

TO: Board of Directors
Forest Lakes Mutual Water Company [FLMWC]

RE: Report of review of FLMWC financial records for FY 2022

DATE: May 1, 2023

FLMWC conducts annual internal reviews to ensure adherence to policies and procedures related to financial matters; to minimize exposure to risk of fraud and other losses; and to assure the accuracy of financial reports provided to shareholders. In accordance with this policy, a review of FY 2022 records was conducted on April 30, 2023 by Directors L. Dennis, C. Kelly, and L. West with the assistance of General Manager D. Cortez. The review, based on the attached procedural guidelines, was conducted to determine if FLMWC financial records are complete, accurate, and meet our understanding of generally accepted accounting principles. This report is submitted to support the Board in fulfilling its duties of financial oversight and accountability.

The records reviewed and the reviewers' notes were compiled and filed in the office file cabinet.

What was reviewed:

- A random sample of deposits recorded in QuickBooks was inspected and compared to entries recorded, to assure accuracy, timeliness, and agreement with bank records. If the Committee found that a copy of check had been removed from one deposit summary, a cross-check was made to verify that it was included on another deposit. *No defects or discrepancies were noted.*
- The Profit and Loss detail report was inspected for accurate designation of all 2022 income by revenue type. *No deviations were found.*
- The QuickBooks Transfer Detail report and documentation of transfers between accounts were examined, including verification of the transfer by the Treasurer. *No deviations were found.*
- Check accounting was reviewed.
 - Hard copy receipts of reimbursement payments to staff, directors and shareholders were examined to review types of expenses. Receipts were present for all reimbursements and were determined to be for verifiable business expenses.
 - All reimbursement records in QuickBooks properly showed the date, check number, name of payee, amount of check and the account distribution for each check written.
 - Authority for approval of signing checks to pay items such as payroll and invoices for receipt of tangible goods was verified. A random sample study of payments for contract agreements showed that payments were in agreement with estimates, actions of the Board as reported in meeting minutes, and the signed contracts.
 - Examination of a random sample of canceled checks and bank statements verified that disbursements were paid to the proper parties.
 - The detail report of pre-printed checks was checked to assure that all voided or missing checks were accounted for.
 - The year-end QuickBooks Profit and Loss report was compared to the Board-adopted budget for the year. Overages were noted and their causes discussed.

- Expenditures were analyzed with attention to proper capitalization of major improvements; refurbishing; new equipment; and the proper designation of employees vs. independent contractors.
- Debit card charges were studied for unusual expenses. All statements for 2023 were closely reviewed and were checked against bank reconciliation.
- Credit card statements and charge invoices were examined. Charges were selected at random and posting to specific QB accounts was verified. It was noted that one receipt for a gasoline purchase was missing; other than that, no deficiencies were found.
- In accord with the recommendation of last year's review committee, ACH payments were given particular attention. Invoices were matched to reports and bank statements, and all were in order.

With the exception of one missing gasoline purchase credit card receipt, no defects or deficiencies were found in the review of check accounting.

- Bank account reconciliation: Review of these functions is performed monthly by the Treasurer and General Manager.
- Stockholder records were examined, including
 - Payment history with accounts receivable in QB
 - Payment account records for Directors in the year under review
 - No bad debt was reported
 - Review of April and October assessment receivables for aging showed that assessments are being paid. Outstanding balances were flagged and their current status noted, e.g. account now current or shareholder has established a payment plan.
- Insurance policies [General Liability, Excess Liability, Directors and Officers, Property, Commercial Auto, and Workers' Compensation] were examined for their effective and expiration dates; kind and classification of coverage, maximum amounts of coverage, premium amounts and terms; and comparison of coverage with insurance appraisal or other supporting cost data. No deficiencies noted.
- QuickBooks General Journal entries were inspected. The current balance sheet was reviewed to verify that liabilities are positive and assets balance with liabilities as of 4/28/2023, as did those of 12/31/2022.
- Payroll: As a complete payroll examination has not yet been done, the committee inspected the payroll record of the General Manager's pay in 2022. This was done as the GM is the person with the greatest control over payroll, and as such she recommended that the GM payroll record receive particular scrutiny. This was done. No deviations or deficiencies were found. A complete payroll review has been recommended by the General Manager.
- Treasury Direct investments: This year, a new element was added to the review procedures: An examination of the records of Treasury Direct investments to assure that what was recorded was invested at the interest rate specified. Everything was found to be in order.
- Last year's Review Committee recommended verifying that insurance certificates identify FLMWC as an additional insured and include the appropriate policy endorsements. The contract for MTM [the company that performed the Scenic repair] was examined, and FLMWC was included as an additional insured. The only contract for 2023 so far was also reviewed, and FLMWC was included as an additional insured on that contract as well.

Review Committee Comments:

The reviewers detected and corrected minor deficiencies with the record presentation, but found no major issues. A complete payroll review is recommended.

The Committee would like to recognize and commend General Manager Cortez for her excellent organization, careful record keeping, and transparency. We thank her for adding to the usual agenda a request for scrutiny of her own pay records, and for bringing in the new element of the Treasury Direct investments. Her painstaking work in preparing and organizing the many required documents made the review process both effective and efficient for the review team.

Respectfully submitted,
FLMWC Financial Review Committee Members

Forest Lakes Mutual Water Company

Internal Audit Procedures

Generally, an audit (also called a financial compliance review) is a number of tests on various transactions that occurred during the year. These tests, along with questions and inquiries made by the auditor(s), lead to an opinion about the appropriateness of the financial statements.

Audit Objectives:

- ❑ To obtain independent assurance that all financial records fairly represent the financial condition of the Forest Lakes Mutual Water Company (FLMWC);
- ❑ To insure that the year's financial activity has been properly recorded in accordance with generally accepted accounting principles;
- ❑ To insure adherence with the policies and procedures established by the stockholders; and
- ❑ To maintain confidence in the integrity of the FLMWC financial system and the persons responsible for handling the finances.

Functions of Auditor(s):

- ❑ Examine and review a random sampling of accounts and records for the year;
- ❑ Examine insurance policies and review the insurance coverage;
- ❑ If conducted by an outside accounting firm, exercise supervision and oversee the work of the review; and
- ❑ Report findings in writing to the Board of Directors with supporting documents and recommendations for change and improvement.

Components Needed for Audit:

- ❑ The accounting records made available to auditors should include, but are not limited to: invoices, daily receipts, QuickBooks (QB) balance sheet details, QB general journal entries, bank statements, an equipment schedule, and a balance sheet reflecting company equipment for the prior year being audited (asset changes from prior year);
- ❑ Insurance policies;
- ❑ Quarterly and annual tax returns;
- ❑ Board of Directors list for year audited; and
- ❑ List of authorized signatories on bank accounts and line of credit for the year audited.

Audit Procedures:

1. Review the recording of receipts/receivables;

- 1.1. Track a random sampling of deposits in QB. Compare these to the entries recorded in such deposits to ensure accuracy, timeliness, and agreement with the bank records
- 1.2. On a sample basis, check the income distribution in the receipts journal, being especially alert for the accuracy of account fund designation for specific purposes (e.g. late fees, recreation donation, and excessive use fees).
- 1.3. Review printout of QB account Transfer Details report. Review documentation of transfers between accounts. Check to see verification by Treasurer.

Internal Audit Procedures

2. Verify check accounting;

- 2.1. Examine folder of hard copy receipts of reimbursement payments to staff, directors, and shareholders to review types of expenses.
- 2.2. Inspect the expenditures relating to reimbursement records in QB which should show the date, check number, name of payee, amount of check and account distribution for each check written.
- 2.3. Examine the authority for approval of signing checks to pay items such as payroll and invoices for receipts of tangible goods. Include a random review of payments for contract agreements showing actions of board reported in minutes and actual signed contracts.
- 2.4. Examine canceled checks and/or bank statements to verify that disbursements were actually paid to the proper parties by using a random sampling technique
- 2.5. Account for all pre-printed checks.
- 2.6. Review the year-end QB financial statements and compare to the adopted budget for the year and analyze variances.
- 2.7. Analyze expenditures, noting proper capitalization of major improvements, refurbishing, new equipment, and proper designation of employees vs. independent contractors (check payees in accounts for outside services, road consulting, capital improvements).
- 2.8. Review debit card charges for unusual expenses. Select random month of statement charges to review in detail.
- 2.9. Review credit card statements and charge invoices. Select random charges and verify posting to specific QB accounts. Review all ACH Payments

3. Reconcile bank accounts; Review of these functions are completed monthly by the Treasurer and General Manager.

- 3.1. Comparison of account balances with online banking records.
- 3.2. Conduct a review of monthly bank account reconciliations.

4. Examine stockholder records; and

- 4.1. Review the payment history with accounts receivable in QBs.
- 4.2. Review the payment account records for directors of the year of audit.
- 4.3. Review Bad Debt records on QB account #893 to ensure write-off of bad debts corresponds to Board of Director's minutes (Board Secretary can provide excerpt(s) from Closed Executive Session meeting minutes.)
- 4.4. Review April & October assessment receivables for aging. Review monthly spreadsheets of shareholder account balance tracking for late/shut-off notices, etc.

5. Inspect active insurance policies and evaluate schedule to determine the following.

- 5.1. Effective and expiration dates;
- 5.2. Kind and classification of coverage;
- 5.3. Maximum amounts of each coverage;
- 5.4. Premium amounts and terms; and
- 5.5. Comparison of insurance coverage with the insurance appraisal or other supporting cost data. Does insurance coverage provide adequate replacement value for Forest Lakes Mutual Water Company building and personal equipment?

Internal Audit Procedures

6. Inspect QB General Journal Entries.

- 6.1. Review QB Custom Transaction Report. Discuss reason for entries.
- 6.2. Review Balance Sheet (current, cash). Verify that liabilities are positive and assets balance with liabilities.
- 6.3. Review Balance Sheet at year-end (12/31/XX) for date of year audited. Verify as above.

Upon completion of the audit, prepare report for submittal to the Board of Directors to include a copy of these procedures and identify and explain any variances. Provide an explanation of audit findings and include any recommendations for change or improvement.