Audit Results

Licking-Knox Goodwill Industries, Inc.

December 31, 2011

Matters to be Communicated to Those in Governance

Generally accepted auditing standards (GAAS) require the auditor to ensure that those charged with governance receive information regarding the results of the audit that may assist those charged with governance in overseeing management's financial reporting and disclosure process. Below we summarize these required communications.

The Auditors' Responsibility Under Generally Accepted Auditing Standards

We were engaged to conduct audits of the financial statements as of and for the years ending December 31, 2011 and 2010 for Licking-Knox Goodwill Industries, Inc. (the Organization). The financial statements are the responsibility of management. Our audits were designed in accordance with GAAS, which provides for reasonable, rather than absolute, assurance that the financial statements are free of material misstatement. We have the responsibility to opine on whether the financial statements are fairly stated in accordance with accounting principles generally accepted in the United States of America (GAAP).

As part of our audits, we obtained a sufficient understanding of the internal controls to plan our audits, to determine the nature, timing and extent of testing performed and not to provide assurance on internal controls.

We have issued our Independent Auditors' Report reflecting an unqualified opinion for the years ended December 31, 2011 and 2010.

The financial statements are presented in comparative year format that include the year ended December 31, 2010. A similar audit results report was issued by us for that year-end.

Significant Accounting Policies

The significant accounting policies used by the Organization are described in the notes to the financial statements. No new accounting policies having a material effect on the financial statements were adopted and the application of existing policies was not changed during 2011. The accounting policies used are appropriate and are in compliance with GAAP. Certain additional disclosures were included in the financial statements to comply with recent guidance.

Matters to be Communicated to Those in Governance (continued)

Management Judgments and Accounting Estimates

The preparation of financial statements requires the use of accounting estimates. Certain estimates are particularly sensitive due to their significance to the statements and the possibility that future events may differ significantly from management's expectations. The accounting estimates made by management for the preparation of the financial statements for the year ended December 31, 2011 were determined to be appropriate under GAAP. The following are the identifiable estimates in the financial statements:

1. Valuation of Marketable Securities.
2. Valuation of Funds Held by Others.
3. Useful Lives of Property and Equipment.

Financial Statement Disclosures

The overall goal of the disclosures in the financial statements is to provide relevant information to the reader in as neutral, concise, consistent and clear a manner as possible while also complying with the disclosure requirements of GAAP. In addition, the disclosures made also require judgment due to the potential sensitive nature of certain items. The disclosures made in the financial statements for the year ended December 31, 2011 were determined to be appropriate and in compliance with GAAP.

Significant Audit Adjustments

We established a materiality threshold for the purpose of determining whether identified misstatements to the financial statements require an adjusting journal entry in order for the financial statements to not be materially misstated. There were no such adjustments identified in this materiality range.

Other Audit Adjustments

We also established a second materiality range where any misstatements identified may or may not be recorded depending on their aggregate effect to account balances and the financial statements as a whole. We are required to disclose to the audit oversight committee those misstatements that were identified in the second materiality range that management had the option to record to the December 31, 2011 year-end.

Matters to be Communicated to Those in Governance (continued)

Other Audit Adjustments (continued)

We identified two accounting misstatements within this materiality range that **management elected to record** to the December 31, 2011 financial statements as follows:

- Increase the deferred compensation accrual and related payroll expenses by $15,000 to reflect the vesting schedule in the January 2011 agreement for future expected bonus payment. The $15,000 was earned for services provided by the former Executive Director as of December 31, 2011.

- Increase the accrued payroll liability and related payroll expenses by $25,764 to reflect 2011 bonuses approved in 2012.

We identified one accounting misstatement within this materiality range that **management elected to pass on recording** to the December 31, 2011 financial statements as follows:

- Decrease the accrued vacation and related payroll expense by approximately $8,400 for a miscalculation in the accrued vacation workbook.

There were no other accounting errors identified in this second materiality range.

Difficulties Encountered in Performing the Audit

We encountered no major difficulties in working with any company personnel while performing and completing our audit. Further, we encountered no difficulties of any other nature in completing our audit.

Disagreements with Management

We are not aware of any unresolved accounting matters or other unresolved matters with management.

Representations the Auditor is Requesting from Management

All requested representations were included in a management representation letter provided to management with the draft financial statements and are available to the Board of Trustees and Finance Committee upon request.

Matters to be Communicated to Those in Governance (continued)

Consultation with Other Accountants

We are not aware of management consulting with other independent accountants subsequent to our appointment relating to application of GAAP.

Irregularities and Illegal Acts

No such items were noted during the completion of our audit.

Other Information in Documents Containing Audited Financial Statements

We are not aware of the Organization issuing any documents that include the audited financial statements. If any are planned to be released in the future that include reference to the audited financial statements, we request to review the printers' proofs prior to release pursuant to terms of our engagement letter.

Significant Issues Communicated to Management

No significant issues were identified during the completion of our audit. Any internal control deficiencies identified that in our judgment were designated as either a significant deficiency or material weakness would be included in the following section.

Significant Issues Discussed with Management

During the course of our audit of the financial statements of Licking-Knox Goodwill Industries, Inc. as of and for the year ended December 31, 2011, we observed the Organization's significant accounting policies and procedures and certain business, financial and administrative practices. In planning and performing our audit in accordance with GAAS, we considered the Organization's internal controls over financial reporting (internal controls) 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 the Organization's internal controls. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal controls.

Our consideration of the internal controls was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control that we assessed as a material weakness. If we did identify any control deficiencies that we considered to be material weaknesses of significant deficiencies, we will indicate as such in the comment title.

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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged in governance. 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.

We did identify the following areas that we believe represent opportunities for strengthening internal controls which we offer for your consideration. The second section with other comments is intended to provide management best practices and suggestions for improving controls based on our observations.

Findings

<u>Check Disbursement Internal Controls – Significant Deficiency</u>

Observation:

The Financial Administrator and both Fiscal Specialists have access to add vendors (without second approval), access to the physical checks, access to the accounts payable module as well as the general journal module of the general ledger system, and could forge signatures. The Financial Administrator is also an authorized signer for the disbursements. One of the Fiscal Specialists performs the bank reconciliation and reviews check sequence on a periodic basis as a mitigating control for any irregularities that may have been initiated by the Fiscal Administrator or the other Fiscal Specialists. The Fiscal Administrator reviews activity when preparing the monthly financial statements; however, there is no direct review of each journal entry that could detect any incorrect entries posted as a result of the bank reconciliation. This level of access by all three employees allows for potentially improper check disbursements.

Recommendation:

Management should consider options to limit certain access for certain positions to improve segregation of duties and limit opportunity for a potential defalcation. We suggest the following:

- Create a log that documents the range of checks used each time. An employee not involved with the disbursement process or without access to the general ledger should compare the printed checks to the general ledger check register, looking for any checks that were not processed as part of that disbursement batch in the system. Any gaps in the check number sequence from the previous check run to the current check run should be investigated.

- Consider removing the Financial Administrator as an authorized signer so that there is another individual involved in reviewing disbursements and their support when signing the checks. The Financial Administrator's access to the accounts payable module of the general ledger system could be eliminated to further improve the segregation of duties.

Findings (continued)

Check Disbursement Internal Controls – Significant Deficiency (continued)

Recommendation: (continued)

- Consider requiring all unopened bank statements to be sent directly to the Executive Director for his review of disbursements and verification of appropriate signatures on the cleared checks, prior to the bank reconciliation being performed. Alternatively, the Executive Director should review all bank activity and checks clearing online on a regular basis.

Other Comments

We included the above significant deficiency, as well as other general comments related to control deficiencies identified for cash receipts, payroll, and financial reporting, in the 2010 Audit Results Report. Based on the timing of the release of that report, new policies and procedures were in the process of being implemented in early 2012 that were not in place as of December 31, 2011. Those comments that were not considered significant deficiencies in 2010 have not been repeated within the report as management is in the process of changing these controls.

Reporting and Tracking of Paid Time Off

Observation:

Management is still calculating the accrued vacation liability within Excel, which generally is less efficient than having the payroll processor track this activity. ADP has the functionality to monitor and report the maximum hours; however, has not been set up to do so, which would save time of office personnel.

There are also inconsistencies with the accrued vacation policies. The handbook policy indicates that the maximum hours are 320 hours; however, there appear to be unwritten exceptions to these policies such as additional hours over the maximum based on years experience at the Organization, and taking vacation time in lieu of a pay raise, and employees are occasionally able to carry over hours more than the maximum implied by these exceptions.

Other Comments (continued)

Reporting and Tracking of Paid Time Off (continued)

Recommendation:

We suggest that management interact with the ADP payroll processor to see what other options are available for tracking accrued time off to make it easier for the Organization's employees and increase efficiencies by eliminating duplicate tracking.

While it is reasonable to have some exceptions to the policy, these exceptions should be documented formally within the handbook so that they can be followed consistently for all employees. Exceptions should be known and amounts carried over the maximum should be communicated to leadership, as these could result in larger liabilities if the employee leaves the Organization.

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We are pleased to have the opportunity to provide services to Licking-Knox Goodwill Industries, Inc. and wish to extend our appreciation to Vicki Osborn and her staff for their assistance during our audit.

Please contact Bob Stillman or Jennifer Osburn if you have any questions or if we can assist you with any of the recommendations included above.