

**Department of Indian Affairs and Northern Development
Corporate Services
Departmental Audit and Evaluation Branch**

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**Audit of Band and Individual
Trust Accounts**

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Executive Summary

Purpose

The purpose of this audit was to assess whether the transactions in Indian Band and Individual Trust Accounts for the fiscal years 1993-1994, 1994-1995 and 1995-1996 are fairly and accurately recorded.

Background

In accordance with the provisions of the *Indian Act*, the Department of Indian Affairs and Northern Development (DIAND) maintains two types of trust accounts, those for First Nations (capital and revenue accounts) and those for certain individual Indians (minors, mentally incompetents and adoptees). These accounts total approximately \$1.05 billion in band and individual trust funds. There are 608 bands having 1,216 trust accounts and there are 13,500 individual trust accounts.

Deposits are made into these accounts by departmental officials from a variety of sources, often directly or indirectly as a result of resource transactions occurring on reserve lands. Payments are made to First Nations and individuals from these accounts, subject to approval from the Minister or his delegate. Interest is credited according to the terms set out in various Orders-in-Council.

The accounting for these funds is handled through a computerized system called the Trust Funds Management System (TFMS). At Indian Oil and Gas Canada (IOGC), a computerized system called the Resources Information Management System (RIMS) is also used to administer the oil and gas royalties due from oil and gas companies. Both of these systems, through interfaces, transfer accounting data to the computerized Departmental Accounting System (DAS) which is the general ledger of the department. The audit also included an examination of integrity controls and operational efficiency surrounding these data transfers.

Objectives and Scope

The objectives of this audit were to:

- verify the completeness, accuracy and validity of the transactions in the Band and Individual Trust Accounts for 1993-1994, 1994-1995 and 1995-1996, and of the resulting balances at March 31, 1996;

- assess the adequacy and effectiveness of application controls to ensure the completeness, accuracy and integrity of data handled by the interfaces between TFMS, DAS and RIMS (including data transferred using these interfaces). This includes all manual, clerical and supervisory controls over data before input into the interfaces and all computerized and manual basic controls over inputs and outputs and processing of data by these interfaces; and
- evaluate current accounting and administration practices pertaining to the band trust accounts in terms of due regard for efficiency, effectiveness, economy and compliance with established departmental directives, procedures and policies.

The scope of the audit included a review of the accounting and administrative practices related to the TFMS and its interfaces with other computerized information systems of the department. The audit covered the review of all band and individual trust account transactions for the fiscal years 1993 to 1996 at headquarters and IOGC; and at the Ontario, Alberta and British Columbia regions.

The audit of band and individual trust accounts was carried out by BDO Dunwoody Chartered Accountants of Ottawa, Ontario.

Audit Methodology

A preliminary survey of this audit, was conducted by Arthur Andersen & Co. of Ottawa, Ontario. They recommended that, based on their preliminary assessment, an audit of the transactions of the band and individual trust accounts, as well as the electronic system interfaces, be performed in the fieldwork phase of the audit.

The audit reviewed the transactions in the band and individual trust accounts for the fiscal years 1993-1994, 1994-1995 and 1995-1996, maintained by the headquarters and Regional Accounting Operations Directorates, Finance Branch of the department, with a view to express an audit opinion on their accuracy, validity and fairness. The sampling approach for this audit was based on using a 3% expected error rate, a 5% maximum tolerable error and a 95% confidence level. Furthermore, expected and maximum error rates were based on the materiality of the transactions processed, and were not based on the transaction dollar values or account balances.

General Assessment

The audit found, based on the review of transactions recorded in the band and individual trust accounts maintained by the headquarters and Regional Accounting Operations Directorates, Finance Branch of the department, that the trust transactions were fairly stated in all material respects. The audit could not confirm the closing balances of the band and individual trust accounts as of March 31, 1996, as the opening balances of the band and individual trust accounts were not audited by an independent audit.

Our review has shown that sufficient controls exist to ensure that the data handled by the interfaces among the computerized systems is complete and accurate, however, the main controls are manual and compensatory in nature.

Some trust receipts are temporarily held in suspense accounts, until all administrative and legal requirements are complied with, e.g., execution of agreements, identification of beneficiaries. However, the procedures followed to clear the suspense accounts are not consistent throughout the department and require formalization to ensure that suspense accounts are cleared on a timely basis.

At IOGC and at the regions of British Columbia, Alberta and Ontario, knowledge of TFMS (as well as RIMS in the case of IOGC) and the related accounting process is concentrated in a few individuals. Therefore, there is a risk of not being able to carry out required accounting functions in the event of prolonged absence of any of these individuals.

Section 1 - Introduction

Purpose

The purpose of this audit was to assess whether the transactions in Indian Band and Individual Trust Accounts for the fiscal years 1993-1994, 1994-1995 and 1995-1996 are fairly and accurately recorded.

Background

In accordance with the provisions of the *Indian Act*, the Department of Indian Affairs and Northern Development (DIAND) maintains two types of trust accounts, those for First Nations (capital and revenue accounts) and those for certain individual Indians (minors, mentally incompetents and adoptees). These accounts total approximately \$1.05 billion in band and individual trust funds. There are 608 bands having 1,216 trust accounts and there are 13,500 individual trust accounts.

Deposits are made into these accounts by departmental officials from a variety of sources, often directly or indirectly as a result of resource transactions occurring on reserve lands. Payments are made to First Nations and individuals from these accounts, subject to approval from the Minister or his delegate. Interest is credited according to the terms set out in various Orders-in-Council.

The accounting for these trust accounts is handled through a computerized system called the Trust Funds Management System (TFMS). At Indian Oil and Gas Canada (IOGC) in Calgary, a computerized Resources Information Management System (RIMS) is also utilized. RIMS stores information on leases, oil and gas royalties due and received from the Oil and Gas companies. It supports IOGC's functions for verifying oil and gas royalties and ensuring that the royalty paying companies have reported correct production.

Both TFMS and RIMS, through interfaces, connect with the computerized Departmental Accounting System (DAS) of DIAND. Since TFMS and RIMS are not modules of DAS, reconciliations with DAS are prepared for each of TFMS and RIMS.

Objectives

The objectives and issues of this audit were to:

- verify the completeness, accuracy and validity of the transactions in the Band and Individual Trust Accounts for 1993-1994, 1994-1995 and 1995-1996, and of the resulting balances at March 31, 1996;
- assess the adequacy and effectiveness of application controls to ensure the completeness, accuracy and integrity of data handled by the interfaces between TFMS, DAS and RIMS (including data transferred using these interfaces). This included all manual, clerical and supervisory controls over data before input into the interfaces and all computerized and manual basic controls over inputs and outputs and processing of data by these interfaces; and
- evaluate current accounting and administration practices pertaining to the band trust accounts in terms of due regard for efficiency, effectiveness, economy and compliance with established departmental directives, procedures and policies.

Scope

The scope of the audit included a review of the accounting and administrative practices related to the TFMS and its interfaces with other computerized information systems of the department. The review covered all Band and Individual Trust Accounts and transactions for 1993-1994, 1994-1995 and 1995-1996 including manual and computerized procedures performed at the operations, supervisory and management levels at headquarters, at IOGC and at the Ontario, Alberta, and British Columbia regions.

Audit Approach

A preliminary survey of this audit was conducted by Arthur Andersen & Co. of Ottawa, Ontario. They recommended that, based on their preliminary assessment, an audit of the transactions of the band and individual trust accounts, as well as the electronic system interfaces, be performed in the fieldwork phase of the audit.

The audit reviewed the transactions in the band and individual trust accounts for the fiscal years 1993-1994, 1994-1995 and 1995-1996, maintained by the headquarters and Regional Accounting Operations Directorates, Finance Branch of the department, with a view to their accuracy, validity and fairness. The detailed work included:

- verification of documents supporting the allocation of receipts and the disbursement authorization processes;
- verification, by substantive testing, of the transactions in bands and individual trust accounts for:

- 1993-1994, 1994-1995 and 1995-1996 at Ontario, Alberta and B.C. regions; and at IOGC. As IOGC's data was not homogeneous with the other three regions, they were reviewed separately. Also, the processing methodology and the data integrity controls for the year 1993-1994 were significantly different from 1994-1995 and 1995-1996. Therefore, for our sampling for testing, the transactions for 1993-1994 were treated separately, distinct from the other two years;
- verification of calculation of interest credited to band and individual trust accounts;
- verification of the system interfaces by the use of suitable test decks and other review methods to assess the adequacy and effectiveness of application controls to ensure the completeness, accuracy and integrity of data handled by the interfaces between TFMS, DAS and RIMS (including data transferred using these interfaces). This included all manual, clerical and supervisory controls over data before input into the interfaces and all computerized and manual basic controls over inputs and outputs and processing of data by these interfaces;
- review of the adequacy and effectiveness of the reconciliation between systems which record and deal with the transactions in band and individual accounts; and
- review and development of detailed process maps and identification of potential areas of improvement.

The sampling approach for this audit was based on the transaction population, a 3% expected error rate, a 5% maximum tolerable error and a 95% confidence level. Expected and maximum error rates were based on the materiality of transactions processed, and not the transaction dollar amounts or account balances.

The audit was conducted in the following three phases:

- This phase covered audit planning and preliminary testing at headquarters and IOGC and the regions of Ontario, Alberta and British Columbia. We also determined what information was needed to be provided to the regions for our audit samples, to enable them to retrieve source documentation for our examination.
- This phase covered the examination of documentation at headquarters, IOGC and Ontario, Alberta and British Columbia regions. We also reviewed computer interface controls and accounting and administrative practices pertaining to the trust accounts at these locations and prepared process maps showing the flow of trust accounting for IOGC and Ontario, Alberta and British Columbia regions.
- This phase covered the writing of the audit report.

Reporting Strategy

The main purpose of this audit was to obtain an external auditor's opinion as to whether the transactions in Band and Individual Trust Accounts for the fiscal years 1993-1994, 1994-1995 and 1995-1996 were fairly stated in accordance with the provisions of the *Indian Act*.

Our objectives included an assessment of the adequacy and effectiveness of application controls; and, an evaluation of accounting and administrative practices in terms of due regard for efficiency, effectiveness, economy and compliance with departmental directives, procedures and policies. The two latter objectives are of an internal audit nature. As a result, this report presents the external audit opinion on BDO Dunwoody letterhead apart from the internal audit findings.

Section 2 - Findings and Recommendations

Accuracy and Validity of Recorded Transactions

The audit found that Band and Individual Trust Account transactions were accurately recorded and valid during the fiscal years 1993-1994, 1994-1995 and 1995-1996.

The trust accounts have not been audited for a number of years. As a result, as stated in BDO Dunwoody's auditor's report on Indian Band and Individual Trust Accounts transactions, they were unable to express an opinion on the trust account balances. It is anticipated that the trust accounts will be audited for all successive fiscal years which will eventually enable an external auditor to express an opinion on the trust account balances by virtue of the fact that the opening balances at April 1, 1993 will eventually flow through the accounts reducing the opening balance through disbursements.

The scope of this audit excluded the activities of LTS and was limited to those receipts actually received by the department. As a result, the processes employed by LTS to ensure that all receipts due to the bands and individuals are collected were not audited.

The following table summarizes by region the number of transactions examined. According to our sampling plan it was based on 95% confidence level and an expected error rate of 3%.

	1993-1994	1994-1996	Total
IOGC	395	445	840
Ontario	154	178	332
Alberta	417	447	864
British Columbia	<u>162</u>	<u>175</u>	<u>337</u>
Total	<u>1128</u>	<u>1245</u>	<u>2373</u>

For further information on the sampling methodology please see Section 1.

Except for the isolated instances outlined later in this report, which were satisfactorily resolved from an audit point of view, we found the transactions to be accurately recorded and the documentation made available to be satisfactory.

Recommendation

None.

Interface Application Controls

There are adequate controls in place to ensure that the data processed through the interfaces between TFMS, DAS and RIMS is complete and accurate. However, the main controls are still manual and compensatory in nature.

TFMS, which is the database used to maintain all the transactions processed through the band and individual trust accounts, was developed independently from the Departmental Accounting System (DAS). Since TFMS is essentially a non-integrated sub ledger of DAS, interface programs were developed as a mechanism to transfer transactions entered in TFMS to the corresponding control accounts in DAS.

Each region has its own TFMS database and its own DAS database. The databases are physically located on computers at DIAND headquarters. The regions access the databases via the departmental wide area network. Accounting Operations Directorate staff in the regions submit transactions for processing by the interface programs but the interface programs themselves are run at headquarters on a pre-defined timetable.

RIMS is another database located at IOGC. This system is used to monitor and track the revenues received from the oil and gas industry. Since these transactions are also trust transactions, an interface was required to transfer these transactions to TFMS. Several extra steps are involved in this interface because the RIMS database is located on a computer system that is not compatible with the computer systems at headquarters. Therefore RIMS transaction files are first converted to generic text files at IOGC which are transmitted to headquarters where these files are translated into TFMS records files by region. As there are no computerized interface application controls between RIMS and TFMS, IOGC faxes lists of transactions submitted from RIMS to the regional TFMS database, to the appropriate region so that those transactions can be agreed to the ones actually received by TFMS. This compensates for the lack of electronic input/output control in the RIMS to TFMS interface.

It was noted that the TFMS system generates a daily report of all transactions submitted to the DAS interfaces as well as a daily report of all incoming inter-regional transactions from RIMS. However, there are no corresponding reports in DAS of transactions received or from RIMS of transactions sent. If these reports were made available in electronic form, it is conceivable that they could be compared to the TFMS reports automatically and any discrepancies would be reported immediately as an exception report.

As a final manual compensating control, Accounting Operations Directorate staff in each region perform monthly reconciliations between TFMS, DAS and Public Works and Government Services Canada (PWGSC). At IOGC a reconciliation of RIMS to these same databases is also performed.

To ensure that there were sufficient controls surrounding the transfer of data between these systems we performed the following audit steps:

- at Ontario, Alberta and British Columbia regions and at IOGC a number of our sample transactions were traced into DAS and PWGSC as a substantive measure to ensure that the interface was taking place. In addition, the month-end reconciliations performed between TFMS, DAS, RIMS and PWGSC were reviewed. Our review of these reconciliations found them to be an effective control to ensure the completeness, accuracy and integrity of data handled by the interfaces.
- at headquarters, for the purpose of testing the computerized interface controls in the TFMS and DAS database a test site was set up to allow us to process the following dummy transactions:
 - batch of transactions were created in TFMS and submitted to the DAS interface. The DAS database was examined and all submitted transactions were accounted for;
 - The same TFMS transactions were submitted to the DAS interface a second time in order to determine that there are adequate controls in place to ensure that duplicate transactions are detected and not processed twice. These transactions were correctly rejected by DAS as duplicate transactions;
 - A transmittal file was accessed and corrupted by deleting a detail line without changing the header information. (i.e., the header said there should be four detail lines totalling \$40.00, when there were only three detail lines totalling \$30.00.) DAS accepted this transaction without generating an error message. However, the transaction could not be approved on screen, it was not posted to DAS accounts and remained as an unapproved transaction. Even though DAS did not reject the transaction, it was not posted and could not corrupt the database; and
 - A similar test was performed using a RIMS transaction file and submitting duplicate transactions to the TFMS interface. TFMS rejected duplicate entries as well.

Our audit found no errors in respect of the transfer of data between the computerized systems. However, the controls employed by the department to ensure the completeness, accuracy and integrity of data handled by the interfaces are primarily manual and compensatory in nature.

Recommendation

- 1 . It is recommended that the Director, Financial Policies, Systems and Accounting Directorate, Finance Branch in consultation with the Director, Planning and Corporate Services, Indian Oil and Gas Canada and the Director, Information Systems Directorate, Information Management Branch review the feasibility of creating the necessary reports from DAS and RIMS, to enable electronic verification of the flow of transactions between TFMS, DAS and RIMS.

The implementation of this recommendation should take place during or after the currently planned move of TFMS and other financial applications to a new and improved technological environment, i.e., UNIX.

Suspense Accounts Follow-Up

The suspense account follow-up process employed by the department at IOGC and the regions of Ontario, Alberta and British Columbia requires formalization to improve its effectiveness.

Trust receipts are placed in suspense accounts in certain circumstances such as where agreements have not been legally executed, where amounts are in dispute or where the beneficiary is unknown. At any point in time significant amounts of money are in suspense accounts. While the amount varies, the suspense accounts maintained by IOGC and the regions of Ontario, Alberta and British Columbia totalled in excess of \$19 million at December 31, 1996.

While TFMS produces a summary suspense report, the information in this report is insufficient to enable its use as an effective tool in assisting management clear suspense accounts and crediting to appropriate band and individual trust accounts.

IOGC and the British Columbia Region have undertaken independent initiatives to produce more useful reports which improve their ability to manage the tracking and follow-up of all suspense accounts. There are, however, no department-wide formal policies in respect of clearing suspense accounts.

Recommendation

2. It is recommend that the Director General, Registration Revenues and Band Governance Branch, Lands and Trust Services in consultation with the Directors General, Lands and Environment Branch, Finance Branch and the Executive Director, Indian Oil and Gas Canada develop national policies and procedures on suspense accounts for:
 - ensuring that suspense accounts are followed up on a timely basis in order to credit beneficiaries' accounts as promptly as feasible; and
 - dealing with the disposition of suspense funds where beneficiaries are unknown.

Completeness of Interest Credited to Trust Accounts

The interest exception report requires refinements to enhance its usefulness.

TFMS automatically credits interest to each trust account as prescribed by Treasury Board except in certain circumstances such as where an account has an unposted transaction. The system also produces an exception report which lists all accounts that were not credited with interest. The regions use this report to ensure that any account with interest due, but not credited during the automatic interest run is corrected accordingly. The report lists all accounts that have nil balances, includes repetitive messages and is poorly spaced. As a result, the report is unnecessarily large and difficult to read thereby increasing the possibility of missing an account during the manual correction process. Further, the reports take up significant amounts of paper.

Recommendation

3. It is recommended that the Director, Financial Policies, Systems and Accounting Directorate, Finance Branch in conjunction with the Director, Information Systems Directorate, Information Management Branch ensure the exception report for interest is redesigned to eliminate data not needed and improve its layout. Such revisions will facilitate the manual interest correction by reducing the volume of pages to be reviewed and therefore reduce the risk of undetected errors.

Concentration of Knowledge of the Trust Fund Accounting Process

At IOGC and the s of Ontario, Alberta and British Columbia, knowledge of TFMS (as well as RIMS in the case of IOGC) and the related accounting process is concentrated in one or two individual staff members within the Regional Accounting Operations Directorates.

Due to the inter-relationship of TFMS, DAS and the Government of Canada accounting system (operated by PWGSC), accounting for the transactions of the Band and Individual Trust Accounts is a complex process. Our review has shown that Accounting Operations Directorate staff at headquarters and the regions have effectively maintained the trust accounts but the prolonged absence of any of them could result in the department's inability to carry out required accounting functions in an effective and timely manner.

Recommendation

4. It is recommended that the Director, Financial Policies, Systems and Accounting Directorate, Finance Branch in consultation with Directors, Corporate Services, Ontario, Alberta and British Columbia regions and IOGC, ensure that complete documentation is prepared to cover all facets of the trust accounting process and that staff who perform these functions have adequately trained back up personnel.

It is further recommended that the documentation be prepared after the proposed conversion of financial applications to run on a UNIX/Oracle platform, thus allowing for any changes in manual procedures surrounding the current systems.

Year 2000 Software Problems

The department needs to complete its plans to modify or replace non-compliant computer systems to enable the uninterrupted processing of trust fund data from the Year 2000.

As discussed extensively in the business and computer fields, computer date problems with respect to the Year 2000 are a very serious concern. Various hardware, software and computerized machines and equipment will be affected by these dating problems. It is important that plans to review potential problems in this area occur immediately under the supervision of a responsible government official. As the department relies heavily on computers for daily operations it is at particular risk (including potential legal risks) and therefore must devise a plan to ensure the Year 2000 issue will be resolved prior to the turn of the millennium.

The department's Information Systems Directorate is aware of the impending computer software problems associated with the Year 2000 and has determined which computer applications in use at headquarters require modification.

The Information Systems Directorate reports that both TFMS and DAS are able to handle dates beyond 1999. The IOGC plans to conduct an in-depth study of the Year 2000 issue in respect of RIMS though based on IOGC's preliminary review of the RIMS it is believed that no difficulties will be encountered.

Recommendation

None.

Retention and Retrieval of Trust Account Source Documentation

The Alberta Region requires improvements in its record retention and retrieval procedures and is taking steps for the achievement of needed improvements.

Alberta processes a significant proportion of all trust transactions and therefore accumulates significant volumes of documentation. The region was eventually able to provide us with sufficient documentation to satisfy our audit requirements. It was not, however, able to produce all requested documentation in a timely fashion. As administrator of the Indian Band and Individual Trust Accounts, the department must apply a high standard of care to the administration of band monies. Prompt retrieval of documentation is necessary to enable the department to respond to inquiries from the beneficiaries as well as to preserve an audit trail.

In recognition of this, the region has arranged a special review of records processes and procedures (Alberta Region). The review will advise the Regional Director General on processes dealing with records management.

Recommendation

None.

Section 3 - Sampling Methodology

Overview

The audit required that the transactions to be audited be selected using a statistically correct process. The Department of Indian Affairs and Northern Development (DIAND) provided the audit team, in electronic format, with all of the transactions for the three fiscal years to be audited. The audit team examined the files provided by DIAND and confirmed that they included all BITA transactions for the three specified fiscal years.

The preliminary survey phase of the audit identified eight populations from which the sample transactions were to be drawn. Once the fieldwork phase of the BITA audit was started, it was determined that a larger number of samples would have to be drawn to ensure that all transaction types would be audited.

The preliminary survey phase identified the following primary populations (groupings):

- Indian Oil & Gas Canada (IOGC):
 - fiscal year 1993-1994; and
 - fiscal years 1994-1995 combined with 1995-1996;

- The three selected regions (Ontario, Alberta and British Columbia):
 - fiscal year 1993-1994; and
 - fiscal years 1994-1995 combined with 1995-1996.

Sampling Software

It was decided at the start of the assignment that the auditors would employ IDEA, a software package approved by the Canadian Institute of Chartered Accountants (CICA). This package has also been used by the Auditor General of Canada and numerous internal audit divisions within federal government departments.

Size of Samples

The sizes of the samples, to be selected for each of the identified populations of transactions, were computed using statistical formulas appropriate to auditing and statistical requirements. The variables used to compute the sample sizes were those specified within the terms of reference for the audit, namely:

- 95% confidence level,
- expected error rate 3%,
- maximum tolerable error rate 5%.

The following tables detail the resulting samples from the regions.

Regions 1993-1994 Description	Total Population	Ontario Sample Size	Alberta Sample Size	B.C. Sample Size	Total
Receipts drawn from the TFMS (codes 1 and 11)	6805	75	69	62	206
Disbursements drawn from TFMS (code 2)	807	26	146	36	208
Journal vouchers drawn from TFMS (codes 3 and 13)	8858	16	163	29	208
Disbursements drawn from TFMS (code 12, judgmental Sample Size)	199	5	5	0	10
Non-trust disbursements (code "C")	929	32	34	35	101
Total		154	417	162	733

Regions 1994-1995 and 1995-1996 Description	Total Population	Ontario Sample Size	Alberta Sample Size	B.C. Sample Size	Total
Receipts drawn from the TFMS (codes 1 and 11)	16487	60	84	66	210
Disbursements drawn from TFMS(code 2)	14747	18	157	35	210
Journal vouchers drawn from TFMS (codes 3 and 13)	24478	60	169	32	261
Disbursements drawn from TFMS (code 12, judgmental Sample Size)	199	5	5	5	15
Non-trust disbursements (code "C")	1346	35	32	37	104
Total		178	447	175	800

The following tables detail the resulting samples for IOGC.

IOGC 1993-1994 Description	Electronic File Name	Total Population	Sample Size
Receipts drawn from the TFMS (code 11)	sam00008	767	170
Journal vouchers drawn from TFMS (codes 3 and 13)	sam00010	1463	185
Disbursements drawn from TFMS (code 2)	sam00017	132	30
Non-trust receipts drawn from DAS (judgmental sample, IDEA not used)	none	n/a	10
Total			395

IOGC 1994-1995 and 1995-1996 Description	Electronic File Name	Total Population	Sample Size
Receipts drawn from the TFMS (code 11)	sam00015	1865	195
Journal vouchers drawn from TFMS (codes 3 and 13)	sam00014	5272	210
Disbursements drawn from TFMS (code 2)	sam00018	580	30
Non-trust receipts drawn from DAS (judgmental sample, IDEA not used)	none	n/a	10
Total			445

Regional Transactions to be Drawn

The preliminary survey phase report determined that the three regions were homogenous and therefore could be treated as a single population. This meant that the transactions for the regions would be processed in the following manner:

- the transactions were drawn for all three regions as a whole;
- the drawn samples were subdivided for each of the three regions; and
- the Ontario Region samples were subdivided by district office.

Alpha Test of the Sampling Methodology

Preliminary tests were conducted with IDEA using the files provided by DIAND. Samples were drawn for IOGC and the regional offices to determine if the sampling methodology was appropriate.

A detailed review of the samples was undertaken by the audit team. It was found that roughly half of the transactions were interest computations generated automatically by DIAND's computer systems. Furthermore, it was observed that the majority of these transactions were quite small and therefore not material.

A review of the system generated interest transactions resulted in the observation that testing the system's interest computation methodology together with a smaller judgemental sample of these transactions would confirm the accuracy and completeness of these transactions. It was decided that computer generated interest transactions would not be included within the samples to be drawn. Interest transactions that are not automatically generated by the system would remain within the overall transaction population to be sampled.

Beta Testing of the Sampling Methodology

Meetings were held with DIAND staff at IOGC and the regional offices to determine what information they would require so as to enable them to draw the required to draw the transaction documents from central records. Using this information, a limited number of transactions were drawn using IDEA, and a sample list printed. The sample list was used to conduct a second walk through. DIAND staff and the auditors reviewed the results of the walk through and a final format for the list of transactions to be drawn for the audit was finalized.

Drawing the Final Samples

IOGC's final sample was drawn and submitted to IOGC staff. They were successful in drawing the transactions from the central records.

The final sample was drawn for the regions and then subdivided by region and district office.

TERMS OF REFERENCE

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AUDIT OF BAND AND INDIVIDUAL TRUST ACCOUNTS

PURPOSE: The purpose of this audit is to assess whether the transactions in Indian Band and Individual Trust Accounts for the fiscal years 1993-1994, 1994-1995 are fairly and accurately recorded.

BACKGROUND: The Departmental Audit and Evaluation Branch's (DAEB) 1995-1996 Annual Audit and Evaluation Plan, approved by the Departmental Audit and Evaluation Committee (DAEC), includes an audit of Band and Individual Trust Accounts.

In accordance with the provisions of the *Indian Act*, the Department of Indian Affairs and Northern Development (DIAND) maintains two types of trust accounts, those for First Nations (capital and revenue accounts) as well as accounts for certain individual Indians (minors, mentally incompetents and adoptees' accounts).

Deposits are made into these accounts by departmental officials from a variety of sources, often directly or indirectly as a result of resource transactions occurring on reserve lands. Expenditures are made to First Nations and individuals from these accounts, subject to approval from the Minister or his delegate. Interest is credited to these accounts according to the terms set out in various orders-in-council.

These trust accounts have not been audited for a number of years. Therefore, it is now proposed that transactions in these accounts for the years 1993-1994 and 1994-1995 and the closing balances be audited.

The accounting for these trust accounts is handled through a computerized system called the Trust Funds Management System (TFMS). At Indian Oil and Gas Canada (IOGC) in Calgary, a computerized Resources Information Management System (RIMS) is also utilized. RIMS stores information on leases, oil and gas royalties due and received from the Oil and Gas companies. It supports IOGC's functions for verifying oil and gas royalties and ensuring that the royalty paying companies have reported correct production.

Both TFMS and RIMS, through interfaces, connect with the computerized Departmental Accounting System (DAS) of DIAND. Since TFMS and RIMS are not modules of DAS, reconciliations with DAS are prepared for each of TFMS and RIMS.

Recently, various operational and reconciliation difficulties have been encountered by the operational management. These difficulties mostly originate with the transfer of data from one system to the other. It is, therefore, a requirement of this audit assignment that the interfaces of TFMS and RIMS to DAS be examined, particularly in respect of integrity controls, data transfers and operational efficiency and effectiveness.

OBJECTIVES: The objectives and issues of this audit are to:

- verify the completeness, accuracy and validity of the transactions in the Band and Individual Trust Accounts for 1993-1994, and 1994-1995, and of the resulting balances at March 31, 1995;
- assess the adequacy and effectiveness of application controls to ensure the completeness, accuracy and integrity of data handled by the interfaces between TFMS, DAS and RIMS (including data transferred using these interfaces). This includes all manual, clerical and supervisory controls over the data before input into the interfaces and all computerized and manual basic controls over inputs and outputs and processing of data by these interfaces; and
- evaluate current accounting and administration practices pertaining to the band trust accounts in terms of due regard for efficiency, effectiveness, economy and compliance with established departmental directives, procedures and policies.

SCOPE: The scope of the audit includes a review of the accounting and administrative practices related to the TFMS and its interfaces with other computerized information systems of the department. The review will cover all band and individual trust accounts and transactions for 1993-1994 and 1994-1995 including manual and computerized procedures performed at the operations, supervisory and management levels at headquarters, at IOGC and at the Ontario, Alberta, and British Columbia regions.

APPROACH: The audit of the Band Trust Accounts will be conducted in the following three phases :

- Preliminary Survey and Evaluation
- Fieldwork and Analysis
- Reporting.

COST: The estimated cost of this audit is \$150,000.

SCHEDULE: The audit planning process will commence from October 1995 and the report will be completed by March 1996

APPROVE BY:

A Williams
Assistant Deputy Minister
Corporate Services
October 10, 1995

Gordon Shanks
Assistant Deputy Minister
Lands and Trusts Services

ACTION PLAN

AUDIT AND EVALUATION / VÉRIFICATION INTERNE ET ÉVALUATION

REQUEST FOR ACTION PLAN / DEMANDE DE PLAN D'ACTION

PROJECT / PROJET : 96/09
DATE SENT / DATE D'ENVOI : 97-08-28
DATE DUE / ÉCHÉANCE : 97-09-28

PAGE : 1 OF / DE : 2

PROJECT TITLE / TITRE DU PROJET : Audit of Band and Individual Trust Accounts
REGION OR BRANCH / RÉGION OU DIRECTION GÉNÉRALE: Corporate Services - Finance Branch

(1) RECOMMENDATIONS / RECOMMANDATIONS	(2) REPORT / RAPPORT PAGE NO.	(3) ACTION PLAN / PLAN D'ACTION (If space provided is insufficient please continue on blank sheet. / Si vous manquez d'espace, veuillez continuer sur une page blanche.)	(4) RESPONSIBLE MANAGER / GESTIONNAIRE RESPONSABLE (TITLE / TITRE)	(5) PLANNED COMPLETION DATE / DATE PRÉVUE DE MISE EN OEUVRE
<p>1. It is recommended that the Director, Financial Policies, Systems and Accounting Directorate, Finance Branch in consultation with the Director, Planning and Corporate Services, Indian Oil and Gas Canada and the Director, Information Systems Directorate, Information Management Branch review the feasibility of creating the necessary reports from DAS and RIMS, to enable electronic verification of the flow of transactions between TFMS, DAS and RIMS.</p> <p>The implementation of this recommendation should take place during or after the currently planned move of TFMS and other financial applications to a new and improved technological environment, i.e., UNIX.</p>	8	<p>The conversion to UNIX/ORACLE is planned for September 1998. Following the implementation of the conversion, we will assess the feasibility of developing the electronic verification of the flow of transactions between RIMS and DAS and between DAS and TFMS.</p>	<p>Director, Financial Policies, Systems and Accounting Directorate, Finance Branch</p>	01-04-1999
<p>3. It is recommended that the Director, Financial Policies, Systems and Accounting Directorate, Finance Branch in conjunction with the Director, Information Systems Directorate, Information Management Branch ensure the exception report for interest is redesigned to eliminate data not needed and improve its layout. Such revisions will facilitate the manual interest correction by reducing the volume of pages to be reviewed and therefore reduce the risk of undetected errors.</p>	9	<p>A System Action Request Form (SARF) will be initiated to revise the «NO INTEREST CALCULATED REPORT» TFZ2740B, eliminating the reporting of inactive sub-accounts and non-interest bearing sub-accounts. The programming work for this change is anticipated to commence after the UNIX/ORACLE conversion.</p>	<p>Director, Financial Policies, Systems and Accounting Directorate, Finance Branch</p>	31-10-1998

AUDIT AND EVALUATION / VÉRIFICATION INTERNE ET ÉVALUATION

REQUEST FOR ACTION PLAN / DEMANDE DE PLAN D'ACTION

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PAGE : 2 OF / DE : 2

PROJECT TITLE / TITRE DU PROJET : Audit of Band and Individual Trust Accounts
REGION OR BRANCH / RÉGION OU DIRECTION GÉNÉRALE: Corporate Services - Finance Branch

<p>(1)</p> <p>RECOMMENDATIONS / RECOMMANDATIONS</p>	<p>(2)</p> <p>REPORT / RAPPORT PAGE NO.</p>	<p>(3)</p> <p>ACTION PLAN / PLAN D'ACTION</p> <p><i>(If space provided is insufficient please continue on blank sheet. / Si vous manquez d'espace, veuillez continuer sur une page blanche.)</i></p>	<p>(4)</p> <p>RESPONSIBLE MANAGER / GESTIONNAIRE RESPONSABLE (TITLE / TITRE)</p>	<p>(5)</p> <p>PLANNED COMPLETION DATE / DATE PRÉVUE DE MISE EN OEUVRE</p>
<p>4. It is recommended that the Director, Financial Policies, Systems and Accounting Directorate, Finance Branch in consultation with Directors, Corporate Services, Ontario, Alberta and British Columbia regions and IOGC, ensure that complete documentation is prepared to cover all facets of the trust accounting process and that staff who perform these functions have adequately trained back up personnel.</p> <p>It is further recommended that the documentation be prepared after the proposed conversion of financial applications to run on a UNIX/Oracle platform, thus allowing for any changes in manual procedures surrounding the current systems.</p>	<p>10</p>	<p>Part 1 and sections of Part II of the TFMS User Guide as well as documentation for recent system changes have been published on the departmental Intranet. The rest of TFMS User Guide sections will be developed as time and resources permit. Currently there is no resources available to update the Indian Moneys Manual but an update will be made as soon as the required resources are available.</p> <p>The UNIX/ORACLE conversation will result in minor changes to the TFMS logon procedures which will be reflected in the TFMS User Guide. There will be no impact on manual procedures.</p>	<p>Director, Financial Policies, Systems and Accounting Directorate, Finance Branch</p>	<p>01-04-1999</p>

AUDIT AND EVALUATION / VÉRIFICATION INTERNE ET ÉVALUATION

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PROJECT TITLE / TITRE DU PROJET : Audit of Band and Individual Trust Accounts
REGION OR BRANCH / RÉGION OU DIRECTION GÉNÉRALE: Lands and Trust Services - Registration, Revenues and Band Governance

(1) RECOMMENDATIONS / RECOMMANDATIONS	(2) REPORT / RAPPORT PAGE NO.	(3) ACTION PLAN / PLAN D'ACTION (If space provided is insufficient please continue on blank sheet. / Si vous manquez d'espace, veuillez continuer sur une page blanche.)	(4) RESPONSIBLE MANAGER / GESTIONNAIRE RESPONSABLE (TITLE / TITRE)	(5) PLANNED COMPLETION DATE / DATE PRÉVUE DE MISE EN OEUVRE
<p>2. It is recommend that the Director General, Registration Revenues and Band Governance Branch, Lands and Trust Services in consultation with the Directors General, Lands and Environment Branch, Finance Branch and the Executive Director, Indian Oil and Gas Canada develop national policies and procedures on suspense accounts for:</p> <ul style="list-style-type: none"> • ensuring that suspense accounts are followed up on a timely basis in order to credit beneficiaries' accounts as promptly as feasible; and • dealing with the disposition of suspense funds where beneficiaries are unknown. 	9	<p>a) Establish a joint working group and detail a planned course of action.</p> <p>b) Document current procedures, primarily through staff interviews, and identify possible revisions.</p> <p>c) Draft national policy and procedures and circulate for comments.</p> <p>d) Issue policy on suspense accounts.</p>	Director General, Registration, Revenues and Band Governance, Lands and Trust Services	<p>31-10-1997</p> <p>31-12-1997</p> <p>31-03-1998</p> <p>30-06-1998</p>