



May 23, 2008

Members of the Board of Directors
Scadding Court Community Centre
Mr. Kevin Lee, Executive Director
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Dear Mr. Lee:

Re: Internal control findings from the 2007 audit.

Receiving observations and findings on your financial reporting processes and controls is one of the benefits of an annual financial statement audit. This year, Grant Thornton LLP began implementing new processes and technology to address the changing standards of conducting a financial statement audit. This approach includes an increased emphasis on internal control. Our procedures identified a number of items that we need to bring to your attention.

Our audit is planned and conducted to enable us to express an audit opinion on the annual financial statements. The matters dealt with in this letter came to our attention during the conduct of our normal examination, and as a result, this letter does not necessarily include all matters that would be uncovered through a more extensive or special engagement.

The standards of the public accounting profession require us to report annually to you our findings on certain weaknesses and deficiencies in your internal controls. We have categorized our findings as follows:

- ***Material weaknesses*** (individual or aggregated deficiencies that could result in a material misstatement in the financial statements due to fraud or error)
- ***Significant deficiencies***
- ***Other deficiencies and advisory comments***

Significant deficiencies

1. *Segregation of Duties*

In an ideal internal control environment, there are certain accounting functions that should not be performed by the same person. For example, the same individual should not initiate a purchase, authorize the same purchase and then sign the cheque. By segregating certain

functions, a control environment is created that minimizes the risk of misstatements from fraud or error.

As is similar with many small organizations, limited resources restrict the Centre's ability to segregate each function to the greatest possible degree. The Centre's Board of Management has implemented monitoring controls to compensate for the lack of segregation of duties. The effectiveness of the monitoring controls depends on the timeliness of the review, the inquiry questions and the information reviewed. The Board of Management should continue to review the monitoring controls to ensure that:

- the reviews are completed on a timely basis;
- the information being reviewed is appropriate; and
- appropriate staff are completing the monitoring function.

Management response:

We at Scadding Court are also very serious about internal controls and segregation of duties. However, given the size of our organization and the City of Toronto's constraints on hirings' and budget; it is not feasible to hire additional staff in order to ensure that the various accounting duties and functions are fully and clearly separated. Nonetheless, with the present staff complement, we make every effort to ensure that the many of the tasks are clearly in accordance with the requirements.

In order to highlight how we at Scadding Court endeavor to perform duties and tasks bearing in mind the control aspects, we list below various tasks are performed and how it is segregated:

ORDERING OF SUPPLIES

All requisitions for supplies are facilitated by the clerk typist, who receives requests and places the orders. The order sheet is approved by the Director of Human Resources, Administration and Facility. Upon receipt of the supplies they are checked against the order sheet, signed as received and the paperwork is forwarded to the Accounting Dept. Upon receipt of the invoices these are checked against the order sheet and then the check requisition is prepared by the Finance Director and approved by the Executive Director.

CHEQUE REQUISITIONS:

These are generated by various staff members and approved by their respective supervisors. Any cheque requisitions over \$200.00 is approved by the supervisor and then by the Executive Director. The requisition is then forwarded to the Accounting Dept. for the preparation of the cheque. Any cheque requisition for expenses incurred by the Executive Director is initiated by him, forwarded to Accounting Dept. for calculation and, during the cheque signing process is approved by any of the signing Board members.

SIGNING OF THE CHEQUE:

The combination of signatures on cheques consist of the Executive Director or in his absence the Program Director and either the Chair person or the Treasurer or the Secretary of the Board. **The Finance Director does not sign any cheques. In**

order to further control this process the expense cheques for the Executive Director is now not signed by him but by the Program Director and any of the authorized Board member signatories. The Bookkeeper prepares the cheque only when the Finance Director is away. These cheques are reviewed and posted into the General Ledger system by the Finance Director upon his return.

POSTING OF VARIOUS VOUCHERS:

All vouchers are posted into the General Ledger system by the Finance Director. **Posting done by the Bookkeeper is limited to the charges by the bank during the bank reconciliation. These entries are checked by the Finance Director.**

DEPOSITS:

All deposits are prepared by the Finance Director. The deposits are done by the Bookkeeper. All postings are done by the Finance Director and checked by the Bookkeeper at the time of reconciliation.

BANK RECONCILIATION :

The bank reconciliation is performed by the Bookkeeper. The reconciliation is reviewed by the Finance Director and initialed to confirm accuracy. **We now present the reconciliation to the Executive Director for his review and approval.**

BLANK CHEQUES:

Blank checks are locked in the Accounting office. Only the Finance Director and the Bookkeeper have access.

FINANCIAL STATEMENTS:

The Financial Statements are reviewed by the Executive Director. Upon his satisfaction, these are again reviewed by the Finance Committee prior to presentation to the Board of Directors' meeting which is held every last Tuesday of the month.

PAYROLL:

Hours of work by various employees' are entered in the time sheets by the individual employees'. These are then reviewed by the respective supervisors and forwarded to the Accounting Dept. The Directors (Senior Management) timesheets are reviewed and signed off by the Executive Director. The time sheet pertaining to the Executive Director is reviewed by the Chair person of the Board and initialed by him. The time sheets are checked by the Finance Director for accuracy and handed over to the Bookkeeper for processing. The payroll register is reviewed by the Finance Director and then the cheques are prepared. These cheques are forwarded to the Executive Director for signature and then presented to the various signatories for signing. **Starting from now all salary cheques relating to the Executive Director are not signed by him.** The entry of these into the General Ledger system is performed by the Finance Director.

It is management's responsibility to weigh the costs of implementing controls against the benefits that the controls will achieve. The purpose of this letter is to provide you with the information related to the identified risks so that you can make the necessary decisions. Observations not addressed from the prior year have been repeated to allow management to challenge past judgments in the current operating environment.

The matters discussed herein are those that have been noted as of April 18, 2008, and we have not updated our procedures regarding these matters to the current date. In addition, this communication is prepared solely for the information of management and is not intended for any other purposes; we accept no responsibility to a third party who uses this communication.

To complete our files, please provide us with a copy of your response to our comments in the space provided.

Thank you for the opportunity to contribute to the present and future success of **Scadding Court Community Centre**.

Yours sincerely,
Grant Thornton LLP



Allister Byrne, FCA
Partner

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