

June 28, 2012

Chief, Council, Administration and Department Directors
Blood Tribe Administration and Departments
Standoff, AB
TOL 1Y0

Attention: Chief Charles Weasel Head

We have recently completed our examination of the consolidated financial statements of Blood Tribe (the "Organization"), which included Blood Tribe entities, and departments for the year ended March 31, 2012. The purpose of this letter is to bring to your attention certain matters, which were encountered in the course of our work, and to offer our comments and recommendations. These comments, by their nature, are critical as they relate solely to the areas for improvement and do not address the many strong features and controls within the Organization's systems.

The primary purpose of our examination was to enable us to form an opinion on the consolidated financial statements of the Organization for the year ended March 31, 2012. We reviewed and tested the Organization's financial systems and related internal controls to the extent we considered necessary to evaluate the systems as required by Canadian auditing standards. Our study and evaluation with respect to these financial systems was not designed for the purpose of expressing an opinion on internal controls. It would not necessarily disclose all weaknesses in the systems.

As a result of our examination, we provide the following comments and recommendations for consideration by Chief and Council and the management of the Blood Tribe.

LANDS DEPARTMENT

The following comments regarding the Lands department need to be addressed immediately. As a result of deficiencies in the Lands department there is a significant risk that all revenue may not be correctly deposited or reported in the records, or that cash may be misappropriated. Failure to rectify these issues can result in significant problems going undetected for a number of years, which may put the integrity of the band at risk.

Lease Transfer and Lease Trust Accounts

It was noted in prior years' management letters that lease transfer and lease trust account still had significant issues. These issues still exist in the current year, as there are significant reconciling issues and problems with these accounts and the tracking of lease transfer accounts receivable, advances, payables, etc. In the current year, this record keeping deficiency has resulted in another denial audit opinion in this department due to being unable to satisfy ourselves over the completeness of revenues, expenses, accounts payable and accounts receivable with relation to the lease transfer monies as management was unable to reconcile the Lease Transfer bank account. The accounting deficiencies also resulted in the bank reconciliation having a variance of \$11,000, while member overpayments (recovery) were estimated around \$400,000. The issues in this department are significant and they could have a material impact on future Blood Tribe consolidated financial statements.

Recommendations:

For the issue to completely be removed there needs to be clear authority given to the senior accountant to maintain and have ownership over the general ledger. The senior accountant will have the authority to delegate tasks, however will, remain ultimately responsible and accountable for the general ledger. Furthermore, the database needs to be managed by an individual that understands the accounting system and reports that are required to be generated from the accounting system for the Organization. There is the need in this department for training on how to use the Accpac accounting software as this appears to be main cause of the problem as the accountants are unsure of how to use the various modules within the system. The department has taken steps during the year trying to deal with the problems as the records were better than in previous years; however the errors in the accounting system are still compiling. It is recommended that management spend the time reconciling what the actual balances should be for the assets, liabilities, revenues and expenses of the Organization and enter these into a new accounting file to clean up the errors. It is recommended that this takes place at the start of the Organization's fiscal year (April 1st). It is also recommended that a complete overhaul of the general ledger be undertaken as there are a significant number of general ledger accounts and the transaction posting of the accounts receivables and payables are going to a number of accounts which makes them extremely difficult to track. The general ledger must be simplified as currently it is too complex and difficult for the lands team to understand, a basic general ledger will assist in a better understanding of the accounting information and make reporting easier for the department.

Land Lease and Grazing Advances

Once again the Lands department has been requested to make prepayments to occupants of land and grazing leases in advance of funds actually being received. This has put a financial constraint on the Lands department as they have to advance these funds out of their own cash flows. Advances are paid out to occupants based on the Master List; however, the amount collected from the permittee may not be the same as expected per the Master List due to a variety of circumstances, which results in unreconciled differences in the general ledger. With the lease transfer account having significant issues with record keeping there is the risk that occupants could be paid again for advances already given.

Recommendations:

For the issue to completely be removed there needs to be clearly defined policies and procedures that are supported by Chief and Council and the staff of the Lands Department and communicated to the occupants. We recommend that advances cease to occur as this has resulted in a number of overpayments to occupants as well as it puts the Lands Department in significant cash flow deficiencies. However, if an advance is to take place as a result of an emergency, it should not exceed the amount collected from the permittee. It should be stressed that communication between the Lands department and the permittee's takes place any time an advance is requested to ensure that the permittee has not made any advances directly to the occupant and to ensure that the full amount of the advance will be collected from the permittee. We also recommend that the Department continues to meet with the permittee's on at least a quarterly basis to reconcile the land lease and grazing payments.

Lease Trust

It was noted during the current year and prior year audits that the lease trust liability owing to Blood Tribe members is currently underfunded by \$211,737 (2011 - \$442,225). Also, note that advances were paid out to Blood Tribe members in excess of their entitlement from the Lease Trust account.

Recommendation:

We recommend funds be set aside to cover these lease trust amounts owing. This is a liability to the Blood Tribe to not have funds specifically set aside to pay these lease trust amounts when they become due and payable. Also, the advances being paid in excess of entitlement are creating cash flow problems for the Organization and creates a risk of not being able to collect advances back in the future.

FRAUD RISKS

Although no organization likes to see fraud occur, it does happen. The important piece is policies and procedures regarding potential or suspected fraud being in place, strong internal controls and how an organization handles situations when potential or suspected issues occur. In the current year there were three fraud issues noted and discussed with senior management as noted below.

The 3 indications of fraud noted from discussions with directors, Darlene and Ronni occurred at FCSS, Social Development, Administration and Lands.

For FCSS - This issue was a result of the misappropriation of cash from the organization. An employee was stealing some cash from the bottle depot over the Christmas season. The accountant believes the amount to be around \$1300. The accountant caught this due to the cash reconciliation sheets and the employee was removed.

For Social - there was an external third party that gained access to two bank accounts of the Social Development Department through identity theft of the organization's banking information and then was creating cheques based on that information to misappropriate cash. The issue was first identified by the Bank as they noticed unusual cheque amounts going through the bank account for social assistance. Upon further investigation by the Blood Tribe it was determined that a third party had gained access to Blood Tribe bank accounts and was taking money out through false cheques. Social went through the process of changing the bank accounts to try and eliminate this issue. Now online bank access for Social has been set up so that they can periodically review the cancelled cheques online to identify any issues on a timelier basis than once a month when they do the bank reconciliations.

For Administration - there was an issue in the real estate department regarding inappropriate expenses. The accountant and CFO for Admin caught this on their review of the expenses before cheques were processed. They requested additional information and this is where it was determined that the expenses were in fact inappropriate expenses of the department.

For Lands - an employee was terminated as it was found out that the individual was taking the invoice requisitions from the Lands department, filling them out and giving them to a permittee that the individual could obtain advances. This was noticed when reconciling payments received from the permittee. This is breach of the Lands processes for advances. The permittee advised that the individual had received a number of years of advances this year. The investigation is ongoing and senior management looking after it. Lands has also informed all permittee's to call the office and talk to the director before offering any advances to ensure this doesn't occur again.

Although during audit review it was noted that these issues were insignificant in dollar value, they are still risks to the organization that need to be discussed and brought to the attention of chief and council. **Although issues did occur in the current year, a positive did result in that the Blood Tribe team caught these issues before they became significant to the organization through internal controls that have been put in place by the Blood Tribe council, directors, senior management and accountants.**

HOUSING DEPARTMENT

Tracking of rent charges and collections

One of the major problems that the department is currently facing is that the correct rents are not being charged all the time and that rent is not being paid by all tenants. Regardless of how much rent is actually charged to your members, the amount of rent that is actually collected is all that you have available to operate your program. The following schedule is intended to assist you in determining the amount of rent that is actually being collected.

| | 2012 | 2011 | 2010 | 2009 |
|-------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| For CMHC funded houses | | | | |
| Rent + insurance charged | 2,727,987 | 2,780,805 | 2,860,242 | 2,869,206 |
| Uncollected rents | (1,083,713) | (1,242,228) | (1,392,865) | (1,523,339) |
| Actual collected rents | <u>1,644,274</u> | <u>1,538,577</u> | <u>1,467,377</u> | <u>1,345,867</u> |
| BHA + S/N + PHO | | | | |
| Rent + insurance charged | 1,768,277 | 1,724,550 | 1,947,371 | 1,991,935 |
| Uncollected rents | (1,209,272) | (1,179,268) | (1,354,542) | (1,448,442) |
| Actual collected rents | <u>559,005</u> | <u>545,282</u> | <u>592,829</u> | <u>543,493</u> |
| Total Collections | <u>2,203,279</u> | <u>2,083,859</u> | <u>2,060,206</u> | <u>1,889,360</u> |

Of the above amounts a majority of the rent collections are actually coming from the social development program. This program accounted for \$1,416,648 (\$1,406,027 in 2011) worth of all rent collections. **This means that actual collections from band members have increased from \$677,834 in 2011 to \$786,632 in 2012.**

It is also important for chief and council to note that even though they are adding new homes each year, the collections are not keeping up with the increased costs associated with these houses and thus this is putting more and more stress on the financial resources of this department.

Funding of Reserves

In accordance with your CMHC agreements you are required to establish and fund specific reserves, including replacement reserves and operating surplus reserves, currently these reserves are not funded.

We recommend that you take steps to establish and fund these reserves as required by your agreements.

By funding these reserves now, you will be ensuring that the funds are in place when needed for future replacements or to cover operating deficits. In addition, should you continue to operate without funding these reserves you will be in violation of the CMHC agreements, and this may someday result in being ineligible for future CMHC projects, or in CMHC taking corrective action of their own.

Sources of Revenues

The following table also provides you with a summary of your sources of revenues

| | 2012 | 2011 | 2010 | 2009 | 2008 |
|--------------------------------|------------------|------------------|------------------|------------------|------------------|
| CMHC subsidies | 1,706,607 | 1,677,781 | 1,651,891 | 1,436,193 | 1,349,505 |
| Band funds - excluding capital | 2,790,792 | 1,810,366 | 4,525,279 | 2,179,140 | 2,462,891 |
| Other revenues | 609,030 | 1,370,058 | 1,118,441 | 604,902 | 338,614 |
| Rent collected | 2,203,279 | 2,083,859 | 2,060,206 | 1,889,360 | 1,815,644 |
| | <u>7,309,708</u> | <u>6,942,064</u> | <u>9,355,817</u> | <u>6,109,595</u> | <u>5,966,654</u> |

Expenditure needs

The organization has a number of expenses that it must cover each year, some of these are discretionary as to the magnitude of the expenditures and some of them are not. The following Chart is intended to assist you in analyzing your expenditures

| | 2012 | 2011 | 2010 | 2009 | 2008 |
|------------------------|------------------|------------------|------------------|------------------|------------------|
| For CMHC | | | | | |
| Loan payments | 2,495,717 | 2,521,371 | 2,536,442 | 2,496,242 | 2,537,686 |
| Insurance | 546,512 | 430,399 | 350,796 | 320,100 | 283,432 |
| Administration | 558,492 | 491,899 | 443,880 | 366,007 | 556,753 |
| R&M (includes CEAP) | 1,355,093 | 1,831,279 | 1,565,724 | 673,432 | 798,988 |
| | <u>4,955,814</u> | <u>5,274,948</u> | <u>4,896,842</u> | <u>3,855,781</u> | <u>4,176,859</u> |
| BHA + S/N + PHO | | | | | |
| Loan payments | 43,549 | 47,508 | 47,508 | 51,416 | 47,508 |
| Insurance | 325,269 | 359,627 | 254,855 | 209,816 | 235,700 |
| Administration | 1,907,868 | 815,991 | 722,834 | 759,961 | 624,058 |
| R&M | 2,058,371 | 1,416,789 | 1,475,566 | 1,615,103 | 1,855,246 |
| Special needs | 106,816 | 122,136 | 146,090 | 181,362 | 79,325 |
| | <u>4,441,873</u> | <u>2,762,051</u> | <u>2,646,853</u> | <u>2,817,658</u> | <u>2,841,837</u> |
| Summary | | | | | |
| Loans and insurance | 3,411,047 | 3,358,905 | 3,189,601 | 3,077,574 | 3,104,326 |
| Administration | 2,466,360 | 1,307,890 | 1,166,714 | 1,125,968 | 1,180,811 |
| R&M and other programs | 3,413,464 | 3,248,068 | 3,041,290 | 2,288,535 | 2,654,234 |
| Special needs | 106,816 | 122,136 | 146,090 | 181,362 | 79,325 |
| | <u>9,397,687</u> | <u>8,036,999</u> | <u>7,543,695</u> | <u>6,673,439</u> | <u>7,018,696</u> |

Note: 2012 number for R&M includes special mould program costs

Note: 2011 and 2010 number for R&M include special CEAP program costs

Conclusions

The Organization and the Band as a whole must be vigilant to ensure that this department does not fall back into a situation of repeat deficits. Since a number of the commitments such as your loan payments are of a fixed amount you have no discretion in this area, however the following are various areas that you could explore:

1. Increasing rent collections.
2. Increasing other sources of revenue such as band funds.
3. Decreasing discretionary expenses such as repair and maintenance and renovations.
4. Decreasing administration expenses.

While decreasing the discretionary expense may seem like the easiest road to take you will need to be aware of the long-term impact that this may have on the bands housing conditions.

The organization needs to continue to take steps to ensure that revenue sources are sufficient to cover the ongoing costs of the organization.

PROCESSING PLANT (709204 Alberta Ltd.)

Qualified Audit Opinion

The qualified audit opinion is a result of the contract with One Earth Farms FN LP. During the audit the Processing plant received an additional invoice from One Earth Farms in the amount of around \$1 million for the 2011-12 hay purchased. The Processing Plant had already paid \$800,000 to One Earth Farms and was under the assumption that that was the only amount owing. Both parties are in a disagreement as to the final invoice, and this has resulted in a qualified opinion in the Processing Plants audited financial statements as we are unable to obtain assurance over the final balance for accounts payable, inventory, cost of sales and accumulated surplus.

Recommendation:

We recommend that this issue be resolved as soon as possible as the current year's contract with One Earth Farms has been put on hold as a result of this dispute. Currently, the Processing Plant is trying to carry out the farming operation on the fields previously operated by One Earth Farms so that they can obtain timothy hay to export to their clients. If the dispute with One Earth Farms is not resolved soon, or a suitable replacement to farm the previously occupied fields is not found, there are serious concerns over the financial stability of this Company.

DEPARTMENT OF HEALTH

General Ledger

It was noted that the general ledger of the Department is extremely large and does not accurately reflect the funding that is being received from Health Canada, which can result in additional clawback of funds from inaccurate coding of expenses. It also increases the confusion of the accounting staff with the significant amount of account numbers and increases the complexity of reporting for the audited financial statements.

Recommendation:

We recommend that an overhaul of the general ledger takes place to ensure that the general ledger accounts properly match the Health Canada programs to ensure that expenses are coded properly, which will reduce potential clawbacks. After the Department has created a plan to overhaul the general ledger, they should meet with Health Canada and the auditors to ensure that the proposed changes meet the Department's reporting requirements. We understand the co-manager is aware of this issue and is in the process of developing a plan.

Funding of Reserves and Deficit Recovery

We would like to commend the Health Department for setting up a separate bank account for their moveable capital asset replacement reserve (MCCAR), as well as decreasing their MCARR liability by \$330,000 from the balance previously reported as at March 31, 2011. Management spent a significant amount of time locating invoices for eligible MCARR expenses in order to reduce the liability balance. We would also like to commend them on implementing and successfully following a deficit recovery plan as the department had an operating surplus of \$768,000.

Recommendation:

We recommend that the Department continues to identify MCARR related expenses in the upcoming year to reduce the liability with Health Canada. We would also like to recommend to management that even though they were very successful in their deficit recovery this year, they should ensure that they continue to spend all Health Canada funding as there is a potential clawback of funds of about \$30,000 in the current year. Operating surpluses should be obtained from own source funds to reduce any further clawbacks.

PUBLIC WORKS

Garbage and Water Hauling Fees

It was noted during the audit that the amount recorded as revenues for the year was only based on what was collected. A significant amount of work at the year-end was needed to be done by Trina to reflect the actual revenues and bad debts.

Recommendation:

Garbage and Water fees should be recorded at least weekly based on the driver log books. The total amount of the fees should be compared to the total amount collected each week so that any discrepancies can be followed up on a timely basis. Drivers should issue receipts for amounts collected so that these can be tracked. Management should encourage customers to ask for receipts so that you can ensure that the total amount collected agrees to the receipts issued. An allowance for doubtful accounts should be updated monthly to reflect an accurate accounts receivable. Management should also meet with the customers to discuss their account balances and ensure that the balances are accurate and that all payments made by the customer have been accounted for. This will identify to management if there are any issues where money was collected and not deposited. This will ensure that Management has accurate information to base decisions on.

Also, we encourage Chief and Council to support Public Works in the collection of Garbage and Water Hauling Fees by implementing a by-law to enforce invoicing and collection of fees from town site and rural water customers. Public works did not invoice these customers in the current year as they indicated that there was no agreement in place enforcing this. In the prior years, these amounts were invoiced; however no collections ever took place as there was no by-law enforcing collection.

REVENUE FUND

Aboriginal Affairs and Northern Development Canada (AANDC) deposits

In the current year it was noted that there was a \$14,821 payment from AANDC on June 27, 2011 to the Blood Tribe from the AANDC confirmation of disbursements. The accountant noticed that this payment did not get directly deposited into their bank account, however did not notify management, the bank or AANDC of the discrepancy and therefore the issue is still unresolved.

Recommendation:

Management and the accountant should be reviewing the AANDC financial history reports on a timely basis and follow up with the bank and AANDC on any discrepancies as they occur. Timely follow up will make it easier to track down any discrepancies.

KAINAIWA CHILDREN'S SERVICES

Deficit Recovery

We would like to commend the Board, management, staff and the co-manager for implementing and following their deficit recovery plan. Through reductions in non-essential program expenses, the Company was able to reduce their accumulated operating deficit by \$2.1 million.

Recommendation

While reducing their accumulated operating deficit by a substantial amount in one year is important to the financial stability of the Company, we would like to caution Management and the Board that continued deficits recoveries of a similar magnitude may result in reduced funding from Aboriginal Affairs and Northern Development Canada, which will affect future programming. We recommend that an increased focus be put on using the current funding to run various programs within the community, while gradually reducing their current deficit. We must ensure that the Company's mandate and objectives are still being carried out even though a deficit recovery plan is in place.

DEFICIT RECOVERY – EDUCATION AND PUBLIC WORKS

In our report we have discussed the great strides that Health and Kainaiwa Children's Services have made in the current year with regards to deficit recovery, we would also like to recognize Education and Public Works for their efforts in the current year in recovering prior deficits. We would like to commend the Board's, management and staff of each organization for implementing and following their deficit recovery plans.

FIRST NATION DEVELOPMENT FUND

General Ledger Set-up

During the audit we were required to spend a significant amount of time creating new general ledger accounts and recording adjustments in the First Nation Development Fund in order to comply with the reporting requirements of the respective funding agency. It is extremely important to ensure this information is presented and reported accurately to the funding agency; otherwise this can result in a clawback of the funds or repayment of funding.

Recommendations:

We recommend that the Department spends the time in the current year setting up their general ledger accounts to properly reflect the reporting requirements of their funding agency. A separate general ledger should be set up and maintained for the First Nation Development Fund as it is currently being tracked in Administration through the due to/from account. The information does not contain the required detail to properly report to the funding agency. The general ledger account names should reflect those in the approved budgets with the funding agency. This will not only reduce the additional audit costs, but will ensure that the required information can be easily reported to the funding agencies any time throughout the year.

We would like to commend the Department on hiring an assistant for the Department. The assistant did a great job obtaining all the invoices and tracking the various revenues and expenses in a spreadsheet for the various programs. This reduced the time for the audit staff as the information was easy to follow.

BLOOD TRIBE ADMINISTRATION

Payroll Department

Over the past few years we have noticed that centralized payroll and other departments' inter-entity accounts are left unreconciled until year end or not at all. A significant amount of time is required in order to balance the inter-entity and department accounts and reconcile the transactions for the year.

It was also noted that the department has been paying the group source payments for employees of various departments while they are on leave, which has resulted in a receivable amount of over \$100,000. The department has determined that some of these amounts are uncollectible and therefore has allowed for them as bad debts. The department is reconciling the other balances and will invoice the various departments for their share of the costs.

Recommendation:

We recommend that central payroll meet with all departments on a monthly basis to ensure that inter-entity amounts tie in and there are no outstanding adjustments. As the central payroll function is significant to the Blood Tribe, we recommend designating an individual to be accountable for the payroll department, to help identify discrepancies and improve the accuracy of the account balances. This should include reviewing existing balances and reaching a common decision on how to either repay or write off the balances.

We also recommend that the accountant reviews the group source balance in the general ledger monthly to ensure that any discrepancies from amounts collected from departments and amounts paid to group source are followed up on a timely basis.

BLOOD TRIBE AGRICULTURAL GROUP

Farming Initiative

Tracking of Cattle Inventory

We would like to commend that management and staff at the Blood Band Ranch for implementing the recommendations in the previous year's management letter by properly tracking all births, purchases, sales and deaths. Inventory counts were completed throughout the year and the staff did a great job in providing supporting documentation for this year's audit.

Ag Sector Corporate Restructuring

It was noted during the past three years that the Ag sector has been tasked with completing corporate restructuring of all Ag entities, departments and related assets under one umbrella, however a formal plan has not been developed. Currently significant fees and expenses are being paid as a result the restructuring not being completed, fees and expenses could be reduced if the restructuring occurred. The restructuring would allow for better expenditure control as currently there are redundant expenses taking place within the Ag sector.

Recommendation:

We recommend that the corporate restructuring plan be developed and implemented. The restructuring will help reduce the stress on the Ag sector's finance team and allow for better financial reporting of the consolidated Ag sector operations, better flow of information and better decision making.

Deficit Recovery and Cash Flow Issues

* It was noted that the Ag Sector experienced another significant loss during the year which has resulted in them having financial difficulties paying for their current liabilities. From review of the financial statements, there are a number of non-essential expenses in which the Ag Sector has greatly exceeded their budget. This is of great concern as the Ag Sector receives the majority of its revenues from agricultural leases on Blood Tribe Land (approximately \$5 million), which they pay the Blood Tribe \$717,500.

Recommendation:

We recommend that the Ag Sector implement and strictly follow a deficit recovery plan. Non-essential administrative expenses should be kept minimal as these are areas in which savings can be realized. The Ag Sector should also perform a review of their current staffing levels to ensure that all positions are necessary, the right people are in the required positions and that people have the appropriate skill sets in place for these positions so that the Organization can meet its operating goals, objectives and mandate. The deficit recovery needs to be implemented as soon as possible to alleviate their current cash flow deficiencies.

OTHER MANAGEMENT LETTER POINTS

Travel By-Law

In the current year it was noted that travel expenses remained high in two of the entities and this resulted in significant deficits and cash flow deficiencies within these entities. It was noted that Board travel was as much as an individual's salary or in some cases significantly greater than an individual's salary for the year. Entities with high travel amounts paid to management and Board should be reviewed for potential accumulated deficit issues as it is difficult to manage an organization when continually travelling rather than being at the office to manage.

Recommendation:

We recommend that a travel by-law for all entities be developed. Chief and Council has formally adopted their travel by-law and are adhering to the policy. It had a very positive impact on the Blood Tribe and we further encourage entities to develop and implement policies that will benefit members of the Blood Tribe through strong financial practices and accountability. We recognize that travel expenses need to occur within the day to day operations of the organization; however individuals should be held accountable to report the benefits that they are bringing back to their entities, the Blood Tribe and most importantly the community and its members.

Deficit Recovery Plans and Budgeting

In the current year it was noted that a number of departments and entities incurred deficits or still have significant accumulated deficit balances. The most significant accumulated deficits continue to be in Department of Health, Blood Tribe Employment and Skills Training, Lands and Housing. A major reason for these deficits is due to the Departments not properly managing their cash flows and monitoring their budget to actual results.

Recommendation:

We recommend that deficit recovery plans be prepared by these departments and entities detailing the proposal to recover prior deficits. These plans, once completed, should be reviewed and approved by the Finance Committee and Chief and Council to ensure that an appropriate and realistic plan is in place. The deficit recovery plan must be monitored against actual results to ensure the plan is being followed and the Organization is not getting off track. Overall for the Blood Tribe when a deficit recovery plan is developed, implemented, properly executed and monitored, Organizations tend to turn around within 3 years providing evidence that a strong plan is a very effective tool. We understand that a co-manager has been put into place with regards to Health and that a deficit recovery plan is being developed and implemented, in the current year Health did have an operating surplus as a result.

We also recommend that budget variances be reviewed closely to ensure money is not spent when there is no money available. We recommend that budgets be used as a management tool to determine if the department is running efficiently, effectively and objectives set out in the budget are being met. Budget variance analysis should continue to be done at the pillars committee meetings and variances should be explained with support for the difference, these discussions should be documented in the minutes and significant variances reported to the Finance Committee on a timely basis for action to take place.

Return on Business Enterprises Assets

We would like to commend 1110340 Alberta Ltd. and 971445 Alberta Ltd. as they provided dividends of \$200,000 and \$2,000,000 respectively.

The rest of the business enterprises did not provide any dividends or return on business assets back to the Blood Tribe and in fact required financial assistance from the Blood Tribe to survive. The current year net loss of the Business Enterprises is \$1,035,676. Also, note that the Blood Tribe Processing Plant and Blood Tribe Irrigation Management have issues regarding whether or not they will continue as going concerns. The Blood Tribe Agricultural Group also uses the Blood Tribe Lands (West End Big Lease) at zero cost.

Recommendation:

We recommend providing appropriate supervision and monitoring of the performance of the General Managers, Executives and Board Directors of the Blood Tribe Business Entities to ensure that economic benefits are received by the Blood Tribe. Clear goals, objectives and deliverables must be defined to ensure they are in line with the vision of Chief and Council. These Organizations need to be judged based on performance measures like return on assets, dividends paid to the Blood Tribe and percentage of net income increase over the prior year. Proper planning and running these Organizations as for profit businesses will allow them to grow, creating jobs for Blood Tribe members and bring economic benefits to the community.

Employee/Staff Advances

During the audit it was noted that employee advances are still taking place but there has been an improvement in the collection of these amounts as some of the larger balances have been repaid. Advances are still being taken for reasons not in accordance with the Human Resource policy and a few balances are still significant in amount. Advances to staff are not in-line with Blood Tribe policies and are also not allowed under the funding agreement with AANDC. Blood Tribe departments and entities that have employee advances outstanding include Administration, Kainaiwa Resources Inc., Social Development, Outreach, Red Crow Community College, the Board of Education, Blood Tribe Family and Community Support Services, Kainaiwa Children Services Corporation, Department of Health and Blood Tribe Lands.

Recommendations:

We recommend that management continue to enforce collection of these amounts and that employees be deducted for outstanding amounts owing. The policy should be reinforced and staff reminded of the policy whenever management receives a request. This policy needs to be followed on a consistent basis from Chief and Council down to the rest of the Blood Tribe Team members. In order for it to be effective, no exceptions to the outlined policy should be made. Advances that relate to payroll for staff members should be run through central payroll to ensure these amounts are recovered through future payroll, thus the amount becomes a payroll advance on salary versus a loan to a member. Not adhering to the policies could result in AANDC reducing future funding or eliminating it altogether.

Operations Officer

It was noted during the year that the Operations Officer position was vacant for the past 3 ½ years.

Recommendation:

We recommend posting the position and hiring an individual with the appropriate financial accounting background in order to maintain proper governance over the accounting function and internal controls. The Operations Officer position and role in the Organization is a valuable one, as this person acts as the watchdog for the Blood Tribe and ensures proper safekeeping of the Blood Tribe's financial assets. An Operations Officer can also aid in ensuring that the next management letter point is also taken care of.

Staff Evaluation, Knowledge and Improvement

During the audit, it was noted that accounting staff were very helpful and some had a great willingness to learn and ask questions to further increase their skill set and knowledge base. A number of Blood Tribe accountants stepped up their efforts and were ready to have their audit started before their expected start date, completing binders, which included appropriate working papers reconciled and agreed to the general ledger, and other required information to complete the audit.

Recommendation:

We recommend that Blood Tribe Administration (BTA) continue to support its accounting team with training to develop the necessary skills needed in order to perform the required tasks at hand, that BTA motivate staff to continually improve through education and training. BTA must develop benchmarks for measuring performance and that minimum knowledge levels are established to ensure that a basic skill set is in place in order to perform the accounting function. A base level of acceptable performance should be established to ensure that an accountant understands the relationship between the statement of financial position and the statement of operations and also understands basic accounting functions like reconciling the bank each month and recording transactions on an accrual basis.

Succession Planning & Capacity Building

It was noted during the audit that there are some individuals that will be looking at retirement within the next 2-5 years. This means that key positions within the organization will need to be filled with qualified individuals. It is important to start this process now so that individuals can be identified and receive the appropriate training required to be put into the accounting function role. An assessment must be completed for all current accounting staff to assess skill levels and ensure that individuals are in the right position within the organization; this will ensure that the right individuals with the appropriate skill set are in the appropriate roles within the organization. The accounting function is a key role in obtaining financial accountability and ensuring that management, the chief and council have the most accurate information in order to make effective and appropriate organizational decisions that benefit members of the Blood Tribe.

Recommendation:

We recommend that succession plans and capacity building be instituted as soon as possible with employees being trained in completing the accounting activities currently completed by senior Blood Tribe team members. This will help in allowing for a smooth transition upon retirement of senior accounting and finance employees. Proper training and development ensures that employees move up within the organization and that the right individual is selected for the right position. We also recommend that the younger or new accounting staff look into the Aboriginal Financial Officers Association as a means of training and development and as a route to obtaining a professional designation (CAFM & CGA) as this is a trend for the future as most aboriginal organizations will require their individuals to have a accounting background and designation.

Board of Directors in Business Enterprises and other Blood Tribe Entities

It was noted during the audit that the board of directors of the business enterprises did not have a broad enough expertise to deal with the ever changing business environment. The board of directors should be well balanced in knowledge and experience. Also, it was noted that the board of directors varied in size, with sometimes too many people on the board and sometimes not enough people on the board.

Recommendation:

We recommend that the businesses build a Board on the basis of the competencies and knowledge each individual brings. Prior to nominating or appointing individuals as directors, the Board should consider what competencies and skills the Board, as a whole, should possess. The businesses should create a Board that is well balanced obtaining the knowledge of financial matters, legal matters, strategic planning matters, political and cultural matters, regulatory matters, etc. Also, it is important to obtain individuals that have industry experience. The result of a more balanced Board with the appropriate strategic skills, knowledge and experience will allow the businesses to identify, validate and monitor the company's strategy.

This communication is prepared solely for the information of the Chief, Council, Administration, Department Directors and management of the Blood Tribe and is not intended for any other purpose. We accept no responsibility to a third party who uses this communication.

We wish to emphasize that our discussion and recommendations are meant solely to bring to your attention areas where the accounting system and procedures could be improved and is in no way a reflection on the competence or integrity of the staff working at the Blood Tribe. Please refer to the individual Departments and Entities management letters for additional management letter points that have been presented.

We would like to thank all the staff accountants, finance managers, program directors, Darlene, Ronni, and the Finance Committee for their assistance during our audit. Thank you for the opportunity to be of service and we look forward to serving you in the future.

If you have any questions or concerns regarding our audit or any other issues with which you may require our assistance, please do not hesitate to contact us.

Yours truly,

MNP LLP



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