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To the Board of Directors and Management of
Habitat for Humanity of Palm Beach County, Inc.

In planning and performing our audit of the financial statements of Habitat for Humanity of Palm Beach County, Inc. for the year ended June 30, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the 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 Habitat for Humanity of Palm Beach County's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

The following is a list of some of the reportable matters that came to our attention during the audit:

1. The absence of appropriate reviews and approvals of transactions, accounting entries, or systems output.
 - a. A few Invoices were not available during the testing process and others were not approved. The invoices not available amounted to approximately 4% of our selection. We suggest copies all invoices be approved and properly retained.
 - b. A log of checks in sequential order is not maintained therefore there is no way to assure that every check is accounted for and properly issued. We suggest utilizing checks in sequence and recording all check utilized including those that have been voided.
 - c. The entity has an excessive amount of bank accounts which creates unnecessary accounting and transfers. We suggest that the organization have a maximum of six accounts. The accounts should be for operating, payroll, escrows, restore, thrift store and savings.
2. Absence of other controls considered appropriate for the type and level of transaction activity.
 - a. There are many departures from the financial procedures provided by HFHI. For example, HFHI suggest that escrows are to be reconciled and any adjustments made annually, delinquent mortgages are to be monitored, reported to the board and after six months of delinquency, sent to foreclosure. HFHI also suggest use of an independent payroll company to handle all payroll related items. The organization should consider utilizing the procedural information provided by HFHI in developing its internal procedures.

b. Due to the volume of the mortgages, keeping track of mortgage delinquencies and escrows has become difficult for the employees. The employees have been attempting to find ways to utilize the accounting software to track delinquencies but such efforts only create additional accounting errors and inconsistencies. The entity should consider using HFHI's Habitrak program or some other program that can track each homeowner mortgage independently of the accounting software, which is not designed to track mortgage loans.

c. It was discovered that the same piece of property (land) was sold twice. As the entity has many lots available for building and/or sale, proper controls should be in place to identify each parcel and to remove the lots from inventory once it has been sold or transferred to work in process.

d. The state unemployment compensation payroll forms have not been filed for the year as required by law. Use of a payroll service to handle all payroll related filing will relieve the entity of the burden of determine when and if payroll forms are required to be filed.

3. Evidence of related party transactions.

a. During the fiscal year a contractor became an employee (construction supervisor) and commenced receiving wages for services performed. Prior to becoming an employee, the contractor's corporation was paid for services relating to the supervision/building of the Habitat homes. After being hired as an employee (on Nov 12, 2006) the employee's corporation continued to be paid for kitchen cabinet installations. Payments to individuals and/or entities related to the employees, officers and board of directors are considered to be related party transactions that should be disclosed to the board and approved by the board before the transaction takes place. In addition, there may be an appearance of conflict of interest if an employee supervises the work performed by that employee's company.

b. Homeowners and siblings of employees are being used as contract labor and being supervised by a related party. Payment for services provided by the homeowners and sibling of employees, officers or board members are considered to be related party transactions and potential conflict of interest may arise. See a. above.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described above is believed to be a material weakness.

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.

Evelyn F. Parkes CPA PA

January 16, 2007