

## **To Management and the Board of Directors San Francisco Ladies' Protection and Relief Society**

In planning and performing our audit of the financial statements of San Francisco Ladies' Protection and Relief Society (dba The Heritage or Heritage on the Marina) (the "Society"), as of and for the year ended December 31, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the Society's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Society's internal control. Accordingly, we do not express an opinion on the effectiveness of the Society's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a deficiency in internal control that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing, or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

In addition, we noted other matters involving internal control and its operation as described in the accompanying memorandum that are opportunities for management and the Board of Directors to strengthen the internal control environment.



Management's written response to the recommendations in the attached schedule have not been subjected to our audit procedures and accordingly, we express no opinion on it.

This communication is intended solely for the information and use of the Board of Directors, management and others within the Society and is not intended to be and should not be used by anyone other than these specified parties.

**SQUAR MILNER LLP**

*SQUAR MILNER LLP*

San Francisco, California  
April 21, 2020



## **SIGNIFICANT DEFICIENCY**

### **Monthly Reconciliation of Accounts Payable**

The Society did not perform monthly reconciliations of accounts payable (“AP”). As a result, the accounts payable balance was not reconciled timely and the AP module did not agree to the trial balance, which caused audit delays and adjustments.

#### *Recommendation*

We recommend that Society implement a monthly reconciliation process of AP to ensure that the AP module agrees to the trial balance and that all outstanding payables are recorded in the correct period.

#### *Management’s Response*

The Society’s Controller is working with the staff accountant to implement a monthly accounts payable reconciliation process in order to ensure that the AP module agrees with the trial balance. All balance sheet accounts will be reconciled on a quarterly basis and presented to the CEO for review.

## **OTHER COMMENTS AND OBSERVATIONS**

### **Entrance Fee Refund Calculation**

The Society incorrectly calculated a refund for one of the residents during 2019.

#### *Recommendation*

We recommend that Society implement a review process of the calculation of resident refunds to ensure the appropriate amount is being refunded to the residents.

#### *Management’s Response*

The Society’s Controller will calculate the refund and either the staff accountant or accounts payable accountant will review it, with final presentation to the CEO for approval.



## **OTHER COMMENTS AND OBSERVATIONS (continued)**

### **Journal Entries Review**

We observed that journal entries are not being approved before being processed.

#### *Recommendation*

We recommend that Society implement a secondary review process where all journal entries are reviewed by a secondary person. If the Controller prepares a journal entry, we recommend the CEO to review those entries.

#### *Management's Response*

Journal entries executed by the staff accountant and accounts payable accountant will be reviewed and approved by the Controller. Journal entries executed by the Controller will be reviewed and approved by the CEO.

### **Payroll Access**

We observed that the AP Accountant has the highest level of security for payroll, therefore, allowing him to edit hours that have already been approved.

#### *Recommendation*

We recommend that as the Society cannot restrict his access (the software does not allow it) they should implement a reconciliation process where the approved payroll register gets reconciled against what is paid to ensure no changes were made after the payroll register was approved.

#### *Management's Response*

The Controller and CEO will verify payroll journal entries prior to, and after submission to the payroll vendor, to verify they are the same.



## **OTHER COMMENTS AND OBSERVATIONS (continued)**

### **Employee Files**

We observed that the employee files do not include the most recent pay rates.

#### *Recommendation*

We recommend that Society keep all updated pay rates within each employee's file to ensure the proper pay rates are being used and are recorded.

#### *Management's Response*

Annual COLA increases are not currently accompanied by an individual Personnel Action Form which is filed in each employee's HR file. Each department director will be required to complete a form for each member of their staff for the annual COLA increase which will then be filed in the individual employee's HR file.