

**FOREST HEIGHTS
HOMEOWNERS
ASSOCIATION, INC.**

**Management
Letter**

**For the Year Ended
December 31, 2007**



MCDONALD JACOBS

March 20, 2008

Jake Jacobs, CPA

Susan J. Marks, CPA

Dennis C. Johnson, CPA

Mark A. Clift, CPA

Karin S. Wandtke, CPA

Jill Oswald
Principal

James R. McDonald, CPA
of counsel

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, 2007, 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 March 20, 2008, on the financial statements of Forest Heights Homeowners Association, Inc.

CURRENT YEAR RECOMMENDATIONS

Improve Software Controls

The accounting software utilizes a universal password and with each use, allows the user to select a name to identify with the transaction being entered. In this situation, there is an opportunity for financial data to be altered without being traceable to the perpetrator. We recommend that confidential and unique passwords be assigned to each person using the software to prevent unauthorized use and access to accounting records, as well as provide a more secure audit trail. Passwords should be changed at regular intervals and cancelled for terminated employees.

Improve Controls over Cash Disbursements

It is now standard in the banking industry to no longer return cancelled checks with bank statements. Without the ability to review cancelled checks, there is a greater risk that a misappropriation could occur without detection. A check could be altered after signing or a signature forged on an unauthorized check and this would not be apparent without examining the

Strength in Numbers

ACCOUNTANTS & CONSULTANTS

McDonald Jacobs, PC

1520 SW Yamhill Suite 500 Portland, Oregon 97204

P: 503 227 0581 F: 503 274 7611

mail@mcdonaldjacobs.com www.mcdonaldjacobs.com

cancelled check. Alternative procedures to add control would be to have the General Manager or Treasurer review the cancelled checks online and/or request the bank provide copies of the cancelled checks with the bank statements. Cancelled checks should be reviewed for alternations and proper signatures.

Investment Policy Compliance

Administrative resolution number 27, dated June 12, 2007, revised the Association's investment policy, identifying allowable investments for each reserve account. As of December 31, 2007, the Private Street reserve was not in compliance with this policy. The policy states that the maximum fund amount held in cash should be 25%. At December 31, 2007, 39% of the reserve fund was in cash funds. We recommend that the accounts be reviewed and investments adjusted to comply with policy or that the policy be reviewed for revision.

Reconciliation of Advertising Revenue

The Association utilizes QuickBooks to track advertising revenue and receivables. Advertising revenue is recorded in the Spectra general ledger only when payments are received. QuickBooks and Spectra are not reconciled and at year-end this resulted in a small amount of revenue and receivables that were not recorded in the Association's general ledger. For accounting and control purposes, we recommend that the accounts receivable be recorded in the general ledger and reconciled to the detail on a monthly or quarterly basis.

PRIOR YEAR RECOMMENDATIONS

Account Balance Reconciliation

In the prior year, we noted a liability account, "Accounts payable - other" that had not been reconciled to supporting detail. We recommended that the balance be reconciled and adjusted, as necessary.

Status: Our recommendation was adopted and the account reconciled and adjusted. In addition, the activity in the former "Accounts payable - other" is now maintained in several separate accounts to better facilitate tracking and reconciliation.

Additional Controls of Cash Disbursements

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

Status: The Association is currently considering the use of a positive pay system.

Manual of Accounting Policies and Procedures

We recommended 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. In addition, this manual should be periodically reviewed and updated by management.

Status: An accounting manual has been drafted. There are a few additions and modifications left to be made before it will be finalized.

Disaster Recovery Plan

We recommended that the Association perform contingency planning and develop necessary policies and procedures to minimize the downtime that could occur in the event of a disaster.

Status: A formal plan has not been developed but the Association will pursue adoption of this recommendation.

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 recommended 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 wish to thank Stephen Herr and the staff at Forest Heights Homeowners Association, Inc. for their support and assistance during our audit.

McDonald Jacobz, P.C.