



INTERNAL ACCOUNTING CONTROLS TEMPLATE FOR COMMUNITY ASSOCIATION MANAGEMENT COMPANIES LICENSED IN VIRGINIA

1. Control Environment

The control environment sets the tone of an organization, influencing the control consciousness of its employees. The Committee of Sponsoring Organizations (COSO), a voluntary organization offering guidance on monitoring internal controls, report indicates that this component is the foundation for all other components of internal control, providing both discipline and structure to the organization. Ethical business practices, management philosophy and a sense of business integrity all play key parts in the control environment component.

There is a conservative approach when it comes to financial reporting which is based on industry standards in full compliance with Generally Accepted Accounting Principles (GAAP).

The management company services client associations and works with the volunteer board of directors to be fully engaged in the review and oversight of the financial statements, financial audit and related internal controls. The elected treasurer is the primary liaison with the independent auditors and lead volunteer regarding financial oversight with all board members having responsibility to monitor financial operations and financial statements. The community manager provides the Board with regular status reports to stay current with the affairs affecting the operations of the community association. In addition, the board receives a monthly financial report from the community manager.

Financial reporting contains detailed results of the financial performance for each functional area with staff for each responsible and accountable for meeting association objectives.

2. Risk Assessment Process

Risk assessment in the context of financial reporting is generally associated with the company's ability to record, process, summarize and report financial data. More simply, it can be described as identifying types of potential misstatements and designing controls to prevent or promptly detect those misstatements.

The internal controls in place at our company are a response to the assessment of risk to client assets by management. Risks are assessed through management's awareness of the environment in which it operates and its direct involvement with the day to day operations of the client community association.

Standard Operating Procedures have been created by our management firm to ensure efficient and effective transactional processes which result in accurate financial reporting of the client community association operations.

Financial statements are prepared according to GAAP to facilitate understanding for readers of statement.

The management company has assessed the company's vulnerabilities to fraud and has identified and implemented the processes, controls and other procedures needed to mitigate fraud risks. Potential for fraud are considered in the structure of departmental delegation of authority for business purchasing, in the accounts receivable department for cash handling, in accounts payable with check control and in payroll processing by the human resources staff.

3. Control Activities

Control activities are the policies and procedures that assist in ensuring that management directives are successfully implemented. They provide the means to address the various risks that may hinder the achievement of the organization's objectives. In essence, control activities are established in response to perceived risks.

Our management firm maintains segregation of duties wherever possible. The financial services department is staffed with professionals segregated by specific job descriptions and policies and procedures are in effect to provide the maximum relative controls based on client's constraints of staff and budget.

A rundown of client community association control activities includes:

- ✓ The A/P department maintains control over disbursements with invoice approval delegated by established procedure and then ultimately approved by the community manager or board president
- ✓ Check stock is locked and under control by A/P department
- ✓ Community manager reviews invoices before and after checks are issued
- ✓ Check signing authority is limited to the (list)
- ✓ On-line Cash Manager (with bank) utilized to monitor banking transactions
- ✓ Cash receipts are processed by A/R department and processing staff with department director having oversight of this group and reconciling to an outside source
- ✓ The primary receptacle of cash receipts is a bank lockbox
- ✓ All web based transactions are on a secure server
- ✓ All customer credit card information is stored in secure locations
- ✓ General ledger system is password protected with limited access by only accounting staff

- ✓ Monthly closing process is identified and managed using a checklist of various journal entries and procedures to follow
- ✓ Financial statements produced monthly in accordance with FASB 117 and delivered to treasurer for review then to Board
- ✓ Chart of accounts utilized to track income and expense in appropriate manner per FASB requirements and GAAP
- ✓ be followed by all users of the system also updated on an on-going basis
- ✓ Monthly bank statements are opened, reviewed and initialed by specific accounting staff
- ✓ Bank reconciliations are performed monthly by specific accounting staff (someone other than the person who opens and reviews the bank statements)
- ✓ Board approved investment policy in place
- ✓ Investments reconciled to GL on quarterly basis
- ✓ Quarterly investment performance reporting provided by investments advisor for review by Board
- ✓ Annual investment report delivered to Board by investment advisor
- ✓ Payroll is processed by the H/R department
- ✓ Payroll reports are opened, reviewed and initialed by the (list person)
- ✓ Computers and related hardware are cataloged and tracked by the IT department
- ✓ Computer network is protected by a firewall and maintained by an IT consulting firm specializing in network security
- ✓ Physical security of computer network servers established by locked computer room
- ✓ Daily back-ups performed of all computer systems – both financial and operational
- ✓ IT policy manual provided to all staff
- ✓ Employee background checks are performed on all new hires including credit and criminal
- ✓ All staff are required to sign acknowledgement and understanding of Employee Handbook which contains a separately signed conduct and fraud policy
- ✓ Disaster Recovery Plan is established and reviewed on an annual basis

Other control activities include monthly review of internal financial statements by the treasurer and Board of Directors and community manager.

4. Information & Communication

Information and Communication consist of the capture of significant data communicated to designated employees, the Board and other third parties in the form of reports, both written and oral. The information is generally viewed as integral to the proper functioning of the business entity.

On a monthly basis, the Board and community manager review the internal financial statements for budget to actual variances. The treasurer and community manager provide them with a narrative highlighting material variances. Financial statements from the prior month are issued on a scheduled basis, usually no later than 20 business days after the end of that particular month.

During the fiscal year budgeting process, each functional area is provided historical and current year financial data, an updated chart of accounts and budget parameters to assist in developing

reasonable and valid assumptions for the new budget. Detailed notes and assumptions are also part of the budget package that is delivered to the Board for its approval.

Key management and staff have a clear understanding of the duties and control responsibilities applicable to their jobs and of the fact that their responsibilities contribute to the organization's financial reporting objectives. These are carried out in the form of annual and mid year performance appraisals, annual and mid year goal setting, on-going training and financial report dissemination in a timely fashion each month. Staff is keenly aware of the need to report key issues or problems (or potential problems) up the chain of command to management or to the Board.

Also part of the audit process is documentation of the financial systems that produce the transactions reported in the financial statements. This is prepared by staff and given to the independent auditors.

5. Monitoring

Monitoring is the process of evaluating and assessing the systems of internal control to ensure that the procedures are consistently applied over an extended period of time.

As mentioned above, the Board receives a regular management report to assist in monitoring of community activities. On an on-going basis, staff evaluates the various systems of internal control and updates/modifies/enhances where needed. Any discovered deficiencies are addressed immediately and added to the overall systems of internal control.

Monitoring is also provided through the annual financial statement audit process, 1120, 11200H or 990 tax return reporting and investment reports.