

April 4, 2014

To the Board of Directors of the Ottawa Bicycle Club
170a Booth Street
Ottawa, ON
K1S 5B3

To the Board of Directors:

The matters raised in this letter arise from my financial statement audit of the Ottawa Bicycle Club for the year ending November 30, 2013 and relate to matters that I believe need to be brought to your attention.

I have substantially completed the audit in accordance with Canadian generally accepted auditing standards. I expect to release my audit report on April 8, 2014 as soon as I obtain a signed letter of representation.

My audit is performed to obtain reasonable assurance whether the financial statements are free of material misstatements. Absolute assurance is not possible due to the inherent limitations of an audit and of internal control, resulting in unavoidable risk that some material misstatements may not be detected.

In planning the audit, I consider internal control over financial reporting to determine the nature, extent and timing of audit procedures. However, a financial statement audit does not provide assurance on the effective operation of internal control at the Ottawa Bicycle Club. However, during the course of my audit, certain deficiencies in internal controls came to my attention, and I am reporting these to you.

Because fraud is deliberate, there are always risks that material misstatements, fraud and other illegal acts may exist and not be detected by my audit of the financial statements.

AUDITOR'S REPORT

QUALIFIED OPINION -SCOPE LIMITATION

Ottawa Bicycle Club receives revenue from various sources including membership fees and various touring events the completeness of which is not susceptible to satisfactory audit verification procedures. Accordingly, verification of these revenues was limited to the amount recorded in the records of the Ottawa Bicycle Club. Therefore, I was not able to determine whether any adjustments might be necessary to revenue, excess of revenue over expenses, and cash flow from operations from the year ended November 30, 2013.

CORRESPONDING FIGURES

Without modifying my opinion, I draw attention to Note 3 to the financial statements, which describes that Ottawa Bicycle Club adopted Canadian accounting standards for not-for-profit organizations on December 1, 2012 with a transition date of December 1, 2011. These standards were applied retrospectively by management to the corresponding information in these financial statements, including the statements of change in financial position as at November 30, 2012 and December 1, 2011, and the statements of operations, changes in net assets and cash flows and the schedule of general and administrative expenses for the year ended November 30, 2012 and related disclosures. I am not engaged to report on the restated corresponding information, and as such, it is unaudited.

OPENING FIGURES

During the course of the audit, it came to my attention that 2012 Cyclocross revenue in the amount of \$3,367 had been recorded in the 2012/2013 fiscal year instead of the previous year. This misstatement has been corrected by the treasurer, Ron Stoneham, and the corresponding figures have been properly restated.

MISSTATEMENTS IDENTIFIED DURING THE AUDIT

All misstatements discovered during the audit were corrected by the Treasurer, Ron Stoneham, with the exception of the list of uncorrected misstatements attached to the representation letter. All uncorrected misstatements were under \$1,000 with the exception of the extrapolated error detailed in the Inventory Costing section below and the Cyclocross under recorded revenue error detailed below.

EVALUATION OF INTERNAL CONTROL

1. SEGREGATION OF DUTIES

(a) ISSUE: It is fundamental to good internal control that certain key functions be segregated so that no employee is in a position both to perpetrate and to conceal errors or fraud in the normal course of their

duties. An example of this is the office administrator having responsibility for the monthly inventory counts, the collecting, recording and depositing of cash sales, the purchasing of inventory, the preparation of payments to suppliers and the preparation of monthly bank reconciliations.

RECOMMENDATION: Due to the Club's size and the fact that one employee is responsible for most functions, it may not be practical or possible to achieve complete segregation of duties and limit the number of incompatible functions. This increases the need for management oversight and independent verification procedures. Instituting some compensating control procedures will offset some risk due to the lack of segregation of duties. At a minimum, management should:

- Review monthly bank reconciliations for any unusual, large, reoccurring or old items. Bank reconciliations should be signed by management indicating review and approval;
- Review and approve monthly journal entries;
- Perform independent test counts of inventory and comparison with detailed records with any large adjustments investigated;
- If feasible, inventory orders should be placed by someone other than the office administrator;
- Compare monthly financial statements to budget and investigate differences; and
- Review and approve monthly financial statements and file in month-end binders.

2. TIMELY APPROVAL OF FINANCIAL STATEMENTS

(a) ISSUE: Timely and accurate financial information is critical to good decision making, identifying problems, ensuring the best allocation of resources and evaluating results. The organization's annual financial statements for the year ending November 30 are not approved until the following October at the Annual General Meeting. This is almost a year later.

RECOMMENDATION: The Board of Directors should approve the annual financial statements on a timely basis as soon as they are prepared.

3. TIMELY APPROVAL OF ANNUAL BUDGET

(a) ISSUE: A budget is a powerful and useful tool to help boards discharge of their fiduciary responsibilities. By satisfying itself that the budget reflects appropriate and prudent uses of the organization's funds, the board is moving towards meeting their responsibility of overseeing the effective use of the organization's assets. It is important that the budget be established and approved in advance of the fiscal year. The Club budget is normally approved a few months into the year and although the budget for the 2012/2013 fiscal year was discussed at the January 2013 Board of Director's meeting, it was never formally approved and documented in the minutes.

RECOMMENDATION: The Board of Directors needs to formally approve the annual budget on a timely basis in advance of the fiscal year. In addition, the budget should specify by payee the amount of donations and bursaries to be paid during the year. The budget should also differentiate between coaching fees and honorariums to be paid.

4. INTERIM FINANCIAL STATEMENTS AND COMPARISONS TO BUDGET

(a) ISSUE: Interim financial statements are not presented to the Board of Directors on a regular basis for review of year-to-date results and comparison of budget figures to actual.

RECOMMENDATION: Year-to-date financial statements with comparison of actual results to budget should be presented to the Board of Directors on a regular basis. This could be either monthly or quarterly with explanations of any significant variances. By carefully monitoring activities against the plan, the Board can assess the effectiveness of the organizations use of its resources and can determine whether any year-in alterations are warranted.

5. INVENTORY ORGANIZATION

(a) ISSUE: During the inventory count, it become apparent that a better system is needed to organize the physical inventory that was all stored in similar boxes, with each box containing various sizes of both men's and women's clothing.

RECOMMENDATION: The inventory should be better organized by size, sex and style of clothing.

6. INVENTORY QUANTITIES

(a) ISSUE: Perpetual inventory records that show quantities on hand for each type of inventory are not currently maintained.

RECOMMENDATION: Using the inventory count sheets at November 30, 2013 as a starting point, these records should be updated as sales are made and additional inventory is purchased. Monthly inventory counts should be compared to these records with any discrepancies followed up.

7. INVENTORY COSTING

(a) ISSUE: Inventories are valued at the lower of cost and net realizable value using the first-in, first out basis. During the course of the audit, there were some differences discovered between the cost per item on the inventory listing and the cost per the available supporting invoice. Through this test of inventory costing, there was an extrapolated difference of \$1,607 between the inventory listing and the prices per supporting inventory invoices. This adjustment is not material and has been included on the Summary of Unadjusted Differences.

RECOMMENDATION: Copies of invoices supporting all inventory costing should be maintained as backup with the perpetual inventory records.

8. INVENTORY OBSOLESCENCE

(a) ISSUE: Inventory listings do not provide information needed to identify old and slow moving items. Significant judgement is required in determining which of the older items should be written down due to obsolescence or lack of marketability.

RECOMMENDATION: Management should monitor inventory quarterly to ensure that write-downs are taken when appropriate.

9. COMPLETENESS OF REVENUE

(a) ISSUE: Registration in the Rideau Lakes Cycle Tour and the Grand Prix are done online through JM EventsOnline.ca. Membership registration is also done online through CCN. These companies forward cheques to the Club. There is no verification done to ensure that the amount of the funds received is for the correct number of registrants or members. For other touring events where there is “manual” registration, there is also no verification of monies received and deposited to the number of touring event participants.

RECOMMENDATION: For each event, a participant list needs to be obtained and the monies received and recorded should be reconciled to this list. These reconciliations should be approved and retained. For membership revenue where there is a different fee for families, these statistics will need to be obtained so that the revenue received can be verified.

(b) ISSUE: Revenue is received for time trials but there is no documentation and reconciliation of the number of time trial waivers to the amount of monies received.

RECOMMENDATION: The number of trial waivers should be retained and the monies received and recorded should be reconciled to the number of waivers. These reconciliations should be approved and retained.

(c) ISSUE: Cyclocross online registration revenue from CCN was not paid directly to the Club but to a Club member. In addition, sponsorship revenue and cash registration monies were given directly to the member rather than being paid directly to the Club. The expenses related to this event were paid directly by the member with the net profit being remitted to the Club. After auditing these revenues and expenses, it was discovered that there was an additional \$1,235 in revenue due to the Club as well as a \$500 refundable security deposit. These adjustments have been detailed on the Summary of Unadjusted Differences. There were also numerous expenses that did not include any supporting invoices including a \$1,500 payment to the member running the Cyclocross events for the use of his equipment. Although this event occurred in 2013, the monies were not turned over to the Club until the next fiscal year and have been recorded as an amount receivable in the Statement of Financial Position. Until these funds were received by the Club, the administration was not even aware that these monies were due.

RECOMMENDATION: CCN should be making payments directly to the Club and all revenue and payments related to this event should be made through the Club. This event needs to be better managed so that it is accurately recorded on a timely basis. Any payments to members for use of personal equipment should be approved as a separate item in the annual budget.

(d) ISSUE: There is little or no backup on refunds to event participants.

RECOMMEDATION: A file should be kept for all refunds issued providing an explanation for the refund.

(e) ISSUE: Sales of clothing are made by cash with no receipting system.

RECOMMENDATION: Prenumbered receipts should be issued for all cash sales with one copy given to the purchaser and one copy maintained by the Club. The sale should be recorded at the same time that the inventory is reduced and the cost of goods sold is recorded.

My audit report will contain a qualified opinion indicating that the completeness of revenue is not susceptible to satisfactory audit verification.

10. TOUR REGISTRATION APPLICATIONS

(a) ISSUE: Some tour registration forms were incomplete with the number of nights not selected. This does not allow the administration to adequately verify that the correct revenue was received based on the number of nights the participant stayed.

RECOMMENDATION: At the time of “manual” registration, the forms should be reviewed to ensure that the money being paid is for the correct number of nights. The form should be initialed to evidence the review.

11. CASH DISBURSEMENTS

(a) ISSUE: During the course of the audit, it was discovered that some payments lacked proper backup documentation to support the payment. In some cases, no documentation existed at all. Examples of this include the donation to the Velodrome, the payment to a member for the AERS organization, the payment to the Federation Quebecoise des Sports Cycliste for the Grand Prix, payments to racers for athletic development, award money for Grand Prix, the bursary payment made to a member for Seenite Sports, accommodation fees paid to a member, as well as coaching fees and honorariums.

RECOMMENDATION: Before any payments are authorized, there should be adequate supporting documentation. If the budget provides for a donation or bursary, the budgeted line item should specify who the donation/bursary will be paid to and a copy of the approved budget should accompany the payment request. In cases where there is a budgeted amount for coaching fees, honorariums and payments to racers that can be disbursed at the discretion of the racing director, there should be documentation of what has been paid to date against the total budgeted amount. The payment should be requested by the racing director and the cheque signed by two other authorized signing officers.

(b) ISSUE: Some expenses are not being reimbursed on a timely basis. In one instance, an expense reimbursement was made in November 2013 for an expense from June 13, 2012.

RECOMMENDATION: Expense reimbursements must be made on a timely basis. In the December 2012 Board of Directors’ minutes, a motion was put forward that expenses must be submitted within 30 days of receipt of invoice.

(c) ISSUE: Members and the former Club administrator are submitting expense claims for expenses incurred in US dollars. The Club is reimbursing them in Canadian dollars but there is no documentation on the Canadian dollar equivalent.

RECOMMENDATION: The supporting documentation for expense reimbursement should contain some verification of the Canadian dollar equivalent. If the amount was charged to a credit card, a copy of the credit card statement should be obtained.

(d) ISSUE: A payment to replenish petty cash had no supporting documentation.

RECOMMENDATION: All payments to replenish petty cash must be verified by supporting receipts.

(e) ISSUE: A significant number of transactions were paid on the former Club administrator's personal credit card during the year when some of these payments could have been made by cheque on the Club's account.

RECOMMENDATION: A policy should be put in place which outlines when it is appropriate for the administrator to pay using a personal credit card.

(f) ISSUE: There are some inconsistencies between the number of revenue paying event participants and the number of participants who for whom expenses are paid out. For example, for the Grand Prix, revenue was collected for 460 participants and SportStats charged and was paid for 480 participants.

RECOMMENDATION: For each event, there should be a reconciliation between the number of paying participants and the number the Club is paying expenses for.

12. MINUTES

(a) ISSUES: The October 2013 minutes have not been approved. In addition the January 7, 2013 minutes contain a schedule for membership fees that does not add up correctly. Although the 2012/2013 budget was approved, it was never reflected in the minutes.

RECOMMENDATION: Minutes need to be reviewed for errors and omissions and approved on a timely basis.

(b) Issue: Certain payments and pay increases should be documented in the minutes.

RECOMMENDATION: Pay increase to the office administrator should be approved in the minutes.

13. CONTRACTS

(a) ISSUE: Some contracts providing for online registration were difficult to obtain during the audit. In addition, one contract for online registration was signed by the former Club administrator.

RECOMMENDATION: All signed contracts should be kept in a binder in the Club office. In addition, if signing authority is delegated to the Club administrator, this delegation should be noted in the minutes.

14. INSURANCE POLICIES

(a) ISSUE: Some insurance policies were difficult to obtain during the audit.

RECOMMENDATION: All insurance policies should be kept in a binder in the Club office.

15. HST

(a) ISSUE: Currently there is one general ledger account to record all HST transactions.

RECOMMENDATION: There should be two HST accounts: one for HST collected by the Club and one for the HST paid out by the Club.

(b) ISSUE: HST was recorded as collected on the Fingerlakes Tour.

RECOMMENDATION: No HST should be collected on US tours.

(c) ISSUE: HST is being recorded as paid and input credits being claimed on items where no HST was charged. For example, HST was claimed on some US tour expenses, on mileage paid to the former Club administrator, on insurance payments at 13% and on other payments where no HST was actually charged on the invoice being paid. HST input tax credits were claimed on all Cyclocross expenses even though many did not include any HST.

RECOMMENDATION: An input tax credit can only be claimed when it is specifically shown on the invoice being paid.

16. POLICY AND PROCEDURES MANUAL

(a) ISSUE: At the commencement of the audit, no policy and procedures manual existed which documented the various accounting streams and outlined the procedures for authorization and approval of transactions.

RECOMMENDATION: During the course of the audit, a manual was prepared by the treasurer, Ron Stoneham. This manual should be reviewed annually and updated to incorporate the contents of this letter as considered appropriate by the Board. This manual should document procedures for the safeguarding of financial and member information including the use of passwords and how often they should be changed, and the policy and procedures for backup of information and offsite storage of same.

17. PASSWORDS

(a) ISSUE: Although the computer has a password, the accounting software, Quickbooks does not require a password to open the software.

RECOMMENDATION: A password should be added to access the Quickbooks program.

18. BANK RECONCILIATIONS

(a) ISSUE: The November 30, 2013 bank reconciliation contained items which warranted further investigation. It listed stale dated cheques and cheques that had not yet been issued by the Club since they required a signature.

RECOMMENDATION: Bank reconciliations must be reviewed for any unusual, large, reoccurring or old items. Stale dated cheques should be written off. Cheques that have not been issued and are being held for signature should not be listed as outstanding. Prepared cheques should not be held for long periods of time.

19. CUT-OFF

(a) ISSUE: Some cheques were not issued in numeric order and were recorded in the wrong period.

RECOMMENDATION: Cheques must be issued in numeric sequence and recorded in the same period as the date on the cheque.

20. SOURCE DEDUCTIONS AND HST PAYMENTS

(a) ISSUE: During the year, a HST payment was incorrectly applied to the payroll source deduction account.

RECOMMENDATION: Interim HST and payroll source deductions account information received from CRA should be reviewed to ensure payments are applied to the correct account.

21. PAYMENTS TO CLUB MEMBERS

(a) ISSUE: Payments to Club members are not always approved by the Board and are recorded by varying terms such as honorariums, coaching fees or athletic development, or in the case of Cyclocross, retail purchases.

RECOMMENDATION: The Club is required to file a Non-Profit Organization (NPO) Information Return annually with the CRA. This return requires the Club to report the total payments to members and the number of members paid. To facilitate this filing, and for consistency in financial reporting, the Club should ensure that these payments to members are approved in the budget and properly recorded in a uniform manner.

22. OTHER MATTERS

The new Ontario Not-For-Profit Corporations Act ("ONCA") is expected to be proclaimed in the first half of 2015. All corporations incorporated under the old legislation must transition to the new ONCA within three years. I recommend that the Board begin this transition process as soon as possible.

During my review of the corporate records, I noticed a bylaw stating that the year-end of the Club is October 31. As discussed with the Club Treasurer, Ron Stoneham, the year-end being used by the Club

is November 30. A review of corporate documents should be undertaken to determine whether the year-end was officially changed to November 30.

The CRA has completed a three-year non-profit risk identification project to provide insights on how non-profit organizations (NPO) were operating under the provisions of the *Income Tax Act*. As a result of this project, the 2014 federal budget indicated that the Federal Department of Finance will carry out a review to determine whether the income tax exemption for NPOs is properly targeted and whether there is sufficient transparency and accountability. The CRA report found concerns that some organizations claiming non-profit organizations (NPO) status may be earning profits that are not incidental to the non-profit purposes, making income available for the personal benefit of members or maintaining large reserves. According to the CRA report, NPOs that have disproportionately large reserves, surpluses, or retained earnings would fall into a higher risk of being offside and may not actually qualify for the tax exemption.

In the Club's Investment Policy approved on October 7, 2013, it discusses setting up a reserve fund that targets a balance of 20% of the Club's average annual revenues over the previous five year period. In light of these developments, the Club should consider reviewing this policy and its structure to ensure it qualifies for the tax exemption and to prepare for any potential changes that may be announced by Finance in the future.

I would be pleased to discuss with you any matters raised in this letter, at your convenience.

This communication is prepared solely for the information of the Board of Directors and is not intended for any other purpose. I accept no responsibility to a third party who uses this communication.

To ensure that there is a clear understanding and record of the matters discussed, I ask that your members of the Board of Directors sign their acknowledgement in the spaces provided below. Should any member of the Board of Directors wish to discuss or review any matter addressed in this letter or any other matters related to financial reporting, please do not hesitate to contact me at any time.

Yours truly,

Karyn Sheridan, Professional Corporation
CPA, CA

Acknowledgement of the Board of Directors:

We have read and reviewed the above disclosures and understand and agree with the comments therein:

Signature: _____

Date: _____

Signature: _____

Date: _____