

March 8, 2021

South East Edmonton Seniors Association
9350 – 82 Street NW
Edmonton, AB T6C 2X8

Attention: Brenda Winchester, Finance Chair

Dear Brenda:

We have recently completed our audit of South East Edmonton Seniors Association for the year ended December 31, 2020. The objective of an audit is to obtain reasonable assurance whether the financial statements are free of material misstatement and it is not designed to identify matters that may of interest to management. Accordingly, an audit would not usually identify such matters and does not relieve management or the Board of Directors of their responsibilities in this area.

Audit Results

As a result of the audit procedures performed, nothing came to our attention that caused us to question our preliminary assessment of the fraud risks within the organization.

The audit included consideration of internal controls relevant to the preparation of the financial statements to design audit procedures that are appropriate in the circumstances. However, this understanding was not obtained for the purpose of expressing an opinion on the effectiveness of internal controls.

Management worked well with us to obtain all audit information and no disagreements with the staff were encountered. All answers from management and the Association's staff proved truthful and we had no indications of any management bias in the engagement.

There were no significant unresolved matters that need to be followed up with management.

Our firm maintained its independence from the Association throughout the engagement and no relationships or other matters were brought to our attention that, in our professional judgment, may reasonably be though to bear on that independence.

The following significant risks were assessed:

- Lack of segregation of duties
- Lack of controls and authorization with operational procedures
- Proper recognition of deferred revenue

All were tested and resolved with client-approved adjustments and there was no contradictory evidence in our testing that would alter our opinion on the December 31, 2020 financial statements.

Management provided all available means to obtain information and there were no difficulties for the auditors to obtain sufficient appropriate audit evidence.

Significant audit findings

Tangible Capital Assets

During our engagement, we have capitalized, and restated tangible capital assets through prior period adjustments effective January 1, 2019 as required per the Canadian Accounting Standards for Not-for-Profit Organizations. Organizations with an average annual revenue over \$500,000 must capitalize tangible capital assets to report in accordance with generally accepted accounting principles (GAAP).

We recommend that you prepare and maintain a capital asset continuity schedule to track tangible capital assets and calculate amortization expense. This will ensure you have an up-to-date tangible capital asset listing. We would be happy to provide you with our December 31, 2020 continuity schedule as a starting point.

Suggested Areas for Improvement

Cash

During the engagement, we noted that undeposited cash is maintained on the premises. Cash is a highly liquid asset with a greater likelihood of misappropriation or theft.

We recommend making frequent deposits to reduce the risk of misappropriation of cash.

Kitchen and Front Desk Cash Registers

During our engagement, we noted that there are unreconciled amounts on the daily cash register reconciliations titled "manager voids". These daily manager voids can accumulate to a large number and this could be an opportunity for theft if volunteers are not held accountable or if these variances are not investigated.

We recommend that all manager voids be approved by management with a description of why there is a variance.

Credit Card

During our engagement, we noted that Kimberly Buehler's name is still listed on the Servus Credit Union MasterCard statements. The potential threat exists that she could still be listed as an authorized individual on certain accounts if she attempted to contact the financial institution or that she could use the MasterCard if she has the number, expiry, and CVV code written down.

We recommend that you contact the bank and remove Kimberly Buehler's name as she is no longer associated with the Association and get a new MasterCard with a new expiry and CVV code.

PayPal

During our engagement, we noted that the PayPal account has the ability to transfer funds to any bank account. This is a significant fraud risk and could result in the transfer of the Association's funds to the incorrect bank account.

We recommend limiting the ability of transferring funds to any bank account and rather limit the transfer of funds to one account – the Association's account. This will significantly mitigate the potential for fraud.

Bank and Credit Card Reconciliations

During our engagement, we noted there is no process currently in place for approving the monthly bank and credit card reconciliations. Having personnel or board members not involved in the reconciliation approve them helps the Association's internal controls by providing a second set of eyes on the process.

We recommend that bank reconciliations are brought to the Board monthly for approval.

Deferred Revenue – Contributions

During our engagement, we noted there is no process currently in place regarding record keeping for the funding and grants received from funding agencies. If unspent or spent on non-qualifying expenditures, the related funding agencies could potentially request immediate repayment of these funds or reduce the current year funding allocations accordingly.

We recommend that you prepare and maintain a deferred revenue continuity summary for contributions and donations to keep track of contributions received and expenditures during the year. This will also assist us with our audit procedures around deferred revenue.

Expense Reimbursement

During our engagement, we noted there is no formal expense reimbursement process. Reimbursements were issued as a normal expenditure. This could potentially lead to non-Association expenditures being paid by mistake without proper authorization.

We recommend that a formal reimbursement form is created and filled out with the appropriate information including who and what is being reimbursed, the purpose, and proper Board authorization of the reimbursement.

Employee Pay Rates

During our engagement, we noted there is no process currently in place regarding making changes to employee's pay rates. This could result in employees being over or under paid.

We recommend that any changes to employee pay rates have a formal document prepared indicating the current rate of pay, the proposed rate of pay, and the effective date and have management and the employee sign the document and save this document in the employee personnel file. This will ensure employees are paid the correct rate of pay.

Details in Sage 50

During our engagement, we noted that there is a lack of detail with physical documents and revenue being recorded in Sage 50. Deposit forms were also very generic with no description for what the cheques being deposited are for.

We recommend preparing a detailed daily summary for the transactions, including who purchased what and how. This will assist with determining the details of a transaction for internal purposes and also reduce audit time spent on determining the details of transactions.

Account Names in Sage 50

During our engagement, we noted that there are a significant number of accounts titled "DO NOT USE" that have transactions within them. This makes it difficult to identify the source of the amounts we are auditing during our audit procedures.

We recommend instead of changing the title of the account name in Sage 50 to "DO NOT USE", create a new account and make the account you no-longer want to use inactive. This will make it easier for us to determine what to test and what we are testing during our audit procedures.

Physical Security

During our engagement, we noted there is a lack of security of easier to steal assets such as fitness or art supplies and a lack of security of the filing room where there is a significant amount of sensitive information and where the server is located. This could result in theft of assets, loss of important digital data, breach of confidentiality or damage of property.

We recommend consideration of implementing physical security such as locking rooms that are not in use, restricting access to the filing room or installing security cameras and monitoring them regularly to observe for theft. This will ensure assets are more regularly monitored and the filing room and server room are restricted to access from unauthorized individuals.

Passwords

During our engagement, we noted that software and account passwords are being stored in a document on your desktop. This is a security risk as anyone with your computer login credentials can easily access this information.

We recommend that you utilize and secure the login credentials by using a password protected document or using a third-party password manager. This will ensure all login credentials are safely stored and helps mitigate the risk of any potential fraud.

Information Technology (IT)

During our engagement, we noted that there are three servers on the premises, the frequency of back-ups is minimal and the understanding of the IT environment is lacking. This could result in loss of information should there be a disaster at the premises.

If financially feasible, we recommend consulting with a reputable IT company to provide the Association adequate storage and back-ups should recovery be necessary. We also recommend gaining a better understanding of the IT environment should you need to perform back-up recover procedures yourself.

Thank you in advance for your attention to these matters.

Yours truly,

HLH LLP



Trevor Lukey, CPA, CA
Partner