

November 26, 2022

2022 LPPOA Finance Committee

Prepared By:

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Re: 2022 Finance Committee Review

Summary

Per Article 18 in the bylaws of Lake Parsippany Property Owners' Association (LPPOA) it is stated that, "A Finance Committee shall be appointed by the Board of Trustees. This Committee shall consist of three LPPOA members, non-trustees. It shall be the duty of the Committee to examine financial records of the LPPOA and to make a complete report of their findings no later than the June meeting." This review is for fiscal year 2021 and is being issued after the June meeting. The Finance Committee is issuing this report late due to time needed to reorganize LPPOA's finances and physical invoices by the previous treasurer.

The members appointed to this committee are Jessica Federici, Fred Ginsberg, and Nishan Seal. It is important to note that this is not an audit conducted under AICPA standards. The LPPOA is not required to perform an audit, however we strongly recommend that an annual audit take place which would eliminate the need for a financial review by LPPOA members. The President of the LPPOA has communicated that an audit will be performed in conjunction with the property manager for fiscal year 2022. There was some disagreement on the Finance Committee that a future review by LPPOA members continue to take place, however it is recommended by everyone that the LPPOA conducts an annual financial audit.

While the procedures performed were not in accordance with an audit, the Finance Committee had 3 broad goals:

- 1) Review and verify the financial controls around expense approval and payment disbursements
- 2) Trace uncommon and large expenses reported in LPPOA's financial reporting against invoices
- 3) Verify the cash balance on December 31, 2021 through bank statements

Financial Controls

The purpose of examining the controls is to understand who has authority to approve expenses and make cash disbursements. This is to ensure that multiple people do not have the authority to move LPPOA funds without the proper approval and authorizations and helps to limit the scope of the review.

The Board of Directors votes and approves the annual budget and the President together with the Treasurer authorizes invoice payments. For the fiscal year in 2021, the LPPOA President was the only authorized person to approve expense payments. All bills were paid by the previous accounting firm Sanderson.

For 2022, bills are paid by the property management company FSR after an email approval by the Treasurer and/or President. Checks are single signed by either the President or the Treasurer.

There is one issue we would like to flag which is that there are currently some auxiliary clubs which are conducting business under the LPPOA and have bank accounts, but which do not report to the LPPOA Board. The LPPOA does not currently have information on the amount of the balances or if the LPPOA is listed as the account holder/beneficiary.

Expense Verification

As part of the review, the Financial Review Committee examined and matched approximately 100 randomly selected large and/or uncommon transactions from the LPPOA's general ledger against the physical invoices for fiscal year 2021. All selected expenditures were verified against the vendor invoice. The Finance Committee noted that the LPPOA took steps to organize all invoices which made the process quite streamlined.

Cash balance at December 31, 2021

The Financial Review Committee was seeking to tie the cash balance of \$261,727.80 on the December 31, 2021 Chase bank statement and the balance of \$178,815.85 on the Merrill Lynch bank statement to the LPPOA's internal books. The balances per LPPOA's books were \$251,419.45 and \$178,815.85 for Chase and Merrill Lynch respectively. The difference of \$10,308 on the Chase account was due to cash supports needed for reconciling items which the accounting firm rectified in the subsequent period.

2020 Recommendations and Current Status

In 2021, based on the financial review of 2020, the Finance Committee made several recommendations to improve the financial reporting and overall finances for the LPPOA. Most of the recommendations were either completed or are in progress. A few recommendations were declined by the Board and LPPOA membership.

The 2020 recommendation list is below:

- 1) Move all financial records to a cloud-based system like Google drive, Dropbox, OneDrive, etc
Completed
- 2) Budget should be balanced. For the next few years the budget should include a profit or line item to replenish reserves, otherwise the LPPOA will have to raise membership fees in order to avoid insolvency within a few years. **Completed**
- 3) Budgeted line items should match the chart of accounts so that actual vs budget can easily be reported. **Completed**
- 4) Budgeted expenses as passed must be flexible – it is not “set in stone” just as income is not guaranteed. As the year progresses, actual receipts and expenditures must be reviewed and the budget adjusted when necessary. This must be done to avoid future deficits. Hard decisions may have to be made. **Completed – Future budget is in balance**
- 5) Consider engaging a collection agency that is not a legal firm. Though they will take a % of what is collected it may be more palatable to the membership than a law firm which has a conflict of interest since they are providing the Board counsel on membership structures which ultimately benefit the law firm further. **Completed – No longer with previous law firm**

- 6) An analysis of the number of members using the beach and other amenities should be completed to decide the reasonableness/fiscal responsibility of spending those funds. **Completed**
- 7) In addition to the above, we identified that fishing has a direct cost of approximately \$3,000 per annum and believe fishing badges should be sold to cover this cost. **Declined**
- 8) The treasurer must be qualified with relevant accounting and finance background. **Completed – Patty Ellis was treasurer elected in Sept 2021 who previously worked as a controller.**
- 9) Treasurer’s report during monthly meetings should include: **Completed**
 - a. Beginning bank balance
 - b. Receipts including number of members paid and in collections.
 - c. Expenditures
 - d. Ending Bank Balance
 - e. Explanation of any income or expense out of the ordinary
- 10) Reorganize Chart of Accounts and create accounting system with new accountants to reduce fees, improve reporting, and make information more accessible. **Completed**
- 11) Close Merrill Lynch account and use an FDIC insured account which would likely offer higher interest. **Completed**
- 12) Terminate the accounting firm Sanderson and Associates. **Completed**
- 13) Reduce legal fees and terminate agreement with Dolan & Dolan due to poor advice and high costs. **Completed**
- 14) Institute an annual audit by independent Accountant separate from Financial Review Committee **In progress**
- 15) Beef up financial controls around cash. We were informed that several individuals have ATM cards and there were approximately \$1,200 in ATM withdrawals in prior years. We did not examine the invoices for these cash withdrawals, but this brings several things into question including controls. This is also another reason why a true financial audit should be conducted annually. **Completed – currently only the President and Treasurer have access**
- 16) We recommend that the Board examine the historical financial records for the period where there was no independent accountability and verify that there was not any misappropriation of LPPOA funds. **Declined**