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November 4, 2014

Board of Directors  
Pacific Swimming  
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In planning and performing our audit of the financial statements of Pacific Swimming, (the Organization), as of and for the year ended December 31, 2013, 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 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 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 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 deficiencies in the Organization's internal control presented in Appendix A to this letter to be significant deficiencies.

In Appendix B, we noted certain matters we are required by our professional standards to communicate to those charged with governance.

This communication is intended solely for the information and use of management, 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.

We would like to take this opportunity to thank Mary Ruddell and the Zone treasurers for their assistance during our audit. We would also like to thank Carol Hower and Dan Clay of Teamworks.

Very truly yours,



LMGW Certified Public Accountants, LLP

## **Appendix A – Significant Deficiencies**

### Separation of Duties

#### Current year findings

The LSC Treasurer and the Zone Treasurers perform all steps of deposits and disbursements process. They receive payments, prepare a log, enter into QuickBooks, and make the deposits to bank. They also approved invoices, prepare checks, and sign them. This is a weakness due to the lack of separation of duties.

#### Recommendations

In order to provide a better separation of duties, the funds should be received and deposited by a different individual than the one entering into QuickBooks. A list of deposits should be provided and reconciled to the online registrations and bank statement. And the invoices should be approved by a different individual than the one preparing the checks.

#### Management Response

Pacific Swimming is an organization run by volunteers. Our pool of active volunteers to serve on the boards of the LSC and Zones is small. Therefore, the best “separation of duties” that we can do at this time is have the Zone treasurers do the work “locally” and then have Teamworks enter the data into the consolidated QB file.

The LSC also lacks volunteers and staff to create separation of duties. Until the LSC can justify the expense of an office space and additional staff, we will continue to establish as much separation of duties as possible.

### Approval of Disbursements

#### Current year findings

We found that there were cases of invoices and check requests having no approval indicated.

#### Recommendations

All invoices and check requests should be approved and the approval should be indicated on the invoice. This provides evidence of the authorization as well as defaces the invoice indicating that the payment has been processed. All of the check requests for reimbursement should include the receipts or other back up documentation for review before the disbursement is approved.

## **Appendix A – Significant Deficiencies (continued)**

### Management Response

The LSC and Zone Treasurers “write checks” for invoices that have been globally approved by budget and/or submitted and approved by the committee chair. The annual budget is approved by the respective Board of Directors and the LSC budget is approved by the House of Delegates. Unbudgeted items require a vote of approval by the Board of Directors.

Pacific Swimming’s Dropbox procedures require that receipts be attached to electronic copies of the invoice and payment record. Zones are working to follow the procedures mid-2013.

### Registration Deposits and Related Revenue

#### Current year findings

The USA Swimming registrations are being entered into the system without a corresponding entry made in QuickBooks. The funds received with the registrations should be entered as revenue into QuickBooks. A receivable should be booked for those registrations with funds still due to the Organization. There is currently no tracking of what funds from the various clubs are still due to Pacific Swimming for registrations. This lack of tracking of funds due to Pacific Swimming makes it difficult to ensure that all of the funds are being collected as well as that the revenue is being recorded in the correct period.

There is an issue with the timing of deposits. We noted that there were deposits that were not being made timely and in some cases were deposited into the bank account two weeks after being received. The funds are most secure when they are being held at the bank and not kept at employee’s personal residences.

The dates of the deposit in QuickBooks were not the actual date of the deposit, which leads to problems reconciling the bank accounts.

We did see an improvement in the area in the second half of the year.

#### Recommendations

If a registration is entered into the USA Swimming system without receipt of funds, a receivable should be set up in QuickBooks. This creates an accounts receivable that can be tracked per club. When the funds are received from the club, the receivable will be credited. This will also ensure that the revenue is being recorded in the proper period. The revenue should be reconciled to the USA Swimming membership report at least monthly.

## **Appendix A – Significant Deficiencies (continued)**

The deposits should be made on a routine basis, preferably within a week of receipt. This ensures that the funds are kept secure and are included in the bank account for reconciliation.

The current date of the deposit should be used when recording the deposit into the bank. This will allow for easier reconciliation of the bank accounts. The accounts receivable module of QuickBooks should be used to record the revenue in the proper period. The funds should be credited to the accounts receivable when received and recorded in the books with the same date as being deposited into the bank.

### Management response

Pacific Swimming started to use invoicing for meet entry income mid-2013.

The individuals who receive and process membership registration do not have access to QuickBooks. Memberships are received and entered into the SWIMS database. Tracking of receivables and payables are recorded on spreadsheets. This is a process that membership/registration for a number of years. The spreadsheet has become part of the reconciliation process however Pacific Swimming did not record it on a monthly basis until 2014. Pacific Swimming used to carry amounts due to clubs (refunds) from one membership year to another. This stopped with the 2013 membership year. Refunds were issued at the later part of 2013.

Pacific Swimming initiated the no registration without payment for the 2014 registration year. However, on occasion the electronic batch or check does not arrive in a timely manner. Efforts are being made to address this issue.

## Record Retention and Documentation

### Current year findings

The record retention policy is not followed consistently throughout the zones. The retention policy for LSC and all Zones is that all support documents are uploaded to Dropbox when processed. But in several instances, the requested documentation was not available during audit.

## **Appendix A – Significant Deficiencies (continued)**

### Recommendations

The documentation retention policy should be established and followed consistently by all Zones. The proper back up documentation should be available for review if necessary by management, the board, or for any potential tax examinations. The recommended length of time to keep documents is seven years. These items can be kept electronically or in paper form, but should be available.

### Management Response

Dropbox procedures were established mid 2013

Work continues with Zones to consistently use Dropbox for all financial records.

## **Appendix B – Required Communications**

### Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Organization are described in Note B to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2013.

### Significant or Unusual Transactions

We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus.

### Management Judgments and Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Depreciation

We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements on taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

- Cash and Cash Equivalents
- Investments
- Property and Equipment
- Income Taxes

The financial statement disclosures are neutral, consistent, and clear.

### Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

## **Appendix B – Required Communications (continued)**

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Management Representations**

We have requested certain representations from management that are included in the management representation letter dated November 4, 2014.

### **Management Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. Various items were discussed with the Organization's internal accountant and there were no differences of opinion noted.

### **Other Audit Findings or Issues**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.