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May 29, 2014

Mr. Mike Zenker, Chair  
Liberty Village Business Improvement Area  
67 Mowat Avenue  
Suite 104  
Toronto, Ontario  
M6K 3E3

Dear Mr. Zenker:

**MANAGEMENT LETTER**

**YEAR ENDED DECEMBER 31, 2013**

The audit of the financial statements of the Liberty Village Business Improvement Area (LVBIA) for the year ended December 31, 2013 has recently been completed. The primary purpose of the audit was to express an opinion on the financial statements of the LVBIA as at that date and on the results of its operations for the year then ended.

Given the test nature of my audit, you will appreciate that reliance must be placed on adequate methods of internal control as the BIA's principal safeguard against irregularities which a test examination may not disclose. This letter provides my comments and recommendations on matters arising from the audit. In addition, I have addressed a number of issues brought to my attention by yourself and the BIA Treasurer.

**Audit**

I have completed the audit for the year ended December 31, 2013. In order to maintain independence the auditors should not carry out accounting functions. However, an auditor can assist the client in recording technical transactions subject to the review of these transactions by the Treasurer. As most BIA Bookkeepers require assistance in recording tangible capital assets, I normally assist them to identify and record capital assets and related amortization. This is the only adjustment I recorded to the draft statements previously provided to the Board. In addition, I drafted the financial statements in the City format to comply with professional and City requirements.

As Chair of the BIA you asked me to modify the format of the City suggested financial statements' disclosures in order to provide additional information to Board members. Accordingly, I have provided significantly more disclosure than required by Canadian generally acceptable accounting standards or by the City. The present format of the LVBIA financial statements contains a higher disclosure than any other BIA in the City. It should be noted that the financial statements preparation and disclosure is the responsibility of the board of management. My responsibility, as a BIA auditor, is to express an independent opinion whether the financial statements are fairly presented.

## **Specific Items**

### **A. TTC Passes**

This program was introduced by the LVBIA to provide monthly TTC passes to employees of the Liberty Village BIA members in order to:

- Attract new employees
- Retain existing employees and
- Promote the LVBIA as a Green BIA

I believe the LVBIA is the only BIA to provide this type of program. This program was introduced in 2011 and has grown significantly. In 2011 the LVBIA was selling approximately 173 passes monthly. In the early part of the 2014 it was selling approximately 1,000 passes.

Because of this program the BIA won a number of awards.

#### **Observation:**

January 2014 TTC passes payments received in December 2013, amounting to \$65,578 were not deposited until January 7, 2014. This amount is included in Cash and Short-term investments in the statement of financial position for the year-ended December 31, 2013 financial statements.

#### **Recommendation:**

- 1 The BIA should make deposits frequently and whenever possible large amounts of funds should not be kept at the BIA office.**

#### **Management Response:**

The finance committee directed the Executive Director to make daily deposits to the bank.

### **(i) TTC Passes Reconciliations**

As the program was new the BIA did not have procedures in place to periodically reconcile the passes purchased and sold. During the 2012 audit I found there were significant discrepancies between TTC passes purchased and sold. At my request the BIA staff members and the Bookkeeper reconciled the differences and identified the following items:

- One BIA member was not invoiced for the passes purchased
- A number of Not Sufficient Fund (NSF) cheques had not been followed up
- Cash float was not accounted for.

After accounting for the above items there was a small difference amounting to \$1,137, which was written-off as expenses.

During the 2012 audit I suggested to the Bookkeeper that monthly TTC pass reconciliation should be prepared in order to identify and address discrepancies on a timely basis. In the latter part of 2013 the Board established monthly reconciliation procedures. I have been advised that monthly reconciliations are prepared.

#### **Observation:**

As the monthly reconciliations were not carried out during 2013, there were unaccounted differences amounting to approximately \$4,300 written off.

#### **Recommendation:**

- 2 In order to address discrepancies on a timely basis, the monthly reconciliation should continue to be carried out.**

#### **Management Response:**

In the latter part of 2013 the finance committee required the Executive Director to provide monthly reconciliations of the TTC VIP Program to the Board.

#### **Observation:**

Since its introduction the TTC VIP Program expanded significantly but the BIA has not yet conducted a cost benefit analysis and presented this to the Board for their review and approval.

**Recommendation:**

- 3 Consideration should be given for conducting a cost benefits analysis to ensure that the program fulfills its objectives and this analysis should take into account the benefits of the program as well as the following unrecoverable costs:**
- **Cost of the time spent by the Executive Director's Assistant which could be 25% to 30% of her salary**
  - **Due to the requirement of monthly reconciliations the Bookkeeper's fees could increase annually by \$1,800**
  - **Time cost of the Executive Director for supervision, bank deposit etc.**
  - **Bank charges**
  - **Potential transaction cost of payments by credit/debit card or PayPal.**

Management Response:

Received for consideration

**B. "I Can Pitch" Program**

In 2007, the Liberty Village BIA (LVBIA) was asked to assist the "I Can Pitch" organizer in securing locations for events and promoting events to LVBIA businesses. The BIA also assisted in completing and submitting the Toronto Economic Development Sector Initiative Program (EDSIP) Grant applications for funding to offset venue costs. There were no financial commitments made by the LVBIA.

"I Can Pitch" is a professionally organized event expected to attract over 300 delegates to participate in workshops and networking events to take place in a few Liberty Village buildings over the two day period.

The LVBIA was responsible for collecting fees from delegates on behalf of the "I Can Pitch" organization, pay event related expenses out of this revenue and maintain accounting of funds for the event. These funds in fact were the property of the organizer. In addition, the Executive Director assisted the organizers in preparing and securing grants from EDSIP.

There were two major events that took place in the LVBIA, one in 2007 and the other in 2009. The Executive Director (ED), Lynn Clay received cash and cheques from attendees and deposited these in the LVBIA account. The program organizer provided a receipt to each attendee for payment. At the request of the program organizer the LVBIA Executive Director issued LVBIA cheques for event expenses and for honorariums. These cheques were signed by two LVBIA authorized Officers. Separate general ledger accounts for revenue and expenses were maintained to keep track of these funds. However, no separate bank account was maintained for this program.

This event was approved by the Board of Directors in a meeting dated February 8, 2007. The Executive Director periodically provided updates of events to the Board at their meetings and these updates were recorded in the minutes. In addition, periodically a summary of funds and grants received for the events and payments made was also provided to the Board for their review.

In 2012, the organizer of the event reported that she had not been able to find a suitable space for their event in the previous two years. She had secured a free space at Pie in the Sky Studio further east and decided to move the event there. At the request of the organizer, the remaining balance of the funds held on behalf of the event was refunded to her company The Oak Group. The refund cheque was signed by two of the cheque signing Officers.

**(i) Related Party Transactions and Conflict of Interest disclosure**

It was alleged by some board members that certain board members and the BIA Executive Director were associated with the "I CAN Pitch" program, had financial interests in this program, and failed to disclose their relationship to the board.

In order to ensure that the program organizer was paid only the amount held by the BIA and, if any payments were made to those board members or the BIA Executive Director, I have reviewed all transactions of this program from the commencement in 2007 to the final payment to the organizer in 2013.

**Findings and Comments**

From the commencement in 2007 to the end of the program in 2013, there were two events held, one in 2007 and the other in 2009. Approximately 166 and 127 people were paid attendees. Total receipts amounted to \$16,967 and \$13,881 respectively. In addition, the Executive Director assisted in securing three grants amounting to \$31,000 for this program. As requested by the program organizer there were a number of cheques issued by LVBIA from 2007 to 2012 amounting to \$53,174. At the request of the organizer the remaining balance amounting to \$6,976.75 was paid to the organizer's company, Oak group in 2013.

I reviewed payees of all cheques to note whether any payments were made to the board members or the Executive Director. During this period no cheque was issued to any of the board members. However, the following four cheques were issued to the Executive Director:

| <b>Date</b>  | <b>Amount</b> |
|--------------|---------------|
|              | \$            |
| 11-30-2007   | 23.03         |
| 12-21-2007   | 34.16         |
| 02-24-2009   | 4.60          |
| 02-27-2009   | 108.51        |
| <u>Total</u> | <u>170.30</u> |

All four cheques were for the reimbursement of expenses paid by the Executive Director for the events. In addition, a number of cheques were issued to the organizer at her request for reimbursement of expenses. One cheque on April 5, 2012 was issued to The Oak Group amounting to \$2,474.70 for consulting services regarding development of new programming for 2011 and 2012.

**(ii) Goods and Service Tax (GST)**

**Observation:**

As "I Can Pitch" events were administered by the LVBIA GST was paid by the BIA to Revenue Canada for the first event revenue and input tax credit on all expenses was properly claimed. However, from the second event revenue GST was not subtracted or paid to Revenue Canada although ITC was claimed for all expenses.

**Recommendation:**

- 4. In order to protect LVBIA from potential liability due to inconsistent accounting of GST, interest and penalty charges, the BIA should pay GST on second event revenue.**

**Management Response:**

Received for consideration

**(iii) Bookkeeping Errors:**

**Observation:**

- A. An invoice from "Computer Genius for Hire" dated November 19, 2008 amounting to \$209.45 for computer services provided to the organizer for the 2009 event was inadvertently not charged to "I Can Pitch".
- B. In 2007 a grant from the City of Toronto amounting to \$1,000 was received for the first "I Can Pitch" event and inadvertently recorded as LVBIA revenue.

**Recommendation:**

- 5 The BIA should make appropriate adjustments regarding "I Can Pitch" events to ratify bookkeeping errors.**

**Management Response:**

Received for consideration

On Thursday May 22, 2014 I contacted the "I Can Pitch" organizer and received the following information.

**(iv) Involvement of some board members and the BIA Executive Director**

The "I Can Pitch" program organizer informed me that two of the board members and the BIA Executive Director were representing the Liberty Village BIA and were part of the Organizing Committee. They had no financial interest in the Program and did not receive any compensation for their involvement. Their main interest was to provide opportunities for the BIA members to benefit from the "I Can Pitch" program and to bring over 250 people to the BIA area.

Based on my review of the "I CAN Pitch" program transactions and my discussion with the Program Organizer, I did not find any evidence that any of the board members or the Executive Director financially benefited from this program. Accordingly, there is no evidence to consider this is a related party transaction and no note disclosure to the BIA financial statements is required.

**Observation:**

The Executive Director pays certain BIA business related expenses from her funds and periodically submits a reimbursement statement with supporting documents. The reimbursement cheques are signed by two authorized officers.

In order to avoid the issue of staff members using their funds for BIA related expenses, credit cards can be provided to employees with established upper limits.

**Recommendation**

- 6 The Finance committee should review the practice of expecting the ED to pay for BIA business expenses from her own funds. Consideration should be given to issuing a credit card with an established upper limit for business related expenses. Payment of credit card statements should be supported by original receipts and should be subject to the same procedures as any other payments.**

**Management Response:**

The Liberty Village Business Improvement Area will not be issuing a credit card to staff.

**C. Policy and Procedures Manual**

**Observation:**

From the issues raised by certain board members regarding approval and payment procedures of the BIA expenses, it appears that the LVBIA established financial policies and procedures are not known to all the board members.

**Recommendation:**

- 7 The Finance Committee should consider assigning a task for the development of a policy and procedure manual. This task should be assigned to the Bookkeeper and Executive Director under the leadership of the Treasurer. The draft manual should be reviewed by the Finance Committee. The City of Toronto Economic Development, BIA Division, has an Operating Manual for BIAs. This could be used as a starting point and could be customized to address LVBIA issues. As a minimum this manual should address:**
- **Preparation and ongoing monitoring of BIA Capital and Operating budgets**
  - **Procedures for major contract authorization**
  - **Procedures for issuance of purchase orders**
  - **Verification of suppliers' invoices for payment**
  - **Payment procedures**
  - **Expenditure approval limits of the Board and Finance Committee members**
  - **Financial record keeping and reporting.**
  - **Human Resources Policies**

**All Finance Committee and Board members should be provided with a copy for their review and input.**

**In addition, periodically this manual should be updated to address new issues identified.**

**Management Response:**

The finance company will assign this task to staff.

**D. Accounts Receivable**

**(v) City of Toronto – special charges**

**Observations:**

Annually the City collects levies from BIA members based on the BIA approved budget. The annual budget includes 10% for potential levy refunds to BIA members due to reductions in the property assessment values on successful appeals. The City withholds certain funds for the potential refund and remits the remaining balance during the year in three installments. In the February of the following year the City provides the BIA a statement containing the actual amount refunded to the BIA members on successful appeals during the year and estimated potential refunds based on appeals not yet reviewed. If the amount withheld by the City, after allowing for potential refunds, is significantly large then the City increases the future remittance. Conversely if the amount is insufficient the City reduces the remittance to recover the shortfall.



The following table illustrates the balances withheld by the City in the last three years.

|   | 2013      | 2012      | 2011      |
|---|-----------|-----------|-----------|
|   | \$        | \$        | \$        |
| Balance, beginning of the year          | 123,486   | 88,858    | 43,902    |
| Insurance premium                       | (327)     | (322)     | (310)     |
| BIA levy recovered (refunded)           | 737       | (7,650)   | (3,711)   |
| BIA levy collected                      | 259,080   | 264,121   | 264,147   |
| BIA levy remitted                       | (251,265) | (221,521) | (215,170) |
| Balance, end of the year                | 131,711   | 123,486   | 88,858    |
| Provision for appeals not yet finalized | (83,700)  | (103,900) | (94,900)  |
| Net Receivable (Payable)                | 48,011    | 19,586    | (6,042)   |

The LVBIA balance receivable from the City increased from \$19,586 as at December 31, 2012 to \$48,011 as at December 31, 2013 due to a significant reduction in the provision for potential refunds (\$20,200) and the amount withheld by the City from 2013 levies amounting to \$7,815. As the net receivable from the City has increased significantly it will be reviewed by the City at the end of the year and future remittances would be increased accordingly.

**Recommendation:**

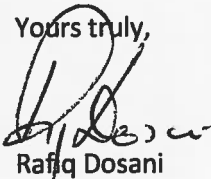
- 8 If LVBIA does not have adequate cash flow, it is advisable to contact the City and ascertain an up-to-date status of the BIA accounts receivable balance and request an additional remittance from the significantly large amount withheld.**

**Management Response:**

The LVBIA will make a request to the City for payment of the \$48,011 owing.

I would like to express my appreciation to you, the Treasurer and the Executive Director for providing me full cooperation in completing the audit. I will be available to discuss my comments and recommendations at a mutually convenient time.

Yours truly,



Rafiq Dosani