



Durham Park Association

Financial Analysis and Recommendations

Executive Summary

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Durham Park Association

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Purpose

Throughout the last several years, the Durham Park Homeowners Association Board of Directors has publicly commented on the state of the financial documentation of the Association. While publicly stating that the financial records are a “mess”, and authorizing reports, studies and public votes on actions and direction as related to the financial reporting of the Association, to date none of these actions or discussions have resulted in material action or led to resolution of noted deficiencies. The purpose of this study was to compile prior activities, goals and statements, together with a professional analysis of the current state of the financial records of the association, and determine the proper course of action for short, mid and long term corrective actions.



Analysing the financial data

History

In 2011 the then-current Board of Directors retained the services of an outside accounting firm to perform a detailed audit of the financial records of the Home Owners Association. On May 28, 2013, this firm presented the results of their most recent audit to the board of directors in the form of a letter ¹. This letter was accompanied by a separate memorandum describing the recommendations of their firm as they relate to the **Management Points** (Observations and suggestions relating to the Management and efficiencies of the HOA), **Reportable Conditions** (noted deficiencies in the design and operations of internal controls and record-keeping activities (bookkeeping), and **Material Weakness** (Deficiencies in the Reportable Conditions that may lead to higher risk of errors and fraud ¹ and may not be detected in a timely manner).

This letter noted the Durham Park Water Supply Corporation, The Durham Park Assessment Committee and the Durham Park Social and Recreational Association as elements in their audit, and various recommendations for action.

IMPORTANT NOTE *This firm made several recommendations regarding the financial record keeping details of their study; however there were other recommendations as well. This report focuses only on their recommendations as they relate to record keeping, and intentionally excludes referencing to their other recommendations and suggestions.*

The firm requested specific information from the then-sitting board⁵; The Board presumably presented all the information requested in writing by the Auditors, and this information was used as the basis of their recommendations.³

A complete list of correspondence with the Auditors was presented in the form of a DVD by the then-president of the board⁴ to the current board; those documents were used extensively throughout the generation of this report, and it's subsequent findings.

The firm made several recommendations in their correspondence¹, and those recommendations included several journal entry adjustments needed to adjust erroneous entries in the financial statements, including but not limited to:

1. \$270,958.47 Well #2
2. \$274,948.27 Accounts Receivable, Water Corp
3. \$294,211.82 FMHA Loan, Water
4. \$236,878.00 Water Plant Thousand Oaks

There are many other adjustments recommended as well, totaling \$1,355,599.22 in total adjustment journal entries to make necessary corrections per the 2011 Audit². There appears to be no record of the recommended journal entries being created.

Most currently, on December 27, 2014, the then-sitting board presented the financial data to a third-party book-keeping service for reconciliation and review. That third party service was asked to provide 2 separate services:

- Perform a reconciliation of the current records as they related to:
 - Income vs. expense
 - Bank Statement Reconciliation
 - Assets vs. Liabilities (balance sheets)

- Prepare a year end financial statement for presentation to the residents at the 2015 Annual Meeting

Because of the timing, the third party was unable to perform a detailed reconciliation; there was simply not enough time. As a result, the reconciliation was performed at a relatively high level and did not include a more thorough, detailed examination of the supporting data. For example, income was reviewed via bank statements only, no attempt was made to reconcile the individual deposits or check registers associated with a bank-issued statement. Therefore, the income and expenses are reflected currently via these bank statements, but the reconciliation was not performed at a level of detail that is usual and customary and generally accepted as accounting best practices.

The third party was unable to perform any reconciliation of the Asset vs. Liabilities, or other balance sheets of the financial statements, other than to note several errors and omissions in the compiled data. Some of these include (but are not limited to):

- Incorrectly recorded assets
- Recorded but non-existent Assets
- Unrecorded and missing assets
- Incorrectly recorded income accounting practices
- Incorrectly recorded expense accounting practices

Most concerning of these were the presence of Water Company Assets (Buildings, Wells, etc.) on the financial statements, and the lack of real held assets (Community Building, pool and park). Based on personal review with the third party bookkeeper, it does not appear that the bookkeeping recommendations of the 2011 audit were performed or otherwise fulfilled.

FINDINGS

One of the basic tenets of the board of directors for the homeowners association is safeguarding the financial position of the association. Any financial decision of the Board must be based on sound record keeping practices and solid cash flow. Without good records it is impossible to determine the financial condition or profitability of the HOA. Similarly, in order to survive the HOA must achieve a positive cash flow in the long term.

- Currently it is impossible to accurately determine the overall financial health, cash flow, or profitability of the HOA with accuracy.
- As a result of reviews of the Financial recommendations provided in the 2011 audit documents, together with a review of the current financial statements with the

bookkeeper, it is apparent that our HOA financial accounting systems are in serious disrepair.

- The current financial statements contain recordings for assets that aren't HOA held, they are missing record of the assets that are currently held, and do not appear to contain any record of the recommended journal entries presented in the 2011 audit.
- The financial statements need to be corrected to accurately reflect held assets and remove assets belonging to other companies.
- Furthermore, there needs to be adequate and regular review of these financial records to prevent recurrence of these types of issues.
- An outside bookkeeper should be retained to insure that the day-to-day recordkeeping is accurate, assist in the training of Board Members, perform ongoing reporting and required filing as needed to insure that financial data is corrected, and board members are adequately trained and monitored

COSTS

The bookkeeper is unable to provide a detailed estimate of the overall costs to make the needed adjustments, however, felt that it would be less than \$1000.00. After making the needed adjustments, there would be ongoing costs for managing and maintaining financial data going forward.

It is vital that once the books are corrected, the board manages ongoing bookkeeping costs and insure controls are in place that costs don't increase beyond expected norms, and the financial data is reviewed regularly to insure that the books accurately reflect the financial health of the HOA.

Summary:

The board should adopt three goals:

- Correct the financial data
- Train all board members on the proper use and reporting of financial data
- Insure on-going maintenance, reporting, review and management of the financial data to insure the financial health of the HOA, by contracting with an outside bookkeeper.

The current financial data are in quite a state of disrepair. There are misreported assets, there are missing assets, there are incomplete income and expense controls and verification processes, and there are poor and incomplete financial reports.

There have been audits⁶ in the past, and those audits contained recommendations for correcting the financial data; however the author can not find any documentation to support that the recommendations/correction were actually implemented

The bookkeeper will work with us to diligently perform the needed corrections, manage the ongoing record keeping services at any level the board should choose, and work to train designated board members on the ongoing operation and maintenance of these books.

These services would likely be valuable in insuring the board meets the goals stated above.

Recommendations

1. Place the bookkeeping service on retainer
2. Provide the bookkeeping service the historical data and recommendations as provided by the previous audits
3. Authorize the bookkeeper to make the adjustments needed to insure that the financial data meets accounting standards and best practices
4. Direct the bookkeeper to fully document the journal entries made together with the reasons for the entries to correct the books
5. Insure that the journal entries, reasons for each, and a historical copy of the financial statements prior to change are permanently preserved as a matter of record in case future questions arise
6. Authorize the bookkeeper to provide the treasurer of the board access and training to perform their required duties as treasure of the board
7. Insure that the bookkeeper provides adequate training and support for the board in general as they relate to reviewing and determining the financial health of the organization as presented by the books.
8. Provide the bookkeeper with a copy of this report, as well as maintain this report, and all bookkeeper correspondence and actions attached with it for permanent record.

Respectfully Submitted

Jerry Parker, President

Durham Park Home Owners Association

2/15/2015

Bibliography

¹Letter from Stephen M Tillson, CPA, May 28,2013

²Letter from Stephen Tillson, CPA, Durham Park 2011 AJE's

³ Tillson SMT Records Request, 2011

⁴DVD of documents labeled HOA, presented by Scott Korsz

⁵SMT Records Request Redo-2, letter from Tillson to Board

⁶Files Presented to the board on DVD titled HOA, containing copies of correspondence from the auditing firm

