

A Resolution Establishing a Finance Committee and Internal Controls for the Association

Whereas the fiduciary duty of the officers and directors of the Association requires them to implement internal controls to safeguard the assets of the Association from unauthorized conversion,

Be it resolved that the Association will have a finance committee:

-charged with the tasks of documenting the Association's internal controls, validating the financial information shared with the officers, directors, and members, and preparing for and coordinating the external audit that the Bylaws require;

-chaired by the treasurer and at least one other director who will participate on the committee. Association members approved to join the committee will also participate on an equal footing with the directors. In general, it is expected that Association members participating on the committee will have substantial finance and accounting experience and will be able to assist the committee with its internal audit and controls duties;

-authorized to select a volunteer bookkeeper to provide continuity in bookkeeping for the Association and to segregate the duties of treasurer and bookkeeper, a fundamental internal control.

The Association's books are currently maintained using an accounting application known as Wave and the committee is directed to continue using that application and will implement the ACH invoice payment method, moving to online invoicing as rapidly as practicable. The one percent online payment convenience fee will be budgeted for in 2023 and beyond based on prior year usage data.

~~~~~  
**Discussion of the Resolution:** I think we can agree that the POA, a very simple organization, needs to have the following:

- documented internal controls
- periodic (monthly) "good form" financial statements
- audited annual financial report to the membership

## **Internal Controls**

The three internal controls are expenditure authorization, segregation of duties/bank account to books monthly reconciliation, and accepting online payments.

For expenditure authorization, we currently use a two signature system for checks. I'd like us to examine implementing a voucher system instead to record authorization so that online bill pay can be used, a free feature that will eliminate postage and handling for paying some of our few bills. A voucher system also allows the use of the debit card.

A member of this committee, not including the treasurer, should be reconciling the bank statements each month to the accounting books. The committee members, along with the treasurer, should be looking regularly for abnormal transactions that have posted to the bookkeeping software. The committee as a whole should be reporting (through the treasurer) to the board monthly that no discrepancies were noted (assuming that's the case). This is to protect the treasurer from allegations of malfeasance.

The POA should use a volunteer bookkeeper. A volunteer bookkeeper is an excellent internal control as the person who has access to cash accounts should never have access (other than viewing) to the accounting and reporting books. Again, this protects the treasurer and whoever else has access to the cash accounts.

Accepting online payments also is an internal control as it lessens the handling of checks and other instruments vulnerable to conversions. The one percent fee Wave charges for handling the payments is as low as we have found for this capability. The resolution specifies this be a budgeted item in 2023 and beyond.

### **Good Form Financial Statements**

The bookkeeping software produces an income statement, a balance sheet, and a statement of cash flows. All members of the committee will have viewing accounts for the bookkeeping software and the bookkeeper will have owner or admin rights. These are the basic reports that provide the needed information to assess and oversee the financial health of the POA.

It is easy to download the statements to a csv file and to then add in the budget and budget-to-actual columns to produce the monthly managerial financial statements.

### **Audited Statements**

Annually, the board will prepare a reporting package to the members. That package will include:

A statement of accounting policies and internal controls, financial statements, and notes. The package will be audited and an audit report included when the package is transmitted to the members. The finance committee will coordinate that audit and no person functioning as either the treasurer or the bookkeeper will exercise any influence regarding the audit. This again provides protection for the officers and the volunteer bookkeeper.

Recommended Info for directors:

<https://hovlandforensic.com/hoa-embezzlement/>

<https://communityfinancials.com/community-embezzlement-case-studies-arizona/>

~~~~~

General Process Comment: POA should use a process, for non-emergency resolutions in normal order, that employs a three reading protocol. The first reading is to the Board as a whole. The Board then refers the draft to an existing committee or forms one for the purpose of working on the resolution. The second reading is in committee. The third reading is when the committee votes the draft back to the board as a whole for consideration. There are lots of variations on a theme around the world on the three readings and

when/how they occur. The issue is that the board should meet regularly whenever there is unresolved business and should not have scheduled meetings when there is no such business -- monthly meeting schedule regardless of the business before the board delays the prompt treatment of necessary legal actions and wastes the community's time on meetings that potentially do not have a real purpose. Bottom line: meet as often and whenever necessary to transact the Association's business.