

January 26, 2000

330 0901 01

**Department of the Solicitor General of Canada
Report on the Audit of
The Contribution Agreement with the
Hobbema 2N Corporation**

TABLE OF CONTENTS

	Page
1. INTRODUCTION	1
2. AUDIT OBJECTIVES	1
3. AUDIT SCOPE	2
4. AUDIT APPROACH	2
5. CONCLUSION	3
6. AUDITORS' REPORT	4
Schedule 1 Summary of Budgeted, Reported and Audited Amounts	
Schedule 2 Summary of Audit Adjustments	
Schedule 3 Audit Observations	
Schedule 4 Non-Compliance with Agreement	
Schedule 5 Internal and Financial Controls, and Police Service Policy and Procedure Deficiencies	
Schedule 6 Hobbema Police Service Response	

1. INTRODUCTION

A financial audit relative to the contribution agreement dated October 1, 1995, between the Department of the Solicitor General of Canada (Department), the Province of Alberta (Alberta) and the Hobbema 2N Corporation (the Corporation) was conducted on behalf of the Department's Aboriginal Policing Directorate. The audit was undertaken in October, 1999.

The subject of this audit is the contribution of up to \$632,000 (Department - \$328,640, Alberta - \$303,360) awarded to the Corporation to continue the provision of policing and other first responder services to the Hobbema community.

The Ermineskin and Montana First Nations established the Hobbema Police Service (the Police Service) and the Hobbema Police Commission (the Commission) pursuant to their respective Band Council Resolutions and through Schedule C of the Tripartite Agreement. The Commission, comprised of not more than eight members of the Ermineskin and Montana First Nations, is responsible for the general supervision of the Police Service. The Police Service is responsible for maintaining peace, order and public security; for providing the residents on the Reserve with a sense of security and safety from crime; for preventing crimes and other offenses and for apprehending offenders and bringing them to justice.

The period covered by the agreement is October 1, 1995 to March 31, 2000. The period covered by the audit is April 1, 1998 to March 31, 1999.

2. AUDIT OBJECTIVES

2.1 The general objectives of the audit were:

- 2.1.1 to ensure that claimed expenditures have been incurred by the recipient and are in accordance with the contribution agreement, and departmental and central agency guidelines;
- 2.1.2 to verify and report the costs incurred and claimed and indicate the concurrence, or otherwise, of the recipient with the audit findings; and
- 2.1.3 to bring to the attention of the Department any matters considered to be of significance or requiring management action.

2.2 Specific objectives included determining that:

- 2.2.1 the Corporation is meeting both the financial and non-financial terms of the contribution agreement;
- 2.2.2 as they relate to the contribution:
 - financial operations were conducted properly;
 - financial statements were presented fairly;
 - financial reports contained accurate and reliable information; and
- 2.2.3 the Corporation had an adequate internal control system to account for and manage the contribution received.

3. AUDIT SCOPE

- 3.1 The audit scope was limited to the verification of the recipient's financial records, supporting documentation, and claims for the period April 1, 1998 to March 31, 1999, and included:
 - an examination and assessment of the quality, propriety and accuracy of the recipient's financial records, accounting procedures and internal controls, as they relate to the costs charged under the terms of the agreement; and
 - an assessment of the reasonableness and eligibility of the expenditures incurred or charged in accordance with generally accepted accounting principles, and with the terms of the agreement.
- 3.2 The audit was conducted in accordance with generally accepted auditing standards, and in accordance with the Office of the Comptroller General's guide on the audit of Federal Contributions.

4. AUDIT APPROACH

Our approach was based on recognition of the need to focus on the key issue, which is the compliance by the recipient with the terms and conditions of the contribution agreement, and primarily to ensure that the claimed expenditures have been incurred, and the recipient is meeting the financial terms of the agreement.

The audit was undertaken in three phases:

- planning;
- field work and analysis; and
- reporting.

The planning phase included an orientation/familiarization with the mandate, obtaining information and documentation from the Department, developing the detailed audit program, and arranging the on-site visit with the recipient.

The field work and analysis consisted mainly of undertaking the detailed audit program to gather evidence to support our audit opinion, findings, and conclusions. The principal audit activities included interviews with the recipient's representatives, an examination and evaluation of accounting systems, controls, and the results of the tests conducted on the books and records and supporting documentation of the recipient as they relate to this contribution, and obtaining the recipient's response to the audit findings.

The reporting phase involved an analysis of our findings, and the formulation of an opinion on the information obtained from the recipient, for inclusion in the audit report. In addition, we have debriefed the representatives from the Department's Aboriginal Policing Directorate and Management Review Division on the results of the audit.

5. CONCLUSION

Our review indicated that the activities undertaken related to the provision of policing services to the community, as overseen by the Hobbema Police Commission, appeared to be consistent with the stated objectives of the agreement.

Based on our examination, the expenditures were made in accordance with the contribution agreement requirement to be solely for the delivery of policing services on the Reserve. The financial statements, as adjusted, adequately reflect the results of the operation of the Police Service. Generally, the Corporation did maintain adequate controls over expenditures funded by the contributions received from the Department and Alberta.

Our review revealed that the Corporation has generally met the financial and non-financial terms of the agreement. Areas for improvement are provided in Schedule 5.

Details of the audit findings are presented in the Auditors' Report, and supporting Schedules 1 to 5.

6. AUDITORS' REPORT

January 26, 2000

330 0901 01

Director General
Aboriginal Policing Directorate
Department of the Solicitor General of Canada

Hobbema 2N Corporation Agreement dated October 1, 1995
Period audited: April 1, 1998 to March 31, 1999

We have audited the accounts and records of the Hobbema 2N Corporation, insofar as they pertain to the amounts claimed for the above agreement.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the amounts claimed are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the claims. An audit also includes assessing the accounting principles used and significant estimates made by the recipient.

In our opinion, the audited amount of \$801,283 present fairly, in all material respects, the costs allowable under the terms of the agreement. Supporting information and related comments are provided in Schedules 1 to 5.

The Chief of Police of the Hobbema Police Service has been informed of the audit adjustments. The comments from the Chief of Police of the Hobbema Police Service regarding our audit findings are included in Schedule 6.

WINNIPEG, MANITOBA

Hobbema 2N Corporation
Summary of Budgeted, Reported and Audited Amounts
April 1, 1998 to March 31, 1999

CATEGORY	<u>Budget</u> <u>Amounts</u>	<u>Reported</u> <u>Amounts</u>	<u>Audit</u> <u>Adjustments</u>	<u>Audited</u> <u>Amounts</u>
<u>Revenue</u>				
Department	\$ 328,640	\$ 328,640	\$ 9,660	\$ 338,300
Alberta	303,360	303,360	-	303,360
Commissioner for Services for Children	37,400	-	-	-
Vehicle Trade-In (Note 4 of Schedule 3)	10,000	-	22,000	22,000
Alberta Justice Temporary Hold (Note 1 of Schedule 3)	-	24,713	14,592	39,305
Ermineskin PowWow	-	15,000	-	15,000
Utilization of prior years' surplus	25,000	-	-	-
Interest and Miscellaneous Income	-	14,039	(4,500)	9,539
Seminars (Note 2 of Schedule 3)	<u>10,000</u>	<u>10,092</u>	<u>(10,092)</u>	<u>-</u>
Total Revenues	<u>\$ 714,400</u>	<u>\$ 695,844</u>	<u>\$ 31,660</u>	<u>\$ 727,504</u>
<u>Expenditures</u>				
Administration				
Accounting Fees	\$ 3,500	\$ 3,684	\$ 1,353	\$ 5037
Bank Charges and Interest	850	288	992	1,280
Communications	10,000	11,977	-	11,977
Communications - License/Repair	1,500	2,329	-	2,329
Contingency Fund	8,000	7,960	(3,051)	4,909
Freight	-	386	-	386
Insurance	24,000	15,263	-	15,263
Office Cleaning and Maintenance	1,300	657	-	657
Office Equipment	4,000	2,605	-	2,605
Office Supplies	1,500	6,077	-	6,077
Postage	600	382	-	382
Printing	2,000	4,614	-	4,614
Utilities	<u>1,200</u>	<u>1,410</u>	<u>-</u>	<u>1,410</u>
Total Administration Expenses	<u>\$ 58,450</u>	<u>\$ 57,632</u>	<u>\$ (706)</u>	<u>\$ 56,926</u>

Hobbema 2N Corporation
Summary of Budgeted, Reported and Audited Amounts
April 1, 1998 to March 31, 1999

CATEGORY	<u>Budget</u> <u>Amounts</u>	<u>Reported</u> <u>Amounts</u>	<u>Audit</u> <u>Adjustments</u>	<u>Audited</u> <u>Amounts</u>
<u>Expenditures (cont'd)</u>				
Salaries and Benefits (Note 3 of Sch. 3)	<u>\$ 550,413</u>	<u>\$ 542,068</u>	<u>\$ (992)</u>	<u>\$ 541,076</u>
Operations				
Alberta Justice Temporary Hold (Note 1 of Sch. 3)	\$ -	\$ 24,713	\$ 4,551	\$ 29,264
Crime Prevention/Public Relations	1,270	673	-	673
Drug Abuse Resistance Education Program Training	-	671	-	671
Dues & Subscriptions	-	1,495	-	1,495
Firearms	500	-	-	-
Investigative Aids	7,000	2,265	-	2,265
Kit & Clothing	2,500	6,102	(529)	5,573
Training	7,000	6,840	(2,885)	3,955
Travel & Seminars	-	10,091	5,122	15,213
Vehicle Fuel	12,000	19,430	-	19,430
Vehicle Lease	22,320	26,710	(2,337)	24,373
Vehicle Registration	-	64	-	64
Vehicle Lease Buyout (Note 4 of Sch. 3)	20,000	-	13,988	13,988
Vehicle Repair & Maintenance	9,200	11,164	-	11,164
Vehicle Tires	2,000	2,191	-	2,191
Vehicle Acquisitions (Note 5 of Sch. 3)	-	-	15,000	15,000
Other Equipment (Note 6 of Sch. 3)	-	-	20,317	20,317
Total Operations Expenses	<u>\$ 83,790</u>	<u>\$ 112,409</u>	<u>\$ 53,227</u>	<u>\$ 165,636</u>
Ermineskin Powwow	<u>\$ -</u>	<u>\$ 15,000</u>	<u>\$ (2,853)</u>	<u>\$ 12,147</u>
Police Commission Expenses (Note 7 of Sch. 3)	<u>\$ 21,748</u>	<u>\$ 38,977</u>	<u>\$ (13,479)</u>	<u>\$ 25,498</u>
Total Expenses	<u>\$ 714,400</u>	<u>\$ 766,086</u>	<u>\$ 35,197</u>	<u>\$ 801,283</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ -</u>	<u>\$ (70,242)</u>	<u>\$ (3,537)</u>	<u>\$ (73,779)</u>

Hobbema 2N Corporation
Summary of Budgeted, Reported and Audited Amounts
April 1, 1998 to March 31, 1999

Audit Adjustments

The audit adjustments are explained as follows:

INCOME

Government of Canada

To record receipt from Aboriginal Policing Directorate
towards the purchase of Intoxilyzer 5000C \$ 9,660

Vehicle Proceeds of Sale

To record proceeds of sale of vehicles, previously included
in the balance sheet fixed assets 22,000

Alberta Justice Temporary Hold

To transfer receipts from Interest & Miscellaneous Income
and Seminars 14,592

Interest and Miscellaneous Income

To transfer receipts to Alberta Justice Temporary Hold
Seminars (4,500)

To transfer receipts to Alberta Justice Temporary Hold (10,092)

Total Adjustments to Income \$31,660

EXPENSES (*Administration Expenses*)

Accounting

To transfer accounting fees from Ermineskin PowWow \$ 1,353

Bank Charges

To transfer payroll service charges from Salaries & Benefits 992

Contingency

To transfer allocation from Ermineskin PowWow \$ 1,500

To transfer detention cell usage charges to Alberta

Justice Temporary Hold (4,551) (3,051)

Total Adjustments to Administration Expenses \$ (706)

Hobbema 2N Corporation
Summary of Audit Adjustments
April 1, 1998 to March 31, 1999

Audit Adjustments (cont' d)**EXPENSES (Salaries and Benefits)**

To transfer payroll service charges to bank charges and interest	\$ (992)
Total Adjustment to Salaries and Benefits	<u>\$ (992)</u>

EXPENSES (Operations)

Alberta Justice Temporary Hold		\$ 4,551
To transfer detention cell usage charges from Contingency Kit and Clothing		(529)
To eliminate duplicate payment		(529)
Training		
To transfer costs incurred to travel	\$ (3,533)	
To transfer payroll training costs from travel	<u>648</u>	(2,885)
Travel		
To transfer costs incurred from Police Commission to travel	\$ 2,237	
To transfer costs incurred from training	3,533	
To transfer payroll training costs to training	<u>(648)</u>	5,122
Vehicle Lease		
To eliminate lease overpayments		(2,337)
Vehicle Lease Buyout		
To include cost of leased vehicles bought out and sold, previously reported on the balance sheet		13,988
Vehicle Acquisitions		
To include down payment on vehicle purchased	\$ 10,000	
To include purchase of previously leased vehicle	<u>5,000</u>	15,000
Other Equipment		
To include cost of equipment purchased (Note 6 of Sch. 3)		<u>20,317</u>
Total Adjustments to Operations		<u>\$ 53,227</u>

Hobbema 2N Corporation
Summary of Audit Adjustments
April 1, 1998 to March 31, 1999

Audit Adjustments (cont' d)**EXPENSES (*Ermines kin Pow Wow*)**

To transfer allocation back to Contingency	\$ (1,500)
To transfer allocation back to Accounting Fees	<u>(1,353)</u>
Total Adjustments to Ermineskin Pow Wow	<u>\$ (2,853)</u>

EXPENSES (*Police Commission Expenses*)

Meetings		
To eliminate honoraria paid for which minutes of meetings were not available	\$ (6,950)	
To eliminate honoraria paid for which attendance at confirmed meeting was not noted	<u>(200)</u>	\$ (7,150)
Travel and Seminars		
To transfer amount to staff travel	\$ (2,237)	
To eliminate travel not approved by the Police Commission	(1,500)	
To eliminate First Nations Chief of Police Association conference fees not approved by the Police Commission	(600)	
To eliminate unsupported expenditure	<u>(150)</u>	(4,487)
Legal		
To eliminate legal fees paid from statement only		<u>(1,842)</u>
Total Adjustments to Police Commission Expenses		<u>\$(13,479)</u>
Total Adjustments to All Expenses		<u>\$ 35,197</u>
Total Net Adjustments		<u>\$ (3,537)</u>

Hobbema 2N Corporation
Audit Observations
April 1, 1998 to March 31, 1999

NOTES:

1. Alberta Justice Temporary Hold

The Police Service utilizes the detention cells in Ponoka, Hobbema and Wetaskiwin. Costs charged by the RCMP "K" Division for the use of these cells is recovered by the Police Service from the Alberta Department of Justice. Within the expenditures, the audited amount for Alberta Justice Temporary Hold includes only those amounts actually paid by the Police Service during the audit period. Similarly, within the revenue, the audited amount for Alberta Justice Temporary Hold includes only those amounts actually recovered from the Alberta Department of Justice during the audit period.

2. Seminars

Reimbursements received from the First Nation Steering Committee for travel have directly reduced the related expenditure.

3. Salaries and Benefits

During the year ended March 31, 1999, the Hobbema Police Service employed the Chief of Police, one Sergeant, Seven Constables, one Executive Assistant, three Full Time Dispatchers on a salary basis and employed several casual Dispatchers on an hourly basis. One of the constables is, however, paid by the Government of Alberta.

4. Vehicle Lease Buyout

The Police Service operates four vehicles. These vehicles have, in the past, been leased over a three year period, although the lease has been bought out in the second year and the vehicles subsequently sold to unrelated third parties in order to minimize the cost of the vehicles. During the year, the Police Service disposed of two vehicles at a net profit of \$8,122 (\$22,000 proceeds minus \$13,988 vehicle lease buyout cost) and acquired two new lease vehicles at monthly payments of \$930.89 until May, 2001. The net proceeds from the buy out and subsequent disposition of these vehicles were incorrectly included in the automotive equipment costs reflected on the balance sheet.

Hobbema 2N Corporation
Audit Observations
April 1, 1998 to March 31, 1999

NOTES: (cont' d)

5. Vehicle Acquisitions

The Police Service acquired a vehicle in March, 1999 for the full purchase price of \$41,555, paying \$10,000 down and financing the balance through monthly payments of \$944.32 over three years. The Police Service also purchased and retained a vehicle, upon the expiration of its lease, for the sum of \$5,000.

We have included only the down payment of \$10,000 and the lease buyout amount of \$5,000 in the audited amount.

6. Other Equipment

Other Equipment represents costs for Intoxilyzers, vehicle radio equipment, rear shields, lights for the cars and a photocopier.

7. Police Commission Expenses

The Tripartite Agreement indicates the purpose of the Agreement is to provide funding for the Hobbema Police Service and the Hobbema Police Commission according to the Multi-Year Funding Plan set out in Schedule "B". Included in the Police Commission audited amounts are the following expenditures:

Meetings	\$ 6,300
Travel and Seminars	5,903
Legal fees	<u>13,295</u>
Total Police Commission Expenses	<u>\$ 25,498</u>

Hobbema 2N Corporation
Non-Compliance with Agreement
April 1, 1998 to March 31, 1999

1. Provision of audited financial statements by a duly qualified accountant

Section 12.1 of the Contribution Agreement requires the financial statements of the Corporation to be audited annually by a duly qualified accountant. The Police Service has had its financial statements audited by Accura Business Services.

Under Alberta Law, only Chartered Accountants (CA), Certified General Accountants (CGA), or Certified Management Accountants (CMA) are legally entitled to perform audits in the province. There is no indication that Accura Business Services or its principal, David J. Clark, are members of any of these accounting associations. It would therefore appear that the audited financial statements, while submitted prior to June 30th as required, have not been audited by a duly qualified accountant.

The Police Service should ensure the auditor engaged in future is duly qualified to perform the audits.

2. Maintenance of coverage of employees under the Alberta Worker' s Compensation Act.

Our review indicated adequate coverage of employees under the Alberta Worker' s Compensation Act was not in place. It was replaced by a health benefit package which is mandatory for all personnel and to which the Police Service does contribute 40% of the costs of the package.

We recommend the Hobbema 2N Corporation obtain the appropriate Worker' s Compensation Coverage as required by Section 15.6 of the Tripartite Agreement.

Hobbema 2N Corporation
Internal and Financial Controls and
Police Service Policy and Procedures Deficiencies
April 1, 1998 to March 31, 1999

During our audit we observed the following areas for improvement in internal and financial controls and policy and procedures and we make the following recommendations:

1. Funding of the Police Service

The Tripartite Agreement indicates that the Corporation is solely responsible for management of the contributions according to the Multi-Year Funding plan and for any deficit incurred by the Hobbema Police Service and the Hobbema Police Commission.

Schedule C to the Tripartite Agreement indicates that the Police Commission shall keep a written record of its budget and annual plan, approve funding of the Police Service and in consultation with the Chief of Police, cause an annual budget for the operation of the Police Service to be prepared and submitted to the Corporation. The Corporation is solely responsible for approval of the budget for the Police Service and the Commission shall be solely responsible for allocating the funds as approved by the Corporation.

We were unable to obtain evidence that the annual budget approving funding of the Police Service for the year under audit was accepted or approved by the Commission, although the examination of the meeting minutes available indicated the budget was discussed. We have been advised that the budget was verbally approved by the Commission. We were unable to obtain evidence that the budget had been forwarded to and approved annually by the Corporation.

We have been verbally advised that the Corporation does not approve the annual budget but has approved the funding available through their approval of the Tripartite Agreement. While the Tripartite Agreement provides that prior year surpluses may be used to fund deficits of other years, the possibility exists that surpluses will not be available in future to fund such deficits. Should deficits exist in future, the Commission must either ensure that funds will be available from the Corporation to fund a deficit or reduce expenditures.

We recommend that the Commission ensure their approval of the budget is specifically documented in future.

We further recommend the Commission forward their budget for funding approval to the Corporation as required by the Tripartite Agreement.

Hobbema 2N Corporation
Internal and Financial Controls and
Police Service Policy and Procedures Deficiencies
April 1, 1998 to March 31, 1999

1. Funding of the Police Service (cont' d)

We recommend consideration be given to amending Schedule C to reflect the reality that the Corporation involves only the funding approval and is not involved in approving the budget for the Police Service while the Police Commission approves the budget and is not involved in funding approval decisions.

2. Monitoring of Financial Performance

The Police Commission formally established and documented adequate policies and procedures with respect to internal and financial controls during the audit period. The Chief of Police has authority to approve expenditures to \$1,500; expenditures to \$3,000 require the approval of the Chair of the Police Commission and expenditures above \$3,000 require the approval of the Police Commission. All cheque signing authority currently rests with members of the Police Commission. These controls were functioning during the audit period and are considered to be adequate internal controls. Such controls do not, however, allow the Commission to monitor the overall financial performance of the organization.

The policy established indicated the Police Commission is to receive monthly financial statements. Our review of the available minutes of the Police Commission meetings indicated there was no ongoing and documented review of the organization's financial expenditures as compared to the budget.

In any organization, a key control should be the ongoing comparison of the financial expenditures of the organization to that budgeted. As the Police Commission is responsible for preparation of the budget and allocation of the available funds in conjunction with the Chief of Police, we believe the Police Commission should also be involved in monitoring the financial expenditures of the organization as compared to budget on a periodic basis.

We recommend the Police Commission receive the financial statements and review the financial position of the organization as compared to budget on a periodic basis.

3. Maintenance of Accounting Records

During our audit, we found the accounting records maintained provided an inadequate audit trail. This was caused primarily by two reasons:

- a) the Police Service maintained a single entry book keeping system during the year based

Hobbema 2N Corporation
Internal and Financial Controls and
Police Service Policy and Procedures Deficiencies
April 1, 1998 to March 31, 1999

upon expenditures reducing the budgeted funds to determine funds available; and

3. Maintenance of Accounting Records (cont'd)

- b) the external accountant failed to provide an adequate audit trail between the book keeping system maintained by the Police Service and the entries made by the external accountant into the computerized accounting system utilized by the external accountant to prepare the financial statements.

Despite this lack of audit trail, we were able to recreate the records in sufficient detail so as to assure ourselves that the expenditures were not materially misstated.

It is our understanding that the Police Service has, effective April 1, 1999, begun to utilize a computerized accounting system to maintain its accounting records. Use of such a system should correct, to a large extent, the inadequacies identified in the system utilized during the audit period and should also enable the provision of timely financial statements and reports relative to comparisons to budget to both the Police Chief and the Police Commission.

We recommend that the Police Service continue to utilize the computerized accounting system for maintenance of their accounting records.

We recommend that the Police Service and the Police Commission utilize the reporting facilities of the system to regularly monitor the financial performance of the organization.

4. Payment to Vendors

There were several instances of payments made to vendors without suppliers' invoices. Instead supporting documents consist of supplier monthly statements and packing slips.

Payments from monthly statements, quotes or packing slips could result in either payment of goods which have not been ordered or overpayments to suppliers which may not be identified and recovered. Payments should not be made to suppliers based on supplier monthly statements or packing slips. If original invoices are lost, invoice copies should be obtained from the supplier.

In addition, late payment of lease amounts resulted in the finance company issuing revised invoices to reflect the additional interest charges. In one month, both the original and revised invoices were paid, resulting in duplication of lease payment. To prevent duplication of lease

Hobbema 2N Corporation
Internal and Financial Controls and
Police Service Policy and Procedures Deficiencies
April 1, 1998 to March 31, 1999

4. Payment to Vendors (cont'd)

payments, the Police Service should ensure the original invoice has not been paid before payment is made in full relative to the revised invoice.

We recommend that the practice of paying from statements, quotes and packing slips be ceased.

We recommend that more care be taken to prevent duplicate payment of lease charges due.

5. Safeguarding of Assets - Equipment

The Police Service was in the midst of preparing an inventory listing of its equipment as required by its financial regulations. While we recognize that much of the equipment acquired in the past has not been capitalized to the balance sheet, such a listing should, in our view, also be reconciled to the financial statements in order to minimize any undetected loss of the equipment.

We recommend that the Chief of Police take the appropriate steps to ensure this listing reconciles to the financial records and is maintained on a current basis.

6. Honorarium and Travel Expenses

The Police Commission promulgated financial regulations in December, 1998 which included establishment of an Honorarium and Travel Policy for Commission travel. Rates established in this policy were amended in February, 1999 to include payment of the following:

- a) \$35 for local meetings held in Hobbema, Wetaskiwin or Ponoka;
- b) \$150 for meetings held elsewhere in Alberta where accommodation is not required; and
- c) \$300 travel expense per day for out of province travel.

The policy is not clear whether these rates are designed to reimburse the attendee for travel expenditures, excluding air fare, to pay the attendee an honorarium for attendance at the meeting or to serve as a combination of both travel and honoraria. Discussion with the Chief of Police indicated the rates established were to pay for both travel and honoraria.

Hobbema 2N Corporation
Internal and Financial Controls and
Police Service Policy and Procedures Deficiencies
April 1, 1998 to March 31, 1999

6. Honorarium and Travel Expenses (cont'd)

We recommend the Commission review the honorarium and travel policy with a view to ensuring the policy clearly reflects the purpose of the rates as being both an honorarium and a reimbursement of travel expenses.

The policy further indicates that attendance will be noted by the Chairman or his designate and deductions will apply accordingly. The policy does not indicate the basis for these deductions. In our view, the policy should clearly indicate the basis by which these reductions will be calculated.

We recommend the Commission review the honorarium and travel policy with a view to clarifying the basis by which reductions will be calculated.

We noted that payments made pursuant to this policy were automatic and tended to be prepaid. Accordingly, there was no documentation available to ensure that those receiving the monies had actually traveled and attended the business function. No documentation was available from the Chairman confirming attendance or the applicability of any deductions. This could lead to the per diem rate being paid in instances where the person subsequently does not travel and no recovery is undertaken. The Chief of Police has indicated in our discussions that such recovery is currently taken through reductions in subsequent amounts due.

We recommend that procedures be instituted to formalize the documentation when travel has taken place in order to ensure appropriate recoveries are made. Certification by the Commission Chair relative to attendance and the appropriateness of deductions should be obtained in accordance with the policy and subsequently attached to the travel pre-payment document.

In instances where the traveler is required to fly , we noted that the traveler is not required to submit the used airline ticket as proof of travel. This could result in the cashing in of airline tickets by the traveler to a less expensive mode of travel, or even no travel at all. While the Chief of Police has indicated that, in most instances, non refundable tickets are purchased, the invoices for air travel were not sufficiently detailed to determine the class of ticket purchased.

Hobbema 2N Corporation
Internal and Financial Controls and
Police Service Policy and Procedures Deficiencies
April 1, 1998 to March 31, 1999

We recommend that policies and procedures to minimize or prevent these situations from occurring be implemented.

6. Honorarium and Travel Expenses (cont' d)

During our audit we encountered difficulty matching the honorarium payments made for meetings to the actual date of the meeting to ensure payment of honoraria were appropriate. This was due to the fact that the meeting date was often not clearly indicated on the voucher document.

We recommend the supporting documentation utilized to generate the honoraria cheques issued clearly indicate the actual date of the meeting(s).

7. Compliance with GAAP

In our view, the financial statements provided were not completed in accordance with Generally Accepted Accounting Principles. In particular, we noted the following:

- a) Automotive equipment reported on the financial statements did not reflect the original cost of the vehicles. Rather, the amount reported incorrectly includes the original cost, the associated finance charges and was reduced by the net gain from the buyout and sale of the leased vehicles;
- b) Amounts due to the RCMP "K" division for the use of the detention cells during the year were not accrued and recorded as expenditures on the financial statements nor were the amounts recoverable from the Alberta Government accrued and recorded as income on the financial statements (the audited amounts are reported on a cash basis); and
- c) Lease payments which were essentially prepaid were inappropriately recorded as an expense on the income statement rather than being recorded as a prepaid amount.

We recommend that the financial statements be prepared in accordance with Generally Accepted Accounting Principles for Public Sector Organizations in future.