

# Internal Audit

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REEDY CREEK POA

# Team

Lisa Frazier

Tim  
Sharkey

Bill  
Villanueva

# Team

- ▶ We thank the current board, Patrick, Rosi, Harold and Don for their help.
- ▶ We are not professional auditors; we are only member of the POA, and we all believe that sunshine is good in any organization.
- ▶ Practical experience, and common sense have given us the ability to look at the books and information from the POA, and we are looking out for our fellow homeowners, and ourselves, in the POA.
- ▶ This audit is looking at practices and procedures that are in the best interest of the organization and we expect no personal gain. We are volunteers.

# Team

- ▶ We make no accusations, but we have pointed out weaknesses in the expenditure reconciliations and methods that have been employed. We make no assertions of any fraudulent practices, or intentional actions by any individuals that would have a negative impact on the POA. The recommendations that we have are a clean up of the reporting and accounting practices.

# 18 Month Bank Statement

- ▶ Red = No Receipt found
- ▶ Green = Receipt found

[Form A - Bank Statement Review](#)

# Receipts that are Included, but not found in report

- ▶ Receipts that are not generated on our account
- ▶ Accounts receivable statement
- ▶ Insurance documents need to be reviewed
- ▶ Lawn contract need to be reviewed
- ▶ The common lot expenditures should be in a capital expense budget and the contract need to be kept separate from the operational budget
- ▶ All documents should be requiring a change order.

# Recommendations

[Form C - Recommendations](#)

# Assets

- ▶ What assets does the POA own:
  - ▶ Pavilion/Playground
  - ▶ Do we own a computer
  - ▶ Do we have a savings account or any investment accounts?



# Recommendation from an Accountant

- ▶ [Form D - Independent Accountant Report Example](#)

# Findings and Suggestions

[Form E - Findings and Suggestions](#)

# Best Practices for POA

- ▶ Be Transparent and Accessible
- ▶ Be Ethical and Above Reproach
- ▶ Be Reasonable
- ▶ Be Fiscally Responsible

Suggestions from  
Ward and Smith, P.A. Attorneys at law

# Be Transparent and Accessible

- Publicizing board and member meeting agendas well in advance to all owners and encouraging owners to attend.
- Communicating with owners about current board projects and progress, including the association's financial health on a regular basis.
- Providing owners information addressing the issues important to owners and how the board intends to address those issues.
- Consistent director attendance at all meetings, with full discussion of all matters on the agenda, and votes, whether in favor or against, on each decision that requires a vote of the directors.
- Posting minutes of the board and membership meetings in a timely manner.
- Providing a method for owners to contact the board outside of meetings.

# Be Ethical and Above Reproach

- Avoid personal agendas, and apply the provisions of the community's governing documents consistently.
- Use sound judgment to make decisions that are in the best interests of the association, taking into consideration all available information, circumstances, and resources.
- Avoid conflicts of interests or even the appearance of a conflict. A conflict of interest occurs when a director has a direct or indirect interest, not shared by all board members, in a transaction conducted with the association.
  - A director has a direct interest in a transaction with the association when the director, or a member of the director's immediate family, has either a material financial interest in the transaction or a relationship with other parties to the transaction that reasonably might be expected to affect the director's judgment in a manner adverse to the association and its members as a whole.
  - A director has an indirect interest in a transaction with the association when an entity in which the director has a personal and material financial interest, or in which the director is a director, officer, or trustee, is a party to the transaction.
  - If a director is uncertain if a conflict exists, the director should present all of the relevant information and facts to the other directors, and be prepared to refrain from participating in the discussion of the issue being considered or voting on it.
- Be thoroughly familiar with the laws, rules, regulations, and recorded documents that govern the association. The director should not advocate or support any action or activity that is inconsistent with the rules, regulations, or terms of the governing documents.

# Be Reasonable

- ▶ Sound judgment is essential and is perhaps one of the most crucial assets required of a director. Exercising sound judgment requires a director to think about things clearly, calmly, and in an orderly fashion so that a good decision can be made.
- ▶ Most importantly, a director should consider all the facts and opinions so that each decision is fair and reasonable under the circumstances. If a topic needs more investigation, research, or discussion, the director must recognize the need and advocate for it, including involving professionals on matters that are outside of the board's expertise.
- ▶ In other words, directors should apply their own experience and general knowledge to each situation in order to make the best decision under the circumstances, but also recognize their limitations and bring in experts to supplement as needed.

# Be Fiscally Responsible

- ▶ Financial stability is essential to the success of an association. A director should always seek to establish sound fiscal policies, help develop a workable budget, and continually look for ways to carry out the purposes of the association in a responsible manner.
- ▶ A director should seek the advice of professionals such as community association managers, legal professionals, accountants, and financial advisors. The right professionals can assist the board to develop accounting controls to protect the association's assets, realistic budgets which ensure that operating funds are sufficient to cover ordinary expenses of the association, and detailed reserve studies to provide sufficient capital for any future, or unexpected, expenses.
- ▶ Owners typically do not like increased assessments and demand the board look for ways to cut costs and effectively budget. However, sometimes increased assessments are unavoidable, and if the board can increase assessments gradually and have robust reserves for when inevitable expenses and replacement costs arise, many of these issues can be avoided.

# Electrical Contractor for the Pavilion

- ▶ Information was passed along at the community meeting that the electrical service at the pavilion needed to be redone as the panel was an indoor panel. It was also noted that the electrical contractor was the brother-in-law of the previous president.
- ▶ When asked about getting our money back, it was noted that there was no signed contract for the electrical work, which precludes bringing a lawsuit. It was also brought to attention of the community that there was no permit pulled for the work on the pavilion. This is being rectified.
- ▶ Recommendations
  - ▶ Recover our money from the electrical contractor
  - ▶ Implement a policy of obtaining at least 3 bids for any work over \$499
  - ▶ Implement a policy to ban use of any contractor that is related to any board member. All relationships must be noted prior to any awarding work.
  - ▶ Ad Hoc committee be appointed to review any contracts. No board member should be on the Ad Hoc committee as a voting member. The committee should be one member from each community.



# Pavilion Review

- ▶ The half wall, which houses the electrical outlets, is delaminating and needs to be sealed and finished.
- ▶ The open area on the lower roofline, is also delaminating and needs to be sealed and finished.
- ▶ The playground equipment was noted to be in the weather, unprotected and unsecured.

# Pavillion



# Cost vs Budget

[Form F - Common Lot Budget Page 1](#)

[Form G - Common Lot Budget Page 2](#)

# Summary

- ▶ Many opportunities for improvement are present. Rosi and Patrick have shown us, that they were extremely helpful with our effort to perform an internal audit. The next internal audit should show many improvement.
- ▶ The need for help running the POA is evident. A service, such as <http://hoaleader.com/> seem to have value in helping to establish new or struggling POA's. This is just one example and not an absolute suggestion for this service.



# Thank you

BILL

LISA

TIM