



738 Acquoni Road
PO Box 455
Cherokee, NC 28719

April 5, 2024

Executive Office
Tribal Council
The Eastern Band of Cherokee Indians
Cherokee, NC

We conducted an internal control review of Cherokee Bottled Water in accordance with the FY24 annual audit plan.

An internal control review is designed to assess the control structure and the business risk of the program. The review is intended to be used as a tool to determine effectiveness of controls, compliance, and if improvement is needed.

We identified 4 observations. The details of these observations along with recommendations can be found in the attached report. Management's response is included as an attachment.

The assistance of the Cherokee Bottled Water staff is appreciated. Please do not hesitate to contact our office with questions.

Sincerely,

Sharon Blankenship, CIA, CGAP, CFE, LPEC
Chief Audit and Ethics Executive

cc: Lori Lambert, Audit and Ethics Committee Chair
Sean Ross, Secretary of Commerce
Sabrina Arch, Enterprise Development Director





**CHEROKEE BOTTLED WATER
COMMERCE DIVISION
INTERNAL CONTROL REVIEW (24-005)
REPORT**

April 5, 2024

EASTERN BAND OF CHEROKEE INDIANS



OFFICE OF INTERNAL AUDIT AND ETHICS

738 ACQUONI ROAD • PO BOX 455 • CHEROKEE NC 28719



HIGHLIGHTS

Why We Did This Audit

Cherokee Bottled Water was identified for audit on the FY24 annual audit plan. The overall objective of this audit is to assess the control structure and business risk of the program to determine if improvement is needed.

What We Found and Recommend

There were 4 opportunities for improvement identified and recommendations made to address the control weaknesses as follows:

OBSERVATION	RECOMMENDATION
There is not a valid contract with the bottler.	Execute a formal written contract or agreement with the bottler. Review and amend as needed
Standard operating procedures need to be updated.	Review and update standard operating procedures. Consider a framework or industry standards to establish the most effective and efficient processes and operations.
Security measures are not sufficient.	Work with the Security and Surveillance team to identify the areas and access points to establish the proper coverage and security.
Procurement practices need improvement.	Ensure the review of procurement steps to ensure compliance with Tribal rules, regulations, and laws.

The details of these observations and recommendations can be found beginning on page 4 of this report. Management's response, in which they concur with the findings and agree to implement the recommendations, is included as an attachment.

BACKGROUND

Cherokee Bottled Water sells and delivers bottled water to Tribal programs, the community, and businesses. The program procures bottled water with the Cherokee Bottled Water label from a bottler. The water is then delivered to the program's warehouse for distribution or dropped shipped. Located in the Division of Commerce as part of Economic Development, the program has three employees. With two salespersons and one crew leader they provide services to more than 800 customers across the Qualla Boundary and eight western counties.

For FY23 Cherokee Bottled Water operated on a \$992,936 budget funded 100% from sales revenue. The chart below shows the budget to actuals comparison for FY22-24.

	FY22		FY23		FY24*	
	Budget	Actual	Budget	Actual	Budget	YTD
Revenue						
Sales	\$ 1,021,000.00	\$ 976,778.32	\$ 1,004,000.00	\$ 1,146,752.66	\$ 1,016,245.00	\$ 154,947.85
Misc	\$ -	\$ -	\$ -	\$ -		
Use of Fund	\$ -	\$ -	\$ (11,064.00)	\$ -		
Total Revenue	\$ 1,021,000.00	\$ 976,778.32	\$ 992,936.00	\$ 1,146,752.66	\$ 1,016,245.00	\$ 154,947.85
Expenditures						
Cost of Sales	\$ (674,129.00)	\$ (662,189.42)	\$ (631,129.00)	\$ (615,860.42)	\$ (649,152.00)	\$ (192,779.15)
Operational	\$ (92,989.00)	\$ (89,776.37)	\$ (88,553.00)	\$ (68,213.78)	\$ (83,140.00)	\$ (19,691.33)
Salaries	\$ (253,882.00)	\$ (259,549.57)	\$ (273,254.00)	\$ (285,008.23)	\$ (283,953.00)	
Total Expenditures	\$ (1,021,000.00)	\$ (1,011,515.36)	\$ (992,936.00)	\$ (969,082.43)	\$ (1,016,245.00)	\$ (212,470.48)
Excess/(Deficit)	\$ -	\$ (34,737.04)	\$ -	\$ 177,670.23	\$ -	\$ (57,522.63)

*as of 2/12/24

OBJECTIVES & SCOPE

The audit objectives were to obtain an understanding of key processes within the program, to evaluate the adequacy of internal controls and to identify opportunities for process improvements.

The scope of the audit included a review of financial and operational information, for the period of 10/1/22-1/31/24.

AUDIT CONCLUSIONS

There are opportunities for improvement in Cherokee Bottled Water's internal controls. The following observations were identified:

1. There is not a valid contract with the bottler.
2. Standard operating procedures need to be updated.
3. Security measures are not sufficient.
4. Procurement practices need improvement.

The details of these observations are on the following pages. The cooperation and assistance of the Cherokee Bottled Water staff is acknowledged and appreciated.

OBSERVATIONS AND RECOMMENDATIONS

1. There is not a valid contract with the bottler.

Purchases from the bottler are currently through the open purchase order process. These expenses were identified as contractual in nature due to the products and services being provided by the bottler and should have a formal contract or agreement. Program management has not ensured there is a valid contract in place which could increase financial, legal, and reputation risk to the Tribe.

It is recommended that management execute a formal written contract or agreement with the bottler. The contract or agreement must be reviewed and amended as needed.

2. Standard operating procedures need to be updated.

Cherokee Bottled Water's standard operating procedures do not reflect current practices and are not comprehensive. Standard operating procedures are written guidelines that set expectations and staff responsibilities. Program management has not updated or expanded the standard operating procedures in place. A lack of comprehensive and updated standard operating procedures can increase the risk of ineffective and inefficient processes and operations.

It is recommended that management review and update standard operating procedures. Management should consider a framework or industry standards to establish the most effective and efficient processes and operations.

3. Security measures are not sufficient.

Cherokee Bottled Water's warehouse has one camera at the main entrance door and no cameras inside. Areas where fixed assets and inventory are stored should have proper camera coverage and access protection. Management is not ensuring that proper camera coverage and lock access are in place to protect assets and inventory, which can increase the opportunity for loss or theft.

It is recommended that management work with the Security and Surveillance team to identify the areas and access points to establish the proper coverage and security.

4. Procurement practices need improvement.

The following were identified in 20 purchase orders tested:


Description	Number	Percentage
Invoice received prior to purchase order creation	8	40%
Requisition and purchase order does not agree to invoice	5	25%
Were coded to incorrect line	4	20%
Were charged to the wrong period	2	10%
Were paid more than 30 days from invoice date	3	15%

The Tribal Fiscal Management Policy requires a purchase order to be issued prior to placing any orders for goods or services. Purchases are being processed out of compliance with the Tribal Fiscal Management Policy which can lead to fraud, waste, and abuse.

It is recommended management should ensure the review of procurement steps to ensure compliance with Tribal rules, regulations, and laws.

MEMORANDUM

TO: Executive
Tribal Council

FROM: Sharon Blankenship, Chief Audit and Ethics Executive 

CC: Lori Lambert, Audit and Ethics Committee Vice Chair
Sean Ross, Secretary of Commerce
Sabrina Arch, Enterprise Development Director

DATE: April 5, 2024

RE: Responses to Report 24-005 – Cherokee Bottled Water Audit Report

The 4 observations and recommendations identified in the Cherokee Bottled Water audit report 24-005 were distributed to the program and responses prepared. The responses as provided are stated below. The original response forms are on file with this office.

1. There is not a valid contract with the bottler.

Response: Agree, Target implementation 8/30/24

Respondent narrative: "We have a rolling contract with the bottler, moving forward we will take the following steps:

- a. Review and update the contract
- b. Follow the contract process
- c. Plan to have updated contract by the next Fiscal Year"

2. Standard operating procedures need to be updated.

Response: Agree, Target implementation 8/30/24

Respondent narrative: "goals and objectives are:

- a. More detail step-by-step
- b. More efficient ways to do job
- c. Create a plan for distribution in supply chain
- d. We are unique business under the Tribal Govt. have business plan updated to limit Tribal Liability"



3. Security measures are not sufficient.

Response: Agree, Target implementation 8/30/24

Respondent narrative: "Have submitted a security camera request with the IT department."

4. Procurement practices need improvement.

Response: Agree, Target implementation 8/30/24

Respondent narrative: "Reviewing the procurement practices as they need to be updated."