



Grant Thornton

December 14, 2012

Tataskweyak Cree Nation
General Delivery
Split Lake, MB R0B 1P0

Attention: Chief and Council

Grant Thornton LLP
84 Commerce Drive
Winnipeg, MB
R3P 0Z3
T (204) 944-0100
F (204) 957-5442
www.GrantThornton.ca

Dear Chief and Council

Ref. #: 139534

Re: Internal Control Findings from the 2012 Audit

Receiving observations and findings on your financial reporting processes and controls is one of the benefits of an annual financial statement audit. Our procedures identified items that we need to bring to your attention.

Our audit is planned and conducted to enable us to express an audit opinion on the annual consolidated financial statements. The matters dealt with in this letter came to our attention during the conduct of our normal examination, and as a result, this letter does not necessarily include all matters that would be uncovered through a more extensive or special engagement.

Please distribute the management letter points to each department for which they are applicable and provide a written response whether each matter is valid and how the matter will be addressed.

During our audit we noted that changes had been implemented to address material weaknesses identified in previous audits.

The standards of the public accounting profession require us to report annually to you our findings on certain weaknesses and deficiencies in your internal controls. We have categorized our findings as follows:

- *Material weaknesses* (individual or aggregated deficiencies that could result in a material misstatement in the financial statements due to fraud or error)
- *Significant deficiencies*
- *Other deficiencies and advisory comments*

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We did not identify any material weaknesses. Our comments on significant deficiencies and advisory comments follow. Findings noted from the prior year that are still applicable include:

Significant deficiencies

Agreements

Future Development (Keeyask) Agreements

There are many agreements maintained between the Band and various funders and other third parties. Currently, many of these agreements are monitored by a third party service provider, Hobbs & Associates (Hobbs), the accounting for these agreements is done by another third party service provider, Olafson & Jones (O&J) and the funds are held by a third service provider, Robert F. Roddick (Roddick). During our work we noted that O&J does not always have all the required information to properly account for the contributions and particularly the required deferrals, receivables, and payables under the various agreements. The one overall test that we as auditors rely on is the reconciliation to the various funders' funding confirmations. In many cases however this reconciliation is very complicated, particularly in the case of Manitoba Hydro (Hydro) revenue, due to the vast number of agreements and Hydro departments that are involved.

Also, due to the significant number of agreements maintained, all revenue received from Manitoba Hydro is not separately tracked for each agreement and therefore, making it difficult to reconcile Manitoba Hydro revenue to the confirmation received at year end. For example, funding received to reimburse travel is put into one account called travel reimbursement but not allocated to the actual agreements revenue account. Further, War Lake reimbursement is tracked separately, although relating to all agreements and therefore, all revenue accounts per agreement will not tie to the confirmation but the total revenue will tie.

Lastly, during our audit we noted that all Hydro projects are being recorded in the same general ledger as Future Development and is broken out at year end. This results in a number of agreements being tracked in the same general ledger which increases the risk of potential errors or material misstatements to occur.

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Recommendation

We recommend that in the future the Band engage Hobbs to prepare a reconciliation of all revenue received from Hydro to the revenue that is recorded in the various books and records by O&J. Hobbs and O&J should also reconcile Hydro revenue to the Hydro confirmation by contribution agreement. This should occur as quickly as possible after the fiscal year end of the Band. This reconciliation will likely also involve Roddick as many of the balances may still be held by him "in trust" pending instructions from Chief and Council. This reconciliation will then be provided to the auditors to support the recording of Hydro revenue.

We also recommend that in the future all revenue received per each agreement is kept in a separate account including all travel and all War Lake costs relating to Keeeyask # 1 Agreement. This will make it more efficient to reconcile Manitoba Hydro revenue confirmation at year end.

We recommend that all Hydro projects are tracked in a separate general ledger for the entire year. This will reduce the risk of errors or material misstatements to occur.

Future Development Travel Reimbursement

During our audit it was noted that travel in some cases is being reimbursed twice. Once in Winnipeg by Hobbs and Associates with the approval from a director of Future Development and then the member of the First Nation will then try and get reimbursed in Split Lake for the same travel. Due to the number of different people included in the claim process and a lack of communication, the appropriate people are unaware if the members have already been reimbursed. It has been estimated that the total travel that has been double reimbursed during the year amounted to approximately \$100,000. This results in non-claimable expenses to Manitoba Hydro resulting in a cash shortfall.

Recommendation

We recommend that in the future, travel reimbursements should only occur in Split Lake and the Director of Future Development should not approve any travel reimbursement to occur in Winnipeg. Lastly, Hobbs and Associates as well as Robert Roddick's office should be made aware of the changes to ensure that all members included in the claim process are aware. This will help reduce the amount of travel being reimbursed to the same member twice.

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Ininev Project Management (IPM) Capital Project Accounting

There are several capital projects in process that are all tracked on a cash basis by IPM in excel spreadsheets. As no separate general ledgers are maintained for each project, we are required to create financial statements for each project which is time consuming and costly to the Band.

Recommendation

We recommend that Aboriginal Strategies Limited Partnership (ASLP) take over the accounting for construction in progress managed by IPM in order to produce separate general ledgers for each project in progress. Individual balance sheets and income statements should be created for each project to facilitate the audit of each project.

Ininev Project Management (IPM) Capital Project Accounting

It was also noted that projects are "lending" funds to other projects which is not allowed per the contribution agreements and could result in clawback of funds. For instance, the Water and Sewer Project forwarded \$2,320,000 to Water and Sewer Participation which could be clawed back by Hydro as the contribution agreement prohibits lending to other projects.

Due to the lending that has occurred between capital projects and other TCN entities such as Future Development, Band, CMHC and Hotel, the total funds that are owed back to specific capital projects is approximately \$1,039,000 while \$846,000 of it is owed by Keeyask. The contribution agreements for the capital projects prohibit lending to other projects and may result in a claw back by the funder. Secondly, these funds will be required by the capital project in order to complete the project and if they are not repaid the project may not be able to be completed.

Recommendation

We recommend that funds received by each project be used solely for that specific project and not "lent" to other projects for use. This will help to ensure the Band complies with the contribution agreements, and avoid clawback of funds.

We recommend that funds be repaid to the capital projects from the TCN entities to ensure that the appropriate funds are kept within the project to be in compliance with the contribution agreements.

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Tataskweyak Construction Limited Partnership (TCLP) Accounting

AANDC requires its funding received and costs incurred for each construction project to be presented separately within the consolidated financial statements. The accounting for TCLP is performed by a third party service provider who may not have been instructed to break out the revenues and expenditures for each construction project.

Recommendation

We recommend that the Band request the third party service provider to account for the revenues and expenditures of each AANDC funded construction project separately.

Chief Financial Officer

During our audit it was noted that each of the First Nation departments and entities are small in nature which leads to only one person filling the accounting position. The lack of segregation of duties is necessary due to the number of transactions and overall budget of the departments and entities. However, in many instances these employees are not supervised on a day to day basis and their daily work is not reviewed regularly. Examples of departments with lack of oversight include Gas Bar, Pathways, Gaming, VLT and Hotel.

We also noted that the budgeting, monthly monitoring and consolidated reporting are being performed by ASLP. However, having an individual dedicated to all reporting would greatly improve communication to Chief and Council.

A Chief Financial Officer (CFO) with appropriate experience and expertise could supervise departments as well as manage intercompany balances, capital assets and report to Chief and Council on a continual and timely basis.

Recommendation

We recommend that a designated accountant (CA, CMA or CGA) CFO that has experience managing First Nation communities be recruited. It is advised that a recruiting service that has experience hiring accounting personnel for First Nation communities be used to facilitate the process.

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The CFO's responsibilities would include staff supervision, monthly reconciliation of intercompany due to/from transactions, tracking and accounting for tangible capital assets, contract and financial negotiations involvement, tracking of contribution agreements (Hydro, AANDC, Health Canada), and preparing monthly financial packages to present to Chief and Council including joint venture and business enterprises' financial performance updates.

Future Development (Kecyask) Lending

During our audit it was noted that periodically Future Development is forwarding its funding to other TCN programs/projects. As this transfer of cash is not funded by Manitoba Hydro (Hydro), this is resulting in a cash shortfall for Future Development hindering its ability to pay vendors and contractors. Future Development also spends funds on non-eligible expenses that are denied reimbursement by Hydro which contributes to the cash shortfall.

It was also noted that there are Hydro projects (BiPole III and Access) that are accounted for within the Future Development general ledger. This results in the projects' transactions having to be adjusted at year-end.

Recommendation

We recommend that Future Development cease forwarding funding to other TCN programs/projects as those amounts are not recoverable from Hydro. Future Development should also ensure it is familiar with Hydro eligible expenses per the contribution agreements to prevent incurring expenses that are not reimbursable by Hydro.

We also recommend that each Hydro project be accounted for within its own separate general ledger (i.e. BiPole III and Access).

GST Rebate

During our audit it was noted that certain entities received a GST rebate relating to prior years expenditures that were incurred. However, in many instances specific funders have reimbursed the GST on all eligible expenditures and therefore, according to the specific funding agreements, the GST rebate should be owed to the funder. We noted that in one instance the GST rebate received amounted to \$89,128 and represents a potential liability owed to one funder.

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Recommendation

We recommend claiming expenditures on a net basis and filing GST returns on a timely basis to avoid any potential future liabilities and improve cash flows.

Gas Bar understatement of sales

During our audit it was noted that Gas Bar's fuel revenue is likely understated due to the lack of controls that are in place. We calculated the expected sales at the average sale price of \$1.325 per litre multiplied by the change in the number of litres from the beginning of the year to the end of the year based on the pump reading for the current and prior year. It was noted that the fuel revenue could be understated by approximately \$140,161 in the current year and \$185,915 in the prior year. It is undeterminable if the understatement of sales is due to not tracking all fuel sales that are purchased or if it is potentially due to fraud.

Recommendation

We recommend that all daily sales are reconciled to the point of sale system print out on a daily basis to ensure that all litres sold are accounted for by verifying the change in the pump reading at the beginning of the day to the end of the day.

Also, we recommend that there are segregation of duties between the person who reconciles the daily sales to the point of sale print out and the person who sells the fuel on a daily basis. This will reduce the overall risk of fraud to occur.

Cash

Deposit cash daily to the Northern Store

We noted that cash received at the Gas Bar is not being deposited daily at the Northern Store.

Recommendation

We recommend that cash should be deposited daily intact. Since there is no bank in Split Lake, cash should be deposited to a Northern Store account daily. Northern Store cash balances should be deposited in the First Nations bank weekly.

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Intercompany Reconciliation

During our audit it was noted that intercompany transactions are recorded within accounts receivable, accounts payable as well as in their respective due to/from accounts. At year end it makes it difficult to reconcile intercompany balances and reduces efficiency during the course of the audit.

During our audit it was noted that not all transactions incurred relating to services provided by the investment companies of TCN were recorded as the intercompany accounts did not reconcile. For example, if expenses are not recorded on entities that receive reimbursement from Manitoba Hydro for eligible expenditures, the Band will not be able to receive reimbursement for the expenditures incurred. As this is the only source of income for the Hydro projects this will result in a cash shortfall and a higher deficit.

Recommendation

We recommend when reconciling intercompany balances to consider the balances that are included within the trade receivables and trade payable accounts as this will increase the efficiency during the audit and make it easier to reconcile all intercompany balances.

We also recommend that all TCN entities and the investment companies of TCN reconcile their related party balances on a monthly basis. This will reduce the amount of unrecorded transactions and will allow the Hydro projects to receive reimbursement from Manitoba Hydro for the services provided by the investment companies.

Investment Companies

During our audit it was noted that funds received from and loaned to the investment companies by TCN entities are not being accounted for correctly. For instance, drawings received are being recorded as revenue rather than a reduction on the investment. Also, loans forwarded to companies are recorded as an expense rather than an increase in the loan to those companies.

Recommendation

We recommend that all drawings from investment companies be recorded as a reduction of the investment and all loans be recorded as an increase in the loans.

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Insurance Proceeds

During our audit we noted that insurance proceeds received for the disposal of capital assets are not being accounted for in accordance with financial reporting accounting standards. Accounting standards require the proceeds received less the cost of the asset destroyed to be recorded as a gain on sale. Currently the proceeds are recorded as deferred insurance proceeds.

Recommendation

We recommend that the gain or loss on disposal of capital assets be determined and recorded based on insurance proceeds received. A Restricted Surplus equity account can be used to track the insurance proceeds received to replace the asset if necessary.

Capital Assets

During our audit we noted that capital asset additions were improperly expensed and disposals were not accounted for.

Recommendation

We recommend that significant acquisition of infrastructure, building, equipment, etc. be evaluated against TCN's capital asset capitalization policy to determine the appropriate accounting treatment. Determining the appropriate classification of the capital asset additions at the time of the transaction will reduce the risk of errors that occur in their treatment.

Also, we recommend that all disposals of capital assets are recorded when the transaction occurs. The capital assets net book value should be written down to nil and the difference between the proceeds received and the net book value of the capital asset be recorded as a gain or loss on disposal.

Accounts receivable

Monitor the collectability of receivables

During our audit we noted that certain entities' accounts receivable balances were at risk of not being collectible. For example, the Hotel extended credit to customers whose collectability remains uncertain.

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Recommendation

We recommend that an accountant monitor the accounts receivable ledger and that entities should exercise caution in issuing credit to customers with a growing receivable balance. We also recommend that the receivables be reviewed on a regular basis by someone other than the entity's accountant (see the following point re: supervision of accounting staff) to also mitigate the risk of fraud.

Other deficiencies and advisory comments

The following comments are advisory only and are intended to assist you in maintaining and enhancing your control environment.

Corporate Governance

Backup of Electronic Data

We noted that entities were not adequately making copies of all data and software stored in machine-readable form, for use if the main copies are lost or damaged.

Recommendation

Each entity should perform an automated daily incremental backup and a complete backup of the entire week's changes on a weekly basis. Daily and weekly backups should be stored off-site in accordance with an entity's system availability policies. Moreover, the usability of the backups should be verified at least annually.

Meeting minutes

During our audit we noted that no minutes were maintained for meetings held by the Chief and Council during the year.

Recommendation

We recommend that minutes be kept for each meeting held by the Chief and Council to ensure that decisions made are appropriately documented.

Disaster Recovery Plan

The Organization does not have a written and tested disaster recovery plan. Without such a plan it increases the risk that the Organization would not be able to efficiently and effectively recover from a disaster event, thereby increasing the potential for an extended period of business interruption and lost business.

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Recommendation

We recommend that the Organization formally document, communicate and test a disaster recovery plan.

Replacement Reserve Fund

Expenditures

During our audit we noted that CMHC Reserves and Maintenance costs that qualify against the reserve are not tracked.

Recommendation

We recommend that housing expenses incurred be reviewed and that all appropriate expenditures be charged against the reserve based on CMHC approval.

Reserve funding

CMHC Reserve is unfunded which is not in compliance with The First Nation's agreement with CMHC. There is a risk that CMHC could stop subsidy payments due to non compliance with the agreements.

Recommendation

We recommend that a replacement reserve bank account be opened and cash equivalent to the replacement reserve balance be transferred to that account.

Health Services – Transportation

Per discussion with management it was noted that Health Canada funds two medical trips per day to transport patients to and from Thompson (one in the morning to drop off and one in the afternoon to pick up) in authorized Health Services medical vans. The reimbursement costs for transportation includes driver wages and gas. It was noted that drivers submit claims for meals, overnight accommodations and expenses for use of private vehicles. These claims are approved for payment, but are not reimbursed to Health Services by Health Canada as they are not eligible expenses.

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Recommendation

We recommend that Chief and Council consider whether the approval for non-eligible medical transportation (meals, accommodations, private vehicle expenses) will be allowed on a go forward basis. Health Services management should also be monitoring the medical drivers to ensure they are following the policy of two medical trips to Thompson per day. We understand that this issue has been previously discussed with Health Services management, but the issue has not been resolved as deficits continue to be incurred each year.

Pathways - Account Departmentalization

During our audit we noted that the accounting structure for Pathways (ASETS) is not departmentalized between the different programs. This may potentially lead to inaccurate tracking of expenses throughout the course of the year and causes inefficiencies during the year-end audit.

Recommendation

We recommend that the Pathways general ledger be departmentalized so that all expenses are tracked separately in relation to the following programs CRF, EI or Daycare as the expenses are incurred rather than allocating the expenses after year end. This will increase the efficiency of the audit and reduce the risk of errors to occur due to inaccurate tracking.

Anonymous Submission Process

During our audit we noted that there is no anonymous submission process whereby employees or Band members can express their concerns over questionable practices.

Recommendation

We recommend that an anonymous submission process to receive and evaluate concerns by employees regarding questionable practices should be established.

It is management's responsibility to weigh the costs of implementing controls against the benefits that the controls will achieve. The purpose of this letter is to provide you with the information related to the identified risks so that you can make the necessary decisions. Observations not addressed from the prior year have been repeated to allow management to challenge past judgments in the current operating environment.

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Often there are practical ways for businesses such as Tataskweyak Cree Nation to improve their financial reporting process. As your auditor and advisor, it would be a pleasure to discuss our findings with you and provide you with appropriate guidance to improve your controls.

The matters discussed herein are those that have been noted as of December 14, 2012, and we have not updated our procedures regarding these matters to the current date. In addition, this communication is prepared solely for the information of management and is not intended for any other purposes; we accept no responsibility to a third party who uses this communication.

Thank you for the opportunity to contribute to the present and future success of Tataskweyak Cree Nation.

Yours sincerely



C. J. MacLean, CA
Partner
CJM/kl

Cc: Trevor Thornsteinson, AANDC