Boys and Girls Clubs of Tucson, Inc. Report on Internal Control

For the Year Ended December 31, 2023



The Board of Directors
Boys and Girls Clubs of Tucson, Inc.

Members of the Board of Directors:

In planning and performing our audit of the financial statements of Boys and Girls Clubs of Tucson, Inc. (Club) as of and for the year ended December 31, 2023, in accordance with auditing standards generally accepted in the United States of America, we considered Boys and Girls Clubs of Tucson, Inc.'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 Boys and Girls Clubs of Tucson, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Boys and Girls Clubs of Tucson, Inc.'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 a 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 combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Material Weakness

We consider the following deficiencies in the Club's internal control to be material weaknesses:

Internal Controls Over Revenue

The Club did not have adequate internal controls in place over the recognition of revenues. During our review of special event revenue, we noted the following:

- Donated auction items were not separately identified from other cash donations in accounting records, therefore revenue on the general ledger could not always be traced to supporting documentation.
- The Club did not properly track and record auction revenue, resulting in duplicate transactions. As a result, special event revenue and expenses were overstated by \$124,700.

During our review of in-kind contributions, we noted the following:

- The Club does not have a process to verify the accuracy of the fair market value of inkind donations provided by the donor.
- For four of 10 in-kind donations reviewed, insufficient documentation was maintained and, therefore, fair market values assigned could not be verified by auditors.
- In-kind donations and related expenses of \$227,824 were not recorded on the Club's general ledger.

During our review of donor restricted revenue, we noted unrestricted contributions of \$8,298 were recorded as perpetually restricted endowment fund contributions.

We also noted the following revenue recognition errors:

- Fiscal year 2022 federal grant revenue of \$26,014 was recorded in both fiscal year 2022 and fiscal year 2023, resulting in an overstatement of revenues and receivables.
- Federal grant revenues and related receivables of \$13,362 and tribal grant funds of \$7,079 were not recorded on the general ledger.
- A payment received during fiscal year 2023 on a prior year pledge (that was recognized as revenue in a prior year) was recorded as revenue again in fiscal year 2023. As a result, pledges receivable and contributions were overstated by \$5,000.
- The Club recognized a \$10,008 conditional revenue prior to barriers being met.

The Club should implement effective internal controls over revenues, to include maintaining adequate records that support all revenues recognized in the general ledger. The Club should establish procedures requiring reviews of restricted revenue classifications. The Club should also ensure all barriers have been met prior to recognizing conditional contributions. Lastly, the Club should establish a process to verify the fair market value of in-kind donations.

Management Response

Finance department will work with the Resource Development team, specifically the Director of Events to track auction revenue separately from other event revenue at the time of the event. Our accounts receivable associate researches the fair market value of each in-kind donation and is attaching the documentation to the in-kind donation form. Donated auction items are recorded as in-kind donations which are recorded separately from cash donations. Going forward, we will record them separately from in kind donations.

Internal Controls Over Payroll

The Club did not have adequate internal controls over the payroll function. During our review of payroll, we noted the following:

- For 15 of 15 employee payments reviewed, the employees did not have an approved wage agreement on file.
- For one of seven employees reviewed, the rates used in the PTO/vacation liability calculation did not agree to the employee's actual pay rate.
- The PTO/vacation liability was improperly calculated and included ineligible amounts. As a result, liabilities were overstated by \$110,993.

The Club should implement procedures over payroll processing to ensure adequate documentation. These procedures should include maintaining approved wage agreements for all employees and reviewing compensated leave liability schedules for accuracy. In addition, compensated leave liability schedules should be prepared in accordance with employee policies.

Management Response

Human Resources will document all wage adjustments and agreements. Information will be hosted in Paylocity for all employees. PTO banks will be reviewed in accordance with the Employee Handbook and accrual policy.

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.

Significant Deficiency

We consider the following deficiencies in the Club's internal control to be significant deficiencies:

Internal Controls Over Cash Reconciliations

The Club did not have adequate internal controls over cash balances. During our review of cash reconciliations, we noted the following:

- Monthly cash reconciliations for 2023 were not completed in a timely manner. All cash reconciliations appear to have been completed between December 2023 and January 2024.
- Cash reconciliations did not include evidence they were reviewed by a second individual
- Cash reconciliations included several outstanding checks totaling \$5,164 that were over one year old.

The Club should design and implement effective internal controls and procedures that ensure the general ledger and financial statements are free from potential misstatements. Specifically, the Club should ensure that cash balances are reconciled timely on a monthly basis, and that reconciliations are reviewed and documented by another individual. The Club should also perform a review of all outstanding checks and determine what action should be taken on those outstanding for over a year.

Management Response

Bank reconciliations are being done monthly and are now being reviewed by HBL consultants or the CFO when hired. We are working on cleaning up the outstanding checks that are over a year old.

Internal Controls Over Disbursements

The Club did not have adequate internal controls over disbursement processing. During our review of disbursements, we noted the following:

- The Club does not maintain written approval prior to purchases.
- For seven of 25 disbursements reviewed, the Club did not maintain documentation indicating that the invoice was paid after goods or services were received/rendered.
- For two of 25 disbursements reviewed, the Club did not maintain written authorization to pay.
- For one of 25 disbursements reviewed, the payments were made prior to services rendered.
- For eight of 25 disbursements reviewed, documentation supporting when the goods or services were received was not retained; therefore, it could not be determined if the goods or services were received prior to payment.

The Club should enforce stronger internal control policies and procedures over disbursements. Written documentation should be maintained for approved purchase orders and invoice approvals, and documentation should be maintained to demonstrate goods and/or services are received prior to payment of invoices. Adequate review procedures should be in place to detect errors or deviations from policy.

Management Response

Purchasing and purchase order system policies and procedures will be enhanced to establish clear guidelines and to address the above deficiency.

Other Deficiencies in Internal Control

Our audit also disclosed other deficiencies in internal control that are opportunities for strengthening internal controls. While the nature of these deficiencies is not considered important enough to merit the Board's attention, they were considered deficiencies that merit management's attention and are included in this letter to provide a single, comprehensive communication for both those charged with governance and management. Management should address these items to ensure that it fulfills its responsibility to establish and maintain adequate internal controls.

Internal Controls Over Capital Assets

During our review of capital assets, we noted the following:

- The Club has several fully depreciated assets on the capital asset listing.
- It is unclear when the last physical inventory was performed.
- The historical cost of buildings on the capital asset listing did not agree to the related general ledger account by \$3,000.
- Current year deprecation of \$4,055 was recorded to buildings and improvement rather than equipment and vehicles.
- Current year deprecation of \$406,280 was misallocated to the management & general function rather than program function.

The Club should review the capital asset listing to ensure all capitalized items are still in use and should perform a full physical inventory to help ensure the accuracy of the listing. In addition, management should review capital asset listings, functional expense allocation schedules, and related journal entries for accuracy.

Board Designations and Endowments

The Club does not have a formalized board-approved policy for board designations or quasiendowments.

In order to strengthen processes surrounding net assets, management and the Board of Directors should formulate and approve a policy regarding board-designated net assets and quasi-endowments. These policies should include how ending balances are calculated and procedures for contributions or appropriations.

We have already discussed these items and suggestions with Club 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 Board 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.

Heinfeld Meach & Co. PC

Heinfeld, Meech & Co., P.C. Tucson, Arizona October 7, 2024