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## Minimizing Costs Through Exceptional Internal Controls

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## Continuing Education\*

- Continuing Education
  - After the session you will receive a link to a survey, you must request a certificate upon completion of the survey
  - You must remain in attendance for the entire session
  - You must remain attentive, with the viewer window at the forefront of your computer screen

\* This session has been submitted for CE to NBC-CAM. Acceptance is pending.

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- This session may be being recorded for future use.

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## Agenda

- Industry and History
- Internal Control Overview
- Monitoring
- Policies and Procedures
- Controls for Specific Areas
- More on Monitoring

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## Industry and History

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## Industry Environment and History

- Dependence on Volunteer Board Members
- Reliance on Property managers or managing agents
  - Minimal use of written policies and procedure manuals
- Attorney General indictments for bid rigging and kickbacks
- Unit owners expectation higher than a business owner or investor

**CB** **Responses in Similar Situations**

- Sarbanes Oxley
- NY School districts
  - Mandated internal audit function

**CB** **Internal Control Overview**

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**CB** **Objectives of Internal Controls**

- Protect the Board and management from public scrutiny
- Assure best ratio of cost and value to quality is considered
- Guard against fraud

**CB** **Best Practices Guidelines**

- Guidelines offer:
  - Enhanced protection over assets, receipts and expenditures
  - Reduced risk of overpaying or receiving lower quality goods and services
  - Reduced chance that better options are missed

**CB** **Best Practices Guidelines**

- We'll look at guidelines for:
  - Segregation of duties
  - Written approval processes
  - Prescribed bidding processes
  - Scheduled evaluations and reviews

**CB** **Where Internal Controls Come From?**

- Current or former managing agent or property manager
- Certain Board members

**CB** **Performance of Internal Control Procedures**

- Learned by them on the job?
- Do they have a reference source as what to do or is expected?

**CB** **Performance of Internal Control Procedures**

- Performed because:
  - They always have been?
  - Protect against questioning the person's integrity?
  - Someone is monitoring?

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**Monitoring**

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**CB** **Who Should Monitor?**

- Supervisors - financial areas
- Building staff
- Executive level monitoring (for large properties)
- Board monitoring is crucial

**CB** **Monitoring of Financial Results**

- Non-emergency expenses over established amount
  - Non-recurring expenses
  - Capital projects
  - Employee time
  - Supplies purchases
  - Annual review of contracts

**CB** **Don't Become Overwhelmed**

- Share responsibilities among Board members
- Consider finance committee

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## Policies and Procedures

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## Policies and Procedures

- Policies - rules to be followed
- Procedures - actions required

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## Policies and Procedures

- Together they are the building's means to protect itself
- Best practices requires these to be written
  - Employee handbook
  - Maintenance and verification schedules
  - How to lists or checklists
  - Authorization, order forms and control lists
  - Consideration of bids received
- Periodic reminders of policies

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## Controls for Specific Areas

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## Bidding

- Required over established amount
- Established minimum number of bidders
- Sealed bids with establish number of individuals present at opening

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## Bidding

- Written Requests for proposal, when possible
- Bidding control checklist (helpful for audit)
- Exceptions and policies for those purchases that are not subject to bidding
- Consider an annual review of recurring services, supplies and contracts

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## Purchasing

- Required procedures over established amount
- Maintain documentation of:
  - competitive proposals
  - approval of service performed/goods received

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## Purchasing

- Utilize:
  - Purchase orders
  - Service Request/Work Tickets or supplies requisition Forms
  - Receiving reports and packing slips
- Need to be:
  - Attached to invoice when presented for payment
  - Should be pre-numbered and a log maintained

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## Cash Receipts

- Use of a lockbox !
- Unless downloaded from the Financial Institution:
  - Individual handling deposits should have no duties for billing or adjusting accounts
  - Individual handling account adjustments should have no duties for recording cash receipts
- What are your controls to assure miscellaneous income is deposited?

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## Cash Disbursements

- Invoices should be input upon receipt
  - Even before approval !
- Matching of backup documentation needs to occur within reasonable time period
- Log/folder should be maintained of invoices lacking complete documentation
- Listing of invoices available for payment (documentation complete) presented for potential payment should be maintained

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## Cash Disbursements

- Invoices for payment should have written approval for payment from a person who is not authorized to sign checks
- Check signer should:
  - Receive all documentation along with check for signature
  - Verify documentation and written approval
- Establish procedures for emergency payment of invoice, including subsequent review

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## Inventory

- Individual not responsible for inventory accepts delivery
- Packing list is compared to items and items added to inventory system
- Inventory monitoring system is utilized
- Work/service tickets are required to remove an item from inventory
- Periodic inventory is taken



## Payroll

- Adequate employee files
  - Reprimands and other documentation
- Time card system
- Who's approving your overtime?



## More on Monitoring

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## Monthly Closing

- Should include:
  - Management review of monthly report
  - Complete recording of accounts receivable and payable
  - Proper recording of fixed assets
  - Reports:
    - Budget comparison report
    - Bank reconciliation
    - Listing of journal entries



## Board Monitoring

- Monitor
  - Management
  - Building staff
  - Financial results
  - Maintenance and apportionment of reserves
  - Three distinct property funds
- Maximizing returns and availability of cash is paramount



## Long term Planning

- Annual funding mechanism included in operating budget
- How will you fund future repairs and replacements?
- Are your reserves adequate?



## Questions?

- Additional Questions?
  - Send an email to: [info@czarbeer.com](mailto:info@czarbeer.com)
  - Put "Internal Controls" in the subject

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