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July 31, 2011

Attawapiskat First Nation
P.O. Box 248
Attawapiskat, ON
POL 1A0

Attention: Clayton Kennedy, Co-manager and Wayne Turner, Band Manager

MANAGEMENT LETTER

Dear Sirs:

During the course of our audit of Attawapiskat First Nation for the year ended March 31, 2011, we identified 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. Accordingly, an audit would not usually identify all such matters.

Current Year Issues Identified

The matters identified when auditing the Band managed financial records were as follows:

Recording of invoices

During the course of the audit of invoices and capital expenditures, it came to our attention that in some cases, the entire amount indicated on invoices was not recorded in the accounts. rather, only the partial payment intended to be paid on the invoice was recorded. As a result, the expenditures and accounts payable balances were inaccurately recorded and not complete. It is our recommendation that invoices be recorded upon receipt for the full amount of the invoice with any unpaid amount be included in the accounts payable listing.

Employee Records

When performing tests of controls relating to your payroll cycle, it was discovered that an employee had agreed to perform dual positions during another employee's maternity leave, and had been granted a bi-weekly salary increase of \$600 during that period. No documentation was available pertaining to this arrangement and our audit team was informed that the agreement was made verbally by management. It is recommended that any changes in employee salary or wages be documented in writing, signed by the authorizing party and included in the employee's permanent file.

Prior Year Issues Identified

Matters identified in previous audits that remain outstanding are as follows, however, we note that subsequent to the year-end date, policies and procedures have been implemented which improved many of the deficiencies mentioned below:

Insurance Coverage

During the course of our audit of your tangible capital assets, it came to our attention that certain assets are possibly not insured. As per discussions with members of management and an AFN consultant, the water plant facility, rock screener, fire hall and healing lodge are currently not listed under coverage of your insurance policy. Reasons provided to our audit team for the lack of coverage in the case of the water plant were excessively high premiums. We recommend the water plant be insured regardless as it is a critical asset of the community, and would certainly involve significant expense should major damage occur. In the case of the healing lodge, our staff was informed that fire protection was impractical due to its remoteness. This may be the case, however, we see no reason why it should not be covered under your umbrella liability policy for other types of events. We strongly recommend a review of your insurance policies, and assets covered therein, be conducted by management in liaison with your insurer.

CMHC

During the course of our audit, we noted that at March 31, 2011, the First Nation had a deficiency between the required amount of CMHC replacement reserve (\$411,859), and the actual amount of cash set aside in the respective bank account (\$5,426). This deficiency amounted to \$406,433. We again recommend the First Nation take steps to replenish the CMHC bank account to the appropriate amount. Our office has been provided with verbal information from management that steps in this regard have been recently made.

Our testing in relation to the AFN CMHC housing department indicated that rent geared to income documentation is not being obtained in a sufficiently complete manner and collection of rent arrears is not being made sufficiently. We recommend management work to improve operations in these areas.

Welfare Administration

While performing audit procedures in the welfare administration department, we identified generally poor documentation and controls over Social Assistance payments when compared to directives in the Ontario Works Compliance Review. In addition, there exists a lack of segregation of duties as one employee prepares the list of recipients, reconciles the information and approves Welfare disbursements. Accordingly, we recommend a division of these duties or appropriate oversight and approval to each step.

Oversight on cheque and payroll disbursements

During our audit of your payroll cycle, we were informed that internal checks involving the selection of random timesheets and comparison to amounts recorded and verified are not being done. Furthermore, although the pay cheques are signed by two officers having signing authority under your policy, prior to this stage it appears that management does not conduct a review of the pay run or authorizes the printing of cheques prior to it being done. We therefore recommend approval of pay runs prior to cheques being printed and signed and documentation of this authorization on the timesheets and payroll summary.

Purchase Orders and Expenditure Authorization

During our audit, we noted that accounts payable information still contained some purchase orders which originated as a result of a policy of a previous co-manager. We recommend that each accounts payable vendor account be reviewed to clear items which are not outstanding. We further recommend that each accounts payable vendor account be compared to vendors statements each month to help ensure that all expenditures are recorded in the appropriate period.

Accounts Receivable and Accounts Payable

During our audit, we noted that not all unpaid invoices which related to the fiscal 2011 year-end were recorded as accounts payable at the year-end date. We recommend that all year-end accounts payable balances be set up and adjusted in the accounts payable module so that payments made subsequent to year-end can be applied to reduce appropriate vendor balances payable. In addition, we recommend that all payments be applied to the vendor accounts payable to ensure accurate financial reporting of accounts payable, and that invoices be entered into the accounts payable module as they are received, in the period the invoice relates to, in order to ensure completeness of accounts payable. We would be happy to provide any assistance required in this area for the upcoming fiscal year.

It was further noted during our confirmation of accounts payable balances that many of the accounts confirmed were not correct. This problem arose because not all payments were applied to the accounts payable subledger and invoices were not recorded properly. It is recommended that all payments made to suppliers be traced to original invoices in the accounts payable subledger and cleared appropriately.

During our audit, we noted that many of the balances in your accounts receivable subledger did not agree to the determined amounts. This discrepancy was due to payments received not being recorded to the proper accounts in the subledger or being re-posted to revenue accounts. It is our recommendation that all payments received be traced to invoiced amounts in the subledger and cleared appropriately.

BCR and Council Minutes

During our review of your meetings of Chief and council, it was apparent that not all BCRs are signed by Chief and council members in order to document approval. Also, several minutes of meetings were not signed, most were kept on the laptop of a band administration employee and not in hard copy format, and some minutes and BCRs were missing altogether. We recommend a thorough review of this situation be conducted and formal procedures be put in place to ensure the activities and decisions of Chief and Council are documented in an appropriate fashion.

General Journal Entries

During our audit, we noted that many general journal entries made had no supporting documents. When asked for explanations of the entries, often, none could be provided. This resulted in additional work being needed in order to substantiate amounts in several accounts. It is recommended that all journal entries made have proper documentation in order to assess their validity. We would further recommend that this documentation be attached to a copy of the journal entry and filed in a binder specifically used to store general journal entries.

It was noted during the course of our audit that adjustments are being made to program expenditures on the reports, however, the required adjustments are not being made in the accounting system. While it appears that in at least some instances the the required adjustments are being supplied to the finance department, the information provided does not always provide sufficient explanation or detail to make the required entries. The proper recording of these entries is crucial to the completion of the schedule of programs referred to above since the schedule of programs should be consistent with the amounts disclosed in the funding agency reporting. Significant delays occurred in the audit since the program expenditures per the general ledger often varied significantly from the other expenditure reporting. While we do not express an audit opinion on the schedule of programs, neither can we release these programs when we are aware of significant inconsistencies. We recommend that all entries required to adjust program expenditures be provided in writing to the finance department with specific account details and explanations for the adjustments. The adjustments should be posted in a timely fashion and the written request for the adjustment should be attached to a copy of the journal entry and filed in a binder as referred to above.

WSIB Remittances

During our audit, we noted that Workers Compensation remittances were not filed and paid on a timely basis resulting in interest and late-filing penalties. We recommend that all Workers Compensation remittances be filed and paid on a timely basis in accordance with legislation.

Casino Rama

During the audit we noted that Casino Rama expenditures are not being expensed directly to a Casino Rama program, but rather, transferred from other programs into a single Casino Rama program. We recommend that Casino Rama programs be created for each of the five eligible expenditure categories and that expenditures approved for Casino Rama programs be recorded directly to the appropriate Casino Rama programs. This will require that Chief and Council approve Casino Rama expenditures in advance of them being made rather than after the year end as has been the practice.

We further note that disbursements are being made from the Casino Rama bank account without the required approval of Chief and Council being properly documented. All allocations of Casino Rama funds and all disbursements from the Casino Rama bank account should be approved with a Band Council resolution.

Related Party Transactions

During our audit, we noted that the band often makes payments on behalf of Attawapiskat Development Corporation (ADC). These payment details have not however been recorded in the books of ADC. The reconciliation of due to/from ADC required significant effort and audit time. We recommend that a list of invoices paid on behalf of ADC be provided to ADC finance personnel on a monthly basis for recording in ADC books and records. We further recommend that AFN and ADC staff meet periodically to ensure the related party balances are in agreement.

We noted that there are numerous old outstanding receivable invoices due from Attawapiskat First Nation Education Authority (AFNEA) in the accounts receivable subledger. There are also several balances due to AFNEA relating to a loans and undisbursed INAC education funding. We further note that balances between AFN and AFNEA did not match at year-end resulting in significant reconciliation work during the audit. We would recommend that representatives from each of the organizations meet to clear these balances from their respective subledgers and ensure that the related party balances agree.

Budget

During the current fiscal year, budgets were not compiled. We believe that the First Nation has an urgent need for a budget in order to prevent or minimize future deficits and to be able to operate within the First Nation's available funding. A budgeting process may also identify additional funding opportunities to the First Nation. Budgeting will provide a measure against which revenues and expenditures can be monitored on a monthly basis to determine the financial progress of various programs operated by the First Nation. Please note that budget figures are required to be reported in the audited financial statements by Indian and Northern Affairs Canada. We would be pleased to provide assistance in developing a financial budget as well as monitoring and advice in this respect. A comprehensive plan will be required in order to recover the accumulated operating fund deficits and keep expenditures in line with available funding on a go-forward basis.

Welfare Administration Accounting System

Prior to the 2004/05 fiscal year the welfare department maintained their own general ledger, accounts receivable and accounts payable subledgers. On instructions from the co-manager at the time, this accounting system was eliminated in the 05/06 fiscal year with the intention of having this done within the First Nation's reporting system. While this has taken place for accounts payable, it has not occurred for the welfare receipts or welfare benefit payments which are now only haphazardly recorded at year-end. As of 2011, the Welfare administration reverted back to recording its own activities and maintaining its own general ledger, accounts receivable and accounts payable subledgers, however; not all transactions were recorded in the Welfare administration records as the First Nation's recorded some Welfare transactions in its own set of books. This has affected the ability of the welfare department to complete its monthly reporting and results in inaccurate monthly reporting of AFN operations. We recommend that all welfare transactions be recorded on a monthly basis and in the Welfare administration accounting system. The onus should be placed on welfare administration to provide the necessary information each month.

Collections of Revenues

We note that the collection of accounts and funding receivables are often in arrears. In fact, in many cases, collection efforts are not made until cash flows are in crisis situations. We recommend that all funding and accounts receivable receive regular monitoring to ensure adequate cash flows for the First Nation. We further recommend that all reporting to funding agencies be done on a timely basis to minimize delays in the receipt of funding.

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.

We trust you will implement our recommendations; however, should you require further clarification or information, please contact the undersigned.

Yours truly,



M M Dell'Erede BBA CA

ROSS, POPE & COMPANY LLP

cc: Chief and Council