

To the Board of Directors of Pond Place Tax District  
and the Board of Governors of Pond Place Association

In planning and performing our audit of the financial statements of the governmental activities, the aggregate discretely presented component units, and each major fund of Pond Place Tax District as of and for the year ended June 30, 2020, in accordance with the auditing standards generally accepted in the United States of America, we considered Pond Place's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of Pond Place's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider the following deficiencies in Pond Place's internal control to be material weaknesses:

### **Association Dues Receivable**

#### ***Observation:***

Audit procedures identified that \$24,350 of the Pond Place Association Dues receivable was incorrectly recorded in the general ledger resulting in the material misstatement of the account balance. An audit adjustment was made to the related accounts.

***Recommendation:***

Accounts Receivable and Other Receivables should be periodically reconciled to supporting documentation.

***Management Response:***

The new Treasurer will be reviewing all bank statements and all bookkeeping postings monthly to assure they are accurate and correctly posted. The Treasurer will review all bank account reconciliations monthly.

The President will be reviewing and approving ALL disbursements and will be actively communicating with the Treasurer. Requests have been made to afford total access to both the Treasurer and President on ALL transactions on CM's new CINC platform in real time.

**Revenue Recognition in the Association and District**

***Observation:***

Revenue and related receivables accounts in the general ledger contain numerous journal entries, to the extent that audit procedures do not consistently result in a conclusion that the accounts are reasonably reported. The audit includes tests that compare the reported revenues to budgeted amounts and recalculated amounts based on the unit assessments and taxable property base. The journal entries are often identified as corrections, and reverse or double-reverse the amounts originally entered. The reasons for some of the entries cannot be determined.

In the Tax District, reported tax revenues were below both the annual budgeted amounts and the prior year amounts. One contributing factor was the use of the previous year's mill rate in assessing tax revenue.

In the Association, differences between expected and actual revenues were significant and explanations were not available. As a result, we had to qualify our opinion on the reporting of revenues in the Association financial statements.

***Recommendation:***

The procedures for determining, recording, and reporting revenues should be standardized. Amount reported as revenues should be compared to expectations. Journal entries and other corrections should be reviewed and approved, and the cause of multiple and repeated corrections should be investigated and remedied.

***Management Response:***

CM allowed the conflating of the stream of Land Lease rental and pre-payment income with other Association, and sometimes in error, Tax District income. Current Administration has requested that a separate set of ledgers be kept for all Land Lease income and it be reflected separately on the new CINC platform. CM has orally agreed to implement this request on their CINC platform.

Investigation determined that CM's account receivable bookkeeper did not understand the process for computing the mill rate and was not properly supervised by senior CM management. Previous Treasurer neglected to verify that the correct mill rate was being applied to exactly meet the amount of the Tax District budget. The current CM AR bookkeeper has updated herself on the proper methodology and the Tax District's Treasurer will be verifying the mill rate was correctly computed and the bills remitted were accurate.

An internal audit will be performed by our new Treasurer to determine the shortfall between the amount budgeted for FY endings 6-30-19, FY 6-30-20 and FY 6-30-21 to determine the net loss of revenue due to improper mill rate calculation and billing so that correct adjustments can be made and the amount of revenue loss determined and handled in accordance with state law.

Recently it has come to the attention of the new President and Treasurer that CM has not been computing and posting legally mandated interest on delinquent Tax District accounts since the inception of their engagement as fiscal managers for the Tax District and Association on 2/13/2018. Due to lax oversight by prior officers and misstatements by CM senior management this error was only recently discovered in a meeting that included CM's bookkeeping staff. A correction of this error has been requested and an internal audit requested to determine the amount of interest due on each delinquent account from the inception of CM's engagement until the present. Amounts that are no longer collectible due to intervening sales of dwellings will be determined and the amount liquidated for further action in accordance with the law.

The Treasurer will be reviewing all bank statements and all bookkeeping postings monthly to assure they are accurate and correctly posted. The Treasurer will review all bank account reconciliations monthly. The President will be reviewing and approving ALL disbursements and will be actively communicating with the Treasurer. Requests have been made to afford total access to both the Treasurer and President on ALL transactions on CM's new CINC platform in real time.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in Pond Place's internal control to be significant deficiencies:

### **Invoice Approval**

#### ***Observation:***

Six invoices and/or supporting documentation totaling \$33,979 for the Tax District expenses did not contain evidence of formal approval by a member of management on the face of the document. Invoices are approved by the Board President prior to payment; however, the approval has not been retained.

***Recommendation:***

Paid invoices should contain evidence that they have been formally approved prior to payment.

***Management Response:***

The current President will be reviewing and approving ALL invoices prior to authorization for payment, as required by state law for the Tax District, and will be reviewing the general ledger account assigned to each for accuracy. These will then be subsequently reviewed by the Treasurer on a monthly basis. Under the former TOPS and current CINC platforms utilized by CM, invoice approval is done electronically by the officers. We will be investigating to determine whether the scanned documents can be notated with confirmatory approval markings.

**Capital Reserve Revenue**

***Observation:***

Audit testing identified that \$12,250 of the Tax District's Capital Reserve revenue received from the Association Land Lease was incorrectly recorded in the Operations account and used to pay operating expenses. This resulted in the misstatement of the Capital Reserve revenue.

***Recommendation:***

All revenue received from the Land Lease should be accurately recorded in the general ledger to the correct accounts.

***Management Response:***

It will be required that no disbursements of funds from the Capital Reserve Account be allowed without the prior written or e-mail permission of the President and that a written memo accompany every such withdrawal.

Additionally, the Treasurer will be reviewing all bank statements and all bookkeeping postings monthly to assure they are accurate and correctly posted. The Treasurer will review all bank account reconciliations monthly.

The President will be reviewing and approving ALL disbursements and will be actively communicating with the Treasurer. Requests have been made to afford total access to both the Treasurer and President on ALL transactions on CM's new CINC platform in real time.

**Off-Site Backups**

***Observation:***

The management company's software used for Pond Place accounting is not cloud based. Backups are only maintained internally in the office server.

***Recommendation:***

To ensure data security periodic backups should be maintained off-site.

***Management Response:***

The management company will be implementing CINC, which is a cloud-based association management software.

**Accounting Manual**

***Observation:***

Pond Place Tax District and Association do not have a manual stating the policies for standard accounting procedures, as well as general organization procedures. These manuals would assist future new employees in understanding the current procedures that are in place. This comment is repeated from the prior year.

***Recommendation:***

We recommend that the organization incorporate an accounting manual that documents all significant accounting policies and procedures.

***Management Response:***

The failure of prior Boards to fund the creation of an accounting manual contributed to the litany of bookkeeping errors made by CM since the inception of their engagement as fiscal agents. Although no sums were budgeted in FY 21-22 for the creation of such a manual, the new Treasurer has agreed to draft a list of procedures that will be utilized until such time as a formal manual can be prepared. The new President is committed to seeking funding in FY 22-23 to create such a manual to reduce future bookkeeping mistakes, particularly likely when there is turnover of professional managers, their employees and board officers.

**Separation of Duties**

***Observation:***

CM Property Management performs all accounting functions for both the Tax District and the Association. Bank and investment statements are sent directly to the accounting service. They do not contain evidence that they have been reviewed by the Treasurer prior to reconciliation.

***Recommendation:***

All bank and investment statements should be reviewed and initialed by the Treasurer prior to reconciliation.

***Management Response:***

It has recently come to the attention of the new President and Treasurer that CM's bookkeepers do not routinely reconcile the District's and Association's bank accounts. Requests for them to do so have been made.

The new Treasurer will be reviewing all bank statements and all bookkeeping postings monthly to assure they are accurate and correctly posted. The Treasurer will review all bank account reconciliations monthly.

This communication is intended solely for the information and use of management, the Board of Directors, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

*King, King & Associates*

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Winsted, Connecticut  
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