financial systems and processes, specifically focusing on controls surrounding individual HOA payments to the SSMHOA, check signing, invoice payments to vendors, and general record keeping.

**Process:**

The limited scope of this audit was to review financial controls, record keeping methods, reconciliation of deposits and matching of invoices to checks procured. Bank statements for the savings account and checking accounts with Wells Fargo Bank were obtained from the archives of the SSMHOA manager. Bank statements contained either original cancelled checks or after 2007, images of cancelled checks. In some cases, on-line verification of bank statements and checks was made to corroborate the material in the archives. A spreadsheet was developed to track and reconcile deposits. The primary source of funds into the bank accounts is deposits from assessments to individual HOAs. Having records of annual assessments made this task easier since it was then known what deposits should have been year by year.

A review of each check written during the audit period was conducted to ensure proper signatures and recognition of payee. Where the transaction was out of the ordinary or the payee unknown, those records were pulled to verify a legitimate invoice and an appropriate expense for the Association. Further review of checks was conducted by reviewing at random approximately 250 invoices and check copies from the archive files. In addition, 27 transactions of amounts higher than \$2500 were also pulled to verify the expense. Some transactions required requests to payees and the association manager for further information, especially where little or no information was provided on the check copies or invoice for the nature of the expense. In the course of the audit, we also reviewed every transaction related to the large project in 2006 to repair the

drainage system of the Big Lake. We had to ask for additional details from residents involved in this project where such detail was lacking or insufficient.

Also reviewed was the methodology employed to review expenses, controls in place to make mistakes and illegal conduct apparent, and the general state of recordkeeping.

**Findings:**

In general, we found no material defects in the deposit, check writing and recordkeeping processes employed. We were able to account for all deposits made to the bank accounts, including a few transfers between the accounts. The records of the SSMHOA for the period reviewed appear to be mostly intact and filed by month within year. We found three non-sequential months of bank records missing from their respective boxes and were able to obtain online statements from the bank for the periods. However, cancelled checks were not available since the time period was pre-2007.

A small number of checks were written without any backup attached or found. We had to obtain information to verify those transactions from the payee or the association manager. The ultimate responsibility for check writing lies with the Board Members who are authorized to sign checks. They should be certain to review backup before signing checks for proper documentation of the expense, including pre-authorization, if necessary. The vast majority of expenses for the Association are for utilities or contracted services, such as landscaping, insurance, restroom rentals, etc. which makes them easier to verify. We also found four (4) association checks, one completely signed, two partially completed but not signed, and one completely blank in the files. While not much of a security danger since the records are stored with the association manager and have limited access, it is a control issue that needs to be addressed. Yellow copies of the actual check written should be stapled to the invoice before filing. This will make future audits much easier and cut down on missing or misfiled paperwork.

The review of the Big Lake project was done with an eye towards learning something in preparation for the Little Lake project scheduled for fall 2010. We were able to account for most of the expenses, matching them up to the bid estimates provided by vendors prior to project commencement. However, there was a significant cost overrun purported to be from requirements by the State Division of Water Resources for more concrete. We were unable to find written documentation and authorization for these expenses above bid. (See finding #10).

Our findings are offered in more detail for the Board, along with recommendations that would improve the integrity and security of the financial systems. The entire audit package will be given to the association manager upon completion for filing and archiving for future reference. We want to thank association manager Robyn Bailey for her quick and complete response to our multiple requests for information. We also appreciate the efforts of those involved in the Big Lake project who had to test their memories extensively for questions that we had about the project.



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Tracy Phillips



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Steve Lo Re  
SSMHOA Board Member

## UNOFFICIAL AUDIT DETAILS

The following detailed audit tasks were recommended to be completed before January 1, 2011 to ensure the integrity of MA financial statements. High priority items are bolded and have been completed and any recommendations are included in Appendix A. The other items have been noted in a separate file as recommended audit tasks that the Board may wish to pursue in the near future.

1. **Ensure prior bank statements are balanced each month within 10 business days after receipt.**
2. Ensure persons employed on a contract basis meet all Federal requirements for this form of employment.
3. Ensure employees, board members and volunteers who handle cash and investments are bonded to help assure the safeguarding of assets. Review general liability.
4. **Ensure there are "documented" internal controls, including the handling of cash and deposits, approval over spending and disbursements, authorized check signers and the number of signatures required on checks in excess of specified dollar amounts.**
5. **Ensure the MA has a copy of the current bank signature cards.**
6. Review all current contracts and add contracts where necessary.
7. Were 1099's issued where necessary?
8. **Ensure that the MA Manager keeps original documents on file at all times. If requests are made for documents, ensure only copies of the originals are given out.**
9. **Match sample Statement amounts to invoices**
10. **Ensure MA Manager does not have signature authority on checking or savings account.**
11. Ensure Board receives quarterly income statements and balance sheets from QuickBooks for the current YTD and reconciles from quarter to quarter.
12. **Ensure at least 2 signatory members of the Board receive a copy of the monthly Checking and Savings statements and verify.**
13. **Prior Checking Statements: Visually scan Statements and investigate:**
  - a. **Large questionable amounts**
  - b. **Any transfers to accounts other than the Savings account**
  - c. **Any cash withdrawals**
  - d. **Reconcile projected HOA Dues to actual HOA Deposits.**
  - e. **Look for possible double payments**
14. **Prior Savings Statements: Scan Statements and investigate:**
  - a. **Transfers from Savings to unknown accounts**
  - b. **Any cash withdrawals**
  - c. **Withdrawals from Savings s/b transferred only to checking account**
15. **Prior Cancelled checks: Scan and investigate:**
  - a. **Ensure multiple valid signatures on each check.**
  - b. **Any missing check numbers**
  - c. **Possible double payments**
  - d. **Checks made out to "cash", individuals, unknown companies, Board members or MA Manager; verify with a separate Board member and/or reconcile with invoices.**
  - e. **Checks over \$250.00 made out to contractors and match with invoices.**
16. **QuickBooks: Run reports for the following:**
  - a. **Scan Vendor payments recorded in QuickBooks for reasonableness – 7 years back**
  - b. **Scan withdrawals and transfers recorded in QuickBooks – 7 years back**
  - c. **Scan for missing check numbers**
  - d. **Ensure HOA payment checks are deposited within five business days and only to checking account.**
  - e. **Ensure receipts are issued for all payments.**

- f. Accounts payable takes advantage of cash discounts
- g. **Disbursements are made by pre-numbered checks**
- h. **Sample 12 larger checks (from QuickBooks) for each of seven years tying them back to cancelled checks and invoices**
- i. **Reconcile deposits on statements to QuickBooks**

Appendix A includes the finding summaries identified during this audit.

Silver Springs Master Homeowners' Association  
 Audit Findings Worksheet--Appendix A

7/7/2010

**Financial**

Finding	Recommendation	Owner	Board Response	Completion Date
<p><b>1. No policy for Returned Check Charges</b>                      During our testing, we found a returned check on 4/16/2004 from North shore HOA for \$11,250.00. The bank did not charge a returned check fee in this case; however, no policy could be found on how to handle returned check charges.</p>	<p>We recommend the SSMHOA implement a reasonable returned check policy and communicate the policy to membership.</p>			
<p><b>2. Refund Double-Booked</b>                      During our testing, we found a refund from A1 Insurance for \$16.74 was booked once on 12/19/2005 and again on 1/23/2006, yet only one deposit of \$16.74 appears on the Bank Checking statement for that period.</p>	<p>We recommend a control be implemented to ensure bank reconciliements are being conducted periodically and overseen by Board members.</p>			
<p><b>3. Late HOA payments</b>                      During our testing, we found that many HOA payments were not made in a regular, timely manner. Some payments were as far as two years behind at times with no penalty.</p>	<p>We recommend the SSMHOA implement a formal written payment policy addressing late HOA payments and communicate the policy to the membership. The SSMHOA should then be diligent in assessing those fees.</p>			
<p><b>4. No Board oversight for financial transactions</b>                      During our testing we found that the Board has no oversight for financial transactions.</p>	<p>We recommend at least two members of the board be appointed to receive a copy of bank statements and periodically reconcile them to the accountant's QuickBooks financial data.</p>			
<p><b>5. SSMHOA checks not always countersigned</b>                      During our testing, we found that some checks were not countersigned and in at least one case, the check was only signed by the accountant.</p>	<p>We recommend the Board implement a written policy that all checks must be countersigned by at least two members of the Board excluding the Accountant. The Board may decide that larger checks, and/or checks for expenses included in large projects, have additional check signing requirements.</p>			
<p><b>6. No separation of duties exists for HOA Payments, Refunds, or other Non-HOA payments</b>                      During our testing, we found that there is no separation of duties between receiving checks, depositing those checks, and recording same checks; therefore, there is no way to control unexpected or random payments and ensure they are properly deposited. Examples of unexpected payments discovered were government grants, insurance refunds, and loan payments.</p>	<p>We recommend the Board implement a written control to ensure unexpected payments are accounted for.</p>			
<p><b>7. Loans made to HOAs without written policy</b>                      During our testing, we found that a loan was made to SSSF HOA for \$2,500.00. The loan was repaid within two months; however, there was no written policy regarding if or how the SSMA can make loans.</p>	<p>We recommend the Board create a written policy regarding the issuing of loans by the SSMHOA. Loan length and terms should be included.</p>			
<p><b>8. Checks written to Board members without written policy</b>                      During our testing, we found a check written to Bill Noland on 4/28/2009 for \$21.05. Check was signed by Bill Noland and Robyn Bailey.</p>	<p>We recommend that a policy be implemented requiring checks written to Board members have 2 signatures other than the payee's or accountant's.</p>			
<p><b>9. SSMHOA does not have current bank signature cards</b>                      During our testing we found that the SSMHOA does not have a process in place to ensure that bank signature cards are kept up-to-date nor does it have a policy as to who should have authority. Signature cards still had members who have not lived in the association for many years, still authorized to make withdrawals, etc.</p>	<p>We recommend that a control be implemented to ensure that bank signature cards are kept current. In addition, a written policy is needed to define who should have signature authority. We recommend that the accountant should not ever have signature authority in order to support separation of duties.</p>			

Financial				
Finding	Recommendation	Owner	Board Response	Completion Date
<p><b>10. Big Lake Project overrun</b>            We were unable to find a total project estimated cost analysis. During our testing, we found several large payments made to Les Cartel for non-bid items for the Big Lake drain project in 2006-2007. This prompted a closer look at the Big Lake project itself. We found the Cross Marine portion of the project was approved and contracted for \$110,000.00. The actual Cross Marine cost was \$130,536.33. We could find no approved change control provided by Cross Marine for the additional \$20,536.33 - only a letter stating that errors in the engineering plans would require additional work. We could find no dollar amount stated or approved for this additional work. We were told that toward the end of the project, the State of Utah required additional concrete, but we could find no documentation of this requirement or its approval. This is especially important because the payments for this additional concrete (approximately \$10,000) were made directly to an association member - Les Cartel - with what appears to be no documentation of its actual cost or approval. There were additional Engineering costs (Jack Johnson) of \$8,739.65 for a project total of \$139,275.98.</p>	<p>We recommend that future large projects, including the upcoming Little Lake project, have a Board appointed, financial project manager oversee the approved contracted budget, approved change orders, and actual expenditures (contracted or not) for the project. The budgeted costs should be sufficiently broken down so that expenses coming in during the project can be tied to either the budget, change orders, or overruns approved by the Board. Additionally, we recommend that invoices for work or materials be sent directly to the SSMHOA rather than to individual members.</p> <p>The financial position of the project should be reported to Board members at least monthly.</p>			
<p><b>11. No Change Orders for Greenleaf non-contracted work</b>            During our testing, we found that there were no Board approved change orders or other authorization for non-contracted work. Additional testing was done to ensure reasonableness of the non-contracted work.</p>	<p>We recommend that the Board implements a policy requiring a signed contract or change-order for all compensatory work done on behalf of the SSMHOA.</p>			
<p><b>12. No controls in place for reviewing expenses</b>            We found that there were no controls or reviews in place to approve large expenditures. In addition, we found no methods in place to review expenditures versus budget throughout the year.</p>	<p>We recommend that the Board implements a policy that tracks actual expenditures to budget and that it is reviewed on a quarterly basis.</p>			
<p><b>13. No accounting for equipment/tools purchased for SSMHOA</b>            During our testing of the Big Lake Project, we found that individuals were reimbursed for some equipment/tools purchased. There was no accounting for these tools that we could find.</p>	<p>We recommend the Board implement a policy requiring that tools, equipment or other assets purchased for the SSMHOA be accounted for in some way in order that these assets can be found and re-used in the future if necessary.</p>			
<p><b>14 Reimbursed expenses for Big Lake Repair post release</b>            During our testing, we found that a H/O was reimbursed by the SSMHOA for a \$175.00 repair caused by the Cross Marine Big Lake Project after she had signed a release that all repairs were completed. Thus, Cross Marine was overpaid \$175.00.</p>	<p>See recommendations in finding #10.</p>			

Date	Construction Expense	Amount	
8/28/2006	Cross Marine	22,000.00	22,000.00
9/20/2006	Amcor	10,607.51	10,607.51 Precast cor
9/20/2006	Maskell Robins	20,673.59	20,665.59 Off somewl
9/27/2006	Cross Marine	15,000.00	15,000.00 Extra Work
9/27/2006	United Rental	2,647.69	2,647.69
9/27/2006	S&S Fusion	1,879.60	1,879.60
10/10/2006	Cross Marine Sheet Metal	991.38	991.38 part of big l
10/12/2006	PDM Steel	714.00	714.00
10/18/2006	Contech Construction	3,264.00	3,264.00
10/18/2006	PGC Pioneer	3,150.28	3,150.28 Les
10/31/2006	United Rental	4,574.96	4,574.96
11/2/2006	Staker Parsons	2,466.02	2,466.02 les - 15 yds
11/6/2006	Cross Marine	7,000.00	7,000.00
11/7/2006	KD Cody Exc	450.00	450.00
11/15/2006	Diamond Rental	248.31	248.31
11/15/2006	Diamond Rental	1,742.63	1,742.63
11/15/2006	Diamond Rental	3,245.49	3,245.49
11/15/2006	Diamond Rental	167.70	167.70
12/28/2006	Brundage	1,800.00	1,800.00 Les
2/8/2007	Amcor	187.10	187.10 Short paid
2/8/2007	GLS Holding	1,800.00	1,800.00 lift rental
2/8/2007	Crandalls Crushing	186.79	186.79
2/8/2007	MCNT Inc.	1,148.00	1,148.00 excavating
2/8/2007	RB&G Engineering	482.00	482.00
2/16/2007	Cross Marine	2,592.00	2,592.00 Final IPaym
4/30/2007	Sanderson Repair	3,043.00	3,043.00 repair yard
4/30/2007	Shirley's Repair	200.00	200.00 repair yard
7/16/2007	Shirley's Repair	175.00	175.00 repair yard
6/18/2007	Cross Marine Final Payment	3,006.11	3,006.11 from held t
11/16/2006	Staker Parsons	2,444.76	2,444.76 Les reimbui
11/30/2006	United Rental	7,287.08	7,287.08 can't find a
11/22/2006	AMCOR	5369.33	5369.33
	<b>Cross Marine total</b>	<b>130,544.33</b>	<b>130,536.33</b>
	Staker parsons		
10/16/2006	Engineering Jack Johnson	1192.27	1192.27
1/8/2007	Jack Johnson Engineering	3750.38	3750.38
3/19/2007	Site visit and contractor coord	2051.99	2051.99
5/21/2007	Jack Johnson Engineering	86.25	86.25
7/17/2006	Jack Johnson Engineering	1658.76 pond outle	1658.76
			<b>139,275.98</b>