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To the Management and the Board of Directors of
Arizona Chapter Paralyzed Veterans of America, Inc.

In planning and performing my audit of the financial statements of Arizona Chapter Paralyzed Veterans of America, Inc. (AZPVA) as of and for the year ended September 30, 2012, in accordance with auditing standards generally accepted in the United States of America, I considered the Organization's internal control over financial reporting (internal control) as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, I do not express an opinion on the effectiveness of the Organization's internal control.

My 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 significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, I identified certain deficiencies in internal control that I 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.

A significant deficiency is a deficiency, or 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. I consider the following deficiencies in the Organization's internal control to be significant deficiencies:

<u>Budgets</u>
I noted that the annual operating budget is prepared separately from the accounting software and the line item budget does not correspond to the current chart of accounts. To improve the usefulness of the budget as a planning tool the annual budget should be entered in the QuickBooks software. Each line item can be entered on a monthly basis to allow for seasonal fluctuations, and budget to actual comparison reports can be easily prepared for any month or year-to-date to provide the Board with more timely information

<u>Accounts Payable</u>
I noted that vendor bills are not entered as bills in QuickBooks, but are instead recorded as checks when paid. This results in the recording of expenses on a cash basis. Financial statements prepared in accordance with generally accepted accounting principles must be prepared on the accrual accounting method, therefore, adjustments may be required at fiscal year end to prepare accrual basis financial statements. Vendor bills should be entered as "bills" in QuickBooks using the vendor bill date, and "bill payment" checks should be issued and recorded on the date the bills are paid. This will ensure that expenses are recorded in the proper accounting period. If bills are recorded using this method reports can easily be generated on the cash or accrual method using the QuickBooks software. My testing of cash disbursements recorded subsequent to year end did not detect any material expenses that should have been reported in the year ended September 30, 2012.

Functional Expense Allocations

For financial statement preparation various indirect costs must be allocated between program activities, administration, and fund raising. I noted that certain indirect expenses were inconsistently allocated to administration and program sub-accounts. To improve the accuracy of functional reporting of expenses, indirect costs should be posted to administration sub-accounts and subsequently allocated to program and fund raising sub-accounts on a monthly or other periodic basis by general journal entry using the indirect cost allocation formula.

Rental Activity

Expenses allocable to the rental activity are not separately identified in the general ledger. Indirect facility costs such as depreciation, property taxes, insurance, and general repair and maintenance should be posted to separate general ledger accounts, or class tracking should be used to account for rental income and related expenses. Indirect costs can be allocated at year end or another interim period as considered necessary.

Organizational Structure

Board oversight of the organizations' financial activities is an important part of the internal control process when the organization does not have enough staff to provide optimum segregation of duties. This situation dictates that the Board of Directors should remain involved in the financial affairs of the Organization to provide oversight and independent review functions.

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

Paul A. Donis, CPA, PC

Scottsdale, Arizona

December 11, 2012