

1 **COAKLEY BAY ASSOCIATION**
2 **Internal Financial Control Policies**
3

4 Adopted August 15, 2011
5

6 It is the intention of this Summary of Internal Financial Control Policies to comply with
7 the requirements provided for by Article VI, #5 of the amended and Restated By-Laws of
8 January 29, 2011, (the "By-Laws"), at Line 622, et seq. This Summary of Internal
9 Financial Control Policies is not intended to conflict with any of the other provision of the
10 By-Laws, and in the event of conflict between these financial control policies and the
11 By-Laws, the By-Laws shall control.
12

13 **General Policies**
14

15 Transparency and Responsibility. The Manager, bookkeeper, accountant, Officers
16 and members of the Board of Directors shall always err on the side of transparency and
17 accountability in all financial matters. This means taking all steps necessary to avoid any
18 real or apparent conflicts of interest, to eliminate opportunities for misappropriation of
19 funds or other improprieties in the Association's financial dealings, and to assure Board
20 knowledge of all major expenditures. The Treasurer, the President, the other members of
21 the Board of Directors, the Manager, the bookkeeper and any other person who exercises
22 any amount of control over the funds of the Association shall be considered custodians of
23 the funds and shall act as fiduciaries. Any and all acts by any such persons which affects
24 the funds of the Association shall be in the best interest of the Coakley Bay Owners and
25 the Association.
26

27 Financial Controls. The board shall, with the assistance of its outside auditors,
28 establish proper accounting and operating controls and procedures, which shall be
29 memorialized in writing, to protect the assets of the Association, control expenses and
30 comply with tax laws and regulations. These controls shall be reviewed by the Board and
31 its outside auditors at least annually and revised if necessary. As provided in the By-Laws,
32 an Audit Committee shall be appointed, consisting of three Unit Owners who may, but
33 need not be members of the Board, to monitor compliance with these controls and
34 procedures and review the financial reporting to the Board of Directors to assure that it
35 accurately and consistently portrays the Association's financial position. The Treasurer
36 shall not be a member of the Audit Committee. This committee chairperson shall report
37 directly to the Board of Directors and to the Unit Owners at the annual Condominium Unit
38 Owners meeting as provided in the By-Laws.
39

40 Funds and accounts. The receipts and expenditures of the Association shall be
41 Common Expense Assessments and Common Expenses respectively, and shall be credited
42 and charged to accounts under the following classifications as the Board shall deem
43 appropriate: current expenses; reserve for deferred maintenance; reserve for replacement;
44 reserve for insurance; reserve for capital improvements; operations.
45

46 The classifications set forth above shall be made in the Association's records and
47 the records and shall be kept current.

48 The Board may, but is not required to, segregate the funds into separate bank
49 accounts. (See full text in the By-Laws, Line 691.)

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50 Insurance Fund: The Board of Directors shall clearly identify the portion of the
51 monthly assessment collected for the purchase of insurance, and clearly identify the cost of
52 insurance purchased each year. The Board shall also identify the amount of the Insurance
53 Fund held in reserve for property losses not covered by insurance. Any excess revenues
54 collected for insurance shall remain in the Insurance Fund at the end of each calendar year.
55 Funds shall not be utilized for any purpose other than that which was identified at the time
56 of the assessment as provided in the By-Laws (Line 703, et seq.). Whenever practical, the
57 Insurance Fund shall be deposited into one or more designated interest bearing accounts or
58 instruments at an on-island FDIC insured financial institution, not to exceed the federally
59 insured limit.

60
61 Audit committee, Board,
62 and bookkeeper roles. Recognizing that the functions of the bookkeeper are the carrying
63 out the responsibilities of the Treasurer as provided in the By-Laws, the bookkeeper shall
64 cooperate with and provide requested information to the Treasurer and the Audit
65 Committee chairperson. The bookkeeper shall work under the direction of the Treasurer
66 and shall at all times provide the Treasurer with any and all information and
67 documentation available to the bookkeeper. The Treasurer shall have access to and receive
68 copies of all financial and payroll records the Treasurer requests. The Treasurer shall
69 direct the procedures for the custody of deposits of the Association.


70 71 **Depositories**

72
73 General. The depositories of the Association shall be federally insured institutions
74 designated from time to time by the Board and in which the monies of the Association
75 shall be deposited **in the name of Coakley Bay Association.** The amounts assessed and
76 collected for the reserves shall be kept in one or more federally insured interest-bearing
77 accounts or certificates of deposit and, as provided in our By-Laws (Line 703, et seq.),
78 shall not be utilized for any purpose other than that which was identified at the time of
79 the assessment.

80
81 Debit card and other accounts. All bank, debit card or other accounts must be in the
82 name of the Coakley Bay Association. The Manager may be a cardholder with spending
83 authority limited by other policies regarding large expenditures. The Manager shall be a
84 signatory on the Association's general operating checking account but not any other
85 account, such as savings accounts and certificates of deposit.

86 The debit card account shall be replenished each month to maintain a balance of
87 \$10,000.00. The check amount to replenish the account shall be in the actual amount for
88 the debits noted on the statement for the previous month for the purpose of clarity for
89 future reference, such that the debits expended and the check amount credited will be equal
90 on each monthly statement.

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91 Investment and reserve account depository criteria:

- 92
- 93 • The account must be controlled to prohibit on-line withdrawals or transfers by a
 - 94 single individual.
 - 95 • The Association requires two signatures for withdrawals or transfers, regardless
 - 96 of the amount (e.g., check writing, or wire transfers with 2 signature
 - 97 requirement).
 - 98 • All funds must be subject to FDIC insurance.
 - 99 • Efforts shall be made to provide for maximizing interest earned on accounts.
 - 100 • Preference for banks with a local contact or representative and an institution
 - 101 where account maintenance fees are low or non-existent.
- 102

103 **Segregation of Accounting Duties**

104

105 Second signatures. Two authorized signatures are required on all checks, wire

106 transfers or electronic funds transfers and transfers between the Association's accounts.

107 Whenever possible the Treasurer shall provide the second signature. Wire transfers or

108 electronic funds transfers shall never be used *except* for the Association's obligations to

109 the U.S. Treasury, recurring periodic loan payments, transfers between Coakley Bay

110 Association accounts, and, if such a program is in place, payroll direct deposits.

111 All checks issued to transfer funds from one Coakley Bay Association account to

112 another shall be payable to "Coakley Bay Association" and shall have an endorsement,

113 "Deposit to Coakley Bay Association Account," prior to being presented to any signatory

114 for signature.

115

116 Signatory as payee. Checks payable to the Manager, or any other person authorized

117 as an account signatory, must be signed by authorized signatories other than the payee.

118

119 Check log. The Treasurer will keep a log of all checks over \$2,500 and report those

120 to the Board and the Audit Committee monthly. The bookkeeper shall provide to the Board

121 of Directors at each regular Board meeting a printout of all scanned checks of \$2,500 or

122 more. If either of the two back-up signatories signs a check over \$2,500, they must

123 communicate that to the Treasurer, so the check can be added to the Treasurer's check log.

124

125 Review of bank statements. The Treasurer or the Audit Committee shall review

126 each bank statement (including investment, debit card and credit card accounts) prior to

127 reconciliation. The Treasurer will describe in writing to the Audit committee the process

128 for facilitating this review.

129

130 Administrative access to accounting system. The bookkeeper and two

131 non-signatory members of the Board of Directors each shall be provided with a separate

132 administrative password for Coakley Bay accounting programs, provided the software

133 contains such feature. The Board members are to report access requests, their origin, date

134 and purpose, to the Board at the meeting following the request and shall also notify the

135 Board President and Treasurer by email at the time of the access request, detailing date and

136 purpose. (*Resolution of the Board at meeting of April 4, 2011.*)

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137 The bookkeeper shall keep a log of each time the administrative password is used
138 and a written report shall be made by the bookkeeper at each meeting of the Board of
139 Directors detailing each time the administrative password was used and the purpose for the
140 access.

141
142 Audit trail. The accounting system audit trail shall be turned on, so that there is a
143 record of which authorized user made each entry.

144
145 Third party oversight. Outside accounting oversight shall be provided at least
146 quarterly, with particular attention to adjusting journal entries, possible coding errors and
147 bank reconciliations. The accountant responsible for the third-party oversight reports to the
148 Treasurer and Audit Committee.

149
+150 Internal reporting. The bookkeeper, the Treasurer, the Manager, a member or
151 members of the Audit Committee and the outside accountant shall alert each other
152 immediately if there are serious concerns about specific financial activities or transactions.
153 Although email shall not be the sole means of notification, each of the foregoing
154 individuals should keep and maintain the current email addresses of the others to facilitate
155 prompt notification.

156
157 **Segregation of purchasing duties**

158
159 Purchases benefiting specific employees. For purchases benefiting or perceived to
160 benefit an employee, prior approval by the Board of Directors is required, and payment
161 must be signed by an authorized signatory not benefiting from the purchase.

162
163 Limitation on individual Board member's purchasing authority. Except for the
164 President under the President's authority as the CEO of the Association acting within the
165 Association's Rules and Financial Controls, no individual Board member is to direct the
166 issuance of any check to the manager, any vendor, any supplier or any consultant. If a
167 Board member considers it critical that a check be written outside of normal processes, and
168 for some reason the President cannot be reached, an emergency phone conference with the
169 Vice-President and at least 4 additional board members must be held. If the Vice-President
170 cannot be reached, the Secretary will take his or her place.

171
172 **Accuracy of Financial Information**

173
174 Revenue and expense coding. All expenses and revenues must be accurately coded
175 to reflect the actual purpose of the expense or nature of the revenue and shall never
176 intentionally miscoded so that spending appears to fit within budget categories. This is
177 necessary to assure accuracy if the financial reports that the Board relies on for its
178 budgeting and other financial decisions.

179
180 Fixed assets. Equipment or other assets with a cost in excess of \$2,500 and a useful
181 life of 5 years or more shall be capitalized as fixed assets and depreciated.

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Expenditure controls

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183
184 Personnel. The addition of new personnel, whether additional personnel or
185 replacement due to termination of an employee, requires Board of Directors approval.
186 Once approved, for any personnel who will answer to the Manager, the selection of the
187 individual to fill the position shall be exclusively the Manager's decision.
188

189 Budget overruns. The Manager shall notify the President and the Treasurer in
190 cases where any budget line item is projected to be in excess of 10% over budget.

191 As provided in Article VI, #8 of the By-Laws, Line 696, et seq, "The Board shall
192 not be obligated to expend all of the revenues collected in any accounting period, . . ."
193 Any amounts budgeted but not expended shall be assigned to the reserve for the fund in
194 which the expense was originally budgeted.
195

196 Prior review of large expenses. For any contract or non-recurring expense, that has
197 not already been specifically approved by the Board and is in excess of \$1,000.00,
198 except for emergencies or time sensitive, infrastructure events or situations which require
199 immediate attention, the President and the Treasurer shall be informed prior to incurring
200 the expense or signing the contract and the Board of Directors shall consider approval of
201 these expenses before they are incurred. Examples of such large items requiring prior
202 approval include, but are not limited to, office equipment, furniture, refrigerators, ranges,
203 tile, kitchen and bathroom equipment and fixtures for restoration of any rental unit

204 Purchases of items which may not be frequent, but are nevertheless at least
205 semi-routine, such as supplies, paint, pumps, lumber, sheetrock and other building or
206 maintenance materials and related equipment, which are within the budget and less than
207 \$2,500.00 may be incurred by the General Manager.

208 The General Manager shall notify the President and the Treasurer prior to making a
209 commitment to spend, any single purchase which is 10% or more than the budget line item.

210 If the purchase is for a rental unit, then a cost analysis along with a projected rental
211 amount shall be presented to the Board of Directors to allow discussion of the feasibility of
212 recouping Association expenses.
213

214 Inventory: The General Manager shall maintain an inventory of all assets on the
215 premises. All future purchases shall be added to the inventory. As the assets are
216 requisitioned they will be deducted from the inventory on hand. The Manager will provide
217 to the Board of Directors an annual inventory of assets on premises no later than January
218 10th of each year for supplies on the premises as of December 31st. And shall be made
219 available to the Owners at the Annual Meeting. In addition to the inventory, the Manager
220 will make at least one addition spot check, at approximately 6 months after the inventory,
221 of the inventoried assets actually on premises to compare with the inventory list.
222 Employees shall maintain security for all Association property throughout the day and
223 after hours to prevent loss of Association property. Conservation of supplies, resources
224 and loss retention shall be emphasized.
225

226 Reserve maintenance and replacement study. A analysis of actual and necessary
227 reserves for deferred maintenance, major maintenance and capital replacement shall be
228 updated and completed annually in sufficient detail to satisfy the By-Laws and the auditor.

229
230 Contractors. It is the policy of the Association that all contractors providing
231 services to the Association, other than sole proprietors, provide satisfactory evidence of
232 workers' compensation insurance; and all contractors providing services to the Association
233 valued at more than \$10,000 provide satisfactory evidence of liability insurance.
234

235 Best value purchasing. It is the responsibility of the Manager, the Board, and others
236 who make purchasing decisions to obtain the best value for the Association in all
237 purchasing decisions, regardless of size. "Best value" should include consideration of
238 price, quality, and appropriateness for the Association among other factors. Obtaining the
239 best value may at times also require the use of stateside suppliers and the purchase of
240 materials separate from a contract for services.

241 a) At least three competitive bids must be obtained for any purchase or
242 service contract with an estimated cost of \$10,000.00 or more. The Board may by
243 resolution waive this requirement for a specific purchase if the Board determines
244 that competitive bids for the specific purchase would be impractical or
245 disadvantageous for the Association .

246 b) At its option, the Board may require competitive bids for a specific
247 purchase or service contract with an estimated cost under \$10,000.00, if the Board
248 determines that competitive bids for that specific purchase would be feasible and
249 advantageous in obtaining the best value for the Association.
250

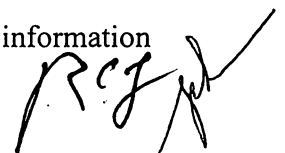
251 When competitive bids have been solicited, the Manager shall make a recommendation to
252 the Board President, and shall obtain the President's approval for the bid selected. The
253 Board President may delegate the responsibility for review and approval of the selected bid
254 to a committee of Board members or to the entire Board for approval by resolution.
255

256 **Related Management Policies**

257
258 Withholding of information not allowed without Board approval. No Manager or
259 Board member will direct any staff person, consultant or accountant to withhold ANY
260 information from an individual Board member seeking information in their capacity as a
261 Board member or from the Board. This is not limited to financial information. The
262 Manager shall instruct the employees to report to the Manager any perceived violations of
263 the Rules and Regulations and these Financial Control Policies. There will be no efforts by
264 any management official or Board member to control or restrict the flow of information,
265 criticisms, complaints or other communications from Owners, staff, consultants or
266 accountants to the Board or individual Board members. If anyone is asked for information

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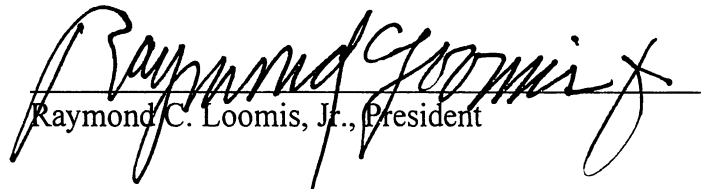


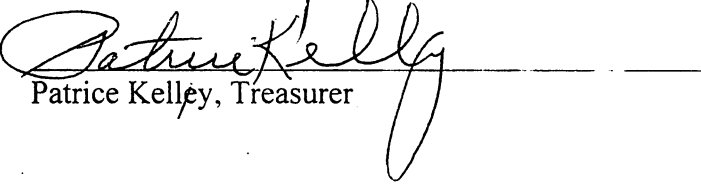
267 and wishes to withhold it based on the sensitivity of contents or volume, a written
268 notification must be made immediately to the Board, which shall be reviewed and a vote
269 taken.

270 **ADDENDUM: Conflict of Interest Policy**

271 Attached to, and made a part of these Financial Control Policies is Coakley Bay's
272 Conflict of Interest Policy signed on August 2, 2009.

273 ADOPTED by the Board of Directors this the 15 day of August, 2011.

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276 
277 Raymond C. Loomis, Jr., President

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280 
281 Patrice Kelley, Treasurer
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