



October 8, 2020

The Board of Directors  
Valley Forge Towers South Condominium Association  
1000 Valley Forge Circle  
King of Prussia, PA 19406

In planning and performing our audit of the financial statements of Valley Forge Towers South Condominium Association as of and for the year ended December 31, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered Valley Forge Towers South Condominium Association's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances 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 Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association'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 material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Association's financial statements will not be prevented, or detected and corrected, on a timely basis.



We consider the following deficiency in Valley Forge Towers South Condominium Association's internal controls to be a material weakness:

#### LACK OF NUMEROUS INDEPENDENT QUOTES FOR MAJOR RENOVATIONS

The Board should get multiple quotes for major renovations to the property. Perkin Design has been used exclusively for lobby and hall renovations since 2013 without the Association getting competing quotes. Using a contractor successfully once does not preclude the Association from making sure that future contracts are reasonable through a bidding process. Additionally, the Board should set a budget for renovation projects, especially when the cost may vary greatly depending on the materials selected by the designer. There is no evidence that the Board discussed a budget for any of the renovations made during the last six years. There is also no evidence that the Board was involved in the selection of materials used in the renovations, or provided with options for varying designs or budgets. If renovation details are presented and discussed during Board meetings, the meeting minutes should reflect the information discussed and the decisions reached. If renovations are not discussed and a decision on the budget is not made by the Board, then there is a lack of fiscal responsibility over the projects. During our audit, it was noted that the contracts with Perkin lack a breakdown of costs and that the down payments required sometimes exceed industry standards.

Total Spending with Perkin Design by year:

2013	\$ 527,500
2014	\$ 362,867
2015	\$ 462,008
2016	\$ 184,652
2017	\$ 202,487
2018	<u>\$ 284,489</u>
	<u>\$2,024,003</u>

#### ABSENCE OF ESSENTIAL ACCOUNTING FUNCTIONS

During 2018, the Association discovered that the bookkeeper charged personal expenses to her business credit card, and terminated her employment. The Board hired a previous bookkeeper to maintain the books on a part-time basis, but was unable to find a permanent replacement throughout the remainder of 2018. Throughout 2019 and to date in 2020, the bookkeeping position has been covered by the part-time bookkeeper in addition to one or two employees who had short tenure. Consistent with prior years, the operating bank account was not regularly reconciled throughout the year and some of the activity was not recorded in the general ledger.



It is essential for the Association to account for all transactions and have an understanding of the cash available so that it can make reasonable decisions in regards to budgets, contract negotiations and plans for future repairs and maintenance. In addition, reconciliation of bank accounts is a key measure in preventing and detecting fraud.

In October, 2020, the Association hired The Galman Group to manage the property. The management company will handle all functions previously handled by the building manager and the bookkeeper, including maintaining the books and reconciling the bank accounts. The Galman Group is qualified to keep the Association's books in an appropriate manner going forward, and we expect this weakness to improve during 2020.

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 Valley Forge Towers South Condominium Association's internal control to be significant deficiencies:

#### INTERNAL CONTROLS AND SEGREGATION OF DUTIES

Internal controls are designed to safeguard assets and help detect losses from dishonesty or error. A fundamental concept in a good system of internal control is the segregation of duties. Although the size of the Association's staff limits the ability to implement this concept, whatever practices that can be implemented to improve existing internal controls without impairing efficiencies should be considered. Examples of proper segregation of duties is as follows:

- Separation of creating vendors in a system from posting and paying invoices. This helps to prevent fictitious customers with fictitious invoices.
- Purchase order approval should be separate from the person writing the checks
- Reconciling the bank should be done by someone who is not in charge of making deposits, writing checks and paying employees
- The person hiring should not set the compensation
- Separating the roles of managing cash deposits from the ability to adjust the tenant accounts

#### RESERVE STUDY

In order to budget adequate additions to the reserve for replacements, a reserve study should be done every ten years to estimate the remaining useful lives of the structural and mechanical components of common property. A reserve study has not been done since 2003. We recommend the Board consider having a reserve study done within the next year.

#### NEED FOR ADDITIONAL ACCOUNTING KNOWLEDGE

There is no one on staff that has the level of accounting knowledge necessary to adjust the books to the accrual basis of accounting, which is required for GAAP (Generally Accepted



Accounting Principles) basis financial statements. Every year our firm must assist the Organization in creating the Accounts Payable, Accrued Expenses, and Prepaid Expenses. Additional expertise needs to be provided to existing staff through an accounting course to gain the knowledge necessary to keep the books on an accrual basis. It is our understanding that no one has taken an accounting course as suggested in prior management letters.

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

Sincerely,

*Borislow, Factor & Kaufmann, LLC*