



THE SEVERN RIVER ASSOCIATION

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Member Communities:

Admiral Heights Improvement Assn
Amberley Community Association
Anchorage Swim Club
Annapolis Conservancy Board
Annapolis Neck Peninsula Fed.
Annapolis Roads Property Ownr Assn
Arden Civic Association
Arnold Preservation Council
Bay Ridge Civic Association
Bay Ridge Trust Inc
Bayberry Hill Property Ownrs Assn
Bellevue Estates Community Assn
Belvoir Farms Homeowners Assn
Bembe Beach Association
Ben Oaks Civic Association
Bluff Point Community Association
Bretton Woods Home Owners Assn
Brown's Pond Improvement Assn
Burley Creek Community Assn
Bywater-Church & Crab Creek Assn
Carrollton Manor Improvement Assn
Chartwell Garden Club
Chesapeake Landing Condominium
Colchester Community Association
Downs Marina
Downs Property Owners Assn
Dreams Landing Condominums
East Penderis Mount Comm Assn
Eastport Yacht Club Ltd
Fairwinds Beach Club, Inc.
Ferry Farms Improvement Assn
Glen Oban Association, Inc.
Greater Odenton Impr Association
Herald Harbor Citizens Assn
Hidden Point Road Association
Holly Point Community Association
Hollywood on the Severn Imp Assn
Indian Hills Community Association
Indian Landing Community Assn
Kensington Community Assn
Kilmarnock Homeowners Assn
Lake Forest Community Assn
Lindamoore Improvement Assn
Linstead Community Association
Maynadier Homeowners Assn
Murray Hill Residents Association
Olde Severna Park Improvmt Assn
Oyster Harbor Citizens Association
Palisades Civic Association
Pines Community Improvement Assn
Point Field Landing Community
Riverview Manor Community Assn
Round Bay Community Association
Rugby Hall Community Assn
Saefern Saddle & Yacht Club
Saltworks on Severn Citizens Assn
Severn Heights Improvement Assn
Severn River Garden Club
Severn River Swim Club
Severn Sailing Association
Severn School
Severna Forest Community Assn
Sherwood Forest
Shipleys Choice Community Assn
St John's College
Trollhaven Homeowners Association
Venice Beach Citizens Association
Wardour Improvement Association
Wells Cove
West Annapolis Civic Association
West Severna Park Community Assn
Winchester on the Severn

May 12, 2009

To: SRA Board of Directors
Subject: Audit Report

I commend the Audit Committee for conducting a review of the financial records of the Severn River Association and producing an audit report.

This audit report is a major accomplishment. Although mandated by the Association's constitution, it has not been prepared in the past as frequently as is required. Periodic audits are essential to sound financial management.

Pat Lynch and Bob Whitcomb have addressed this important matter most responsibly and helpfully, and we are grateful to them. I add my thanks to our treasurer, Bob vom Saal, for his help and support to the auditors, and for maintaining SRA's financial records.

The two officers most responsible for matters covered in the audit are the president and treasurer, and so we are including responses and recommendations as a part of the complete audit package consisting of:

- The auditors' individual reports, which they developed independently to represent their views, and which have not been edited by any other party
- A response by the treasurer
- This response by the president.

My response addresses the following topics and purposes:

- To identify, acknowledge and accept the most significant findings of fact
- To note areas of disagreement, if any
- To announce and recommend procedures that are responsive to the audit findings and to principles of sound governance
- In the same spirit, to recommend such Board action as appear to be necessary, such as changes to the SRA governance documents.

Significant findings:

- Much of the financial accounting information presented to the auditors appears to be an improvement in quality over records maintained by prior treasurers
- There were instances of incomplete records, especially the issuance of some checks not clearly associated with invoices in the file
- There is a need for clarification over what records the treasurer must keep and present to auditors in the future

(continued)

Significant findings (continued)

- SRA funds were loaned to an SRA officer relating to the acquisition of land titled to a private entity. SRA's records are unsatisfactory and the recipient has not provided requested information on the titling of the land or the use of funds. This \$2,105 loan (shown on the 12/31/2005 and 2006 balance sheets) has not been repaid and is of concern, with no loan documents or verified status in the records.
- There was inadequate documentation of contributions and loans.
- Bank statements and Smith Barney Mutual Funds were reconciled accurately in Quickbooks.
- Dues and other receipts were recorded in Quickbooks, and were compared to sample major deposits. No entries were found in the Membership Database that didn't also have a deposit entry in Quickbooks.
- With no prior audit reports and few records prior to 2006, no verified starting point existed for the audit of the 2007 records. This audit may provide a better basis for the next audit.
- Financial statements issued by the Treasurer presented accurately the receipts and account balances as of December 31, 2007.

Auditors' Recommendations (A summary, exact text in their reports below.)

- For checks exceeding \$25, keep complete check stub data together with an invoice establishing the payee and reason for the payment.
- Prepare a summary ledger at the end of each fiscal year with complete information to validate the payment.
- Perform an internal audit within 8 weeks of the end of each fiscal year, and an outside CPA audit review every 4 years
- Checks over \$500 also be approved formally by executive officer, accompanied by invoice and other relevant records
- Tighten the process for securing complete justifying information, prior to making loans or grants to any entity, and thereafter track those funds carefully. SRA should require joint endorsement of a form providing information necessary to sound financial management, and should have a disciplined approval procedure.
- Greater executive participation is needed in annual financial reviews, with a timely report to the Board
- A financial policy recommendation that operating revenues that are surplus to operating expenses be placed in an interest earning account.

Areas of Disagreement between President and the Auditors

- None are significant. Building on the auditors' recommendations, only nuances appear in my final recommendations for changes in SRA's policies and procedures
- The audit provision in the constitution is adequate if followed more rigorously than in the past. I feel that full annual audits, supplemented by outside professional audits, are overkill for a tiny organization like SRA, but this issue could be revisited if and when we grow significantly. I support regular audits that would occur with every change in treasurer, and at least every 3 years, and as directed by the Board. I am receptive to considering outside assistance if it can be shown to provide benefits commensurate with cost, but have no reason to believe that it is necessary.

President's Response for Improving Procedures

Listed below are recommendations that respond to the findings and recommendations of the auditors, and will also conform SRA procedures to sound financial management practice.

- **Bylaws.** It is desirable to codify certain accounting/financial/management controls in the SRA Bylaws, especially including documentation and authorizations. Bylaws accomplishing this purpose will be presented to the Board
- **Officer responsibility.** Sound financial practice requires not only policy authorization (by a Board) but also executive authorization (by officers of the corporation charged with detailed implementaton.)
- **Authorizations.** Appropriate authorization must exist for all instruments carrying financial implications: applications for grants and contracts; acceptance of donations, grants and contracts; loans and grants to other parties, etc. The definition of appropriate authorization is clarified to be:
 - Authorization by the Board of Directors is always required, either general (by reference to a category in the current approved budget), or specific (reference to board approval of a particular item.) In the interest of providing minimally essential information to the Board on which to base discussion and vote, proposals for a specific commitment of SRA funds in excess of \$100 should be transmitted to the Executive Committee and Officers two weeks in advance of a Board vote
 - Authorization by president (via email or otherwise in writing to be lodged in the record) for items exceeding \$100
 - Treasurer's authorization is also required, for the purpose of maintaining prudent financial control and records. It is usually evidenced by his signature on the instrument issued on behalf of SRA. It shall not be unreasonably withheld if all other required authorizations exist.
- **Documentation.**
 - Financial obligations, disbursements and grants to other entities shall be supported by documentation clearly describing purpose. Any forms found to be helpful to this end shall be developed by the president in consultation with the auditors and treasurer.
 - Obligations should usually be paid only after documentation on expenditures is provided (receipts, invoices, other evidence of costs incurred, net of resources otherwise available to the recipient for the stated purpose)
 - Authorizations by board and officers as described above
 - Some documentation shall be recorded for all obligations in excess of \$25, with evidence of additional approvals as described above for amounts greater than \$100.
 - Loans require documentation with Notes of Indebtedness clearly specifying terms, jointly endorsed by the parties and retained by the lender until repayment occurs.
- **Conflict of Interest.** Funds shall not be expended for a purpose, direct or incidental, in which an officer or board member has a significant equity interest.
- **Disposition of other Findings:**
 - The loan cited in the auditors' findings has now been repaid in full. I recommend that SRA consider this loan to be closed.
 - Financial policy, e.g. account and investment objectives, should be considered by a Finance Committee comprising the president, treasurer and such other board members who have interest and relevant knowledge
 - President shall participate actively with treasurer in reviewing and closing the financial records of the Association at the end of each fiscal year, and present his conclusions to the Board as a supplement to the treasurer's report.

President's Recommendations to the Board

- I recommend that the Board read and discuss this complete audit report
- To implement the recommendations in this report package, I recommend that the Board adopt proposed changes in the Bylaws which will be forwarded separately by the constitution/ bylaws committee.

Sincerely,



Kurt W. Riegel
President, Severn River Association

Attachments:

- Response by Bob vom Saal, Treasurer
- Audit Report #1, Pat Lynch
- Audit Report #2, Bob Whitcomb

Response by Bob vom Saal, Treasurer

1. This is the first audit in ten years, so there are no accepted practices. Each Treasurer has established his own record-keeping practices. I am pleased that an Audit Committee has finally reviewed the books and proposed practices, though I have some concerns that some suggestions may require more time and paper than is really necessary.

2. A separate Ledger was not provided because none was requested. I will provide one for the 2008 audit.

3. Our By-Laws only require that all expenditures be approved by the Board, and make no special requirement for contributions or loans. Establishment of a form for approval of such expenditures is up to the Board, and I will be happy to file such forms once established and approved. Executive Committee approval is not sufficient – Board approval is required either individually or by budget line item with individual disbursements delegated to the EC or another committee.

I have the following comments on the 5 AP Audit Procedure Recommendations:

Recommendation 1) “For all payments over \$25.00 there must be an invoice attached to each check validating the reason for the payment and documenting the payee for audit purposes. The check stub must list all required data for the payment.”

Comment: Attachment of Minutes documenting Board approval of an expense should be sufficient. Invoices do not confirm approval and are not always provided. Invoices will be provided and attached to check stubs when possible. The dollar limit imposes an unnecessary burden on recipients such as the church to organizations such as churches (for meeting halls) who do not normally provide a formal invoice. QuickBooks limits check stub memos to 30 characters which sometimes requires abbreviation, and also does not give notice when the limit is exceeded on data entry – the last few characters of long memos are simply not printed.

Recommendation 2) A summary ledger must be prepared at the end of the fiscal year and prior to any audit listing in check sequence the required data elements for each payment i.e.: Check #; Date of Check; Payee; Amount of check; Purpose of payment; and any other comments necessary to validate the payment.
No Comment.

Recommendation 3) An internal audit must be performed within 8 weeks after the end of each fiscal year and an outside CPA review completed every 4 years.

Comment: While this is a laudable goal, the first 2 months of the calendar year are the busiest time for the Treasurer, when most of the next year’s donations come in and must be logged, endorsed and deposited. Sales taxes are also due then. I recommend that the audit be started within 12 weeks and completed before filing the form 990 which is due May 15. It is already too late to do that this year, but I will try to have the records ready for audit before the annual meeting.

Recommendation 4) There must be an approval note or email from the SRA President or 1st Vice President for any check written for \$500.00 or above and attached to the expense invoice and cancelled check record.

Comment: All expenses must be approved by the Board, not these officers. The Budget should be approved before December 31 so the insurance premium (~\$1,100) can be paid on time. Same is true for printing and mailing expenses. The extra approvals will just slow down the process.

Recommendation 5) There must be more executive participation and emphasis on the yearly SRA audits with timely results reported to the Executive Committee and Board of Directors.

Comment: I agree and also recommend that our IRS form 990, Personal Property Tax form, MD State Registration Form, and an audited Annual Financial Report should be posted on our website.

Again I thank the Audit Committee for their interest and their efforts.

Respectfully submitted,

Bob vom Saal, Treasurer

Audit Report #1, Pat Lynch

To: Kurt Riegel, SRA President
From: Pat Lynch, SRA Director

Subject: Accounts Payable Audit Report for the Severn River Association (SRA) for Fiscal Year 2007

SRA Audit Report Date: November 1, 2008
SRA Addendum to Audit Report: March 24, 2009

The SRA AP audit was performed by Pat Lynch, SRA Board Director, in August, 2008 and reported in November 2008 to Bob vom Saal, SRA Treasurer; Kurt Riegel, SRA President and Bob Whitcomb, SRA Vice President.

The audit was rated as 'not satisfactory' for Accounts Payable (AP) records processes for record keeping. The audit included a review of checks written by the SRA and for record keeping on funding requests and contributions.

The following results include detail on the current processes with recommended actions for improved record keeping:

- 1) There was no separate ledger provided that listed AP checks with and without invoices and cash payments without invoices.
- 2) The 2008 AP documentation is incomplete** resulting in \$9833.72 in SRA checks written with annotation on check stub but without any accompanying invoices to validate the paid expense.

These checks are as follows:

Check #	Date	Amount	Purpose
2105	1/ 4/07	\$ 160.00	Renewal Fee bulk mail permit #130
2106	1/ 4/07	\$ 375.00	Bridgett, Mock \$ Assoc. Client # 8491
2107	1/17/07	\$ 15.72	Comptroller tax/hats & maps
2109	2/22/07	\$ 640.00	Kurt Riegel/ Editor/ Feb '07 Log
2113	6/ 8/07	\$ 250.00	Clubhouse lease/food-beverage
2114	6/14/07	\$ 400.00	Kurt Riegel /Editor / May '07 Log
2123	7/15/07	\$ 3496.00	AACC Envir Cntr/OpCW
2124	9/10/07	\$ 322.00	AACC Envir Cntr/Op CW?HH/WSevPk.*
2127	11/13/07	\$ 4000.00	Scenic Rivers Land Trust CBT#8452
2131	12/28/07	\$ 175.00	Bulk Mail Permit Renewal US Postal

*Application for AACC Envir. Cntr checks \$171.00 for 7 weeks not 14 wks for \$322.00
Checks 2108 to Free State press for \$2749.28 with invoices for only \$2100.53 attached

The following checks were in order with invoices attached:

2130; 2128; 2110; 2118; 2111; 2117;2120;2121; 2115; 2116; 2129; 2125; 2122;2126

3) The SRA has no official file of 2007 requests for contributions and actions on donations and/or loans to members/member organizations who have requested financial assistance from the SRA. At this time the record keeping is rated as not satisfactory. The following steps must be taken to establish an acceptable and auditable procedure of review, validation and record keeping for all SRA requests for contributions:

- SRA to provide the official form to be completed by requestor for funding assistance
- Requestor must complete and submit form requesting contribution or loan from SRA for an approved cause
- SRA Executive Committee must review and approve/disapprove member's funding request and complete SRA response on form and deliver to requestor within an agreed to timeframe.
- Terms and conditions for contribution and/or loan must be documented and agreed to in writing on contribution form and signed by both parties.
- SRA Contribution and/or loan form must be filed in Treasurer's 'Funding Request' record for follow on review and yearly audits.

Based on my review of the overall AP records for 2007 there appears to be no method of preparation nor established rules for AP audit preparation with required documentation therefore I suggest the following:

- 1) For all payments over \$25.00 there must be an invoice attached to each check validating the reason for the payment and documenting the payee for audit purposes. The check stub must list all required data for the payment.
- 2) A summary ledger must be prepared at the end of the fiscal year and prior to any audit listing in check sequence the required data elements for each payment i.e.: Check #; Date of Check; Payee; Amount of check; Purpose of payment; and any other comments necessary to validate the payment.
- 3) An internal audit must be performed within 8 weeks after the end of each fiscal year and an outside CPA review completed every 4 years.
- 4) There must be an approval note or email from the SRA President or 1st Vice President for any check written for \$500.00 or above and attached to the expense invoice and cancelled check record.
- 5) There must be more executive participation and emphasis on the yearly SRA audits with timely results reported to the Executive Committee and Board of Directors.

** Addendum to the AP audit: A meeting was held in February '09 with Pat Lynch and Bob vom Saal (SRA Treasurer) to review both the check and invoice records as a follow on for the final SRA AP audit. This resulted in a final reconciliation of the required invoices with the eleven checks written in the year 2007. These checks were originally submitted for the 2007 audit without any invoices for validation.

I have reviewed these FY 2007 records as presented to me in FY 2008.

Patricia A. Lynch, SRA Director

Audit Report #2, Bob Whitcomb

TO: The Board of the Severn River Association
FROM: Bob Whitcomb, Member of the Audit Committee

SUBJECT: Audit of 2007 Receivables and Financial Reports

In August 2008, the Audit Committee met with Treasurer Bob vom Saal to obtain the accounting records for 2007 and 2006. He also gave me the backup files from Quickbooks, as well as the Membership data base for 2007. It was agreed that I would audit the Quickbooks files and receipts, while Pat Lynch would audit payments made.

My review of the records included verifying all deposits against bank records, verifying that bank balances were reflected properly in the accounting records, and verifying that the financial statements reflected properly the records kept in Quickbooks. (Quickbooks is the PC software used by the Treasurer to maintain the accounting records for SRA).

I found that the bank statements were reconciled to the balances shown in Quickbooks as of December 31, 2007, the end of SRA's fiscal year. It did not appear that Quickbooks records had been reconciled every month to monthly bank statements, but they were done often enough to incorporate account service charges and interest, and the end-of-year balances were correct.

Similarly, the balances in the Smith Barney Mutual Funds were reflected accurately at year end in Quickbooks. It should be noted that the Mutual Funds were acquired at least five years prior, balances were verified with the assigned Broker, and that no changes to these Funds were made in 2006 or 2007, except for their earnings and capital gains.

I verified that dues payments and other receipts were recorded in Quickbooks. This verification involved sampling the major deposits (the Treasurer had accumulated dues payments and deposited most of them in deposits dated February 20 and April 20, 2007) and checking that matching entries were in the Membership Database. I was able to reconstruct each of these deposits, and verify by member that their dues and membership status matched (i.e. community association, individual, major donor). This confirmed that the Membership Database was updated in concert with making deposits, and that both properly reflected the revenue that SRA received in 2007. It should be noted that, as a volunteer, non-profit, there are no Receivables to audit, so that all receipts that were deposited are assumed to be the entire amount of monies that SRA received --- there is no way to audit any payments to SRA that were not deposited in the bank. No entries were found in the Membership Database that didn't also have a deposit entry in Quickbooks, so the conclusion is that all receipts were recorded properly.

I also did selective review of 2006 Quickbooks financial statements, bank balances, and selective deposits and expenses. This seemed to be in sufficient order to establish a starting point for auditing 2007 records. However with an absence of any prior audit reports, and practically no records prior to 2006, it is not possible to do a complete audit of the 2007 records without a verifiable starting point. We would hope that this audit of 2007 begins to build a basis for a more comprehensive audit of future years' financial records.

In conclusion, I found that the financial statements issued by the Treasurer presented accurately the receipts and account balances as of December 31, 2007. The one item of concern on the Balance Sheet is a \$2,105 loan to the Crownsville Conservancy, for which there were no loan documents, and we were unable to verify its status (it was also shown on the Balance Sheet for 12/31/2005 and 2006). It should be noted that a surplus of revenue over expenses was generated and should be transferred to a higher interest-earning account.