

August 27, 2015

Mr. Bullock
Ahousaht First Nation
General Delivery
Ahousat, BC V0R 1A0

Dear Mr. Bullock:

Re: Audit of 2015 Financial Statements

During the course of our audit of the financial statements for the year ended March 31, 2015, we identified some matters which may be of interest to management. The objective of an audit is to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit is not specifically designed to identify all matters that may be of interest to management in discharging its responsibilities. In addition, an audit cannot be expected to disclose all material fraud, or errors and other irregularities, and it is not designed to express an opinion as to whether the systems of internal control established by management have been properly designed or have been operating effectively.

As a result of our observations, we have outlined below all deficiencies in internal controls and some other suggestions for your consideration. This report is not exhaustive, and deals with the most important matters that came to our attention during the audit. Minor matters were discussed verbally with your staff.

General

- 1) During our audit work we noted that seven individuals (including former staff-members and former auditors) have full access to Xyntax. Therefore all these individuals have the capability to change pay-rates, create new programs and departments and alter general ledger accounts. The current Xyntax user list should be examined to ensure it is up to date and appropriate access levels are in place.
- 2) A significant number of untrained people were using Xyntax. This was noted in misallocations of expenses in the general ledger. This can result in an increased cost to the Nation as auditors are required to spend more time re-allocating expenses. We recommend reducing the number of people with access to Xyntax. The users should include the accounts payable clerk, the payroll clerk, the Director of Finance, and the patient travel clerk. We also recommend holding a Xyntax training session to demonstrate how to properly use the software modules.
- 3) During our review of the programs set up in Xyntax we noted that there are several programs that have no revenue and less than \$1,000 of expenses. This impacts the number of schedules created for AANDC. In order to simplify the accounting, these programs should be examined to determine if they are necessary for reporting purposes (internal or external) or if they can be combined with other programs in the future.
- 4) The trial balance is currently out of balance by approximately \$137,000. In order to correct this issue, we recommend using Xyntax software support to assist you in fixing this discrepancy.
- 5) Management was unable to provide us with some Chief and Council meeting minutes and Ahousaht Council Resolutions. Written documentation should always be available for all motions made and approved by Chief and Council in order to document the decisions. All meeting minutes and council resolutions should be filed appropriately.

- 6) The Ahousaht Fishing Corporation financial statements are unaudited and not prepared in accordance with International Financial Reporting Standards (IFRS) as required under current accounting standards. As a result we were unable to determine the effect on the Nation of any adjustments that would be necessary if the financial statements were prepared under the correct framework. This resulted in an audit qualification in the 2015 audit report. We recommend that the Ahousaht Fishing Corporation financial statements be audited and prepared in accordance with IFRS.

Payroll

- 1) Employee files should include all documentation related to a change in an employees pay rate. We noted that the payroll clerk has been stapling approved pay rate increases to the individual's timesheet during the period that the change occurred. This practice makes it difficult to trace the approval increase. Going forward a photocopy of all approved wage rate increases should be included in the employee's personnel file.
- 2) We noted that the Fisheries department had the manager's approval signature was photocopied onto the timesheets (from July 14-August 1, 2014). As the timesheets are "pre-approved", there is risk that the employees may enter time that they have not worked.
- 3) Currently only permanent employees have personnel files. Therefore there is no record kept of approved pay rates or disciplinary action for casual employees. Casual employees may be paid a rate higher than the rate approved. All employees working for the band should have a personnel file.
- 4) Employees have the ability to use sick time that they have not earned (causing the sick bank to go into a negative position). It was noted that managers ask the payroll clerk to override Xyntax to allow for negative sick time. The employees with negative sick time are being paid for more sick time than they are allotted causing an increase in wages costs to the Nation. Employees should be limited to their allotted annual sick time. After sick bank hours are used, employees should use their overtime bank, vacation pay or go without pay.
- 5) Payroll is prepared using direct deposit. The payroll clerk is currently manually entering the pay run information from Xyntax into the online payroll deposit form. This creates a risk of input error. There is a "drag and drop" function available through Xyntax that will reduce the chance of input errors occurring. Per discussion with the payroll clerk this function is available with Xyntax but is not currently set up.
- 6) There is currently no formal system in place for notifying the payroll clerk of new employees or employees changing positions. The payroll clerk finds out about new hires after they have started and in some instances is told to pay the new hire at the previous employee's wage. Employees may be paid at the wrong pay rate. There is an opportunity for managers to create fictitious employees. Personnel files will be incomplete with missing employee information (eg. Approved pay rate, job title, personal information). A system should be implemented for new employees to ensure information is communicated to payroll department in timely manner and personnel files are updated appropriately.
- 7) Employees get paid time off every 2nd Friday afternoon. This was implemented when paper cheques were issued and employees needed to get to the bank before it closed on Friday afternoon. Payroll is now distributed via direct deposit therefore this is no longer necessary. This results in an increased wage cost to the Nation as the employees are getting paid for hours they didn't work. The human resources policy should be updated to reflect this change in payroll practice and require employees work all Friday afternoons, or take unpaid time off.
- 8) There is currently no formal system in place for recording pre-approved overtime hours. Employees may be working overtime hours that are not approved. This results in an increased wage cost if employees are working overtime when overtime work was not necessary. All overtime should be approved and attached to the weekly timesheets.

- 9) Payroll clerk has full access to Xyntax meaning that she has the ability to change pay rates without anyone detecting the change. We recommend that the pay rate master file in Xyntax should only be accessed by the Director of Finance, and user access levels should be updated to reflect this.
- 10) There is currently no policy or process in place for the Director of Finance or Executive Director to review changes made to the payroll master file. There is potential for input errors to occur which would go undetected. We recommend that all changes to the payroll master file be made or reviewed by the Director of Finance.
- 11) While we noted an improvement in the documentation included in employee personnel files, we noted a significant number of employees without approved wage rates included in the file. This creates potential for employees to be paid a rate higher than that approved by management. This increases wage costs for the Nation. All employee personnel files should be updated to include the current approved wage rate. The current approved wage rate letter should be signed by the manager and the employee. All future wage rate changes should be photocopied and included in the personnel file.

Housing department

- 1) Monthly housing rent is not being recorded on a regular basis. This can result in understated housing revenue and incomplete tenant overdue rent accounts. Even though rent may not be collectible, the revenue should be recorded and a tenant receivable should be set up. At the end of the year the auditor will set up an allowance for uncollectible housing receivables. As monthly rent amounts do not change frequently, a recurring positing should be set up in Xyntax to record the housing rent automatically.
- 2) We noted that automatic credit card payments are being made from the replacement reserve account. Only certain expenses are eligible for payment out of the replacement reserve account. If ineligible purchases are made on the credit card, there may be a violation of CMHC funding agreements which could result in a loss of funding. We recommend change the bank account that credit card payments are made out of.

Expenditures, payables and disbursements

- 1) We noted several cheques made out to suppliers used the supplier statement of account as an invoice. This creates potential for an invoice to be paid twice if it is paid from the actual invoice as well as the statement. We saw this occur during our audit work. Without the invoice the accounts payable clerk is also unable to determine how to allocate the expenses. Supplier payments should only be made when a supporting invoice is attached. If suppliers only send the statement, request that they include individual invoices with the statement.
- 2) Credit card statements are often paid without receipts attached to support all of the purchases on the statement. This could result in purchases being paid for which are not band expenses. We recommend that you require receipts attached to the credit card statement to support all the items purchased and that the card holder note on the receipts the purpose of each purchase. A cheque requisition should accompany the credit card statement and require the approval of the person that the card holder reports to and, as noted before, the cheque requisition should also be approved by the controller. The Band Administrator's credit card payment should be approved by a designated Councillor.
- 3) The accounts payable module is not being used correctly. The accounts payable aged listing report printed out of Xyntax does not tie into the general ledger account balance. This makes it difficult to determine what is included in the accounts payable balance. We recommend that Xyntax software support be utilized to assist the Nation in cleaning up the accounts payable sub-ledger. Once cleaned-up the director of finance should review the accounts payable listing on a monthly basis to ensure it agrees to the general ledger account.

- 4) We noted that receipts are not required to be submitted with an expense claim for meals and accommodation (outside approved per diem amounts). Only a summary of expenses is provided. Employees may be claiming expenses which did not actually occur. If employee is not claiming per diem amounts, receipts should be required to be submitted to receive reimbursements.

Banking

- 1) During our audit management was unable to provide documentation for a significant number of bank deposits. The lack of support resulted in a qualification on the March 31, 2015 audit report. Without back-up documentation it is not possible to determine what the deposit relates to in order to determine where to allocate it. For every deposit made, the clerk should make a photocopy of the deposit slip as well as a photocopy of the supporting documentation (cheque stub, funding agreement, etc). This should be filed in a consistent location so it can be located if necessary.

We would be pleased to discuss with you further any matters mentioned in this report at your convenience. This communication is prepared solely for the information of management and is not intended for any other purpose. We accept no responsibility to any third party who uses this communication.

Yours truly,

MNP LLP

MNP LLP
Chartered Professional Accountants