

HEATHER GARDENS BUDGET and FINANCE INTERNAL AUDIT PROGRAM

Joint Procedure Memorandum JPM B-3

This Heather Gardens Budget and Finance Internal Audit Program JPM B-3 replaces the latest JPM B-3 dated by the Boards on November 16, 2021 (HGA) and December 23, 2021 (HGMD), which should be removed from your file and destroyed.

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I. BACKGROUND

- A. The Management Agreement dated between the Heather Gardens Association (Association) and the Heather Gardens Metropolitan District (District) provides for shared advisory committees to serve both the Association and District Boards.
- B. The Heather Gardens Budget and Finance Joint Procedure Memorandum (JPM B-1), approved by the Association and District Boards, is authorized as a shared advisory committee based on the Management Agreement. JPM B-1 defines the Internal Audit Program and the Audit Subcommittee. It authorizes the Audit Subcommittee to assist the B&F Committee in performing its functions. This Heather Gardens Joint Procedure Memorandum (JPM B-3) defines the composition and functions of the Audit Subcommittee.
- C. The Association and District Treasurers jointly appoint the Chair of the Audit Subcommittee. The Audit Subcommittee is composed of a maximum of 7 individuals who preferably have financial, administrative, and/or audit experience in the industry and public service procedures and processes. It reports to the Association and District Board of Directors (the Boards) through the B&F Committee chair.

II. RESPONSIBILITIES

A. AUDIT SUBCOMMITTEE.

1. Annually: Oversees the taking of inventory of consumables and fixed assets that are reported on the Balance Sheet. These assets include the capital assets as detailed on the fixed asset schedule presented to the outside auditors, maintenance parts inventory, food, liquor, beer for the Restaurant, and retail items for the Golf Shop.
2. Monthly: Reviews the previous month's paid invoices.
3. Random Audits include but are not limited to:

- a. Petty cash.
 - b. Clubhouse cash procedures for class registration, trips, and special events.
 - c. Restaurant cash and credit card handling procedures.
 - d. Golf course cash and credit card handling procedures.
 - e. Such other special audits as requested by an appropriate Association or District authority or as deemed appropriate based on knowledge internal to the Subcommittee.
 - f. Prepare written reports on the results of all audits, including findings and recommendations, and submit them to the Association and District Treasurers, who report the results at regular meetings of the B&F Committee.
 - g. Perform any other task within the expertise of the subcommittee as requested by the Association and District Boards of Directors or the B&F Committee.
4. Semi-annually review the names of individuals with signature authority for all bank accounts (both HGA and HGMD) to ensure that those names are currently the CEO and the CFO, and the Board Members are either the Treasurer, President, or Vice President. Report the results of the review to the Audit Subcommittee.

Semi-annually review the names of those with access to the Jenark software to ensure that only current employees are authorized to access the system, and those with access require access.

B. TREASURERS OF THE BOARDS.

1. Review audits performed by the Audit Subcommittee and includes any findings and recommendations concerning audit results in a memo to the Association and District Boards.
2. Evaluate special audit requests from other Association and District parties and the Audit Subcommittee, and report to the Boards.

3. Monthly, immediately after bank reconciliations are completed, the CFO makes copies of bank reconciliations, bank statements, and transfer spreadsheets available to both Treasurers to review.

C. BOARDS OF DIRECTORS.

1. Acts on recommendations from the Audit Subcommittee through the B&F Committee.

III. PROCEDURES

A. REVIEW OF PREVIOUS MONTH'S INVOICES. The review includes, but is not limited to, the following steps:

1. Verify that the purchase order has been completed and attached when appropriate.
2. Verify that the invoice has received proper Management approval and that each individual invoice is within the appropriate spending authority. As approved by the appropriate Board.
3. Verify that the expenditure has been coded to the proper department.
4. Review to ensure that available cash discounts are taken and note any errors.
5. Verify that the check copy amount equals the total of the invoices attached.
6. Verify that the check amount equals that shown on the check register listing for the month.
7. Verify that all checks recorded on the check register for the month are accounted for.
8. The Chair initials and dates on each page of the check register indicating that all checks listed have been verified by the Chief Financial Officer retains the check register for review in the annual audit process.

B. Annual Inventory:

1. In collaboration with Management, the Subcommittee Chair will supervise the annual inventory of the Association and District properties by:
 - a. Annually recruiting 7 to 8 residents to assist in the December property inventory process.
 - b. Assigning volunteers to work with staff.
 - c. Assigning a portion of the inventory to each team using the Management prepared inventory sheets.
 - d. Collecting, reviewing, and certifying the results as correct and submitting them to Management for recording in the inventory database.
 - e. Reporting the inventory results, noting any differences, to the Association and District Treasurers.
2. **Management and Subcommittee inventory teams will revise and verify items in the Inventory Database.**
 - a. The staff and volunteer team members will separately count and verify the inventory and record the results.
 - b. Log to-be-added items that are not on the inventory.
 - c. Log as missing any items that were not found.
3. **Management will record the results in the inventory database.**

C. Review Petty Cash Accounts.

1. A member of the Subcommittee and Management will review the petty cash accounts.

D. With the Treasurers, review the bank reconciliations.**E. REPORTING FINDINGS OF ROUTINE AUDITS.**

1. Routine audits are those that are performed on a regular basis, having approximately the same scope and using substantially the same methods and techniques in each audit.

2. Subcommittee findings and recommendations of routine audits are reported in writing to the Association and District Treasurers. The Treasurers, in turn, include a summary of the Subcommittee's activities in the report to the B&F Committee at its monthly meeting.
3. The Association Treasurer or District Treasurer recommends to the appropriate Board those actions deemed necessary in response to the findings and recommendations of the audit. The Treasurers may include an evaluation of the findings and recommendations of the audit but may not change them.

F. **SPECIAL AUDITS.** Special audits are audits performed on an as-required basis in response to a request by the Association Treasurer or District Treasurer, other Association or District committees, the Association or District Board of Directors, or Management. The Audit Subcommittee may also conduct special audits based on its own initiative and studies of various systems used by the Association to discharge its responsibilities under the Association Declaration of Condominium and the Bylaws of the Association and District and the Association-District Management Agreement.

1. Requests for special audits must be in writing, signed by the responsible individual, and must be specific as to the scope of the audit.
2. Special audit requests must be routed to the Audit Subcommittee through the Treasurers. The Treasurers will give direction to the Audit Subcommittee as to the scope, content, and reporting requirements of the special audit.
3. At the conclusion of the special audit, the Audit Subcommittee prepares its report, in writing and:
 - a. Submits it to the requesting party through the appropriate Treasurer.
 - b. The Association Treasurer or District Treasurer includes the results of the audit in the monthly report at the B&F Committee meeting and the appropriate Board meeting.
4. In reporting the findings of a special audit, the Treasurers may include an evaluation of the findings and recommendations of the audit but may not change them.

G. CORRECTIVE ACTION.

- 1. In the event that an internal audit, routine or special, reports a discrepancy or recommends a change in a procedure or system, additional action is required.
 - a. The party responsible for the audited function must prepare a response, in writing, detailing the corrective action to be taken or the specific reason the corrective action should not be implemented.
 - b. The responsible party's response is routed the same way as the audit report (see C.3. above) containing the discrepancy or recommended system change.
- 2. Responsibility of the Treasurers and the Subcommittee ends when a discrepancy is reported or a change in procedure or system is recommended. Corrective action is the responsibility of the Board.

By: 
 Jill Bacon, Association President

By: 
 David Funk, District President

This Joint Budget and Finance Procedure Memorandum Regarding the Internal Audit Program was adopted by the Association Board of Directors on the 20 day of September 2022, effective on the 20 day of September 2022, and is attested to by the Secretary of The Heather Gardens Association. This was also adopted by the Metropolitan District Board of Directors on the 22 day of September 2022, effective on the 20 of September 2022, and is attested to by the Secretary of The Heather Gardens Metropolitan District.

By: 
 David Baxter, Secretary

By: 
 William Archambault, Secretary/Treasurer