

CACM Management Company Internal Control Checklist (11-10)

This questionnaire is designed to assist the user in evaluating the management company's system of internal controls to the extent deemed reasonable by the California Association of Community Managers (CACM).

Owners of the management company are responsible for establishing and maintaining a system of internal control. In fulfilling this responsibility, estates and judgment by management are required to assess the expected benefits and related costs of control procedures. The objectives of this system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with their authorization and recorded in conformity with generally accepted accounting principles (i.e. accrual basis accounting, or other comprehensive basis of accounting – generally modified accrual or cash basis).

Because of the inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of change in conditions or that the degree of compliance with procedures may deteriorate.

An important goal of the internal control evaluation process is the recognition of weakness(es) that might exist, and the “brainstorming” and implementation of effective solutions to improve internal controls. Management may wish to seek the assistance of the CPA(s) that work on the audits/reviews of client community associations to assist in developing solutions.

The questionnaire is divided into the following major sections:

1. Cash
2. Receivables and Revenues
3. Property and Equipment
4. Accounts Payable and Purchases/Contracts
5. Payroll and Related Liabilities
6. Risk Management
7. General Matters
8. Pro Forma Operating Budget
9. Scoring Systems

Management Company _____

Evaluation Date _____

CASH

Yes No N/A

- 1. Does the board of directors authorize all bank accounts?
Comments _____
- 2. Are all bank accounts in the name of the Association?
Comments _____
- 3. If a bank account is in the name of the management company, in trust for the Association, was the management company properly "grandfathered" into this arrangement in accordance with California law?
Comments _____
- 4. Is the bank notified of changes in authorized check signers within 30 days?
Comments _____
- 5. Are all Association employees who handle cash bonded?
Comments _____
- 6. Does the management company carry a fidelity bond or crime insurance to cover all employees handling cash at a minimum of \$250,000 coverage or higher amounts as appropriate in relation to assets managed?
Comments _____
- 7. Are checks restrictively endorsed "for deposit only" by the individual who opens mail daily?
Comments _____
- 8. Are cash receipts (checks and currency) deposited on a weekly or more frequent basis?
Comments _____
- 9. Are cash receipts kept in a locked cabinet or safe from time of receipt until time of deposit?
Comments _____
- 10. Are monies designated for future repairs and replacements (aka "reserves") deposited into one or more bank accounts which is separate from day-to-day operating cash?
Comments _____
- 11. Are pre-numbered receipts or cash register tapes effectively used and controlled for "over the counter" currency receipts?
Comments _____

Yes No N/A

12. Are the following cash-related duties segregated or are other compensating controls in place:

a. Is incoming mail opened and are receipts listed by persons having no access to cash receipts or assessments receivable records?

b. Is the listing of mail receipts subsequently compared to cash receipts records and authenticated copies of deposit slips by an employee having no access to cash?

c. Are clerks collecting currency closely supervised and separate from accounting functions?

d. Are post-dated checks, disputed items, unidentified receipts, NSF checks, checks charged back by banks, and similar items received and investigated by persons independent of preparation of deposits and posting of assessments receivable detail records?

e. Are receipts of currency controlled by a cash register or some other means that are independent to the accounting function?

f. Are the cash receipts and disbursements functions segregated from the general ledger posting function?

g. For any "no" answers to #a to #f, please describe compensating controls(s) (e.g., a "no" answer to #a and #b might be "Association uses bank lockbox service.")

Comments_____

13. Are all disbursements (including payroll) made by either bank direct deposit, automatic back payment service, or check?

Comments_____

14. Are checks pre-numbered and used in sequence?

Comments_____

15. Are controls over unused checks adequate to prevent access by unauthorized personnel?

Comments_____

16. Check Preparation:

a. Prior to checks being prepared, is the vendor invoice compared to a purchase order, receiving report, work order and/or contract, as appropriate?

b. Are all checks prepared from an original vendor invoice only, and not from a vendor statement?

c. Is there a clearly defined approval process?

d. Are all checks recorded in the disbursements journal or checkbook as prepared?

e. Are all check numbers accounted for?

f. Are all voided/spoiled checks properly mutilated (i.e. signature portion of checks physically removed by being cut out) and (the remained of the check) retained?

Yes No N/A

- g. Are all checks made payable to specified payees and never to cash or bearer?
- h. Is a check protector or are other safety features (e.g. specialized tamper-resistant check stock) used?
- i. Does all supporting documentation (or copies thereof) accompany checks presented for signature?
- j. Are all original supporting documents properly canceled (i.e. stamped "PAID") at time of signature?
- k. Are there computer systems or other safeguards in place to reduce the possibility of duplicate payment?
- l. Is access to blank check stock limited to persons authorized to prepare checks?

Comments_____

17. Check Signing:

- a. Are all check signers authorized by the board of directors?
- b. Are dual signatures required on all operating account checks?
- c. Are dual signatures required on all reserve account checks?
- d. Does a member of the board of directors or an officer of the CID serve as one of the dual signatories if a managing agent can sign checks?
- e. Are cash disbursement (i.e. check) registers presented to the Board at each Board meeting for all checking accounts (both operating and reserve)?
- f. If the management company is a sole (single) signer on any account, are check copies and all supporting documents related to disbursements from that account presented at each board meeting?
- g. Does a Board member initial his/her approval on supporting documentation for disbursements?
- h. Have dollar limits been established for single signature checks?
- i. Are disbursements that require special approval of the board of directors properly documented (e.g. reserve transfer authorization form for reserve expenditures)?
- j. Is signing blank checks prohibited?
- k. If check signing machines are used, are facsimile signature plates adequately safeguarded, used in the presence of the custodian, and controlled by using numbering devices to prevent unauthorized use?
- l. Are payroll checks that are drawn on a separate account operated on an imprest basis?

Comments_____

18. Segregation of duties over cash disbursements:

- a. Are all checks prepared by specified employees who are independent of check voucher and/or invoice approval?

Yes No N/A

- b. Are all authorized check signers independent of:
 - 1). Voucher preparation and approval for payment?
 - 2). Check preparation, cash receiving, and petty cash?
 - 3). Purchasing and receiving?
 - 4). Timekeeping for payroll checks?
- c. Is custody of checks after signature and before mailing handled by an employee independent of all payable, disbursing, cash, receiving, and general ledger functions?
- d. Is the signed disbursement check returned to the preparer before being mailed?

Comments_____

- 19. Are all bank accounts reconciled within 30 days after the end of each month?
Comments_____

- 20. Are all bank reconciliations prepared by someone other than the persons who receive or disburse cash?
Comments_____

- 21. Does a responsible individual independent of the cash receipts and cash disbursement functions, receive the bank statements (with canceled checks, debit and credit advices, etc., or images thereof) unopened from the banks?
Comments_____

- 22. Do the reconciliation procedures for all bank accounts include the following, with respect to deposits?

- a. Comparison of dates and amounts of daily deposits as shown on the bank statements with the cash receipt journal?
- b. Investigation of bank transfers to determine that both sides of the transactions have been properly recorded on the books?
- c. Investigation of items rejected by the bank (i.e. are deposits or collection items subsequently charged back by the bank because of insufficient funds, etc., investigated by a person independent of those responsible for receipt of or recording of cash)?
Comments_____

- 23. Do the reconciliation procedures for all bank accounts include the following, with respect to disbursements?

- a. Comparing canceled checks with the disbursement journal as to number, date, payee, and amount?
- b. Accounting for the sequence of check numbers?

Yes No N/A

- c. Examining canceled checks for authorized signatures?
 - d. Examining canceled checks for irregular endorsements?
 - e. Examining canceled checks for alterations?
 - f. Reviewing voided checks?
- Comments_____

- 24. Are completed bank reconciliations reviewed by a responsible person?
 - a. Is the review documented by initialing and dating the reconciliation?
- Comments_____

- 25. Are checks that are outstanding for over 90 days:
 - a. Periodically investigated?
 - b. Payment stopped and an entry made restoring such items to cash?
- Comments_____

- 26. Does the management company recommend that the CID adopt and follow an investment policy which, at a minimum states that safety principle, liquidity, and yield, in that order, are the CID's investment goals?
- Comments_____

RECEIVABLES AND REVENUES

- 27. Are assessments and other receivables recorded when billed?
- Comments_____

- 28. Is a receivable subsidiary ledger maintained?
- Comments_____

- 29. Is the subsidiary ledger reconciled to the general ledger monthly?
- Comments_____

- 30. Delinquent Accounts:
 - a. Is an aged listing prepared and reviewed by a responsible person monthly?
 - b. Are monthly statements mailed for all delinquent accounts?
 - c. Are delinquent accounts followed up for collection?
 - d. Where appropriate, are liens properly filed for unpaid assessments?
 - e. Does an authorized person or the board of directors determine or approve the write-off of receivables considered to be uncollected?
- Comments_____

Yes No N/A

31. Are loans to employees and board members prohibited?
Comments_____
32. Are actual versus budgeted revenues reviewed monthly by management and the board of directors?
Comments_____
33. Are assessments approved by the board of directors?
Comments_____
34. Is a control schedule maintained of all members for billing purposes?
Comments_____
35. Are there established policies for the recording or deferral of special assessments or restricted revenues?
Comments_____
36. Does the board of directors approve fees charged for other CID services?
Comments_____
37. Are assessments for future major repairs and replacements based on a properly documented study that considers all common area major components, useful lives, and current major repair and replacement costs?
Comments_____
38. Are deeds and titles filed and maintained for all changes of ownership of real property?
Comments_____
39. Does management company have adequate controls to ensure:
- a. Proper assessment amounts are billed in accordance with governing documents?
- b. Late fees and other fees are assessed appropriately and timely?
- c. Procedures to ensure the correct homeowner is billed and, if phasing, that additional units are billed timely?
- d. Subsidy and maintenance agreements are properly implemented?
- e. Adjustments to homeowner accounts are properly authorized?
- Comments_____

PROPERTY AND EQUIPMENT

Yes No N/A

40. Is formal approval by the board of directors required for all personal property and equipment additions and dispositions?
Comments_____
41. If not, do items costing in excess of a specified amount require board approval? What is the amount \$_____?
42. Does the management company recommend the CID have written policies that permit the accounting department personnel to:
- a. Distinguish between capital items and repairs and maintenance expenses?
- b. Determine a cutoff amount below which items are expenses?
- c. Establish depreciable life?
Comments_____
43. Are detailed property and equipment records maintained that include description, date purchased or contributed, cost of fair value at contribution, etc., if assets exist?
Comments_____
44. If significant, is an annual physical inventory taken of property and equipment that is compared with subsidiary records?
45. Are discrepancies followed up and explained within 30 days?
Comments_____
46. Is the accounting department informed of any material changes in the status of items of property and equipment (such as moves, sales, scrapping, obsolescence, etc.)?
Comments_____
47. Are fully depreciated assets maintained in the accounting records to help provide control?
Comments_____
48. Does the management company advise the board of directors if assets do not appear to be safeguarded from loss to fire, theft, or misplacement?
Comments_____
49. Does the management company recommend that annual reviews and possible appraisals be made relative to insurance considerations?
Comments_____

Yes No N/A

50. Does the management company maintain properly filed deeds, titles, and other evidence of ownership of real or personal property purchased or contributed by developers and others?
Comments_____
51. Does the management company recommend the board of directors comply with California Civil Code 1365.5 with regard to reserve study requirements?
Comments_____

ACCOUNTS PAYABLE AND PURCHASE/CONTRACTS

52. Have purchasing procedures been documented, implemented, and approved by the board of directors?
Comments_____
53. Are purchase orders properly authorized and supported by someone outside the purchasing department?
Comments_____
54. Are invoices compared to supporting documentation, such as purchase orders, receiving reports, work orders, contracts, etc.?
Comments_____
55. Are duplicated invoices destroyed or stamped to indicate they are duplicates?
Comments_____
56. Is mathematical accuracy of invoices checked?
Comments_____
57. Does a responsible employee review and approve the account and fund distribution and approve the invoice payment?
Comments_____
58. Is the review and approval documented with the initials (and date) of the approving employee?
Comments_____
59. Is the accounts payable detail listing reconciled to the general ledger control account at least on a monthly basis?
Comments_____

Yes No N/A

60. Are monthly budgets utilized and compared to actual expenditures with timely analysis of variances?
Comments_____
61. Does the management company require a completed W-9 and subsequently issue 1099's when applicable?
Comments_____
62. Does the management company provide guidelines on bids (such as when bids should be sought and how to put out a bid package)?
Comments_____
63. Is the level of expenditure (above \$_____) requiring multiple bids reasonable based on the size of the association?
Comments_____
64. Does the management company provide guidelines for qualifying vendors?
Comments_____
65. Does the management company verify contractor licenses, insurance and/or references?
Comments_____
66. Does the management company keep current insurance certificates files applicable to workers compensation, general liability, automobile liability, professional liability, hold harmless and indemnification agreements for vendors and contractors?
Comments_____
67. Does the management company verify that proper lien releases are submitted with invoices as appropriate?
Comments_____
68. For major contracts or expenditures, as appropriate, does the management company track completion, performance and payment bonds, etc.?
Comments_____
69. Are there procedures to assure work has been completed as per specifications on the contract (e.g. employment of a construction manager for major projects)?
Comments_____
70. Are retentions (e.g. payments holdbacks, frequently 10% of the contract amount) required when the contract involves property improvements or other major repairs?
Comments_____

PAYROLL AND RELATED LIABILITIES

Yes No N/A

71. Is access restricted to unused payroll checks, facsimile signature plates (if used), and personnel records?
Comments_____
72. Are pre-numbered payroll checks used and their numeric sequence accounted for?
Comments_____
73. Are payroll registers and general ledgers reconciled to gross and net pay Amounts per the payroll tax returns?
Comments_____
74. Is there a year end reconciliation of total W-2 wages to general ledger and payroll register wages paid?
Comments_____
75. Is there a periodic general review by a responsible official of payroll registers?
Comments_____
76. Are totals of payroll registers accurately footed and agreed to amounts to be recorded in the general ledger?
Comments_____
77. Is there a comparison of actual to budgeted payroll?
Comments_____
78. Are there adequate authorization, approval, and documentation procedures regarding changes in employment (additions and terminations); in salary and wage rates; and in amounts of payroll deductions?
Comments_____
79. Are there adequate authorization and approval procedures regarding vacation, holiday, and sick leave compensation?
Comments_____
80. Are notices of changes in personnel data reported promptly to the payroll accounting function?
Comments_____

Yes No N/A

81. Are there adequate timekeeping and attendance records and procedures (i.e., time cards and time clocks properly controlled and approved) to ensure accurate payroll amounts?

Comments_____

82. Is there a comparison of current payrolls with previous payrolls and investigation and documentation of variances?

Comments_____

83. Are complete payrolls reviewed and approved before disbursements are made for such items:

a. Names of payroll are authorized employees and supported by time records?

b. Authorized pay rates used?

c. Gross pay, deductions, and net pay are accurate?

d. Paychecks agree with payroll registers?

Comments_____

RISK MANAGEMENT

84. Does the management company recommend that the CID carry property and liability insurance in amounts at least equivalent to Civil Code requirements?

Comments_____

85. Does the management company recommend that the CID carry D&O insurance?

Comments_____

86. Does the management company recommend that the CID carry Worker's Compensation insurance to protect itself from claims by employees of an uninsured contractor?

Comments_____

87. Are there procedures in place to ensure that renewals are handled timely so that coverage's do not lapse?

Comments_____

88. Does the management company recommend that there is an Injury Prevention Plan (IPP) in place if the CID's common areas include recreational facilities?

Comments_____

89. Does the management company recommend that the CID's principle vendors maintain and provide evidence of the IPP to the CID?

Comments_____

Yes No N/A

90. Does the management company maintain a disaster recovery plan (i.e. plans for earthquake, fire, and flood, off-site backup of EDP data, plans for use of another entities computers, duplication and off-site storage of valuable papers, evacuation plans, and emergency supplies)?
- Comments_____
91. If the CID is an employer, does the management company recommend that it maintain and update any employment issues to a qualified individual who remains current with regard to labor law? Has the CID adopted careful hiring practices?
- Comments_____
92. Does the management company recommend that the CID engage an attorney knowledgeable in HOA law to assist it in addressing legal issues?
- Comments_____
93. Does the management company provide security controls to prevent unauthorized access to computers and data?
- Comments_____
94. Are community managers experienced and educated with regard to Civil Code, new legislation, industry trends, and developments?
- a. Are they certified or in the process of becoming certified?
- Comments_____
95. Does the management company evaluate the CID's primary bank on a regular basis for financial stability?
- Comments_____
96. Are the management company's record retention policies appropriate?
- Comments_____
97. Does the management company recommend that the board of directors be in compliance with California Civil Code sections and educate if necessary?
- Comments_____

GENERAL

Yes No N/A

98. Does the management company maintain an adequate financial accounting system, including a complete general ledger, cash receipts and cash disbursement registers, and subsidiary accounts receivable ledger?

Comments_____

99. Does the management company maintain a policy and procedures manual to ensure continuity in the event of employee turnover?

Comments_____

100. Does the management company present complete financial information to the board of directors on a monthly basis, including;

a. balance sheet

b. detailed income statement

c. detailed general ledger

d. detailed accounts receivable listing

e. detailed assessments receivable aging (e.g. 30, 60, 90, 120 days)

f. cash disbursements detail (i.e. check registers, both operating and reserve accounts)

g. bank statements and reconciliations (for all accounts)

Comments_____

101. Does the management company provide training or guidance to the board of directors regarding financial matters?

Comments_____

102. Does the management company provide analysis to the board of directors regarding variances from budget to actual?

Comments_____

103. Does the management company employ experienced and educated personnel to maintain and oversee the accounting system?

Comments_____

PRO FORMA OPERATING BUDGET

Yes No N/A

104. If management prepares association pro forma operating budgets, do such budgets include all of the following required disclosures?

- | | | | |
|--------------------------|--------------------------|--------------------------|--|
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | a. Listing of common area major components |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | b. Estimated remaining life of each component |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | c. Estimated total life of each component |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | d. Estimated current replacement cost of each component |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | e. A new component (reserve) study at least once every three years |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | f. Amount of cash reserves currently set aside |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | g. Percentage that reserves are currently funded |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | h. Amount, per ownership interest that reserves are over or under funded |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | i. Method of funding reserves |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | j. Known or anticipated special assessments |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | k. Statement of procedures used in calculating reserve requirements |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | l. Accrual-basis revenues and expenses for the budget year |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | m. Optionally, a summary of the pro forma budget in lieu of distributing the entire budget |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | n. Distribution of the budget 30 to 90 days before the beginning of the budget year |

Comments _____

SCORING SYSTEM

There are 180 questions; a passing score is 70% or 126 correctly answered questions. The following totals were noted:

Yes (correct or N/A responses) _____

No (incorrect responses) _____

Based on the foregoing work a _____
(passing or not passing) score was achieved.

By _____

Date _____