

**FOREST HEIGHTS  
HOMEOWNERS  
ASSOCIATION, INC.**

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**Management  
Letter**

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**For the Year Ended  
December 31, 2006**



MCDONALD JACOBS

*Jake Jacobs, CPA*

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February 26, 2007

To the Board of Directors of  
Forest Heights Homeowners Association, Inc.  
Portland, Oregon

In planning and performing our audit of the financial statements of Forest Heights Homeowners Association, Inc. (the Association) for the year ended December 31, 2006, we considered the Association's internal control to determine our auditing procedures for the purpose of expressing an opinion on the financial statements but not to provide assurance on internal control.

During our audit, if we become aware of areas where there are opportunities for strengthening internal controls, we communicate our findings and recommendations in this letter. This letter does not affect our report dated February 26, 2007, on the financial statements of Forest Heights Homeowners Association, Inc.

## CURRENT YEAR RECOMMENDATIONS

### Account Balance Reconciliation

The general ledger has a liability account, "Accounts payable - other" that has not been reconciled to supporting detail. The account is used to capture and record liabilities that are not entered into the regular accounts payable system. We recommend that the balance be reconciled and adjusted as necessary. A monthly reconciliation should be performed to track the details of the account balance and ensure accuracy of the balance and the financial statements.

### Additional Controls of Cash Disbursements

We recommend the Association consider utilizing your bank's positive pay system, if available. Positive pay allows only amounts identified by the Association as valid. This feature can prevent fictitious checks created by persons outside the Association from being processed by the bank.

*Strength in Numbers*

ACCOUNTANTS & CONSULTANTS

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### Manual of Accounting Policies and Procedures

The Association does not have a formal accounting manual documenting the procedures for fiscal operations. A written accounting manual is necessary to ensure that transactions are treated in a standardized manner and that proper internal controls exist in the accounting system. Should employees have a question as to the proper handling of a transaction in accordance with management's authorization, such information is currently not available in writing. We recommend that a manual of accounting policies and procedures be developed and include a description of each fiscal procedure, such as billing and cash receipts, invoice paying and cash disbursements, and payroll procedures. This manual should be periodically reviewed and updated by management.

### Disaster Recovery Plan

The Association currently does not have a plan in the event of a disaster affecting operations and data processing capability. We recommend that some formal planning be done to minimize the downtime that could occur in the event of a disaster. Areas that should be addressed in a disaster recovery plan include the following:

- Hardware and software security and backups
- Definition of threats and risks (including likely effects on the Association)
- Operational security
- Processing priorities
- Insurance coverage available or desirable
- Alternative processing sites

We recommend that formal contingency planning be performed and that related policies and procedures be developed.

## **PRIOR YEAR RECOMMENDATIONS**

### Prior Period Adjustment

A minor prior period adjustment for \$1,017 was recorded to retained earnings. Prior period adjustments should never be recorded for minor corrections of prior year information. Instead, these corrections should be reflected in the current year activity.

Status: We did not note any prior period adjustments in the current audit.

Interest Earned on Capital and Contingency Reserves

Interest earned on the future reserve funds was not being applied to the fund balances of the reserve funds at year end on the interim financial statements. We recommend separate general ledger accounts be used to identify this revenue separately from the operating interest income.

Status: Separate general ledger accounts were established to track interest earned on the reserve funds. We recorded an entry to transfer the interest to the appropriate funds as part of our audit adjustments.

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We wish to thank Jim Main and the staff at Forest Heights Homeowners Association, Inc. for their support and assistance during our audit.

*McDonald Jacobson, P.C.*