

Review of 2019 Audit Report regarding Manage Recommendation letter:

- 1) Cash Disbursements
 - a. Check signature stamp is now prohibited for check signing. (item 1).
 - b. Accountant II does not mail the checks. (item 4).
- 2) Cash receipts (item 2)
 - a. Recommended that mail opened by two people
 - b. Recommend that a mail Cash receipts log listing receipts be prepared daily and mail processors initial the log
 - c. Accountant III software rights to delete transactions has been removed.
- 3) Journal Entries (item 3)
 - a. A Summary Journal entry report is signed off by CFO and an individual not subordinate to CFO.
- 4) Bank Reconciliations (item 5).
 - a. Bank reconciliations are printed out and Accounting Manager signs off to document the review of bank reconciliations.
 - b. Bank Statements are opened and initialed by someone other than preparer of bank reconciliations.
- 5) Credit card (item 6).
 - a. Recommended that GVR consider establishing policies identifying types of purchases that should be made using credit cards.
- 6) Board matters
 - a. Recommends that the board implement a fraud risk assessment and monitoring program requiring that risks be evaluated annually. The Auditors discussed this with the Audit committee and it is up to the Board to formalize this (item 7 and 10).
 - b. The current Board does provide minutes of executive sessions. These minutes are sealed and secured. (item 8).
- 7) Payroll
 - a. Currently, the HR Manager reviews the PR reports. Going forward, the reports will be printed out and the CFO will sign off on printed payroll reports. These reports are confidential and will be destroyed after the annual audit. (item 9).



Certified Public Accountants

Boards of Directors and Audit Committee
Green Valley Recreation, Inc. and GVR Foundation
Green Valley, Arizona

In planning and performing our audit of the consolidated financial statements of Green Valley Recreation, Inc. (GVR) and GVR Foundation (the Foundation), collectively referred to as the Organization, as of and for the year ended December 31, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the Organization'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 combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 entity's combined 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 disbursements

1. During our review of the internal controls surrounding cash disbursements, we noted that GVR has a check signature stamp with the signature of a Board Member. During the Organization's 2017 audit, the predecessor auditor noted that the signature stamp was being used by the same person who prepares and mails checks. The predecessor auditor recommended that the signature stamp be used by GVR's Controller instead, in order to create a segregation of duties, and that recommendation was implemented by GVR.

However, use of a signature stamp by anyone other than the person whose signature is borne on the stamp carries an inherent increase in the risk of fraud. By selecting only certain individuals to have signing authority for the company's accounts, the company has vested responsibility for oversight of its cash in those individuals alone. Permitting anyone, regardless of position, to use the signature stamp of another person circumvents these reasonable monitoring and oversight activities and in effect gives anyone with physical access to the stamp the ability to control the company's assets. We recommend that the signature stamp, and any other signature stamps that may exist, **be destroyed immediately**. We further recommend that GVR implement a policy **prohibiting the use of a signature stamp for signing checks**, for memorializing an individual's required authorization on any document, or for any purpose whatsoever.

1. 9.

Material weaknesses, continued

Cash receipts

2. During our review of internal controls surrounding cash receipts, we noted the following:

- When a company receives payments for revenues that are expected and have been invoiced and recorded as accounts receivable, such as member dues, the 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 payments that are not expected, such as program revenue or access card fees, there are no mitigating controls to detect the loss.

2. a.

2. b

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 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 during the process. We further recommend that the original log be maintained by a person who has no access to checks and cash awaiting deposit, and that the original log be reconciled to deposits per the bank statement by someone independent of the cash receipts process.

2. c.

- When payments are made in person, the Customer Service Representative issues a receipt for payment created by the CLASS software to the payer. The payment and reports are then given to the Accountant III, who enters the payments into the cash receipts log and records the deposit. However, the Accountant III has software rights that allow her to delete transactions from the CLASS database. To create an appropriate segregation of duties and mitigate the risk that misappropriation of assets could be concealed by deleting transactions from the system, we recommend that the logical access of the Accountant III be modified to exclude the ability to delete transactions.

Journal entries

3. GVR staff posted journal entries as needed to maintain the accounting records of the GVR. However, there was no independent review of these entries performed. In order to prevent or detect any possible inappropriate or inaccurate modifications to the general ledger or concealment of fraud made through journal entries, we recommend that the CFO prepare a summary report from the accounting software of all journal entries, along with the support for the entries, monthly, that she review the documentation to ensure accuracy in calculation of the entry and that the entry is consistent with the support provided. We further recommend that entries posted by the CFO be likewise reviewed and approved by an individual who is not subordinate to the CFO. We lastly recommend that evidence of review and approval of entries be documented and maintained.

3. a

We also became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency of **GVR**. The recommendations are as follows:

Cash disbursements

4. During our review of the internal controls surrounding cash disbursements, we noted the following:

- Signed checks are returned to the Accountant II for mailing. As the Accountant II is responsible for both accounts payable and printing checks, this presents an inadequate segregation of duties. We recommend that the Accounting Manager either mail the checks himself after meeting with the board, or have a staff person outside of the accounting department mail the signed checks to the recipients.
- One reason given for the need for a check signature stamp is that all checks, per GVR's bylaws, require two signatures, and there are instances in which two signers cannot be located on a timely basis to meet obligations to vendors. In such a case, the dual signature requirement for all checks has increased the risk of fraud rather than decreasing the risk as the policy intended, by requiring staff to implement a work-around to ensure continuing operations while still adhering to the policy as written. Other than this side effect of creating an incentive to engage in inappropriate use of a signature stamp, there is no inherent detriment to a dual signature policy. However, as there is no mechanism in place at financial institutions to prevent the bank from honoring a check that is not in compliance with the entity's policies regarding signatures there is also no actual protection provided by the requirement. The Board may therefore wish to consider whether continuation of this policy serves its system of internal controls.

If GVR believes the dual requirement to have continued merit, we recommend that the Board contemplate how to ensure that all checks can be signed on a sufficiently timely basis to meet its obligations to protect vendor relationships and prevent late fees or cessation of the provision of goods or services. The GVR may consider expanding its base of authorized signers or may implement other strategies to assure availability of signers as required.

Bank reconciliations

5. During our review of internal controls surrounding bank reconciliations, we noted the following:

- Although the Accounting Manager reviews the reconciliation after it is prepared by the Financial Analyst, there is no documentation of this process. We recommend that the Accounting Manager initial the printed reconciliation as evidence of his review and approval.
- The Financial Analyst downloads cash account activity from the bank's website at the beginning of the month to prepare the bank reconciliation. When the paper statement is received in the mail several days later, it is opened during the customary mail-opening process and provided to the Financial Analyst, who reviews it to ensure it is consistent with the downloaded data used to prepare the reconciliation. The paper statement is then provided to the accounting Manager for use in review of the bank reconciliation. To better segregate duties, we recommend that the Accounting Manager receive the bank statement unopened, and that he initial the bank statements as evidence that the statement was received independent from the activities used to prepare the reconciliation.

GVR other matters, continued

Credit cards

6. We noted that the volume and dollar amount of credit card purchases made by GVR was high compared to entities of similar size and function. This was a deliberate decision made by management to maximize the earnings for GVR through the credit card's cash back program. During our audit, we reviewed documentation for all credit card purchases reported on four monthly statements and found no transactions that were unsupported or appeared not to be legitimate business expenses.

5.9. However, to improve the monitoring of purchases of GVR, we recommend that GVR consider establishing policies identifying the types of purchases that are customarily paid via credit card, for which it is permissible to continue to make purchases using existing procedures and approval forms, and alternatively identify types of purchases that are traditionally invoiced and paid via check, which will require enhanced approval to pay the invoice via credit card.

Board matters

- 6.9. 7. We noted that the Board has not implemented a fraud risk assessment and monitoring program. Although the provisions of the Sarbanes-Oxley Act (the Act) do not apply specifically to nonprofit organizations, the legislation from the Act requires public companies to perform a self-assessment of the company's risks. This includes identifying fraud risks and taking appropriate action to reduce or eliminate the risks by identifying the process, controls and other procedures needed to mitigate the identified fraud risk. We recommend that the Board implement such a policy requiring that at least annually the risks in GVR be evaluated, that appropriate procedures be implemented to mitigate the identified risks, that the review be documented and that such documentation be retained.

- 6.6. 8. During our audit, it was indicated to us that the Board refused to provide minutes of executive sessions for inclusion in GVR's sealed archives. As best practice for good governance, we recommend that contemporaneous minutes be kept of these meetings and remitted to GVR for inclusion in archives. The presented minutes may be sealed for confidentiality.

Payroll

- 7.9. 9. During our review of internal controls surrounding payroll, we noted the HR manager processes payroll, and that the CFO receives the payroll reports directly from ADP by email and reviews them for accuracy. However, there is no documentation of this review and approval. In order to mitigate the risk that payroll transactions could be inappropriately modified or fictitious employees could be created, review of the payroll reports by an individual independent of the payroll processing function is a critical element of segregation of duties, and we recommend that the CFO initial or sign the payroll report to document her review and approval of the payroll as processed.

We lastly became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency of **the Foundation**. The recommendations are as follows:

Board matters

10. We noted that the Foundation's Board has not implemented the following policies in writing:

- Fraud risk assessment and monitoring program. See recommendation 7 above for GVR for more information on the purpose of the program. We recommend that the Foundation's Board also implement such a policy.
- Spending policy – The State of Arizona's Management of Charitable Funds Act requires the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. In accordance with the Act, we recommend that the Board of the Foundation formalize their spending policy in writing.
- Gift acceptance policy – Some gifts may result in more inconvenience and expense than the benefit to a company. A written gift acceptance policy can help manage the expectations of donors, and also serve as guidance for board and staff members. We recommend the Board of the Foundation develop a policy for determining whether or not to accept certain types of gifts.

We will review the status of these comments during our next audit engagement. We have already discussed the comments and suggestions with various Organization personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of this 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 Boards of Directors, and others within the Organization, and is not intended to be and should not be used by anyone other than these specified parties.

HBL CPAs, P.C

HBL CPAs, P.C.

April 8, 2020