

ARIZONA TRAIL ASSOCIATION  
Internal Control Communication  
For the year ended December 31, 2017

---

## INTERNAL CONTROL COMMUNICATION

To the Board of Directors  
Arizona Trail Association

In planning and performing our audit of the financial statements of the Arizona Trail Association (the Organization) as of and for the year ended December 31, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered Arizona Trail 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 Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of Arizona Trail 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 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 Organization's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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 the Organization's internal control to be significant deficiencies:

1. Net Asset Classification

During our review of the fiscal sponsorship agreement with Natural Restorations, we noted that \$92,131 of Natural Restorations funds were classified as deferred revenue at December 31, 2016 and were subsequently recognized as revenue during the year ended December 31, 2017. In addition, we noted a \$33,132 contribution for Natural Restorations that was recognized as unrestricted revenue during the year ended December 31, 2017. Accounting principles related to fiscal sponsorship agreements require related revenue to be recorded as temporarily restricted revenue upon receipt.

We also noted three contributions totaling \$43,000 that were recorded as deferred revenue as of December 31, 2016 and were subsequently recognized as revenue during the year ended December 31, 2017. Two of these contributions were restricted and should have been recorded as temporarily restricted revenue during the year ended December 31, 2016. The other contribution was unrestricted but should have been recognized as revenue during the year ended December 31, 2016, in accordance with the modified-cash basis of accounting, because that is when the funds were received.



ARIZONA TRAIL ASSOCIATION  
INTERNAL CONTROL COMMUNICATION, Continued

---

1. Net Asset Classification, Continued

We recommend the Organization review the nature of all grants and donations received to determine whether there are any restrictions associated with the gift or grant. If the Organization continues to use the modified-cash basis of accounting, then all grants and donations should be recognized as revenue in the year received and a determination should be made as to whether that revenue is unrestricted or temporarily restricted.

Management Response

Until this audit, the Arizona Trail Association was unaware of the difference between deferred grant income versus temporarily restricted income. All donations and grants are always identified as either restricted or unrestricted income, with notes on the specifics of any restricted income for particular projects or programs or specific time frames. In the future, the Arizona Trail Association will use the temporarily restricted classification and suspend use of deferred grant income within our financial reporting mechanisms.

2. PayPal account

We noted that the Organization maintains a PayPal account which is used to receive online donations. Amounts deposited to the PayPal account are subsequently transferred to the Organization's operating bank account, however there is often a significant delay between the receipt of funds through the PayPal account and the transfer to the operating account. The PayPal account was not recorded on the general ledger, and as a result, deposits totaling \$29,025 had not been properly recorded as cash and income as of December 31, 2017. The \$29,095 was deposited from the PayPal account into the operating bank account on January 1, 2018, and the related income was recorded at that time.

We recommend that the Organization record the PayPal income when received and record a cash transfer when funds are transferred from PayPal to an operating account.

Management Response

The Arizona Trail Association will record all PayPal income when received and record a cash transfer when funds are transferred from PayPal to an operating account.

During our audit, we also became aware of the following deficiencies in internal control, other than a significant deficiency or material weakness, which are opportunities for strengthening internal controls and operating efficiency:

1. Segregation of Duties

During our review of cash receipts processes, we noted that the Administrative Director receives, deposits, and records checks received by mail. Effective segregation of duties, ensuring that no one person is solely involved in all phases of a transaction, is important in safeguarding assets and reducing the risk of error.

We recommend that the Organization implement a policy wherein any checks that are mailed to the office are mailed to the main office. In addition, we recommend that two individuals participate in opening the mail and preparing a receipt log and bank deposit. The Administrative Director can then record the deposit based on the log, bank record, and scanned copies of checks and compare those totals to the deposit total per the bank statement.

Management Response

The Arizona Trail Association will adopt a new policy that ensures segregation of duties wherein all checks are mailed to the ATA office in Tucson, where two staff members (Executive Director and Executive Assistant) regularly work. Both the Executive Director and Executive Assistant will open the mail together and sign off on a donation receipt log and bank deposit. The Administrative Director will then review the deposit and its details (including scanned copies of checks, donation receipt log, and bank deposit receipt) then record the deposit. Administrative Director will then check totals with the monthly bank statement.

ARIZONA TRAIL ASSOCIATION  
INTERNAL CONTROL COMMUNICATION, Continued

---

2. Policies and Procedures

We noted that the Organization does not have a formal policy related to donor-restricted endowment funds and interpretation of the Uniform Prudent Investment Management of Institutional Funds Act (UPMIFA). In addition, there is not a formal investment and spending policy related to its endowment fund.

We recommend that management formulate and adopt an investment and spending policy related to earnings from endowment funds, and that policy should also include management's interpretation of UPMIFA as it relates to its donor-restricted endowment funds.

Management Response

The Arizona Trail Association will review the Uniform Prudent Investment Management of Institutional Funds Act (UPMIFA) and codify a formal investment and spending policy related to our Endowment Fund. This will be reviewed at the next meeting of the Board of Directors and voted upon to be adopted as a formal organizational policy.

3. Expenses

During our testing of disbursements, we noted payments to four independent contractors that did not have invoices or signed contracts available as support for the disbursement. We noted that timesheets were provided that showed the number of hours worked, however, there was no support showing what rate the independent contractor was to be paid.

We recommend the Organization provides a contract with the specific terms of agreement, including pay rate, for all independent contractors.

Management Response

The Arizona Trail Association currently requires a signed agreement for all independent contractors, which includes compensation, scope of work, length of contract, limitations of insurance coverage, and other pertinent details. While acting as a Fiscal Sponsor for Natural Restorations during 2017, this was recommended but not enforced. The Arizona Trail Association will continue to require a signed contract for all independent contractors.

4. Cash

During our testing of cash and the related bank reconciliations, we noted no evidence of review. In addition, we noted that the National Bank of Arizona checking account book balance per the reconciliation did not agree to the general ledger balance at year end. Management was able to determine that the issue was due to a correction made after bank reconciliations were prepared, however, no documentation of the corrected book balance was noted on the reconciliations.

We recommend that management implement procedures to ensure that all bank account reconciliations are initialed by the preparer and reviewer as evidence of proper review. In addition, when adjustments are made after a reconciliation is prepared, we recommend documenting those adjustments on the original bank reconciliation to provide an audit trail.

Management Response

The Arizona Trail Association currently ensures that all bank account reconciliations are conducted by an independent bookkeeper and will adopt a policy to have that individual sign off on the reconciliations to show evidence of proper review. Additionally, these are always reviewed and approved by the Executive Director, and the Arizona Trail Association will adopt a policy to have the Executive Director also sign off on the reconciliations to show evidence of proper review. Both levels of review will be shared with the Board Treasurer. Whenever adjustments are made after a reconciliation, these will be documented on the original bank reconciliation with approval of review from the Executive Director and Board Treasurer.

ARIZONA TRAIL ASSOCIATION  
INTERNAL CONTROL COMMUNICATION, Continued

---

5. Fixed Assets

During our testing of fixed assets, we noted that depreciation for fiscal years 2016 and 2017 had been calculated on a fixed asset schedule but had not been recorded in the accounting records.

We recommend that management review the depreciation calculation for fixed assets annually, and also implement a procedure to ensure that depreciation expense is recorded in the accounting records each year.

Management Response

The Arizona Trail Association will review the depreciation calculation for fixed assets annually and apply that to monthly journal entries.

6. Payroll

During our testing of payroll, we noted that there was no documentation to support staff pay rate changes, rather employee pay rates were changed based on the verbal approval from the Executive Director. In addition, we noted that there was no proof that E-Verify was conducted for the 7 staff members, there were two employee files with missing I-9 forms, and one employee file with missing withholding forms.

We recommend that a change of status form be implemented where the new rate of pay, applicable effective date, and signature of the Executive Director approval are all included. In addition, we recommend all current staff member names are submitted to E-Verify and the results is saved in each employee's file and a procedure implemented to ensure that E-Verify is performed for all newly-hired employees. Finally, employees with missing documents should fill out withholding and/or I-9 forms, as applicable, as soon as possible and those documents retained in the personnel file.

Management Response

The Arizona Trail Association will adopt a new Change of Employment Status Form as suggested, which will be signed by the Executive Director and employee. Currently, all Arizona Trail Association employees are registered through E-Verify, and all new employees are required to be registered during the hiring process. For any employees with missing documentation, all necessary documents will be required to be completed immediately and filed in both the physical and digital employee records.

Additionally, the ATA will update its New Employee Checklist to ensure all forms, policies and procedures are properly completed before an individual is considered an employee of the Arizona Trail Association and eligible for compensation and benefits.

The Organization's written responses to the internal control deficiencies identified in our audit have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

We will review the status of these comments during our next audit engagement. We have discussed these 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 these matters, or to assist you in implementing the recommendations. This report is intended solely for the information and use of the board of trustees, management, and others within the Organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

*LEONIA KLENER + RUDNER PLLC*

February 8, 2019