

**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**

**Project 97/05
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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.

Objectives and Scope

The objectives of this audit were to:

- verify the accuracy and validity of the transactions in the Band and Individual Trust Accounts for 1993-1994, 1994-1995 and 1995-1996;
- assess 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;
- evaluate 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; and

- review and develop detailed process maps and identify potential areas of improvement.

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. In the Audit of BITA - first fieldwork phase, the interfaces of TFMS and RIMS to DAS were examined. It covered the integrity controls, data transfers and operational efficiency and effectiveness. This audit assignment, therefore, did not review the interfaces in detail. The audit covered the review of all band and individual trust account transactions for the fiscal years 1993 to 1996 at the Atlantic, Quebec, Manitoba, Saskatchewan, Northwest Territories and Yukon 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. Their report to the department 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 first fieldwork plan 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 in the regions of Ontario, Alberta and British Columbia, and at IOGC, 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.

The second fieldwork phase of the audit had the same objectives as the first fieldwork phase, and reviewed the transactions in the band and individual trust accounts maintained by the remaining six regions.

General Assessment

The audit found, based on the review of transactions recorded in the band and individual trust accounts maintained by the Regional Accounting Operations directorates and the 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.

While all regions were able to produce sufficient documentation to satisfy our audit objectives, many of the regions experienced varying degrees of difficulty in retrieving all required documentation. The department's policies and procedures with respect to retention of trust transaction documentation requires formalization to ensure the department is adequately discharging its trust funds management responsibilities.

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

The Departmental Audit and Evaluation Branch (DAEB)'s 1997-1998 Plan, approved by the Departmental Audit and Evaluation Committee (DAEC), included an audit of Band and Individual Trust Accounts. The audit covered headquarters, Atlantic, Quebec, Manitoba, Saskatchewan, Northwest Territories and Yukon regions. It completed the cycle of Band and Individual Trust Accounts audits started in 1996-1997 in Ontario, Alberta and B.C. Regions and in Indian Oil and Gas Canada.

In accordance with the provisions of the *Indian Act*, the Department of Indian Affairs and Northern Development (DIAND) maintains two types of trust accounts. These accounts are for First Nations (capital and revenue accounts) as well as accounts for certain individual Indians (minors, mentally incompetents, deceased and adoptees' accounts). DIAND manages 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. Expenditures are made to First Nations and individuals from these accounts, subject to approval from the Minister or his delegate. Interest is calculated and credited to these accounts in accordance with the effective orders-in-council and treasury board decisions.

The accounting for these trust accounts is handled through a computerized system called the Trust Funds Management System (TFMS). Also, at Indian Oil and Gas Canada (IOGC) in Calgary, a computerized Resources Information Management System (RIMS) is utilized. RIMS stores information on leases and oil and gas royalties due and received from the Oil and Gas companies.

RIMS 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.

When the systems were initially implemented, operational and data reconciliation difficulties were encountered by the operational management. These difficulties mostly originated with the transfer of data from one system to the other.

Objectives

The objectives and issues of this audit were to:

- verify the accuracy and validity of the transactions in the Band and Individual Trust Accounts for 1993-1994, 1994-1995 and 1995-1996;
- assess 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;
- evaluate accounting and administration practices pertaining to the trust accounts in terms of due regard for efficiency, effectiveness, economy and compliance with established departmental directives, procedures and policies; and
- review and develop a detailed process map and identify potential areas of improvement.

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. In the Audit of BITA first framework phase, the interfaces of TFMS and RIMS to DAS were examined. It covered the integrity controls, data transfers and operational efficiency and effectiveness. This audit assignment, therefore, did not review the interfaces in detail.

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 regions and other operational, supervisory and management functions performed at headquarters and at the Atlantic, Quebec, Manitoba, Saskatchewan, Northwest Territories and Yukon Regions.

Audit Approach

The Preliminary Survey Phase of this project conducted by the Departmental Audit and Evaluation Branch recommended that an audit of the transactions of the band and individual accounts, as well as electronic system interfaces be performed in Phase II and Phase III of the project.

It was required to audit the transactions in the Bands and Individual Trust Accounts for the fiscal years 1993-1994 through 1995-1996 and to express an opinion on their accuracy and fairness in the Atlantic, Quebec, Manitoba, Saskatchewan, Northwest Territories and Yukon Regions.

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 Atlantic, Quebec, Manitoba, Saskatchewan, Northwest Territories and Yukon regions;

Note: 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 as a separate pool, distinct from the other two years;

- verification of calculation of interest credited to Band and Individual Trust Accounts;
- 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 and 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.

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, Chartered Accountants, letterhead and internal audit findings in Section 2 of the report.

The external auditor's opinion presented in this report is qualified in respect of completeness of the trust account receipts. Auditing the issue of completeness would entail examination of the controls and processes employed by the department's Lands and Trust Services (LTS) function to ensure that all receipts due to the bands and individuals are collected. The scope of this audit excluded the activities of LTS and was limited to those receipts actually received by the department.

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 the external auditor was 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 become immaterial in relation to the transactions audited subsequent to that date.

Auditing the issue of completeness would entail examination of the controls and processes employed by the department's Lands and Trust Services (LTS) function to ensure that all receipts due to the bands and individuals are collected. 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 which was based on 95% confidence level and an expected error rate of 3%.

	1993-1994	1994-1996	Total
Atlantic	74	110	184
Quebec	115	122	237
Manitoba	119	123	242
Saskatchewan	125	128	253
Northwest Territories	41	41	82
Yukon	<u>95</u>	<u>76</u>	<u>171</u>
Total	<u>569</u>	<u>600</u>	<u>1,169</u>

Further detail on the sampling methodology is provided in Section 3 of the report.

In addition to the statistical samples above, we selected additional samples, using judgmental sampling, in each of the regions from the populations of non-trust receipts and non-trust disbursements to satisfy ourselves that trust transactions were not improperly recorded as non-trust transactions.

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.

Recommendations

None

Interface Application Controls

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

As outlined in the introduction section of this report a detailed review of the computerized interfaces was outside of the scope of this audit as this review was conducted as part of the first fieldwork phase of the audit. However, while in the regions we traced the majority of our sample transactions into DAS and Public Works and Government Services Canada (PWGSC) as a substantive measure to ensure that the interface was taking place. In addition, we reviewed the month-end reconciliations performed between TFMS, DAS and PWGSC.

The audit did not find any errors in those items tested.

Recommendations

None

Records Retention and Retrieval

The department's policies and procedures with respect to the retention of documentation supporting trust fund transactions requires formalization to ensure the department is adequately discharging its trust funds management responsibilities.

The first fieldwork phase of the audit had observed that one of the regions required improvements in its record retention and retrieval procedures. Similarly, we observed during the conduct of this audit that a number of the regions visited also had varying degrees of difficulty in locating documentation, particularly from the 1993-1994 fiscal year.

However, in all cases we were ultimately able to satisfy ourselves by alternative means as to the accuracy and validity of transactions. However, as administrator of the Band and Individual Trust Accounts, the department must apply a high standard of care to the administration of band monies. Timely retrieval of all required supporting documents is an essential part of this high standard of care.

Recommendations

It is recommended that the Director General, Registration, Revenues and Band Governance Branch, Lands and Trust Services in consultation with the Regional Directors of Lands and Trust Services and Corporate Services undertake to develop policies and procedures dealing with the records retention and retrieval.

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 BITA audit report identified that the 1993/94 fiscal year was significantly different in the transaction processing methodology and as a result it was recommended that 1993-1994 transactions be tested separately. It also concluded that 1994-1995 transactions could be combined with 1995-1996 transactions so that one sample would be drawn from two years.

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 1993/94 Description	Total Population	Atlantic Sample Size	Quebec Sample Size	Man. Sample Size	Sask. Sample Size	Yukon Sample Size	NWT Sample Size	Total
Receipts drawn from the TFMS (codes 1 and 11)	2575	34	48	45	68	20	8	223
Disbursements drawn from TFMS (code 2)	1545	37	50	41	18	39	14	199
Journal vouchers drawn from TFMS (codes 3 and 13)	6671	3	17	33	39	36	19	147
Total	10791	74	115	119	125	95	41	569

Regions 1994/95 and 95/96 Description	Total Population	Atlantic Sample Size	Quebec Sample Size	Man. Sample Size	Sask. Sample Size	Yukon Sample Size	NWT Sample Size	Total
Receipts drawn from the TFMS (codes 1 and 11)	5278	21	61	33	70	30	13	228
Disbursements drawn from TFMS (code 2)	2608	24	40	46	11	16	24	161
Journal vouchers drawn from TFMS (codes 3 and 13)	14561	65	21	44	47	30	4	211
Total	22447	110	122	123	128	76	41	600

Regional Transactions to be Drawn

The preliminary survey phase of the audit determined that the 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 six regions as a whole; and
- the drawn samples were subdivided for each of the six regions.

During the conduct of BITA first fieldwork phase, 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 judgmental 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.

**TERMS OF
REFERENCE**

Terms of Reference

Audit of Band and Individual Trust Accounts (BITA)

Background: The Departmental Audit and Evaluation Branch (DAEB)'s 1997-1998 Plan, approved by the Departmental Audit and Evaluation Committee (DAEC), includes an audit of Band and Individual Trust Accounts. The proposed audit will cover headquarters, Atlantic, Quebec, Manitoba, Saskatchewan, Northwest Territories and Yukon regions. It will complete the cycle of Band and Individual Trust Accounts audits started in 1996-1997 in Ontario, Alberta and B.C. regions and in Indian Oil and Gas Canada. Also, the DAEC has asked that these audits be conducted on a cyclical basis.

In accordance with the provisions of the *Indian Act*, the Department of Indian Affairs and Northern Development (DIAND) maintains two types of trust accounts. These accounts are for First Nations (capital and revenue accounts) as well as accounts for certain individual Indians (minors, mentally incompetents, deceased 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 calculated and credited to these accounts in accordance with the effective orders-in-council and Treasury Board decisions.

The 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 1994-1995 and 1995-1996 be audited.

The accounting for the trust accounts is handled through a computerized system called the Trust Funds Management System (TFMS).

Also, at Indian Oil and Gas Canada (IOGC) in Calgary, a computerized Resources Information Management System (RIMS) is utilized. RIMS stores information on leases and on oil and gas royalties due and received from the Oil and Gas companies.

RIMS 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.

When the systems were initially implemented, operational and data reconciliation difficulties were encountered by the operational management. These difficulties mostly originated with the transfer of data from one system to the other.

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

- verify the accuracy and validity of the transactions in the Band and Individual Trust Accounts for 1993-1994, 1994-1995 and 1995-1996;
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- evaluate accounting and administration practices pertaining to the trust accounts in terms of due regard for efficiency, effectiveness, economy and compliance with departmental directives, procedures and policies; and
- review and develop a detailed process map and identify potential areas of improvement.

Scope: The scope of this 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. In the Audit of Band and Individual Trust Accounts - the interfaces of TFMS and RIMS to DAS were examined. It covered the integrity controls, data transfers and operational efficiency and effectiveness. The present audit assignment will, therefore, not review the interfaces in detail.

The review will cover all band and individual trust accounts and transactions for 1993-1994, 1994-1995 and 1995-1996 including manual and computerized procedures performed at the regions and other operational, supervisory and management functions performed at headquarters and at the Atlantic, Quebec, Manitoba, Saskatchewan, Northwest Territories and Yukon regions.

Approach: The audit of the Band and Individual Trust Accounts will be conducted in the following three phases:

- preliminary survey and evaluation;
- fieldwork and analysis; and
- reporting.

Resources: The project will be implemented using contracted resources and will be managed by the Departmental Audit and Evaluation Branch (DAEB).

Cost: In addition to DAEB resources, it is estimated that the contracted resources will cost \$ 126,000.

Time Frame: The audit planning will commence in August 1997.

Brent DiBartolo
Assistant Deputy Minister
Corporate Services
September 25, 1997

Bob Watts
Assistant Deputy Minister
Lands and Trust Services
October 2, 1997

ACTION PLAN

AUDIT AND EVALUATION / VÉRIFICATION INTERNE ET ÉVALUATION

REQUEST FOR ACTION PLAN / DEMANDE DE PLAN D'ACTION

PROJECT / PROJET : 97-05

DATE SENT / DATE D'ENVOI: May 21, 1998

DATE DUE / ÉCHÉANCE: May 29, 1998

PAGE : 1 OF / DE : 1

PROJECT TITLE / TITRE DU PROJET : AUDIT OF BAND AND INDIVIDUAL BAND TRUST ACCOUNTS

REGION OR BRANCH / RÉGION OU DIRECTION GÉNÉRALE : Registration, Revenues and Band Governance Branch, Lands and Trust Services

<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>(If space provided is insufficient please continue on blank sheet. / Si vous manquez d'espace, veuillez continuer sur une page blanche.)</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>It is recommended that the Director General, Registration, Revenues and Band Governance Branch, Lands and Trust Services in consultation with the Regional Directors of Lands and Trust Services and Corporate Services undertake to develop policies and procedures dealing with records retention and retrieval.</p>	<p>7</p>	<p>1- Consult with headquarters and regional Lands and Trust Services as well as Corporate Services staff in determining which documents should be maintained on file;</p> <p>2- Draft a policy that would enable regions to undertake corrective action where appropriate to ensure all required documentation is retained on a central file; and</p> <p>3- Assign the responsibility to each Regional Director General to ensure such practices are followed.</p>	<p>Director General, Registration, Revenues and Band Governance Branch, Lands and Trust Services</p>	<p>31-03-99</p>