

Board of Directors and Audit Committee
Green Valley Recreation, Inc.
Green Valley, Arizona

In planning and performing our audit of the financial statements of Green Valley Recreation, Inc. (GVR) as of and for the year ended December 31, 2021, in accordance with auditing standards generally accepted in the United States of America, we considered GVR's internal control over financial reporting (internal control) as a basis for designing our auditing 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 GVR's internal control. Accordingly, we do not express an opinion on the effectiveness of GVR'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.

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 organization's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiencies in GVR's internal controls to be material weaknesses:

Cash receipts

1. When a company receives payments for revenues that are expected and have been invoiced and recorded as accounts receivable, risk that funds could be misappropriated or lost prior to being deposited is mitigated by the fact that checks that were cashed but not applied to the customer's account would be identified when the company contacts the customer about the overdue balance. However, when a company receives unexpected payments, such as program revenue or access card fees, there are no mitigating controls to detect the loss. During our review of internal controls surrounding cash receipts, we noted the following:

- There was no evidence of dual custody of cash receipts during the mail-opening process. In order to mitigate the risk of misappropriation of cash receipts, we recommend that all mail be opened by two people together, separating member dues payments from funds received for all other purposes, and that they contemporaneously complete a cash receipts log listing all non-member dues funds received, with both individuals initialing or signing the log as evidence of dual custody of cash receipts during the process. This is a repeat comment.

Management response: This recommendation will be considered.

- There was additionally no evidence that the cash receipts log was reconciled to the actual deposits on the bank statement. We recommend that the original log, maintained by a person without access to checks and cash awaiting deposit, be reconciled to deposits per the bank statement by an individual independent of the cash receipts process, and that the reconciliation be documented. This is a repeat comment.

Management response: The cash receipts log is reconciled to the deposits by the Accounts Payable staff, who is independent from the deposit procedures. Management will ensure that the deposit is signed or initialed by the Accounts Payable staff to document the reconciliation.

2. During our testing of 25 cash receipts, we noted three instances in which a check was received but never deposited into the bank account. It was represented to us by management that if a check is received from a member with no outstanding balance, the check is mailed back to the payee and never deposited. To mitigate the risk of skimming, that is diversion of GVR's revenues prior to entry in the records of the organization, it is crucial that all funds received be deposited. If the payment was received in error, we recommend that GVR issue a refund check rather than mailing the original payment back to the payee.

Management response: This recommendation will be considered.

Payroll

3. During our testing of 40 payroll transactions, we noted the following:

- For five transactions, there was no direct evidence of the employees' approved rate of pay. We recommend that all employee files contain approved documentation of the employee's pay rate as of the date of hire and for any subsequent changes. This is a repeat comment.

Management response: We believe that all pay rates are approved. We will strive to better document approved rates in the employee files.

- For fifteen transactions, the amount paid to the employee per the payroll register did not agree to the approved rate in the employee's file. The total potential overpayment was less than 1% of the approved rate in the aggregate for all amounts paid using rates that did not agree to the approved pay rates. We recommend that all employee files contain approved documentation of the employee's pay rate as of the date of hire and for any subsequent changes.

Management response: We believe that all pay rates are approved. We will strive to better document approved rates in the employee files.

- Time sheets were not documented as reviewed and approved by management as required by GVR's internal controls for nine transactions. We recommend that all time sheets be reviewed and approved in accordance with GVR's policies, and that documentation of the review and approval be maintained.

Management response: Earlier in 2021, it was possible to pay employees without timesheet approval. However, employees cannot be paid in the current Paycom system unless the timesheets have been approved, and we therefore believe the issue has been resolved.

We also became aware of certain matters that are opportunities for strengthening the internal controls and the operating efficiency of GVR. The recommendations have been communicated to you in a separate memo dated **TBD**. We will review the status of these comments during our next audit engagement. We have already discussed the comments and suggestions with various personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

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

Memorandum

To: Management of Green Valley Recreation, Inc.

From: HBL CPAs, P.C.

Re: Other recommendations

Date: **TBD**

In planning and performing our audit of the financial statements of Green Valley Recreation, Inc. (GVR) as of and for the year ended December 31, 2021 in accordance with auditing standards generally accepted in the United States of America, we considered GVR'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 GVR's internal control. Accordingly, we do not express an opinion on the effectiveness of the GVR's internal control.

We identified two deficiencies in internal control that we consider to be material weaknesses. We have communicated those deficiencies to you in a separate letter dated **TBD**. Additionally, during our audit we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. This memo does not affect our report dated on the financial statements of Green Valley Recreation, Inc. The recommendations are as follows:

Cash disbursements

1. During our procedures for voided checks to verify the integrity of the check register, we found several checks had been misprinted and reissued using the same check number, creating duplicate checks in the system. We recommend that misprinted checks be voided, defaced and maintained, and that checks subsequently written to replace the misprint be reissued with a unique check number. *This is a repeat comment.*

Management response: We believe this was corrected in 2021 and current policy is that misprinted checks are defaced and retained.

2. During our testing of 412 voided checks to verify the integrity of the check register, we noted that 100 checks were not in GVR's possession, nor was any documentation retained to explain why the check was voided and efforts to resolve the issue. If a payee reports a check lost or stolen, we recommend that GVR maintain documentation of correspondence with the payee and the steps taken, whether it be a stop payment or reissuance of the check. If checks are voided because of printing errors, we recommend that the checks be defaced and retained.

Management response: The recommendation above is the policy that GVR follows.

3. Out of 40 cash disbursements selected for testing, we noted that 14 invoices did not bear approval for payment by an authorized individual. We recommend that all disbursements be approved by an individual with check signing authority, and that the approval be documented by a signature or initials on the invoice.

Management response: These disbursements were reviewed by the CFO during the liability reconciliation process. Currently, the CFO documents this approval with a signature approval in addition to the reconciliation.

Cash

4. During our audit, we found that 17 checks totaling \$3,009 were outstanding in excess of 180 days on the December 2021 bank statement. We recommend that GVR adopt policies and procedures to identify uncashed checks at 90 days after issuance and investigate the reason the check has not been cashed. We recommend that such investigation be documented, and that checks that remain outstanding for an extended period of time be remanded to the state in accordance with laws and regulations regarding unclaimed property. *This is a repeat comment.*

Management response: GVR does have this policy; the process of voiding the checks, issuing a stop payment, and transferring the amount to the unclaimed property department often takes longer than 90 days to complete.

Cash receipts

5. During our testing of 25 cash receipts, we noted one instance in which the deposit slip was not retained. We recommend that GVR maintain documentation for all deposits.

Management response: It is GVR's policy to retain deposit slips. This deposit slip may have been misplaced.

Segregation of duties

6. We noted an instance in which segregation of duties was not maintained after the former CFO left in June 2021. When the former CFO was employed by GVR, she reviewed and approved transactions posted by the Accounting Manager and had read-only access to the accounting software. Such a segregation of duties is imperative as individuals who review and approve entries into the accounting software should not be able to post transactions in the software. However, when the former Accounting Manager became CFO, he retained the rights to modify the software and also took on the responsibility for review and approval of work performed by accounting staff. Such monitoring duties are incompatible with the ability to access the software. Specifically, the former Accounting Manager/current CFO could post journal entries and also was responsible for reviewing and approving entries posted. We recommend that either that the CFO be given read-only access to the accounting software or that the CEO review and approve all journal entries posted, including reviewing supporting documentation to verify that the entry was appropriate and correctly calculated.

Management response: As the system administrator of the Accounting software, the CFO is required to have full access to the system. All transactions are printed in a binder that is reviewed by the Financial Analyst who subsequent reviews the entries with the CEO.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing these recommendations.

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