



*Blair & Company*  
CERTIFIED PUBLIC ACCOUNTANTS

6054 EMERALD • BOISE, IDAHO 83704

(208) 322-6411

June 28, 1986

Board of Trustees  
McCall Area Timeshare Association  
McCall, Idaho 83638

**I General**

A. During our audit, we discovered that personnel were uncertain of the accounting of certain transactions. Therefore, we recommend that in conjunction with your independent bookkeeping firm, Little Bookkeepers, Inc., you need to establish some written guidelines as to how to handle general and certain specific accounting transactions.

B. During our review of the internal control of all areas of accounting, we discovered that a major weakness in internal control is a lack of segregation of duties.

C. To help monitor the financial position of the Association on an on-going basis throughout the year, we recommend periodic preparation of financial statements. We recommend that these periodic financial statements be prepared in a format that compares it to the budgeted figures for the respective period. All variances between actual and budgeted amounts should be explained to the Board. For best results, we recommend that these be done on a monthly basis.

We recommend that you investigate the possibility of having your independent bookkeeping firm of Little Bookkeepers, Inc. assist in the preparation of these monthly financial statements. This will also increase internal control in general.

**II Cash Receipts**

A. During our review of the internal control, we discovered that personnel that handle the cash and cash receipts are not bonded. We recommend that all employees that handle the cash of any nature be bonded for the Association's protection. We believe that the additional insurance costs for bonding these employees would be minimal.



B. There is a lack of segregation of duties. In the area of cash receipts, the person responsible for handling the cash receipts (cashier function), is the same person who records the cash receipts, (posting to the accounts receivable ledger cards - accounts receivable bookkeeper).

We recommend that a separate person open the mail and otherwise handle all monies received by the association. When the money is received, this person should make a list of the money received and its source. A copy of this list should be supplied to the bookkeeper and the original should be turned over to the President of the Association and stored in a secure place. The person who receives the money and makes the list should also prepare the deposit slip and deliver the monies to the bank. The deposits should be made each day that the money is received.

C. During our review of the internal control we discovered that there is no cash receipts journal being maintained. We recommend that a cash receipts journal be kept for all cash accounts. The formal procedure for using this journal should be obtained from your bookkeeping firm. The use of this cash receipts journal will facilitate reconciliation of the bank account, and periodic reconciliation of the accounts receivable.

D. During our review of the cash accounts, we discovered that although the deposits were identified with a source code, there was uncertainty as to handle some transactions. For example, transfers from savings into the checking account were coded to "other income". The proceeds of a loan were also coded to "other income".

Although the total deposit was identified with a source code, the individual items were not coded. Thus, the source of specific items of cash receipts could not be readily identified. This makes it more difficult to reconcile the receivables, cash and revenue. This weakness in internal control could be rectified to a large degree by the proper use of a cash receipts journal, as recommended above.

### III Cash Disbursements

A. During our review of the internal control, we found a lack of segregation of duties in the areas of cash disbursements. The same person who prepares the cash disbursements also reconciles the bank account. We recommend that a person who is separate and independent of the preparation of the cash disbursements prepare the bank reconciliation. A very effective way of handling this is to have your bank statement sent directly to your bookkeeping firm. The bank reconciliation will be prepared by them and returned to you on a monthly basis.



B. During our audit we discovered that there is uncertainty as how to record some disbursements. For example, checks written to transfer money from the checking account to the savings account were coded to the fund account. These checks should have been coded to the savings account.

Another example is the checks for remittances of the state withholding were coded to payroll taxes. These checks should have been coded to the state withholding liability. Also, the federal tax deposits were coded to payroll tax expense. The accrual for employer FICA expense should be made monthly and the check coded to FICA withheld and accrued and federal withholding.

These are examples of the need for written guidelines. These are also examples of the value of periodic (i.e. monthly) financial statements.

#### IV Petty Cash

A. We recommend that the petty cash fund balance be reduced from \$250 to \$100. Currently the petty cash fund needs to be replenished approximately every three weeks. This is a long time to maintain the petty cash slips. Also, the nature of the disbursements from petty cash as discovered by our audit (i.e. laundry money, gas for van, maid supplies) are not large enough to warrant the large balance currently being maintained in the petty cash.

B. The imprest system of petty cash is not being fully utilized. The proper method for maintaining the petty cash fund is as follows:

1. When the petty cash account is low, the vouchers (receipts) for disbursements should be totaled on an adding machine tape by the person in charge of the petty cash.
2. The vouchers and the adding machine tape should be taken to the cash disbursements clerk, (separate from the petty cash clerk). The cash disbursements clerk should independently total the petty cash vouchers and also independently verify the balance of cash in the petty cash fund. The total of the vouchers plus the total of the cash left in the fund should total the imprest balance of \$100. Any difference should be immediately and satisfactorily explained. The cash disbursements clerk then writes out a check payable to the petty cash clerk for the amount of vouchers submitted.



4. The petty cash clerk should cash the check at the bank and replenishes the petty cash fund.
5. The vouchers should be coded and marked "paid" by the cash disbursements clerk.
6. A third party should from time to time prove the balance of the petty cash fund.

#### V Cash In Bank

A. There is some difficulty in reconciling the money market account. We recommend that a schedule of interaccount transfers between the checking account and the money market account be maintained for the year. This schedule should show the date and amount of the transfer and whether it was put into checking from the money market or into the money market from checking.

The only deposits to the money market account (except the interest income) should continue to be made by writing a check from the checking account. All withdrawals from the money market should be deposited into the checking. (In 1985 there was a substantial amount transferred directly to a vendor from the money market i.e., \$26,000 transferred to Executive Management on March 29, 1985.) The deposits should be recorded on the checking account cash receipts journal. Also, we restate our recommendation that a person independent of the cash disbursements clerk reconcile the bank accounts.

#### VI Payroll

A. The payroll was not being approved by an independent party. We recommend that each pay period, a payroll register be prepared. This payroll register needs to show the date of the payroll period, name of each employee, hours, rate, extended gross pay, withholdings and net pay. These amounts should be totaled and cross totaled. This payroll register should be submitted to a person who is separate from the payroll preparation function. This person should spot check the payroll file to make sure that the payroll is made out properly and for the right amount. This person should initial and date the payroll register and keep a copy in a secure place. The original payroll register should be returned to the payroll clerk for the preparation of the payroll checks. The typed checks should be checked against the payroll register copy to make sure they are the same. Preparation of this payroll register facilitate preparation of the payroll tax reports.



B. To facilitate reconciliation of the general bank account we recommend that a separate payroll checking account be opened up. When the payroll register is prepared for each payroll, a transfer is to be made for the exact amount of the payroll from the checking account to the payroll account. This payroll account should have an imprest balance, of \$100. When this account is balanced, it should reconcile to the imprest balance. Any differences should be immediately explained.

## VII Accounts Receivable

A. Internal control procedures over accounts receivable are extremely weak in general. Proper records are not being kept in sufficient detail or on a timely basis. Therefore, we make the following recommendations.

1. You should establish written guidelines for the recording of all accounts receivable transactions.

2. You should maintain the following accounting procedures:

(a) There are no control accounts receivable for the subsidiary accounts. Therefore the accounts receivable subsidiary ledger cards are not balanced monthly prior to preparation of the accounts receivable statements. We recommend that an accounts receivable control be established and used in conjunction with the cash receipts journal, charges journal and credit journal.

(b) Any charges to an account should be listed in a charges journal. This includes the annual fees, late charges, and any special assessments. The charges journal should have the week and unit number, owner, date, amount, and description of the charge. The total amount of charges from the charges journal should be posted to the accounts receivable control and the detail of the journal should be posted to the subsidiary ledger cards on a daily basis. During 1985, late charges were not posted monthly and the running balance was not updated.



Summary

The aforementioned recommendations are not intended to imply that any impropriety has or is currently taking place. These recommendations are made to increase the quality of internal control and help assure the continued reliability of the financial information.

We wish to extend our thanks to the personnel of McCall Area Time Share Association for their assistance during this audit. We found all members of the staff to be competent and very hard working in their duties.

*Bolin & Company*



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September 4, 1986

Bill Geisler  
President  
McCall Area Time Share  
P.O. Box 1767  
McCall, Idaho 83638

Re: Resignation

Dear Bill:

I hereby resign my position as Trustee and Treasurer of the McCall Area Time Share Association. It has been a pleasure serving with such fine men as yourself.

Sincerely yours,

Landen R. Blair, MBA, CPA  
President

LRB:m



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6054 EMERALD • BOISE, IDAHO 83704  
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December 26, 1986

Board of Trustees  
McCall Area Timeshare Association  
P.O. Box  
McCall, Idaho

Gentlemen:

As you know, our firm rendered an audit report to the Board of Trustees and Time Share Owners dated June 28, 1986 covering the examination of the financial statements of the McCall Area Timeshare Association for the year ended December 31, 1985.

On August 22, 1986, I was notified that a complaint had been filed by a timeshare owner, Mrs. Harold B. Curt, alleging possible violation of the Idaho Accountancy Act and Regulations. The complaint stated that since I was on your Board of Trustees that according to the Idaho Restated Code of Professional Conduct that I was not an independent auditor.

According to the restated code, it does not matter that I was not involved in the day to day management activities, that I was not a check signer on any checking account, that I did not receive any compensation and travel allowance for attending any board meetings or any other meetings, and that my status as a member of the Board of Directors and auditor was known to all parties.

On September 4, 1986, I resigned from the Board of Directors and our firm is now withdrawing the aforementioned audit report. No one should rely on this report since we were not independent to such a report.

You should notify the Time Share Owners of the McCall Area Timeshare Association that our firm has withdrawn the aforementioned audit report because my position on the Board has impaired my independence.



Board of Trustees  
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December 26, 1986



I apologize to you and the timeshare owners for any inconvenience that this may have caused you or anyone else.

Sincerely yours,

*Landen R. Blair*

Landen R. Blair, MBA, CPA  
President

LRB:m