Cheatham
&Lansford

Certified Public Accountants
Granbury - Stephenville

To the Audit Committee and Management of
Pecan Plantation Owners Association, Inc.

In planning and performing our audit of the consolidated financial statements of Pecan Plantation Owners Association, Inc. for the years ended October 31, 2002 and 2001, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements and not to provide assurance on internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect Pecan Plantation Owners Association, Inc.'s ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Reportable Conditions:

1. A bank account was closed without board approval and the board minutes did not reflect the approval of the closing of the account. One of the oversight responsibilities of the board is the approval of opened and closed accounts.
2. Bank reconciliations were not completed on a timely basis. In addition, they were prepared in a manner that did not uncover unposted checks, deposits and other debits/credits to the general ledger system.
3. Control over authorized signatures for the retirement plan was broken. Nine of thirteen checks issued by "CPI Qualified Plan Consultants, Inc." in 2002 utilized a signature stamp that had individuals that were no longer employees at the time.
4. Petty cash controls were broken. We recalculated and vouched each petty cash report for the year and found missing cash (shorts), invoices that did not agree with disbursements, possible purchases that are not a valid expense of the Association, and lack of approvals on documentation.
5. We found accounts receivable and sales transactions errors in all departments. Most were corrected in the current year. However, this shows that there is a problem in the controls over these areas.
6. Credit card sales and deposit reconciliations were not completed timely.
7. Inventory controls: item costs not updated, inventory list has many discontinued items, lack of documentation (invoices) on items in inventory, and lack of perpetual inventory.
8. Purchase order system controls: inadequate documentation and approvals were found, as compared to systems manual of Association.
9. Fixed asset inventory was not completed as per systems manual. We found capital assets with incorrect estimated useful lives, items that no longer were in service or had been sold, and assets that had been transferred to other departments not correctly presented in the detail.

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10. Payroll controls: An employee was not paid her guaranteed pay rate, payrolls were not reconciled to various federal/state reports, and apparent errors in benefit accruals. In addition, no exit interviews as per systems manuals were performed, and employee compensation package benefits that were negotiated were not documented in their files.

11. Nepotism violations were found to exist.

12. Accounts payable problems existed for numerous vendors. In addition, the disbursement controls for the payables were lacking. We noted from our sample lack of invoices, lack of approvals, unposted payables and checks and incorrect documentation per the systems manual.

Recommendations (number references tie to the "Reportable Condition" above):

1. Document in the board minutes the closing or opening of bank accounts and approval of signature authority for each.
2. Complete bank reconciliations timely and in a manner that ties the bank reconciled balance to the general ledger reconciled balance.
3. Review the signature authority on all accounts at least annually. Possibly assign the monthly review of the signature authority to the individual that prepares bank reconciliations.
4. We found that petty cash reconciliations started off in the beginning of the year accurately, but then became less frequent than monthly, usage of the petty cash account increased and errors started to occur. We recommend that usage of the petty cash be limited and checks with proper documentation and approval be used through disbursement controls and that petty cash be reconciled monthly. It appears that the control over inventory has also been affected by this problem due to the marina using the petty cash system to purchase inventory. We would recommend another alternative to using petty cash in this way be considered.
5. Most of the errors appeared to be from employee error. We recommend that employees be trained sufficiently and the importance of correct entry stressed to them.
6. Complete credit card reconciliations and postings timely so that operating cash is not misstated and errors can be found timely and corrected.
7. We would first recommend a perpetual inventory system be used if at all possible. In addition, we would recommend that an individual be assigned the task of keeping track of item costing and item addition and deletion so that the inventory will be as accurate as is possible. If a perpetual system is not considered feasible at this time we would recommend that the Association management consider implementation of alternative procedures to check inventory and the possible loss from shrinkage or fraud.
8. We recommend that the Association consider amending their systems manual over purchase orders, or, require the correct documentation and approval on all disbursements. We further recommend that the invoices and statements from the vendors be sent directly to accounting instead of the department heads. This allows accounting to keep track of correct recording of accounts payable and vouching to purchase orders or receiving reports.
9. We recommend an annual inventory of fixed assets in accordance with the Association's systems manual.
10. We recommend further training of payroll staff to assure that payroll is correct. Review of all `guarantees' should be made to assure payment. Payroll should be tied to the various federal/state reports to assure accuracy. Exit interviews should be performed as well as annual reviews to follow guidelines. Documentation of all employee benefits, such as a form showing pay rate, cafeteria plan deductions (or the decline of these benefits), retirement plan withholdings, etc. should be included in the employee file and any issues discussed. I.e. benefits that are not taxable due to requirements of employment.
11. We recommend that the Association follow nepotism guidelines. If violations are to occur and require board approval, be sure to document the approval in the employee file.
12. We recommend management review the controls over accounts payable and required documentation per the Association's systems manuals and updating them as needed.

Other Comments:

1. We found that purchases from Schwann's were being made through petty cash for the marina. Although not a problem, we realize that Schwann's products are purchased at retail instead of wholesale. There may not be suitable replacement from your current vendors; however, we would recommend that this alternative be considered to lower costs.

2. The Association should consider another review of major repairs and replacements of the property in the near future.

3. Consider a labeling system for all fixed assets and development of a transfer report so that assets can be tracked quickly and accurately.

4. In our review of accrued benefit liabilities we noted that the amount did not appear reasonable. However, this number was reported on the audit difference evaluation form which management approved. In addition to recommendation number 10 above, it would be a good idea to check the payroll setup of employees. At this time the benefit accrual has a debit balance. Assuming that the insurance company billings for the benefits are accurate there could be problems. Credits from payroll could be posting to another account, payroll is not setup to withhold the correct amounts from the employee paychecks, or the insurance billing could be wrong (employees not dropped or incorrect withholdings).

5. A potential conflict of interest existed with a past board member when the Association hired him. We understand that an attorney was contacted and the situation resolved. We would recommend that documentation to verify this be kept in case of problems with membership.

6. We found that the payments to the Volunteer Fire Department, although paid, were delayed. The amounts deposited with the Association by members from October 1, 2001 to November 30, 2001 were not paid until December 21, 2001. All remaining payments were timely.

7. It was noted on a confirmation from a vendor that the department head told the vendor to not *issue credit memos to the accounting department for the adjustments that he made to the* vendor's invoices so as not to confuse them. The accounting department needs to have accurate, complete documentation of all transactions in order to correctly record and control them. If adjustments are needed they should be negotiated with the vendor and the vendor should issue the credit memos to the accounting department.

8. We noted that tips payable increased from last years number and upon looking at the account we are not sure that tips are being paid completely to employees and that they are timely.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily disclose all matters that might be reportable conditions. In addition, because of inherent limitations in internal control, errors or fraud may occur and not be detected by such controls.

These conditions were considered in determining the nature, timing, and extent of the audit tests applied in our audit of the October 31, 2002 and 2001 consolidated financial statements, and this report does not affect our report on those financial statements dated January 7, 2003. We have not considered the internal control since the date of our report.

This report is intended solely for the information and use of the Audit Committee, management, and others within the organization and is not intended to be, and should not be, used by anyone other than these specified parties.

Granbury, Texas
January 7, 2003

Cheatham & Lankford

PECAN PLANTATION COUNTRY CLUB

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From the Controller

Reportable Conditions From 2002:

1. The appropriate board members have been advised of management's decision to close the bank account. However, it was not followed up in the minutes of the monthly board meeting. All openings and closings are now properly recorded.
2. a) An effort was made throughout the year to delegate this procedure to the assistant controller position. However during 2002 that position turned over four times. This caused delays in getting bank reconciliations completed in a timely fashion.
   b) The manner in which our accounts were reconciled had been the accepted procedure for many years. The auditors had not expressed any concern in prior audits, however we immediately changed our procedures to conform to their recommendation.
3. When I became Controller, I was unaware that CPI Qualified Plan Consultants held a signature card on file. Since it was not necessary for accounting to be notified of how anyone cashed out their 401(k), I was not aware that checks were being written with outdated signatures until a former employee brought the issue to light. Immediately after being notified, we updated the signature cards. Signature cards are updated annually.
4. a) Any time a point of sale cash drawer comes up short by as little as a penny, a petty cash slip is prepared in order to reimburse the cash drawer back to its designated amount. Any and all such amounts noted here by the auditors were accounted for correctly.
   b) On occasion employees will purchase items for Pecan with their own money, and in doing so may also purchase personal items. When a request for reimbursement is made, the entire invoice/receipt is submitted and Pecan's items are highlighted and reimbursed. This creates a difference between the total on the invoice and the total of the disbursement. Such a procedure is not encouraged and does not often happen, however when it does steps were/are taken to ensure that everything has been received and accounted for properly.
   c) The auditors didn't discuss this finding with me. When the audit committee questioned them, they were unable to point to specific examples. Therefore, I am unable to address their comment.
   d) The auditors did find some instances of invoices/receipts that were not initialed or petty cash slips that did not have all of the required signatures. Internal review procedures are in place to ensure that all signatures are proper before any cash is disbursed.
5. In 2002, PPOA had approximately a 100% turnover of employees. Most of those employees work with point of sale transactions, and new employees do make mistakes during their training. It is very important that department heads properly train their

employees on the point of sale machines. Renewed emphasis has been placed on new employees joining our workforce.

6. An effort was made throughout the year to delegate this procedure to the assistant controller position. However during 2002 that position turned over four times. This caused delays in getting credit cards reconciled in a timely fashion.
7. This has been a concern of the auditors for a number of years and until 2003, we did not have sufficient staffing in order to resolve these issues. We currently have an employee whose primary role is inventory control.
8. The problem has been resolved by proper training and the hiring of qualified personnel to ensure proper procedures are being followed. In the process I have been freed up enough to properly oversee all checks before being issued. Also, we have corrected the routing of invoices to maintain adequate controls.
9. a) There was not adequate staffing to complete the asset inventory in 2002. Additional staff in 2003 has now made that possible.
   b) There were two assets that the auditors believed should have been recorded with a longer life than estimated.
   c) Since the asset inventory was not completed, any assets that had been disposed of or transferred without accounting's knowledge was not recorded. All of these issues were resolved with the additional personnel in 2003.
10. During 2002, the payroll position turned over 5 times. This created an almost impossible challenge to make sure that everything was correct. No one person held the position long enough to ensure that every step was done correctly and timely. These problems were resolved by hiring qualified personnel for the payroll position. The auditors are incorrect in stating that payrolls were not reconciled to various federal and state reports.
11. Some nepotism exceptions existed prior to the initiation of the nepotism policy in 2001, and were thus grand fathered. Some exceptions existed after. In both cases we failed to appropriately document every exception in the employee's personnel files.
12. There is no question that our record keeping, adherence to policies and procedures and ability to hire and retain well-trained employees was not up to acceptable standards for 2002. This situation led to the majority of the problems sited in last year's management comment letter. Hiring and retaining qualified staff throughout the accounting/business department have corrected the underlying sources of the problems.

Michael Parker, CPA
Controller

WEAVER AND TIDWELL
L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

January 30, 2004

To the Board of Directors, Audit Committee, and
management of Pecan Plantation Owners' Association, Inc.,

In planning and performing our audit of the financial statements of Pecan Plantation Owners' Association, Inc. (the Association) for the year ended October 31, 2003, we considered the Association's internal control to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. We have summarized below our comments and suggestions regarding those matters.

Establishment of Funding Plan

The Association has not established a formal plan for funding its major repairs and replacements of common area components. We recommend that the Association conduct a study to estimate the costs of repairing and replacing those components and that computations be made as to the amount of funds the Association should accumulate to make the necessary repairs and replacements. That process will necessitate preparing formal budgets for future expenditures, identifying all items for which the Association is responsible, and estimating the nature, timing, and cost of future repairs and replacements.

Accounts Receivable

The Association had an unusually large delinquent accounts receivable balance. The majority of these delinquent accounts were due from non-members. The Association should periodically review all accounts receivable balances, including non-member balances and either write-off or increase the allowance for doubtful accounts for those items.

This letter does not affect our report dated December 22, 2003 on the financial statements of the Association. We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various Association 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.

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This report is intended solely for the information and use of the Board of Directors, Audit Committee, management, and others within the organization and is not intended to be, and should not be, used by anyone other than those specified parties.

Sincerely,

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

TDL/ph

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From the Controller

Reportable Conditions From 2003:

1. **Establishment of Funding Plan** – Most of the work in this regard has been completed by a sub-committee of the Finance committee during 2003. A detailed listing of all assets and their useful lived has been accumulated and established in a database that will be maintained by management. Over the next number of months we will use this information to establish how much money should currently be on hand, and to establish how much money should be set aside annually to maintain those assets. This report will replace the currently out dated Fisher Smoucha report that was completed in early 2000.
2. **Accounts Receivable** – This year we had an unusually high number of outside events that resulted in bad debts. This has caused us to re-evaluate our policies on how outside functions pay for their events in order to help protect the Association from future similar occurrences. Accounts receivable is now being audited internally every quarter to evaluate delinquent accounts and to help improve Pecan's overall cash flow from credit sales. We are also initiating more vigorous collection procedures to help encourage delinquent members to pay on a more timely basis.

Michael Parker, CPA
Controller