

August 8, 2016

Willow Creek Ranch
Kingman, Arizona

Re: Forensic Audit

Dear Sirs:

I was engaged to conduct an examination of the books and records of Willow Creek Ranch (WCR). This forensic accounting engagement was an examination of the accounting records for Willow Creek Ranch and to specifically analyze the documents for inappropriate payments, possible conflicts of interest, and other issues raised by the Board of Directors. The scope of the engagement was limited to a review of documents supplied by the Client.

As part of my procedures I reviewed the contents of the eight boxes of documents I received from WCR. There were 5 boxes of homeowner and vendor files and 3 Boxes contained accounting files which included:

- 2016 current financial records
- A binder containing checking account information and budgets
- A binder containing information on a petty cash account
- Your checkbook & register
- Preprinted deposit slips
- A file containing old financial data
- Tax returns for 2014, 2013, 2012, 2011, 2010, 2009 & 2008
- Financial reports for 2013-2014
- Financial reports for 2014-2015
- Petty cash 2015
- Bank statements 2013-2014
- Bank statements 2014-2015
- Financial statements, bank statements, petty cash, CD & Check requests 2012-2013
- Financial statements, bank statements, petty cash, CD & Check requests 2011-2012
- Financial statements, bank statements, petty cash, CD & Check requests 2010-2011
- Financial statements, bank statements, petty cash, CD & Check requests 2009-2010

I examined the QuickBooks files, bank statements, bank reconciliations, check registers, disbursement journals, cash receipts journals, audit trail, supporting documents for transactions, and conducted internet research on potential issues (Value and conflict of interest issues), Board minutes and communications from property owners. Stated below, in no particular order, are my findings from this investigation.

SCOPE LIMITATION: As part of my routine procedures I searched the county records and discovered a lawsuit filed against WCR by Valley Equipment, LLC. Mr. Pippin informed me

on August 5th that the Board wanted me to remove the lawsuit from the scope of my engagement.

Findings:

1. The Board requested I review the purchases of two dump trucks made by the association.
 - a. In June of 2015 the Board purchased a dump truck from Mr. Ladd for \$12,500. I was able to find a similar vehicle at the same price on an auction site and advised the Board which concurred no further research was necessary. It should be noted the Board failed to transfer the title and register this vehicle at the time of purchase.
 - b. In February of 2016 the Board purchased a dump truck from Mr. Schneider for \$15,400. There are issues with the purchase price of the 1997 GMC C7500 Dump Truck purchased on 2-17-2016 from Richard Schneider. It appears that the Board of Directors failed to determine the fair market value of said vehicle.

VIN 1GDM7H1J3VJ507667
Mileage 168,400

I reviewed the auction sites for dump trucks and found comparable sales
Here is a recap of the sales which are detailed below

Date	Mileage	Sale Price
2/19/2016	100,375.00	\$5,000.00
5/12/2016	114,578.00	\$5,034.00
3/22/2016	59,625.00	\$5,500.00
3/26/2015	163,228.00	\$4,000.00
3/31/2016	60,974.00	\$10,010.00
3/16/2016	77,742.00	\$5,600.00

Based on sales at competitive auctions the price for the GMC C7500 Dump Truck should have been approximately \$5,000. The Board of Directors paid \$15,400 for this truck with no justification or supporting documents for the price discrepancy in the records.

2. The Board requested that I review a possible conflict of interest for Director Doak Gist. Mr. Gist and his wife are the owners of Valley Equipment, LLC according to the Arizona Corporation Commission. While Mr. Gist was serving as a director of the association the Board had contracts with Valley Equipment LLC. In the documentation I was provided there was no evidence of competitive bidding for the projects, no indication that the conflict of interest was disclosed to the property owners, and no documentation that the goods and services were provided at fair

market value. The Association had a "Rule & Regulation" in place at time which stated:

**Willow Creek Ranch Property Owners Association
Rules & Regulations**

Subject: Conflict of Interest	Section: General Administration
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Conflict of Interest

Purpose:

To provide direction for Board Members and appointed office members who may be engaged in activities that might be a conflict of interest to the general Ownership and the Association.

Rules:

1. Should a member in active engagement of Association affairs deem himself or herself in a conflict of interest in said activities, that member will immediately identify the potential for conflict of interest and state such potential publically.
2. Said member will further disengage from discussion, activity or voting on said activity, and refrain from any further Association of any kind with the activity identified.
3. Under no circumstances shall any Board Member contract with the Association as a vendor so as to benefit from the income or assets of the property owners while serving in the capacity of such board membership.

Valley Equipment LLC received payments from WCR in violation of this policy.

Type	Num	Date	Amount
Bill Pmt - Check	1499	02/01/2014	37,836.01
Check	1498	09/17/2013	26,039.10
Bill Pmt - Check	1476	11/04/2012	11.39
Bill Pmt - Check	1475	11/03/2012	8,296.53
Bill Pmt - Check	1464	05/12/2012	39,108.23
Bill Pmt - Check	1455	03/08/2012	29,686.00
Bill Pmt - Check	1446	11/11/2011	6,227.83
Check	1444	10/29/2011	1,415.57
Bill Pmt - Check	1445	10/29/2011	3,000.00
Bill Pmt - Check	1436	05/20/2011	7,667.43
Bill Pmt - Check	1434	05/07/2011	30,000.00
Bill Pmt - Check	1424	03/12/2011	6,772.53
Bill Pmt - Check	1402	05/15/2010	38,693.91
Check	1373	07/17/2009	5,228.87

Check	1368	06/16/2009	19,695.78
Check	1366	05/09/2009	2,798.90
Check	1362	05/03/2009	37,961.66
Check	1354	04/06/2009	9,640.67
Check	1337	10/31/2008	16,689.77
Check	1333	09/07/2008	960.00
Check	1324	06/20/2008	14,201.85
Check	1322	05/17/2008	9,936.11
Check	1296	11/16/2007	36,861.60
Check	1295	11/12/2007	5,850.00
Check	1289	10/05/2007	1,500.00
Check	1285	09/17/2007	5,700.00
Check	1282	08/13/2007	12,356.87
Check	1250	10/25/2006	9,675.00
Check	1242	08/07/2006	36,900.80
			<u>460,712.41</u>

Because of the amount of the payments involved and the failure to disclose a conflict of interest there is an appearance of corruption. From August of 2006 through February of 2014 WCR paid Valley Equipment LLC \$460,712.41. During the same time period WCR collected \$563,599.30 in revenue and roughly 81% of the association's revenue was paid to Mr. Gist's company (Valley Equipment LLC). The original contract was a unilateral contract protecting Valley Equipment LLC and giving Valley Equipment LLC an option to extend the contract for an additional 5 years. The original contract called for payments of \$36,450 per year. I have not interviewed the Gist's or any employees of Valley Equipment LLC, or reviewed the books and records of Valley Equipment LLC., and have no knowledge of their intent therefore I cannot conclude fraud occurred, there is however sufficient predication for the Board to conduct an investigation. It should also be noted that Valley Equipment LLC filed a lawsuit against WCR on 6/15/2015.

- The Board requested that I review a possible conflict of interest for the treasurer Mr. Pippin. Mr. Pippin received payments from WCA which were documented as expense reimbursements as follows:

<u>Num</u>	<u>Date</u>	<u>Account</u>	<u>Amount</u>
1661	03/12/2016	NBA Checking	150.00
1636	01/18/2016	NBA Checking	150.00
1612	11/15/2015	NBA Checking	150.00
1599	09/27/2015	NBA Checking	150.00
1577	07/19/2015	NBA Checking	225.00
1557	05/10/2015	NBA Checking	225.00

		NBA	
1542	02/20/2015	Checking	100.00
		NBA	
1527	11/10/2014	Checking	75.00
		NBA	
1507	03/08/2014	Checking	200.00
		NBA	
1504	03/08/2014	Checking	280.70
		NBA	
1486	02/20/2013	Checking	100.00
		NBA	
1474	10/26/2012	Checking	100.00
		NBA	
1468	06/27/2012	Checking	133.64
		NBA	
1458	04/12/2012	Checking	133.12
		NBA	
1453	02/05/2012	Checking	104.05
		NBA	
1449	11/16/2011	Checking	100.00
		NBA	
1441	06/04/2011	Checking	159.14
		NBA	
1430	04/17/2011	Checking	75.00
		NBA	
1420	12/27/2010	Checking	75.00
		NBA	
1417	11/12/2010	Checking	132.00
		NBA	
1413	10/06/2010	Checking	75.00
		NBA	
1409	06/30/2010	Checking	75.00
		NBA	
1390	03/23/2010	Checking	100.00
		NBA	
1379	11/16/2009	Checking	100.00
Total			<u>3,167.65</u>

It is unusual to have multiple expense reimbursements for round dollar amounts and these appeared to be payments for services in violation of the WCR Rules & Regulations. I was able to communicate to Mr. Pippin my concerns and he explained the transactions as follows:

Mr Minniti,

A number of years ago, before I was ever associated with the Board, the Board determined that the normal duties required of the Treasurer were such that the Treasurer was required to make numerous trips to town (at least 80 miles round trip) to conduct normal business to places such as the bank, post office, county recorder, various title companies, tax preparation, filing of property liens, lien releases and foreclosures etc. The Board felt that it was above and beyond normal volunteer duties and to save the trouble of keeping actual track of vehicle usage and other expenses that they resolved to pay the treasurer \$25.00 per month to reimburse expenses which at some point, I think sometime in 2014, it was increase to \$75.00 per month. It should be interesting to note that at the times the Board made these decisions, I was not a Director on the Board and did not request these reimbursements. If I can be of any further help, just ask.

Thank you
Landon Pippin

Mr Minniti,

After looking over your request I find I did not go far enough in my explanation. There was a short period I believe during 2012 where the Board was enticing me to stay on as Treasurer and offered to pay a mileage reimbursement on top of the \$25 per month. There should be mileage reports attached to the check requests for these particular payments. In the case of reimbursements for office supplies, receipts should be attached to the check requests. I always tried to take great care in making sure all check requests had invoices or receipts to back up the expenditures.

Thank you
Landon Pippin

Based on the amounts involved and Mr. Pippin's explanation I do not believe there was any fraud in these transactions. I have seen many small organizations attempt to reduce the documentation necessary for mileage by paying fixed amounts. This is a common error and based on the accounting records the same fixed payment for mileage was provided to the previous secretary/treasurer, Mrs. Gindlesperger. The IRS does however require that mileage be tracked and paid at the prevailing IRS rates to be considered a reimbursement rather than income. I strongly recommend that WCR follow the IRS regulations and require that mileage reimbursements must be documented going forward. (There are cell phone Aps you can use for this if your phone has GPS). As the amounts in question are immaterial, and could probably be substantiated, I do not believe it is necessary to make any corrections in the financial or tax records.

- The Board requested that I review a possible conflict of interest for Mr. Porter, his family members and Porter's Equipment LLC. I was able to document the following payments:

Paid to Porter's Equipment LLC

<u>Type</u>	<u>Num</u>	<u>Date</u>	<u>Amount</u>
Bill Pmt - Check	1670	04/02/2016	1,235.00
Bill Pmt - Check	1671	04/02/2016	522.50
Bill Pmt - Check	1657	03/07/2016	3,030.00
Bill Pmt - Check	1639	01/30/2016	380.00
Bill Pmt - Check	1630	01/18/2016	760.00
			<u>5,927.50</u>

Paid to Matthew Porter

<u>Type</u>	<u>Num</u>	<u>Date</u>	<u>Amount</u>
Bill Pmt - Check	1692	04/18/2016	330.00
Bill Pmt - Check	1683	04/10/2016	225.00
Bill Pmt - Check	1668	03/28/2016	472.50
Bill Pmt - Check	1664	03/15/2016	225.00
Bill Pmt - Check	1656	03/07/2016	345.00
Bill Pmt - Check	1650	02/25/2016	390.00
Bill Pmt - Check	1640	01/30/2016	540.00
Bill Pmt - Check	1629	01/18/2016	352.50
			<u>2,880.00</u>

Paid to Richard Porter

Type	Num	Date	Amount
Check	1631	01/18/2016	60.00
			<u>60.00</u>

There are some issues with the back hoe rental from Porter's Equipment LLC. It appears that Willow Creek Ranch may have overpaid for the rental of the equipment based on the rental prices from a local rental company in Kingman and from your local Home Depot. Understand that since the model of the back hoe was not specified I cannot determine exactly how much the overpayment was but I estimate the overpayment was between \$1700 and \$3000. If you can provide me with information on the exact back hoe model rented from Porter's Equipment LLC I can be more exact in this estimate.

Date	Item	Hours	Rate	Total
1/18/2016	Back Hoe Rental	8	\$95.00	\$760.00
1/30/2016	Back Hoe Rental	4	\$95.00	\$380.00
3/2/2016	Back Hoe Rental	8.5	\$95.00	\$807.50
3/3/2016	Back Hoe Rental	8	\$95.00	\$760.00
3/4/2016	Back Hoe Rental	7.5	\$95.00	\$712.50
3/19/2016	Back Hoe Rental	6	\$95.00	\$570.00
3/26/2016	Back Hoe Rental	7	\$95.00	\$665.00
	Total	49		\$4,655.00
	United Rentals			
	Price	49	\$59.38	\$2,909.38
	United Rentals			
	Price	49	\$32.75	\$1,604.75
	Home Depo	49	\$33.62	\$1,647.38

Mr. Porter was also charging WCA for labor for road work and equipment maintenance. The invoices submitted by Mr. Porter were hand written and lacked sufficient detail for me to ascertain if the invoices reflected the fair market value of the goods and services he provided.

Because of the amount of the payments involved, the lack of detail in the invoices, and the failure to disclose a conflict of interest there is an appearance of corruption. I have not interviewed Mr. Porter and have no knowledge of his intent therefore I cannot conclude fraud occurred, there is however sufficient predication for the Board to conduct an investigation. However, due to the cost of a fraud investigation

(Cost) versus the amount that could be recovered (Benefit), I do not recommend the Board spend the money on a fraud investigation in this instance, but instead the Board should implement good internal controls (See #10 below) so this issue will not arise again in the future.

5. The Board requested that I review a possible conflict of interest for Mr. Grinder. WCA made several payments to Mr. Grinder as follows:

<u>Num</u>	<u>Date</u>	<u>Account</u>	<u>Amount</u>
1691	04/18/2016	NBA Checking	224.47
1690	04/16/2016	NBA Checking	280.00
1679	04/06/2016	NBA Checking	104.87
1673	04/02/2016	NBA Checking	1,851.49
1662	03/12/2016	NBA Checking	574.42
1651	02/25/2016	NBA Checking	452.71
1648	02/23/2016	NBA Checking	0.00
1649	02/23/2016	NBA Checking	221.46
1646	02/18/2016	NBA Checking	50.00
1641	01/30/2016	NBA Checking	736.00
1624	12/02/2015	NBA Checking	1,731.99
1611	11/10/2015	NBA Checking	180.98
1605	10/17/2015	NBA Checking	110.70
1601	10/07/2015	NBA Checking	39.40
1596	09/21/2015	NBA Checking	148.42
1593	09/09/2015	NBA Checking	210.61
1589	08/28/2015	NBA Checking	408.49
1585	08/14/2015	NBA Checking	56.33
1583	07/31/2015	NBA Checking	404.55
1568	06/10/2015	NBA Checking	311.86
1558	05/10/2015	NBA Checking	40.25
1536	01/22/2015	NBA Checking	110.21
1528	11/11/2014	NBA Checking	519.05
1529	11/11/2014	NBA Checking	546.16
1524	10/31/2014	NBA Checking	46.01
1522	10/23/2014	NBA Checking	815.48
			<u>10,175.91</u>

The payments to Mr. Grinder were all supported with invoices from third party vendors; therefore I believe these were all legitimate reimbursements and there was no conflict of interest on Mr. Grinder's part.

6. The Board requested I review the purchase of a 2006 U80 tractor made by the association. The purchase was made in March of 2015 for \$25,000. I was unable to find any comparable sales in 2015 but did find a current listing, from July 11, 2016 for a 2007 New Holland U80 tractor listed for \$23,500. Although there was no evidence the purchase price had been substantiated the price is close enough to the current listing to accept the price paid as fair market value and a legitimate transaction.
7. The CC&Rs and By Laws require the books and records of WCR to be kept in accordance with Generally Accepted Accounting Principles (GAAP). I noted several transactions that were not recorded in accordance with GAAP.
 - a. The purchase of the 2006 New Holland Tractor U80 on 3/28/15 for \$25,000 was incorrectly recorded as an expense. This should have been recorded as a fixed asset and subsequently depreciated over the useful life of the asset.
 - b. The purchase of the dump truck on 6/4/15 for \$12,500 was incorrectly recorded as an expense. This should have been recorded as a fixed asset and subsequently depreciated over the useful life of the asset.
 - c. The purchase of the dump truck on 2/17/16 for \$15,400 was incorrectly recorded as an expense. This should have been recorded as a fixed asset and subsequently depreciated over the useful life of the asset. Additionally an impairment should be taken in 2016 to reflect the overpayment for the asset.
 - d. Mr. Grinder was reimbursed for the transportation costs of having the tractor delivered to WCR. There are supporting documents from third parties to validate this payment. The payment of \$1,330 with check #1550 on 4/14/15 was improperly posted as an expense. Transportation costs for equipment should be recorded as part of the acquisition costs of the equipment in fixed assets and amortized over the life of the asset.
 - e. Generally Accepted Accounting Principles (GAAP) require that contingent liabilities be disclosed in the financial statements and if it is probable that a payment will be made that an accrual is posted in the books. I found no evidence of the disclosure of the contingent liability, or accrual for the contingent liability, on the financial statements. Because the Board placed this litigation out of scope for this report I offer no recommendations on this issue.

There can be no doubt that the incorrect posting of these transactions resulted in material misstatements of WCR's financial statements. However, when considering fraud there must be some material gain for the perpetrator. I cannot see any way that the incorrect posting of these transactions would have benefitted the treasurer. It is my opinion that these were errors. I recommend fixing these transactions on the books. I also noted several immaterial transactions that appeared to be posted

to the incorrect account such as a payment to Terry Radtke on 4/10/10 for \$36.67 posted to road maintenance and a payment to Scott Meyer on 11/3/11 for \$17.20 posted to road repairs. There is no need to correct immaterial errors so I did not research these further.

8. The Board requested that I look into the possibility that the treasurer was “Cooking the Books”. I reviewed samples of the monthly checking account statements and verified that account reconciliations were being done on a regular basis. I reviewed the audit trails in QuickBooks. Nothing overly unusual. There were a few voided checks and several changed transactions. The changed transactions were all receivables that were reposted to different accounts. Unless homeowners have been complaining about payments not being posted to their accounts I believe it is safe to assume these were corrections of payments initially applied to incorrect accounts. I verified a sample of transactions in the QuickBooks records to the source documents in the files and did not find any irregularities. I did not find any subjective evidence to indicate the treasurer was “Cooking the Books” There were errors in the books, including the material errors noted above, but there was nothing in the documents supplied to me to indicate they were anything but errors.
9. The appearance of corruption within WCA was further enforced because Ms. Rodak, who was an officer of WCA improperly notarized proxy documents that were used for casting votes. Michele Reagan, the Secretary of State for the State of Arizona investigated a complaint on this issue and on June 2, 2016 and suspend Ms. Rodak’s notary license for 150 days.
10. Based on the issues discovered it appears that the internal controls for WCR are either inadequate or inefficient. The Board should review and update their internal controls over accounting and purchasing to bring them in line with the 2013 COSO Framework on Internal Controls.

Should you have any questions please feel free to contact me.

Sincerely,

Robert K Minniti
CPA, CFE, CrFA, CVA, CFF, MAFF, CGMA, PI, MBA
President
Minniti CPA LLC