

September 15, 2014

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

Dear Mr. Bullock:

Re: Audit of 2014 Financial Statements

During the course of our audit of the financial statements for the year ended March 31, 2014, 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.

Revenue, receivables, receipts

- 1) Proper segregation of duties results in one person not being able to authorize and record a transaction and to have custody of the related asset. Improper segregation of duties increases the risk of fraud. The Social Housing clerk receives payments, records the payment received and often deposits the receipt. These duties are incompatible as it allows the clerk to have custody of the funds and possibly misappropriate them and to record the transaction, not record the transaction or record another transaction to hide the misappropriation. We recommend that someone other than the Social Housing clerk prepare the deposit slip and give a copy of the slip to the clerk to record the transaction.
- 2) Significant amounts of Social Housing rent are not being collected or not being collected on a timely basis resulting in not enough funds to cover the operating costs of the program and the resulting deficit being covered by the Nation. We recommend that you establish policies that set out when collection action will be taken and what those collection actions will consist of.
- 3) A band member is being charged rent by Social Housing despite the fact that the payments he already made were sufficient to pay off the related mortgage but the payments made were not correctly applied to that mortgage. In addition, because title has not been transferred to the band member yet, the Nation is paying the house insurance which should be paid by the band member. We recommend that title to this house be transferred to the band member, the Nation take responsibility for this mortgage and Social Housing stop charging him rent and stop paying his house insurance.
- 4) Social Housing is not charging rent to two elders on the basis that a hereditary chief promised them that they would not have to pay any rent. In order to cover up this situation the records show that the house is being rented by two other band members who are actually residing in a Nation owned house where they pay rent. We recommend that you either start charging rent to the two elders or move them into a band owned house where CMHC does not require you to charge rent.

5) At March 31, 2014 the total accounts receivable per the detailed accounts receivable sub-ledger listing did not agree to the total accounts receivable per the general ledger. We recommend that these two balances be agreed at every month end and any differenced reconciled or corrected before the month end is finalized.

6) Currently, the Social Housing clerk does not prepare a deposit slip which lists the cheques and cash deposited. In the event there is a discrepancy between the deposit recorded by the Nation and the deposit acknowledged by the bank you do not have any documentation to support your position. In addition, if a band member claims they paid their rent and your records show it is not paid they could claim their rent is one of the deposits made and you would not be able to refute the claim. We recommend that a deposit slip be prepared for all deposits and it be taken to the bank with the deposit and stamped by the bank and the stamped deposit slips be retained in the deposit book.

7) The Nation uses a number of general ledger accounts to record rental income which makes it difficult to identify if rental income has all been recorded or if some rental income has been missed. We recommend that one account be used for all rental income so that the rental income recorded can be easily compared to the rental income that is budgeted.

Expenditures, payables and disbursements

1) During our audit we noted numerous payments that lacked any supporting documents and as a result we were unable to determine if the payments were an expense or asset of the Nation, if they had been recorded accurately or in the correct period, if the goods or services had been received, if the payments were classified correctly or if the purchase was authorized. We recommend that a comprehensive policy be developed and that a number of controls be implemented. To ensure that purchases are authorized we recommend that the number of people authorized to make purchases be limited to as few people as possible and that who those people are should be set out in the policy. Along with this we suggest you make the use of pre-numbered Purchase Orders (P.O.'s) and cheque requisitions mandatory. The person authorized to make a purchase would complete a P.O. for each purchase which would name the vendor, a description of the items or services and the quantity of each to be purchased and wherever possible the cost and they would sign the P.O. to show the purchase was authorized. A copy of the P.O. should be given to the accounts payable department (to file in numerical order) , a copy to the person or department that will be receiving the goods, a copy sent to the vendor and a copy kept by the person who completed the P.O. When the goods are received the quantity of the goods or the service received would be agreed to the P.O. and the P.O. would be signed or initialed to indicate that the goods or service received agreed to what was ordered. This copy of the P.O. would then be given to the accounts payable department to file in alphabetical order until the invoice is received from the supplier. All invoices should go directly to the accounts payable department and not to the receiver or purchase originator. In the event that this process is too onerous, all invoices received should be given to the person who authorized the purchase for them to initial to indicate that the goods or service were received and then return to the accounts payable department. . A stamp can be purchased which would have a spot for initialing that goods were received and other controls that we will recommend be documented.

At this point, the accounts payable department would either have a supplier invoice or a P.O. and the related supplier invoice which had been initialed to indicate the goods or service was received. Purchases without proper authorization should not be processed and the accounts payable department should follow up unapproved purchases to get appropriate authorization before processing the purchase. If the P.O. system is used, the accounts payable department would match the supplier invoice to the P.O. The accounts payable clerk would check for initials indicating the goods or service were received and then note the account to charge the purchase to on the invoice in a spot created by the stamp. This may require them to contact the person who purchased the goods to obtain a better explanation of what the purchase was for to ensure they code it correctly. They would then record the purchase in the accounts payable module and file the invoice or P.O./invoice package temporarily in an alphabetic folder until cheques are ready to be prepared. You should check to see if your accounting software has the capability to check for duplicate payments and if it can the supplier invoice number should be entered along with any other required information so the software can check for duplicate payments. Only in rare circumstances should cheque requisitions be used. When they are required the requisition should be approved by an authorized person and the Controller before being processed.

Weekly, or however often you need to prepare cheques, the invoices that require payment should be selected. To ensure that payments are only made when funds are available a preliminary cheque listing along with the total of the cheques proposed for that cheque run should be printed and given to the Controller for approval. Once approved the cheques should be printed and the related invoice stamped "PAID". The cheque and supporting invoice or P.O./invoice package should be given to the people authorized to sign cheques. There should be a limited number of people authorized to sign cheques – usually two signatures are required being the Band Administrator or Controller and one of two Councillors. You may also want to consider setting cheque signing limits with the Band Administrator and Controller able to sign cheques under a certain amount without the signature of a Councillor and cheques over a certain amount also requiring one signature from a Councillor. It is imperative that the cheque signers scrutinize the support before signing the cheque and that they feel free to ask questions about any purchases. The signed cheques should be given to someone other than the accounts payable clerks for mailing or to be picked up by the vendor and the supporting documents returned to the accounts payable department for filing. Supplier invoices are usually filed in alphabetical order, by supplier. Lastly, at month end the Controller should ensure that the accounts payable subledger agrees to the general ledger.

2) We noted that the mail is not picked up on a regular basis which can result in deposits not being deposited promptly or supplier invoices not being recorded on a timely basis. We recommend that a person be designated to be responsible for picking up the mail every day that mail is delivered to the island.

3) Band members are not required to get medical treatment locally and when they elect to obtain medical treatment other than locally they are reimbursed for their meals and hotel stays. This is a significant cost to the Nation. We recommend that band members be reimbursed for meals and hotel stays only when the medical treatment is not available locally. In addition, we noted that these reimbursement payments are prepared by the Patient Travel manager and are not reviewed by anyone else. We recommend that these reimbursements get processed the same as any other purchase. A Patient Travel clerk should prepare the calculation of the reimbursement on a prescribed form (which has a place for the calculation of the reimbursement, a place to document why local treatment is not being received and a place for approval by the Patient Travel Manager) which should then be reviewed and approved by the Patient Travel Manager who would then send it to the accounts payable department for processing.

4) 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.

5) Just prior to the end of the year, the Social Development Department became aware that they would be unable to spend all of a grant which had to be spent by the end of the year or be repaid. A cheque was paid to the Office Manager personally to be used for Band purposes in the subsequent year. This is a fraudulent transaction and the funds should be repaid to the band and they should return the unspent funds to the funding agency. If proper purchasing procedures had have been followed this type of transaction could not have occurred.

6) There are two accounts payable clerks and they currently share the accounts payable responsibilities which can contribute to duplicate payments being made to a supplier and a general lack of accountability. We recommend that the accounts payable responsibilities be clearly allocated to the clerks. Each clerk should be assigned a portion of the alphabet and be responsible for processing those payables each month. The allocation should be made so their work loads are approximately equal. The clerks will become familiar with the suppliers that they are responsible for which should reduce processing errors and to help them identify duplicate payments or suspicious payments.

Payroll

- 1) The largest number of unsupported payments that we noted during our audit were payroll payments. It is likely that the time sheets and other support were just lost or misplaced. We recommend that after the processing of a payroll is complete that all documents related to that payroll be included in one folder or envelope and filed chronologically by payroll date.
- 2) On many of the time sheets that we did locate there were adding errors of the number of total hours worked during the pay period which resulted in employees being paid for hours that they did not work. On thirteen time sheets we reviewed there were errors resulting in overpayments of \$1,607. We recommend that the payroll clerk check the additions on all time sheets received for processing and if errors are noted to discuss them with the person who approved the time sheet and that the amounts be corrected if necessary.
- 3) There is currently no requirement to have overtime approved before it is worked which could lead to overtime being worked and paid for when it was not necessary. We recommend that all overtime be approved by the department head before it is worked. This would require you to develop a form to document the approval and to submit it with the time sheet.
- 4) Accumulated overtime and sick time are not tracked by the payroll software. Instead, the payroll clerk keeps track of these balances using a spreadsheet which is not updated on a regular basis and is not reviewed by anyone. As a result, errors could go undetected and employees could be overpaid. We recommend that this spreadsheet be updated every payroll and that the Controller review it and initial a print out of it each payroll to document the review.
- 5) Pay cheques are distributed on the final day of each pay period which means employees' time for the last 4 days is estimated and there is no process to ensure the estimated hours are actually worked. As a result employees could be overpaid as it is likely if they work more hours than the estimate that they will bring it to the attention of their department head or the payroll clerk but if they work less hours nothing will be said. We recommend that there be a delay of three or four days from the payroll cut-off date until pay cheques are distributed to give the payroll clerk time to process the payroll without using estimates on the time sheets. This will ensure that employees are paid for the correct number of hours worked.
- 6) All but one of the employees tested lacked any documentation in their personnel file as to their approved pay rate. This could result in employees being paid at the wrong pay rate. We recommend that when an employee is hired that the details of their employment, including pay rate, standard hours of work, benefits to be received, annual vacation entitlement, etc, be documented and approved by an authorized person and that this authorization be kept in their personnel file. Annual pay increases should also be documented and approved with this form also filed in their personnel file. You should have a policy that documents who is authorized to hire and terminate employees and to set their initial and annual pay rates.
- 7) There is currently no overall review of each payroll by a senior management person to ensure the overall reasonableness of the payroll. We recommend that before pay cheques are printed or disbursed each pay period that the Band Administrator or the Controller be provided with the payroll register or other payroll reports showing the gross pay for each employee and the deductions from their pay and the net pay. They should review these reports closely for unknown employees or unusual gross pays or unusual deductions from an employee's pay and if unusual items are identified they should be followed up with the payroll clerk or the department head. Once reviewed, errors, if any, can be corrected and these reports should be initialed by the reviewer and filed with the other documents that support that payroll.
- 8) Payroll records are kept in a room where the door is not locked and access to the payroll records is not restricted to authorized employees. In fact, this room is located across the hall from the Patient Travel clerk's office so lots of band members go by this room on a regular basis and this creates the risk of unauthorized people accessing private personnel records. We recommend that the records be kept in a locked filing cabinet or the room that they are kept in be locked with the payroll clerk and Controller being the only employees with keys to the room.

9) No one is currently reviewing the payroll deduction liability accounts to ensure they are clearing to nil on a regular basis. Ensuring that these accounts clear to zero each month is a good control to ensure that the correct amount of source deduction is being paid every month and the correct liability for payroll deductions was recorded. We recommend that the Controller review the payroll deduction liability accounts at the end of each month to ensure the prior month's liabilities cleared during the month.

Banking

1) A number of employees have access to the on-line banking function and have the ability to make payments and transfer funds. This allows employees to make unauthorized withdrawals and creates a high fraud risk. While on-line banking seems like a quick and easy way to initiate transactions it usually lacks the controls necessary to ensure that transactions are properly authorized because it usually lacks the requirement for two people to authorize a transaction. We recommend that until proper controls over transaction authorization is implemented by the bank that on-line banking be discontinued. In the event that you find it necessary to continue using on-line banking then its use should be limited to the Controller. Accounts payable clerks could generate a document similar to a cheque requisition but for on-line banking, give this document and the support for the transaction to the Controller and the Controller would generate the transaction. When the bank statements are received each month they should be given to the Band Administrator as soon as they're received to identify all on-line banking transactions and discuss them with the Controller to ensure they were authorized or to actually review the support for each of the transactions

2) At March 31, 2014 the Nation had forty-three bank accounts in use, some of which were inactive. This large number of bank accounts creates additional work for the accounting department as each month the bank statement for each account has to be reviewed, reconciled and filed and the bank charges for all these accounts are significant. In addition, it creates the risk of transactions being deposited or paid to the wrong account or made in the correct account but recorded in the incorrect general ledger account. We recommend that you review which bank accounts are actually needed and to close all the accounts that are not necessary.

3) During our audit we were unable to locate a number of bank statements because they are not filed in a consistent, organized manner. We recommend that you choose a method of filing and ensure all bank statements are filed in a consistent manner. Many clients file the monthly bank statements in a unique folder for each bank account along with the monthly bank reconciliation.

4) The new payroll bank account (RBC 100-909-1) is not linked to the payroll module and as a result payroll cheques issued are not being removed from the payroll bank account outstanding cheque list when they clear the bank so a manual bank reconciliation must be prepared. We recommend that this bank account be linked to general ledger account 10-10123-000 and the payroll module so that the automated bank reconciliation process can operate.

5) We noted that bank reconciliations are not being prepared for all bank accounts each month. Monthly bank reconciliations are a key control to ensure that deposits and cheques were recorded correctly, that only authorized transactions are clearing the bank and that the bank did not make any errors processing the bank transactions. In addition, we noted that bank charges and other bank generated transactions are often not recorded. This is possible because the bank reconciliations are not always done and if they were this problem would be identified. We recommend that all bank accounts be reconciled every month and that the Controller review and approve the reconciliations each month.

Books of Account

- 1) Your accounting system includes the accounting records of many funds and companies, each of which should have a set of accounts that balance to nil (the debits equal the credits). We noted that a number of these entities have accounts that do not balance to nil. This indicates that there have been errors recording transactions or more likely that transaction that affect two or more entities have only been recorded in one of the entities. This results in inaccurate information that is not reliable. We recommend that every month when the month end accounting has been completed that a trial balance be printed for each entity and that the Controller ensure that each of these trial balances balance to nil. In the event they do not balance to nil the difference needs to be identified and corrected before the month end is completed.
- 2) Your accounting records include the accounting records of a number of inactive funds or programs. These accounts have not been labeled as "inactive" in your accounting software so it is possible that transactions could get recorded to these accounts in error. We recommend that you identify all the inactive programs and entities within your general ledger and label all of their accounts as "inactive" to prevent transactions being posted there in error.
- 3) The review of monthly financial statements which include current and prior year actual results and current year budgeted results by Council or a Committee appointed by the Council is a key control to identify errors, fraud, operational issues that need to be addressed and help Council fulfil their fiduciary oversight role. We understand that this information is not currently available to Council. We strongly recommend that production of these monthly financial statements on a timely basis be a priority for the Controller and that the Controller review them with Council. The Council should request explanations from the Controller of any variances over a set threshold which Council is comfortable with and the Controller should also be prepared to answer any questions from Council about the monthly financial statements
- 4) Master files are key computer records that contain key information such as pay rates, supplier, customer and employee names, etc. The information must be recorded in the Master file in order to generate a transaction with the supplier or customer or employee and certain information in the Master file will affect calculations like gross pay. Unauthorized access to these Master files could result in fictitious employees or suppliers being created which could be used to misappropriate funds or pay them more than they are owed. Currently, access to Master files is not restricted very well and changes to Master files are not being reviewed. We recommend that all Master file changes be reviewed by the Controller or Band Administrator each month to ensure they are authorized.
- 5) We understand that a number of employees have access to modules in the accounting software that they are not required to have to perform their duties. For example, one of the payroll clerks has access to all the modules. This allows employees to generate transactions in accounts payable, for example, and potentially generate unauthorized payments. We recommend that you review who has access to which accounting modules and restrict each employee's access to only the modules they need to access to perform their duties.
- 6) Usernames and passwords are computer controls to restrict access to computers, computer programs and modules within programs. We understand that a number of employees know the usernames and passwords of other employees and this allows them to access information and generate transactions that they are not authorized to access or generate, we recommend that all employees be required to change their usernames and passwords immediately and they be instructed to not share this information with other employees or band members. In addition, we recommend that they be required to change their passwords every three months to ensure that the passwords remain secret.

We would like to express our appreciation for the co-operation and assistance which we received during the course of our audit from the staff at Ahousaht First Nation.

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