



Aboriginal Affairs and Northern Development Canada

Affaires autochtones et Développement du Nord Canada

June 21, 2012

Chief Derek Anthony Audy
Chief and Council
Wuskwi Sipiik First Nation
P.O. Box 220
Birch River, MB R0L 0E0

Your file - Votre référence

Our file - Notre référence

RE: Forensic Audit of Funding Transferred to the Wuskwi Sipiik First Nation

Dear Chief and Council:

As you are aware, Aboriginal Affairs and Northern Development Canada (AANDC) engaged KPMG Forensic Inc. to undertake a forensic audit in relation to various allegations received from you and members and Chief and Council of the Wuskwi Sipiik First Nation (WSFN). These audit activities commenced in February 2011.

In July 2011 the firm was tasked to conduct more detailed inquiries in two areas:

- Review the spending for the Elders multiplex and the 8 unit Antler Corner housing projects for 2009-2010 and consider if the funds were misused or misappropriated;
- Review the spending under the various economic development programs and consider if the funds were misused or misappropriated.

The purpose of this letter is to report the auditors' findings and to provide a number of recommendations that may assist you in the management of funding provided by the Department.

General Findings

The auditors determined that in general, there were various control weaknesses which would challenge the First Nation's ability to manage funding properly. There was poor segregation of signing authorities, a lack of policies, limited internal controls in place and a general breakdown in the governance structure during the tenure of the Chief and Council in place from 2008 to 2010.

These circumstances made it difficult to ascertain the sources of funds and to determine who was accountable at the administrative level to conduct the business of the First Nation. Intimidation of staff by the former Chief was also cited as an issue as it was reported that he would threaten the employment of certain staff who did not comply with his instructions.

Findings Specific to Housing Program: Elders Multiplex

In November 2009 WSFN received \$690,000 in funding under Canada's Economic Action Plan. These funds were to be transferred from the Department to the WSFN bank account 6201-6209121. Former Chief Joe Flett, Robert Malcolm, General Manager, and Dennis Pache, Economic Development Officer, were the signatories on this account.

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At approximately the same time WSFN obtained bridge financing in the form of \$586,500 loan. Of the \$586,500, \$488,296 was transferred to the WSFN bank account 6201-5209121. The remaining \$98,204 was paid directly by the bank to contractors for the project.

The entire amount of the loan was paid back to the bank when the total amount of funding was transferred by AANDC to WSFN.

Of the \$689,346 of project expenses paid for by AANDC funds, \$210,833 were paid to DWD Construction. It should be noted that \$72,000 was advanced to DWD construction for tool rentals such as shovels, sledge hammers and skill saws, equipment that contractors would normally be expected to already own. DWD Construction was the project manager for the project.

The auditors were told by individuals they interviewed that DWD Construction was owned by Deewatt Delaronde of Pine Creek First Nation. Mr. Delaronde is alleged to be the cousin of former Chief Flett.

The auditors confirmed that the buildings were built and were currently occupied; however, there were cost overruns of approximately \$150,000 because of poor workmanship under the supervision of DWD Construction (no insulation, bad electrical work and incomplete tasks). It is our understanding that the overruns were paid for from the First Nation's General Account.

No further work is required with respect to this allegation.

Findings Specific to Housing Program: Antler Corner – 8 Unit Project

The 8 Unit Antler Corner Project was initially funded by the Canada Mortgage and Housing Corporation (CMHC). CMHC provided \$1,152,200 for construction of 8 single family dwellings.

The Regional Director General (RDG) of the Manitoba Region sent a letter to CMHC in July 2009 indicating that the land where the original site for the 8 Unit Project was intended had not been converted to Reserve at the time but that the Department would still guarantee the loan while the land was being converted.

In October 2009, the RDG wrote to former Chief Flett indicating that the First Nation would be approved for a Ministerial Loan Guarantee and that construction could commence.

Foundations for all 8 homes were then completed and 4 of the 8 homes were built to approximately 40% completion.

In April 2010 a Housing Officer at AANDC indicated to Robert Malcolm, General Manager at WSFN, that the site for the Antler Corner project did not qualify for a Ministerial Loan Guarantee. This contradicted the earlier information provided by the RDG. WSFN then chose a different site for the construction at Highway 10 and Novra Road, which was approved for a Ministerial Loan Guarantee.

We understand that CMHC subsequently released \$576,100 (50% of the agreement) to the bank account specifically opened for this project after they were told by former Chief Flett that the homes that had already been partially constructed were going to be moved to the new site at Highway 10 and Novra Road.

On September 23, 2010, a certified cheque for \$429,000 was issued to DWD Construction; the cheque was signed by former Chief Flett and Lester Brass, a councillor. Deewatt Delaronde "disappeared" after the issuance of the certified cheque.

The auditors did not identify any involvement of DWD Construction in the Antler Corner project. DWD Construction was working on the Elders Multiplex, and all payments relating to the Antler Corner Project were made to other contractors.

The contractor retained by WSFN to complete the home building was M&M Home Repair, which is owned by Maxwell Kematch. It was noted that a number of concerns were raised as to the ability of M&M Home Repair to complete the work.

At least some of the funds appears to be from CMHC, and we understand that CMHC may have investigated the issue.

Student Loans Relating to the Capital Projects

The auditors were informed that the previous Chief and Council took out a loan to pay for tuition fees unpaid for the 2006 to 2008 time period. The bank also identified that a new loan of \$167,000 had been taken out in February 2012 to pay for tuition fees left outstanding by the previous Chief and Council of 2008 to 2010.

It appears that the previous \$200,000 was used to pay for other band expenses approved by the previous Chief and Council, including cost over runs that had occurred on construction projects which necessitated the further borrowing of funds to pay for student loans.

Economic Development Program

WSFN receives economic development funds from Swampy Cree Tribal Council which receives the funds from AANDC. The funds are transferred from the Swampy Cree Tribal Council to the WSFN Community Operations Fund.

The auditors reviewed all expenditures under Economic Development. The expenses were greater than the amount transferred from the Swampy Cree Tribal Council, indicating that some came from the First Nation's own source revenues. Supporting documentation for the expenditures was located and the auditors concluded that the expenses under the Economic Development program do not appear unreasonable.

Recommendations

With every organization the ethical tone set by the organization's leadership is a primary factor in the management of the organization's finances. Thank you for bringing these allegations to our attention. We recognize that you and your administration continue to make progress to improve the financial controls around AANDC program funding.

We provide the following recommendations that may assist you going forward:


- During the period of review there was a significant amount of co-mingling of funds in the WSFN general account from AANDC programs as well as funds provided from other sources. As a result it was very difficult for the auditors to account for the source of various funds. It is recommended that appropriate accounting and reporting processes be put in place in order to meet AANDC contribution agreement requirement: "The Council shall maintain accounting documentation regarding all funding provided by DIAND and other Federal Departments in a manner that will allow for audit."

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- It is suggested that the WSFN develop written by-laws, policies and procedures on the management of its finances. These by-laws should address at a minimum spending authorities, roles and responsibilities, procurement and segregation of duties for both the Chief and Council and the administration. Your Funding Services Officer may be able to provide resources to assist in this area.
- It was alleged that there may have been some Band Council Resolutions that contained forged signatures of former Band Councillors. This is clearly a criminal matter and we encourage you to raise this with the RCMP directly.
- We understand that WSFN is currently involved in a number of lawsuits relating to materials purchased from contractors for previous construction projects. We encourage you to ensure that proper controls are in place so that AANDC program funds are not used to pay expenses relating to these lawsuits.
- Finally, it is recommended that WSFN ensure that qualified contractors are retained to perform work on any capital projects. Poor quality workmanship can result in delays and serious cost overruns.

If you have any questions, please do not hesitate to contact me at (819) 994-4837 or Sylvie.Lecompte@aadnc-aandc.gc.ca.

Yours sincerely,



Sylvie Lecompte, Director
Assessment and Investigation Services Branch
Audit and Evaluation Sector

c.c.: Anne Scotton, Chief Audit and Evaluation Executive
Anna Fontaine, Regional Director General, Manitoba
Ron Hallman, Senior Assistant Deputy Minister, Regional Operations



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RE: Forensic Audit of Funding Transferred to the Wuskwi Sipiik First Nation

Thanks,



Affaires autochtones et
Développement du Nord Canada

Aboriginal Affairs and
Northern Development Canada

Dirigeant principal de la
vérification et de l'évaluation

Chief Audit and
Evaluation Executive

June 22, 2012

Ms. Anna Fontaine
Regional Director General
Manitoba Region
Aboriginal Affairs and Northern Development Canada
365 Hargrave Street, Room 200
Winnipeg, MB R3B 3A3

RE: Forensic Audit of Funding Transferred to the Wuskwi Sipiik First Nation

Dear Ms. Fontaine,

As you are aware, Aboriginal Affairs and Northern Development Canada (AANDC) engaged KPMG to undertake a forensic audit in relation to various allegations related to the Wuskwi Sipiik First Nation (WSFN) in Manitoba. You will find attached a copy of the Management Letter that was sent to Chief and Council.

The purpose of this letter is to draw your attention to a number of issues that were identified through the audit work that may warrant further attention from the Region. In particular, the lack of documented policies and procedures, the lack of segregation of duties, poor record-keeping practices, and the poor accounting and distinction of AANDC funds and own-source revenue is a serious concern.

The weak control environment presents a red flag that indicates that information provided by the WSFN Administration in their reports may be inaccurate. If the practice continues, there is a real risk that the First Nation will default on their funding agreement. The allegations of forgery, if founded, indicate that there is a risk of potential misuse of funds.

There have been some issues with respect to the capital projects managed by the WSFN, including:

- There are indications that capital funding contributed by CMHC has been misappropriated;
- The community has on occasions hired unqualified contractors despite the concerns raised by Band members;
- There are indications that the community has redirected funds intended to repay debts owing to post-secondary institutions to fund capital projects; and
- The auditor's report indicates that various suppliers have filed statements of claim against the First Nation in relation to unpaid balances for materials.

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We understand that the WSFN is taking action to address some of the deficiencies in controls. You may also wish to take steps to review the financial situation and the governance at the First Nation with a view to assessing the risk to program funding and to provide support to the First Nation in their implementation of management controls.

If you have any questions, please do not hesitate to contact Sylvie Lecompte, Director, Assessment and Investigation Services Branch or call me directly.

Yours sincerely,



Anne Scotton
Chief Audit and Evaluation Executive

Enclosure

c.c.: Ron Hallman, Senior Assistant Deputy Minister, Regional Operations
Susan MacGowan, Chief Financial Officer