

March 2, 2020

To: John Chajec, President and SEPO Board of Directors

From: Jim Braden

Re: Internal Audit Committee Chair Report

The Board President asked me to perform a review of SEPO's accounting policies, procedures and financial statements. Thus, I performed a limited review of financial transactions, financial statements, and SEPO's Audit Committee Bylaws. This is my third report to the Board of Directors (a copy of prior reports will be provided upon request to current board members). My overall opinion of the Financial system and reporting by SEPO is below average. Accounting is a specialized field and most of the current and prior board members did not or do not have that expertise to manage the financial reporting for SEPO. Ergo, that is why a third-party CPA or bookkeeper assistance is appropriate as noted in Bylaws below. My detailed findings and recommendations are listed below and are not in any prioritized order.

A)--Bylaws of Sunshine Estates Property Owners, Inc. Article 6.03 The Board of Directors shall select a CPA or accountant to prepare financial statements required by the Board of Directors, and file a copy of the same with the Board of Directors, at least ten (10) days before the Annual Meeting. The statement is to be read at the Annual Members meeting.

Findings: The Board of Directors are not in compliance with the Bylaws. Annual financial statements have not been prepared by a CPA or accountant nor the statements read at the Annual Meeting since year ending 12/31/2018. (Y/E 12/31/2016 Statements were prepared by Willie D. Chidester, CPA and Y/E 12/31/2017 were prepared by RJC Bookkeeping). Year ending statements for 12/31/2018 and 12/31/2019 were not prepared by an outside professional.

Recommendation: Change the Bylaws or comply with Article 6.03

B)—Sunshine Country Club Estates web site financials.

Findings: PDF file, 2018 Final P&L vs Budgets are inaccurate and misleading. The year ending profit and loss statements report a net income of \$163,132.75. This is not possible as we generally spend all the monies collected each year. Therefore, we normally report a small gain or loss each year. Final financial statements for Y/E 12/31/2018 have not been prepared and are not available for review to date.

Recommendations: Remove the inaccurate 2018 PDF file that is posted. Final financial statements for Y/E 12/31/2018 should be prepared and posted.

Final financial statements should be posted for year ending 12/31/2019.

Other Comments: Financial statements should be formatted the same each year. I fully support the use of the web site to inform residents of financial transactions.

C)--Income Statement for Y/E 12/31/2019 presented to SEPO residents included Expenses Other of \$8,206.47.

Findings: This amount included accounting adjustments and reconciliation discrepancies of \$7,623.32. These adjustments should not have been buried (hidden) as Other normal and reasonable business expenses. Instead an individual line item should have been used to disclose unusual and abnormal adjustments. For example, a line such as Prior Period Adjustment – Correction of Errors \$7,623 should have been reported.

Recommendation: None offered. Board to decide.

D)—QuickBooks is the only official financial system or software of SEPO. SEPO uses QuickBooks to accumulate and categorize financial transactions. QuickBooks is the system that is utilized to prepare our financial statements and tax returns. The financial statements should have the same amounts as QuickBooks for any point in time. For example, the Balance Sheet and Income Statement reported at our Annual Meeting for year ended 12/31/2019 should be the same amounts as stated in QuickBooks for the same period.

Findings: On February 21, 2020, I printed a Balance Sheet and Income Statement for year ended 12/31/2019. They did not agree to what was given at the annual meeting. Net Income was \$9,788.19 versus \$15,968.27 or a \$6,180.08 difference.

Recommendation: The QuickBooks difference should be investigated and reconciled to the reported amount of \$15,968.27. The QuickBooks software must be locked at year end so transactions effecting year 2019 cannot be entered into the software in year 2020.

E)—The Board Treasurer position changes frequently. Sometimes it is after a two-year term. Each Treasurer has their own ideas on how to manage and implement the accounting policies, procedures, and reporting.

Findings: The Treasurer implements changes to policies and/or financial adjustments at their discretion. Adjusting journal entries are made by Treasurer. How financial reports are formatted for SEPO resident's information and who is involved in preparation of those statements have been determined by the Treasurer.

Recommendation: The Treasurer should inform the Board, in writing of any changes made in accounting policies or procedures. This includes any accounting adjusting journal entries, policy or process changes given to the Office Administrator. This should help consistency and transparency of SEPO's accounting practices (Our outside accountant or audit committee chair could be utilized for additional input)

F)—Internal audits or accounting policies and procedures reviews are designed to make improvements to the current accounting process. Most organizations that utilize internal audits require a mandatory response in writing from the treasurer (controller) to the president. Recommendations are not ignored. The treasurer may accept the recommendation and report

the date the recommendation was implemented. The treasurer may not accept the recommendation citing the reason(s) for not accepting the recommendation. The president (or designate) will decide if the reason(s) are appropriate for not accepting and implementing the audit recommendation.

Findings: No response or comments have been issued verbally or in writing to these reports.

Recommendation: The treasurer should be required to make a written response to the Board of Directors and a copy to the Audit Committee Chair.