

August 3, 2017

Chief and Council  
Montreal Lake Cree Nation  
Box 106  
Montreal Lake, Saskatchewan  
S0J 1Y0

Dear Chief and Council:

### **2017 MANAGEMENT LETTER**

During the course of our audit of Montreal Lake Cree Nation for the year ended March 31, 2017 we identified the following matters that 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 and it is not designed to identify matters that may be of interest to management in discharging its responsibilities. Accordingly, an audit would not usually identify all such matters.

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

#### **Reasonability and necessity of expenditures**

The Cree Nation has incurred an operating deficit in excess of \$3,000,000 for 2017 fiscal. A serious examination of all program expenditures is needed to ensure that the Cree Nation halts overspending and begins to take steps to recover the 2017 deficit. Amounts expended should be necessary and appropriate for program delivery. Following a budget plan for program delivery and ensuring adherence to the budget should become management practise and supported by Council. We observed payments being issued without Band Manager approval which undermines any process to help ensure expenditures are within plan. We recommend that management begin its examination of expenses by focusing on the more discretionary expenses; member assistance and travel. Collectively these two expenses amount to \$1,600,000 and increased \$520,000 in fiscal 2017. An additional significant increase in 2017 was on account of wages and benefits which have increased \$1,100,000 from the previous year. These costs should similarly be examined to ensure they are necessary and are funded positions.

*We recommend that the Cree Nation immediately address all spending to ensure it is necessary and reasonable. It is also recommended that a financial policy be implemented to require the Band Manager's approval on all payments before the payment is process*

#### **Bank reconciliations and accounting records**

The bank reconciliations were not being done on a regular basis during the year, hence negating the importance of bank reconciliation review as a monitoring control over the financial reporting. Additionally when the bank reconciliation are not performed there are no assurances that the accounting records are complete. We also observed that there were more classification errors in the current year than has been our experience previously.

It was also noted on the bank reconciliations that there was approximately \$77,000 of staledated cheques that were not cleared off the outstanding cheque listings at March 31, 2017. The outstanding cheque listing should be reviewed monthly to ensure items are clearing and if not determine why.

As a result, extra time was spent reconciling the bank accounts along with extra testing required for this year's audit. This results in delays with completing the audit and extra costs and time incurred in getting the records ready to be audited. It also results in both management along with Chief and Council not having access to reliable financial reports that they can review on a regular basis.

*It is therefore recommended that the band immediately implement a financial reporting checklist including:*

- *Bank reconciliations to be done monthly and balance agreed to the general ledger balance which are signed off by a senior manager and or the Finance Councillor as evidence of review; and*
- *Accounts Payable subledger balance agreed to accounts payable balance per the general ledger on a monthly basis; and*
- *Consolidated income statement prepared.*

*The Finance Manager along with the Program Managers should also review the general ledger at a minimum on a quarterly basis to ensure there are no coding errors and no items that are double recorded.*

*The bank reconciliations should also be reviewed monthly to ensure there are no outstanding items that need to be reversed.*

*If the current staff is unable to do the bank reconciliations and other reconciling on a regular basis, the Cree Nation should obtain training for their current staff or hire additional staff to ensure the bank reconciliations and bookkeeping are appropriately maintained.*

### **Supporting documentation for expense testing**

During the audit, it was determined that there was inadequate documentation for the following types of payments:

- Band Membership Assistance;
- Travel payments; and
- Reimbursements.

We struggled with these types of payments as travel expenses often lacked detail as to the dates of travel, location, distance and purpose; member assistance did not have appropriate detail as to the beneficiary, date, reason and how the amounts paid were determined; and reimbursements often did not have copies of receipts attached to the RQ. Without proper documentation to substantiate the payments the certainty as to the appropriateness of the payments is cast into doubt.

*We recommend that the band immediately develop policies and protocols in that requests must have appropriate supporting documentation and provide limits on the amount of assistance being paid. All RQ's should include:*

- *Band Membership Assistance*
  - o *Copy of request for assistance by the individual (letter etc);*
  - o *Receipts indicating which band member is receiving the assistance;*
  - o *Receipts for hotels, meals, purchases, etc. as they may pertain to the amount requested;*
  - o *Signed approval from the Band Manager; and*
  - o *Given the sensitivity of member assistance, Council should be reviewing all band member assistance payments during their council meetings.*

- *Travel*
  - o *The purpose of the travel claim;*
  - o *Date(s) the travel claim relates to;*
  - o *Receipts for hotels, meals, etc.;*
  - o *Number of kilometers to the meeting;*
  - o *Breakdown of the travel claim reimbursed amount as to how the amount was determined; and*
  - o *Signed approval from the Band Manager.*
- *Payroll (extra payments)*
  - o *Timesheets documenting extra hours worked;*
  - o *Letter from supervisor or Band Manager approving the extra time needing to be worked; and*
  - o *Details of how the extra amount is calculated.*
- *Reimbursed expenses*
  - o *Copies of receipts attached to the RQ from 3<sup>rd</sup> party vendors; and*
  - o *In cases of day money and similar payments, a listing of the individual receiving the payment, purpose and acknowledgement of receipt (signature, name, date and purpose).*

*We also recommend a review of the individual's job description to ensure that the work these extra payments relate to be included in the job descriptions and are included in that employee's annual wage rather than regularly issue extra payments to the individual.*

#### **Cheques issued and not posted to the general ledger**

During procedures over cash balances, we observed instances of computer generated cheques being issued, clearing the bank but not recorded to the accounting system. Of the instances noted, the payee was the Finance Manager. Additionally, there were instances of the Finance Manager signing their own cheque. There were also payments to the Finance Manager in which there was only one signature on the cheque.

*We recommend that a monitoring process be implemented whereby the particulars of cheques clearing the bank are reviewed and agreed to the general ledger details for that cheque immediately.*

*It is also recommended that no individuals with signing authority, including the Finance Manager, sign their own cheques and that a discussion with the Cree Nation's financial institution occurs to make them aware of their institution processing cheques which are not properly approved due to the absence of two signatures.*

#### **Insurance Trust**

An annual allocation of \$220,000 is required to be appropriated from Band Based Capital to the Self Insurance Fund. As at March 31, 2017 \$834 is on deposit in the Self Insurance Fund bank account. We noted the draws against the bank were transfers back to the operations of the Nation and not on account of housing replacement.

*We recommend that the Cree Nation immediately top-up the insurance funds to fund future burnt housing unit claims that may arise in the future to the minimum required level.*

### **Number of bank accounts**

At March 31, 2017, the Cree Nation utilizes 20 bank accounts for conducting its operations. It is difficult for management to effectively oversee this many accounts and monitor the transactions within each. Additionally, it is a difficult task for the finance staff to reconcile the transactions of each of these accounts as well as reconcile the transactions between these accounts.

Employing this many accounts increases the banking fees because some accounts would be overdrawn and incurring interest charges while others have a positive balance and are not incurring any fees.

*We recommend that the Cree Nation review which bank accounts are necessary and eliminate the remainder.*

### **Social Assistance monthly bank entries**

It was noted that monthly bank entries from Social Assistance systems are from the Stats Sheet and not from the monthly journal entries. As a result, the transactions in the Social Assistance account are not accounting for all the transactions in the Social Assistance bank account

*We recommend that the monthly journal entry feature be used from the ASAP Social Assistance system to record the monthly journal entries in AccPac.*

### **Band Council Resolutions and Minutes**

During our review of the BCRs and minutes of Chief and Council meetings we could not determine whether all minutes and BCRs were accounted for. It was also noted that some of the minutes were being handwritten, which made them difficult to review.

*We recommend the following:*

- *BCR log be kept and that all BCRs are labeled sequentially in order to help ensure all BCRs are retained on file by the Cree Nation;*
- *It is recommended that the individual preparing the meeting minutes be provided with a laptop, so the minutes can be typed and therefore easy to review.;*
- *The minutes should also be signed in order to document Chief and Council approval; and*
- *The signed minutes should be placed in a "Minute Binder" in order by date of meeting.*

### **Capital assets**

Capital assets are not presently being monitored by the Cree Nation for additions and disposals. As a result, the Cree Nation could potentially have capital assets that are no longer in their possession that they may be unaware of. Such a listing would be an important tool to help ensure all assets are properly safeguarded by assigning responsibility of them to the user.

*We recommend that the Cree Nation tracks all capital asset transactions including additions and disposals during the year. It is also recommended that a staff member is assigned to keep copies of supporting documentation pertaining to capital asset transactions.*

### **Payroll withholdings**

During our work, we noted that the payroll withholding liability accounts were not reconciling to the actual amounts owing. For example, the pension liability account indicated an amount owing at March 31, 2017 of \$6,700 when the actual liability was \$52,000.

The manner in which the SIEF loans are recorded should be reconciled by management. The accounting records indicate that MLCN has over paid the employee loans by approximately \$22,000 (2016 - \$38,000). Management should ensure that the remittances are accurate and that the employee deductions are being properly captured to GL account #ML-2055.

It was also noted in a recent Canada Revenue Agency audit that approximately \$52,000 owed in arrears to Canada Revenue Agency as at March 31, 2017.

*We recommend that the GL payroll withholding liability accounts be reconciled to actual amounts calculated as owing. Differences should be examined to determine why there is a difference between the general ledger and what is determined to be owing.*

*It is also recommended that the band immediately make payment arrangements with Canada Revenue Agency on the assessed amount owing.*

### **Accounts payable listing**

We observed that the accounts payable aging contains a number of individuals showing amount owing. The majority of the individuals noted on the listing have minimal amounts owing and all are over 90 days, when in fact the invoices may have already been paid or may be reversals of payments which are set up again into the accounts payable module. This results in the accounts payable listing and financial information of the Cree Nation to be inaccurate.

*We suggest that as part of the regularly monthly routine, management review the accounts payable listing and determine whether amounts are in fact owed to the individuals or whether they are reported in error. If anything is identified as an error, it should then be adjusted for at that time.*

### **Budgets, Cash Flow Analysis and Variance Reports**

Budgets and variance reports are currently not prepared for all the programs of Montreal Lake Cree Nation. It also noted that the approved budget has remained the same since the March 31, 2015 year end.

The budgets should represent the complete fiscal plan for the Cree Nation for each fiscal year. A consolidated budget would better enable management and Council to monitor the operations of the entire Cree Nation and address deviations from budget. Additionally, it is a requirement that your financial statements disclose the financial budget for the community for the year. An annual budget should be presented to Council and approved by Council which maps out the community's fiscal plan for the upcoming year.

*We recommend that management prepare budgets for all significant programs, they be incorporated into the AccPac accounting software and ensure that the budgets are approved annually by Chief and Council with documentation in the meeting minutes.*

### Year End Cutoff

We were required to reconcile the opening balances in the accounting system so that they matched the prior year ending audit balances. During this process, we noted entries being made into the prior year by the finance staff. It is important that once the year end trial balance and general ledger is provided to the auditor, no further postings are made to the accounting system. Should adjustments be deemed necessary by management, these entries should be provided to the auditor so that they are included properly in the audited financial statements. When items are added to the accounting records subsequent to the commencement of the year end audit it causes challenges ensuring that these items are properly removed.

If you have any comments, or if we can be of further assistance, please call Murray Zaleschuk at (306) 665-6766.

Yours very truly,

*MNP LLP*

Chartered Professional Accountants